

Contingency Information Disclosure and Corporate Tax Avoidance

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Abstract: Despite there is a large amount of relevant literature on the two main topics of contingency information disclosure and corporate tax avoidance, no one has yet focused on the relationship between the two. The study in this paper aims to fill this gap. Based on the empirical data of Chinese A-share listed companies from 2007 to 2020, we empirically examines the impact of contingency information disclosure on corporate tax avoidance, using the expected liabilities presented in the financial statements of enterprises. The results of the study found that the degree of information disclosure of contingencies is significantly and positively related to corporate tax avoidance, and the financing constraints brought by contingencies to enterprises are an important channel to influence corporate tax avoidance; further study found that the positive influence of the degree of information disclosure of contingencies on corporate tax avoidance significantly weakened with the improvement of the quality of corporate internal control. The findings of this paper provide important empirical insights for listed companies to improve the quality of accounting information, curb the opportunistic tendency of management and manage corporate tax avoidance.

Keywords: Contingent Information, Information Disclosure, Tax Avoidance.

1. Introduction

With the development of China's market economy and the generation of business risks, a large number of uncertainties are increasingly present in the business activities of enterprises, which have many unnoticeable effects on the financial position and operating results of enterprises. Contingencies, as a collective term for a series of uncertainties, mainly include pending litigation or arbitration, debt guarantees, product quality guarantees (including product safety guarantees), commitments, loss-making contracts, restructuring obligations, and environmental pollution remediation. In order to fully disclose the potential impact of these events on the financial position of enterprises and to grasp such uncertainties to help enterprises make relevant decisions, it is necessary to study and regulate these complex events at present.

In terms of the development of standards for contingencies in China, accounting policies prior to 2000 lacked clear and specific provisions for most contingencies. It was not until the Accounting Law, which was revamped in 1999 and became effective on July 1, 2000, that it was clearly stated that "contingencies such as guarantees and pending litigation provided by an entity shall be accounted for in the financial report in accordance with the provisions of the unified national accounting system." Accordingly, in April 2000, China first established the Accounting Standard for Business Enterprises - Contingencies, which became effective on July 1, 2000. In February 2006, China reissued the revised Accounting Standard for Business Enterprises No.13 - Contingencies, which was formally implemented on January 1, 2007.

The changes that exist in the new standard "AS No.13 - Contingencies" and the "AS - Contingencies" issued in 2000 are mainly in the following aspects: the original standard only made initial measurement of the measurement of the projected liabilities, i.e., according to the best estimate of the expenditure required to satisfy the relevant present obligation,

while "AS No.13 - Contingencies" divides the measurement of the projected liabilities into initial measurement and subsequent Measurement. Initial measurement refers to the presentation of the best estimate of the expenditure required to satisfy the relevant present obligation of the enterprise and should take into account the risks associated with the contingency, uncertainties and the time value of money, etc; subsequent measurement refers to the enterprise should review the book value of the estimated liability at the end of the accounting period, and if there is conclusive evidence that the book value does not truly reflect the current best estimate, the book value should be adjusted in accordance with the current best estimate.

The standard on reasonable measurement of contingencies reflects convergence with international accounting standards in terms of concepts and recognition conditions. International Accounting Standard No.37 ("Provisions, Contingent Liabilities and Contingent Assets", known as IAS 37) introduces the term "provisions", which is similar to the term "expected liabilities" in China, and they can be recognized in the balance sheet in order to strictly distinguish them from "contingent liabilities" that are not recognized. Events such as these reported in the balance sheet can directly affect the financial position of an enterprise. Since the tax law stipulates that a projected liability is allowed as a pre-tax deduction only when the loss associated with it is actually incurred, a deductible temporary difference arises between its book value and tax basis, which in turn causes the enterprise to pay more income tax expense in the current period. At the same time, it is possible that events disclosed off-balance sheet may be transferred to on-balance sheet recognition in future periods, indirectly affecting the financial position. Therefore, the new standard of more accurate measurement presentation and disclosure of uncertainties strengthens the warning effect on the financial position of enterprises and makes them more aware of tax avoidance. Based on this, this paper develops its research on corporate tax avoidance behavior by taking the disclosure of contingency accounting information as the

research direction.

2. Literature Review

From the domestic and international perspective, there are few studies on contingencies. Due to the characteristics of contingent liabilities and the standard regulations, most of the existing studies focus on the factors influencing the act of "disclosure" and its economic consequences. Specifically, the characteristics of contingencies and their severity require accurate disclosure in annual reports (Gleason and Mills, 2002), and the standards and regulations governing the disclosure of contingency information constrain management's disclosure behavior. Ultimately, these disclosures of accounting information in turn have a series of effects on firms through the capital market.

2.1. Status and Influencing factors of Contingency Information Disclosure

First of all, the disclosure of contingency information mainly includes two forms of on-balance sheet presentation and off-balance sheet note description. Zhao Liping (2008) analyzes the current status of disclosure of contingency information for listed companies in China's Shenzhen stock market through a comparative analysis method, and points out that the disclosure of contingency information for listed companies in China should continue to be improved in terms of adequacy and standardization. Hennes (2014) finds that the current disclosure of contingencies by many companies under the new standard does not contain qualitative information useful for assessing loss contingencies, but quantitative disclosures have limited detail and statements about the inestimable nature of losses and about the company's willingness to consider settlements are associated with a higher probability of loss and a higher amount of loss. Many scholars, such as Zhang Zijian, Wang Lifeng (2010), Liu Xiaojie, Su Ke (2010) and Zhang Jiuju (2013), analyzed the problems of accounting information disclosure of contingencies from a more detailed perspective, and gave targeted opinions on how to improve the accounting information disclosure of contingencies of listed companies in China, including strengthening corporate governance, formulating legal mechanisms, enhancing the strength of auditing, strengthening the control of contingencies, improving the quality of financial staff and perfecting the disclosure system to standardize disclosure methods.

Second, in terms of influencing factors, Abernethy et al (2015) argue that the new standard imposes the obligation to disclose contingencies, but does not provide a clear and detailed definition of the form of contingency information disclosure and its preconditions. Together with the fