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TAX AUDIT SIGNALS CONTRIBUTE TO THE DIMINISHING OF TAX HAVEN BENEFICIARY FIRM VALUE

Abstract

The purpose of this study is to obtain an overview of the interaction of the tax havens' use and disclosure of tax audits and the impact of both on the firm value before the tax rate reduction period. The sample is Indonesia-listed firms in agriculture, basic industry and chemical, miscellaneous industry, and consumer goods sectors for the period 2015 – 2019. This research uses panel data and weighted least square regression. The findings indicate that the use of tax havens through subsidiaries is associated with an increase in firm value. In contrast, firms that have subsidiaries in a tax haven and disclose the result of tax audits are associated with a decrease in firm value. This research, to our knowledge, is the first research that combines the impact of tax haven utilization and tax audit disclosure on firm value in Indonesia.

Keywords: tax haven utilization, tax audit disclosure, firm value, tax haven subsidiaries, signaling theory.

Introduction

This study explores the interaction between tax haven utilization and disclosure of tax audits and the impact on the firm value before the rate reduction period. A company with a subsidiary in a tax haven tends to be examined by the tax authorities since the firm is under the spotlight of the tax authorities and public, and the suspicion that the company is practicing tax avoidance. Diversion of income through the exploitation of foreign tax rates drives companies to uncertainty in tax compliance (Grubert & Mutti, 1991).

The tax haven utilization and potential tax audit are two things that have not received much attention, especially in Indonesia. A tax haven is a country where the tax rate for companies and individuals is very low, so foreign companies or individuals often use it to put their income to avoid the imposition of high tax rates in the country of origin (Bennedsen & Zeume, 2018). The more significant the difference in the tax rate of the country of origin from other countries, especially tax haven countries, the greater the opportunity for a firm to take advantage of the tax havens (Chari & Acikgoz, 2016). On the other hand, the tax authorities always try to improve tax compliance by targeting high-risk corporations. Masri et al. (2019) show that some companies used international tax avoidance to reduce tax liabilities, so tax havens indicate low corporate tax compliance.

Several reasons can make companies take advantage of tax havens, one of which is that companies use legal methods to reduce or avoid corporate tax obligations. This tax avoidance can be done by hiding the flow of company funds to related parties, affiliates, or subsidiaries in tax havens (Taylor et al., 2015; Lo & Wong, 2016). Transactions between related parties and subsidiaries occur when business activities exist. In the decision-making of business activity, related parties are involved and affect the company's value (Diab et al., 2019). The effect of related party or subsidiary transactions on firm value is caused by indications of income shifting through the exploitation of foreign tax rates, which tend to create uncertainty for the company (Taylor et al., 2018). Studies show that related party transactions in Indonesia can be misused and lead to the seizure of wealth by controlling shareholders (Sari & Baridwan, 2014; Utama & Utama, 2009).

Indonesia is a unique object, especially in corporate tax research. First, Indonesia experienced a decrease in the tax ratio to Gross Domestic Product (GDP) during the five years, namely 2015 – 2019, with the highest tax ratio of 11.6% in 2015 and the lowest of 10.7% in 2017 and 2019 (CNNIndonesia, 2020; Pemerintah Republik Indonesia, 2019). Although Indonesia's tax ratio elements are broader, including income taxes, value-added taxes, customs duties, and oil and gas taxes, the decline in the last five years indicates a decline in tax compliance. In addition, global competition has prompted the Indonesian government to reduce the corporate income tax rate starting in 2020 from 25% to 22% and gradually to 20% (Pemerintah Republik Indonesia, 2020). Second, related to the negative reputation of tax audits in Indonesia. The tax audit dispute brought to the tax court has a high tendency around technical and administrative issues compared to non-technical issues. Tambunan (2020) explained that most tax audit cases in Indonesia revolve around technical and administrative matters. Tax audits that deal with technical and administrative issues cause tax audit disclosures to negatively signal investors and creditors since the potential of making administrative errors by business activities is large. Finally, the regulation of Directorate General of Taxation no 15 years 2018 stated that the new goal of tax audit policy is sustainable tax compliance (Republic of Indonesia, 2018). The

collaboration of three phenomena which are the decline in the tax ratio, the policy of reducing corporate tax rates in 2020 chosen by the government, and the tax audit policy that focuses on creating sustainable compliance, provides a new understanding of the literature on the use of tax havens.

Few studies examine the interaction of tax haven utilization and tax audit on firm value. Previous research has mostly examined the effect of using tax haven on firm value (Bennedsen & Zeume, 2018; Chang et al., 2013) or related party transaction associations on firm value (Diab et al., 2019; Fooladi & Farhadi, 2019). Study Bennedsen & Zeume (2018) and Chang et al. (2013) showed that tax haven utilization is associated with increased firm value. Consistent with Fooladi & Farhadi (2019), they also found a positive association between related party transactions and firm value. However, Diab et al. (2019) found no relationship between related party transactions and firm value. These studies show varying results, so our study further examines the association of tax haven utilization to firm value in Indonesia. Several studies on tax audits are Chan et al. (2015) and Tambunan (2020). Chan et al. (2015) explained how the tax authorities select firms to be audited based on certain characteristics. As a result, companies that experience tax audits tend to experience tax adjustments.

This research contributes to several aspects. First, to our knowledge, this study is the first empirical research that combines the impact of tax havens and tax audit disclosures on firm value with the setting of Indonesia in 2015 - 2019. Second, studies on the relationship between tax audits and firm value are still limited. Third, the uniqueness of our research is the tax audit variable, which is the disclosure of tax audit in the form of tax assessment notice in the annual report.

This study proves that tax audit disclosure is associated with firm value. The firm value decreases when a company discloses notice of tax audit assessment obtained from the Directorate General of Taxation. Chan et al. (2015) show that changes in the business environment, regulations, and auditor expertise of tax officials caused a change in the tax audit focus of international transfer pricing. Tax audits in the late 2000s focused more on export-oriented firms and experienced losses. If the company's tax position cannot be maintained on a tax audit, the company must pay back the underpaid tax along with any penalties or interest (Blaufus et al., 2019). Therefore, investors consider tax audit risk when evaluating information disclosed by companies.

Signaling theory shows that the information the management provides is very important since it can influence the decisions made by investors and creditors. Signaling theory provides a unique, practical, and empirically testable perspective on social selection under conditions of imperfect information. Generally, one party tries to provide information or a signal. The other party, the receiver, chooses how to interpret the signal (Connelly et al., 2011) so that the effect of the signal from the disclosure of tax haven subsidiaries and a tax audit assessment will vary according to the interpretation of the receiver, that is, investors and creditors. Baier et al. (2022) show that the signal can be misinterpreted by readers, therefore, leading to lower credibility perceptions. Tax haven as one of the strategies management uses an example where management wants to give a positive signal since companies with subsidiaries in tax havens will have a smaller tax burden to generate greater profits. However, the tax audit that is undergoing indicates that there is a possibility that the company will incur additional costs in taxes due to the failure of the strategy implemented by management (Mukundhan et al., 2019). Investors and creditors will consider this a negative signal since the additional costs in taxes will increase the tax burden, which will reduce the income received by investors and creditors.

Four criteria can define a country classified as a tax haven country according to OECD (2010). First, the tax rate imposed is very low or can reach 0%. This very low tax rate encourages a country with a high-tax jurisdiction to transfer its profits to a tax haven country. For example, Indonesia has one of the highest corporate tax rates in Asia (before the tax rate reduction in 2020), which causes foreign companies in Indonesia to transfer profits to tax havens countries (Pratama, 2020). Second is the lack of effectiveness in exchanging information. In this case, the OECD requested tax haven countries to sign tax information exchange tax treaties (TIEAs). It contains all personal data, evidence, and transactions in tax haven countries (Schjelderup, 2016). Third, limited transparency. Tax haven countries are very strict about the confidentiality of the firms, the owners, and financial information. This sense of information security has made firms connected to tax havens receive benefits, especially for investors looking for a guarantee of financial secrecy. Fourth, there is no substantial activity. One of the criteria for company operations in tax havens is that they do not have production

facilities but only a financial function. An example is the Cayman Islands, which is only a financial center (Taylor et al., 2015).

The General Tax Provisions and Procedures Law (UU KUP) article 1, number 25 stated that a tax audit is a series of activities to collect and process data, information, and evidence that is carried out objectively and professionally based on an audit standard to test compliance with fulfilling tax obligations. The purpose of the audit is to test compliance with the fulfillment of the taxpayer's obligations and other purposes to implement the tax laws and regulations provisions.

In the UU KUP article 1 letter t, the tax audit disclosure in the annual report is the Tax Assessment Letter (SKP). There are three types of SKP includes underpaid SKP (SKPKB), nil SKP (SKPN), or overpaid SKP (SKPLB). Based on the explanation, the tax audit disclosure should not always have a negative reputation for the firm. For companies that receive SKPLB, the tax overpayment is approved by the tax authority so that the company will receive a refund from the state, while SKPKB is defined as the potential payment of tax due that must be paid by the firm.

However, tax audits give a negative signal when associated with firm value. Most investors and creditors, especially in Indonesia, have a negative signal and will assume unfavorable since it indicates that the company does not comply with the tax regulation (Prisantama & Muqodim, 2016). The tax audit disclosure raises the potential that the position of the tax due cannot be maintained, which results in additional taxes that were not previously paid due to the strategy made by management, plus applicable interest or penalties (Blaufus et al., 2019). The disclosure causes investors to have a negative view of management performance since it can reduce future returns for investors. Indeed, tax audits, which often emerge from technical and administrative problems (Tambunan, 2020), also sig[illegible]igh tax compliance costs in Indonesia.

There are several reasons investors positively view companies that have subsidiaries in tax haven countries. First, the research conducted by (Mukundhan et al., 2019) stated that tax havens are considered a company's business strategy. This is because tax haven countries provide facilities in the form of information confidentiality and very low tax rates. This causes the company to carry out its strategy by establishing a subsidiary in a tax haven. Establishing the subsidiary is a way for the company to transfer the company's profits to the subsidiary. As a result, companies can keep up lower taxes and maintain global networking (Mukundhan et al., 2019), and preserve future profit for investors and creditors.

Another reason investors consider subsidiaries in tax havens is not a threat but rather an increase in the company's reputation. This is supported by the study by Chang et al. (2013), which shows that transactions with related parties in tax havens increase the value of companies in Taiwan. Furthermore, the research conducted by Bennedsen & Zeume (2018) describes companies with subsidiaries in tax haven countries as more valuable. This can be strengthened if management ownership of the company increases since, based on Signaling theory, management ownership acts as a signal where good quality management will tend to maintain large amounts of ownership of the company. Therefore, it can be concluded that the management will act in line with the needs of investors and creditors and vice versa (Connelly et al., 2011). Based on the description above, the hypothesis is

H1: Utilization of tax havens through subsidiaries increases the company's value.

Firms that have subsidiaries in tax havens can minimize global corporate taxes. However, this creates costs in the form of potential tax audits and the potential for interest or fines as a form of penalty (Shackelford & Shevlin, 2001). The Taiwanese government is an example of a response to transfer pricing practices in 2004, imposing stricter tax audit regulations for transfer pricing practices (Chang et al., 2013). Tax audit practice tends to be responded to negatively by investors, so we predict that tax audit disclosure will harm firm value. The anti-tax avoidance audit policy [illegible]es that companies abuse affiliates in a tax haven to relocate their taxable income; thus, they are at high risk of being tax audited by the tax authorities (Chang et al., 2013). The new tax regulati[illegible]an affect the companies' tax behavior. For example, when the tax authority conducts a stricter audit of transfer pricing arrangements, especially for firms involving transactions with affiliates or related parties in tax havens, it will pose a high risk for the firms. Tax audits give a negative sentiment toward firm value since investors perceive companies that receive greater attention from the regulator have a greater risk than others. As a result, when the company experiences a tax audit, investors and creditors doubt whether,

in the future, the tax haven strategy will provide benefits for firms (Chang et al., 2013) since there will be a potential for sanctions or fines, moreover costs related to potential tax litigation (Shackelford & Shevlin, 2001).

This study predicts that companies that have several subsidiaries in tax havens and undergo a tax audit will cause the company's value decrease. In tax audit cases, companies that use tax havens to minimize the amount of tax paid will create uncertainty that makes it difficult for investors to form expectations about the company's future. This is a reinforced statement from the Indonesia Minister of Finance, Sri Mulyani, who wants all countries to be in the same position regarding taxation and does not support the existence of tax havens (Ramli, 2020), so it can be concluded that having a relationship with a tax haven country puts companies in a position that is contrary to the government. Based on the discussion above, the hypothesis is

H2: Companies that have subsidiaries in tax haven countries and disclose the tax audit assessment are associated with a decline in company value.

Research Method

Our research uses quantitative methods. First, this study selected companies listed on the Indonesian Stock Exchange from the 2019 Fact Book report (IDX, 2019). We chose the agriculture, basic industry and chemical, miscellaneous industry, and consumer goods sector as our samples for this study. The sampling period is from 2015 to 2019. The sampling period was taken since the new corporate tax rate reduction applied in 2020 could bias the results, so this study limits the sample before 2020. In addition, in 2016, the government, through the minister of finance, issued a regulation minister of finance number 213/PMK.03/2016 regarding the types of documents and additional information that must be reported by management who conduct transactions with related parties (Pemerintah Republik Indonesia, 2016). Therefore, the 2015 to 2019 period is the most relevant data to use in our research. In this study, our total population is 146 companies with 730 observations. This study did not use companies that had not published annual reports for the defined period. We also exclude companies that have IPO after the observation period, firms that have been suspended for more than a year, or the annual reports that can not be traced. In this study, our sample uses balanced panel data.

For our study, we used the 2015 list of tax havens from Gravelle. The total number of tax havens in the 2015 Gravelle list is 50 countries (Gravelle, 2015).

The dependent variable is described by firm value (FVAL). In measuring the firm's value, we use the value of Tobin's Q. Tobin's Q is measured by the market value of equity plus the book value of debt divided by total assets (Fooladi & Farhadi, 2019).

The independent variables consist of the use of tax havens (TH), the disclosure of tax audits (TA), and the interaction between the use of tax havens and disclosures of tax audits (TH*TA). TH is the total number of subsidiaries in tax haven countries (Choy et al., 2017). TA is the disclosure of SKP received by the company in the annual report, which states the difference between the amount of tax owed and the amount reported in the company's tax return in year t (Arieftiara et al., 2020). TA is a dummy variable; code 1 for companies that receive tax assessment letters in year t, and 0 otherwise.

The control variables use asset tangibility (TANG), firm size (SIZE), return on assets (ROA), cash (CASH), and intangible assets (INTANG). TANG is one of the characteristics of a company that may be related to the tax haven utilization by a company. SIZE is used in the model since large companies (Pratama, 2020) are more likely to transfer income through transfer pricing than smaller companies. Research Bennedsen & Zeume (2018) showed that ROA is positively related to the use of tax havens. ROA is intended to assess company profitability and control operating performance. Companies in tax haven countries have more cash than companies outside tax havens (Atwood & Lewellen, 2019). This indicates funds transferred from the home country to subsidiaries in tax havens (Bennedsen & Zeume, 2018). INTANG is one of the company's characteristics related to tax haven utilization (Choy et al., 2017).

Table 1. Variable Table

No	Variable	Abbr	Indicator	Data source
1.	Firm Value	FVAL	Tobins'Q = (Market Value of Equity + Book Value of Debt)/Total Assets	Bloomberg

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Commented [H2R1]: We moved the paragraph three in the introduction (aim of the study) to the first paragraph to clarify and reinforce the 'firm value' term in the study.

2.	Tax haven utilization	TH	Total subsidiaries located in tax haven countries in year t	Hand-collected from the annual report
3.	Tax Audit disclosure	TA	1 = received SKP in year t 0 = didn't receive SKP in year t	Hand-collected from the annual report
4.	Asset Tangibility	TANG	Total PPE/Total Assets	Bloomberg
5.	Firm Size	SIZE	Ln (Total Assets)	Bloomberg
6.	Return on Asset	ROA	Pretax Income/Total Assets	Bloomberg
7.	Cash	CASH	Cash/Total Assets	Bloomberg
8.	Intangible Asset	INTANG	Total Intangible Assets/Total Assets	Bloomberg

Source: Processed Data, 2021

Our research model is a development of previous research that assesses investors' assessment of tax havens (Bennedsen & Zeume, 2018; Chang et al., 2013).

Model 1 :

$$FVAL_{it} = \propto + \beta 0TH_{it} + \beta 1TA_{it} + \beta 2TANG_{it} + \beta 3SIZE_{it} + \beta 4ROA_{it} + \beta 5CASH_{it} + \beta 6INTANG_{it} + \varepsilon_{it}$$

Based on our first hypothesis, we predicted a positive coefficient for tax haven utilization ($\beta 0 > 0$).

Model 2 :

$$FVAL_{it} = \propto + \beta 0TH_{it} + \beta 1TA_{it} + \beta 2TH*TA_{it} + \beta 3TANG_{it} + \beta 4SIZE_{it} + \beta 5ROA_{it} + \beta 6CASH_{it} + \beta 7INTANG_{it} + \varepsilon_{it}$$

Based on our second hypothesis, we predicted a positive coefficient on TH ($\beta 0 > 0$) and a negative coefficient on TH*TA interaction ($\beta 2 < 0$).

Where:

i	= company
t	= year
TH	= Tax Haven utilization
TA	= Tax Audit disclosure
TANG	= Assets Tangibility
SIZE	= Firm size
ROA	= Return on assets
CASH	= Cash
INTANG	= Intangible assets
ε	= error

Results and Discussion

Our research includes a panel of 146 agriculture, basic industry and chemical, miscellaneous industry, and consumer goods companies listed on the Indonesia Stock Exchange 2019 during the 2015-2019 period. Table 2 describes the number of companies used based on the specific criteria.

Table 2. Number of Companies

Number of agriculture companies	21
Number of basic industry and chemical companies	71
Number of miscellaneous industry companies	48
Number of consumer goods industry companies	52
Total population	192
Less: IPO companies	(33)
Less: Suspended company	(5)

Less: Annual report can not be traced	(8)
The total population according to criteria	146
Observation year	5
Total observations in the sample	730

Source: Processed Data, 2021

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Table 3. describes the results of descriptive statistics for the dependent variable (FVAL), independent variables (TH, TA, and TH*TA), and control variables (TANG, SIZE, ROA, CASH and INTANG). The dependent variable FVAL has an average of 0.359, which means that the average Tobin's Q of the entire sample is 35.9%. In the independent variable, the number of subsidiaries in tax havens (TH) countries has a minimum value of 0 and a maximum of 6. This means that there are companies with absolutely no subsidiaries in tax haven countries and at most six subsidiaries in tax haven countries. In this study, the TA variable uses a dummy, where if the company discloses that it has received a tax audit decision, it is given a number 1, if it does not receive a Tax Assessment Letter, it is given 0. Descriptive statistical results show that companies with subsidiaries in tax haven countries and receive a Tax Assessment Letter (TH*TA) get a maximum value of 6, meaning that there are companies with six subsidiaries in tax havens and disclose the results of the tax audit. From the data we collected, some companies we studied had very small cash-to-total assets ratios.

Table 3. Statistical Descriptive Results

Variables	N	Min	Max	Mean	Median	Std. Dev
FVAL	730	-0.084	1.583	0.359	0.329	3.065
TH*TA	730	0	6	0.209	0.000	0.763
TH	730	0	6	0.425	0.000	0.994
TANG	730	0.001	0.959	0.445	0.450	0.201
SIZE	730	17.279	33.495	26.776	27.992	3.880
ROA	730	-1.371	1.217	0.476	0.037	0.139
CASH	730	0.000	0.724	0.083	0.045	0.104
INTANG	730	0.000	0.365	0.010	0.000	0.033

Source: Processed Data, 2021

Therefore, this study conducted a test to determine the best estimation panel model. The F-test results support the fixed effects model. The result of the Breusch-Pagan test supports the random effects alternat Hausman test supports the use of the fixed-effects model. Based on the three tests, it can be concluded that the fixed effects model is the best estimation model. Therefore, this study applies the fixed effects method to estimate all models. This study uses variance inflation factor (VIF) to detect multicollinearity problems. Table 4. shows the results of the multicollinearity of our data. The correlation coefficients are all lower than 2.40, and it can be concluded that there is no multicollinearity problem between independent variables. There is a heteroscedasticity problem in the data, so this study chose the weighted least squares (WLS) panel model.

Table 4. shows the results of the basic regression model of the number of subsidiaries in tax haven countries (TH) and tax audit (TA) countries. In addition, Table 4. also shows the results of the basic regression of the relationship between TH and FVAL moderated by TA. In Model 1 and Model 2, the results of β and t-ratio are positive for TH, namely, the value of β is 0.012, and the t-ratio is 4.849 in model 1. While in model 2, β and t-ratio are 0.019 and 4.338. results of the regression coefficients are consistent with our predi that TH affects FVAL, where TH has a positive and significant effect on FVAL. Thus H1 is supported. These results are consistent with the research (Mukundhan et al., 2019) and the Signaling theory (Connelly et al., 2011).

The results of the regression coefficients for the TH*TA variable follow our predictions, namely TH*TA has an effect on FVAL, whereas TH*TA has a negative and significant effect. Thi described in Table 4. In model 2, the obtained β and t-ratio are -0.010 and -1.964. Thus, H2 is supported. Consistent with the research of (Chang et al., 2013) and the Signaling theory (Connelly et al., 2011), which explains the tendency of creditors and investors to view tax audits negatively because of the tax audit reputation in Indonesia.

The control variable in this study used TANG; SIZE; ROA; CASH; INTANG, all of which showed significant results in both model 1 and model 2. The variables TANG, SIZE, ROA, and INTANG are significant ($p<0.001$)

and positive in model 1 and model 2, while the CASH variable is significant and negative in both model 1 and model 2. Previous studies supported the TANG variable's result (Choy et al., 2017). The results of our SIZE control variable agree with those of previous researchers (Hendratama & Barokah, 2020; Su & Tan, 2018; Taylor et al., 2015, 2018). The research (Bennedsen & Zeume, 2018; Kim et al., 2019; Taylor et al., 2015) supports the ROA results in our study. INTANG control variable where investment in research and development of technology with high growth potentials, such as brand and technology, increases firm value. CASH as a control variable in this study shows a negative relationship. This result is supported by (Bennedsen & Zeume, 2018).

Table 4. Weighted Least Square Regression Results

Variables	Model 1			Model 2		
	β	p-value	Collinearity	B	p-value	Collinearity
Const	0.039	0.011**		0.036	0.017**	
TH*TA				-0.010	0.050**	2.402
TH	0.012	0.000***	1.039	0.019	0.000***	2.212
TA	-0.021	0.000***	1.035	-0.017	0.002***	1.225
TANG	0.070	0.000***	1.291	0.074	0.000***	1.296
SIZE	0.010	0.000***	1.092	0.010	0.000***	1.095
ROA	0.338	0.000***	1.186	0.337	0.000***	1.186
CASH	-0.176	0.000***	1.291	-0.174	0.000***	1.297
INTANG	0.354	0.005***	1.052	0.329	0.010***	1.052
R^2		0.446			0.448	
Adj R^2		0.441			0.442	

Significance values ***, **, and * at alpha 1%, 5% and 10%.

Based on the data we collected, listed companies in the agriculture industry; basic industry and chemicals; miscellaneous industry; and the consumer goods industry sector in Indonesia have a number of subsidiaries in tax haven countries which tend to increase from 2015 to 2018 and experienced a decline in 2019. In detail, the number of subsidiaries in tax havens is shown in table 5. The table shows that the companies that the number of subsidiaries in tax havens has increased every year since 2015, which means that more and more companies are using tax haven subsidiaries.

Table 5. Number of Subsidiaries in Tax Haven Countries in 2015-2019

Year	2015	2016	2017	2018	2019	Total
Number of subsidiaries in tax haven	57	59	68	68	64	316

Source: Processed Data, 2021

The results from this study indicate that the more subsidiaries owned in tax haven countries, the higher the company's value. Therefore, investors do not consider companies with many subsidiaries in tax haven countries as a threat or risk. This is in line with research conducted by (Bennedsen & Zeume, 2018; Chang et al., 2013; Mukundhan et al., 2019) where the ownership of companies in tax havens and transactions related to companies in tax havens can increase the value of the company (Bennedsen & Zeume, 2018; Chang et al., 2013).

Companies that have subsidiaries in tax haven countries and undergo tax audits result in a decrease in firm value, meaning that ownership of subsidiaries in tax haven countries and tax audits experienced by home country companies gives a negative signal to investors and creditors. When a company undergoes a tax audit, investors feel threatened that it impacts the company's potential future profit. This is supported by the research of Blaufus et al. (2019). Another important finding is that companies that disclose the results of tax audits, regardless of whether the results are underpayments, overpayments, or nil, experience a decrease in firm value. Investors consider the tax audit risk to the company's future earnings. This is also supported by the research of (Chang et al., 2013; Shackelford & Shevlin, 2001).

This study also found that from 170 observations on companies with subsidiaries in tax havens, 82 (48.24%) were audited by the Directorate General of Taxation (DGT). From the total of 82 audited observations, the ownership of subsidiaries in tax havens varies from one to six for each company. In addition, companies that have more than one subsidiary in tax havens all experience tax audits. Companies with only one subsidiary in tax havens experience tax audits, but some are not audited.

Our research also found that the most chosen tax haven country from the sectors we studied was Singapore. Singapore is included in the top ten tax haven countries that contribute to helping companies pay lower taxes (Tax Justice Network, 2019). Singapore has been chosen as a tax haven since of its low level of corruption. Singapore obtained a constant score from 2015 to 2019 with a score of 84 or 85. The closer to 100, it indicates the cleaner the country from corruption. The ranking increased from 2015 to 2018 but dropped by one in 2019, so Singapore is ranked fourth worldwide. It can be concluded that Singapore is consistently included in the top ten rankings every year, which means that Singapore is one of the countries with a very low level of corruption (Transparency International, 2019).

Based on the World Economic Forum's Global Competitiveness Index in 2019, Singapore ranks first in infrastructure, health, labor market functioning, and financial system development. A modern financial system is one of the basic needs for a tax haven country, also supported by a professional infrastructure and labor market, making Singapore an attraction for companies in Indonesia to establish subsidiaries. Obtaining the Global Competitiveness Index ranking indicates that Singapore is a country that has a good reputation (Schwab, 2019). Companies that have subsidiaries in reputable countries are also viewed positively by investors.

Conclusion

This study aims to determine and measure the influence of tax haven utilization on the firm value interacted by tax audit disclosures. We also found that the disclosure of tax audits has a negative effect on firm value. An important finding of this study is that companies with more than one subsidiary in tax haven countries all experience tax audits by the Directorate General of Taxation. In contrast to companies with only a subsidiary in tax havens, some are audited, but several have not experienced a tax audit. We also found that the firms chose Singapore since Singapore is a tax haven country that contributes to low corporate taxes with a low level of corruption and has a good reputation.

Our research develops the literature and previous studies that have tested the effect of tax haven on firm value by adding the interaction of tax audit disclosure. However, the number of studies discussing the use of tax havens interacted with tax audit disclosures on firm value is still limited. Research that discusses the effect of tax audit disclosure as either an independent variable or a moderator of firm value in Indonesia or other countries is still very limited. Our research is one of the studies that provide empirical evidence regarding the disclosure of tax audits and tax haven utilization on firm value. The results of our study have the possibility to be generalized to other jurisdictions, such as countries in ASEAN.

There is a limitation in carrying out this research. The results can only be applied to the entire sample of firms experiencing profit and loss in specific sectors. This study has several suggestions for further research. First, further research can focus on examining other industries since each sector may have a different behavior. Second, it is recommended for future researchers to differentiate SKP into SKPKB, SKPLB, and SKP nil so that they can perform additional analysis on whether there is a difference between tax audit assessment results in the form of SKPKB, SKBLB, or SKP nil. Third, the next researchers can extend the research period or research in the period when COVID-19 or post-COVID-19 occurs.

Our paper has implications for real practice for regulators, investors, and companies. Our paper provides an understanding to regulators regarding the impact of tax audit disclosure on firm value, specifically, firms that have subsidiaries in tax havens, so that state revenues are not eroded. For investors, this paper provides insight into the impact of risks arising from companies that have subsidiaries in tax havens and undergo tax audits. For firms, this paper provides an understanding of the risk of companies's value declining due to tax havens link and tax audits so that companies can consider low-risk tax decisions.

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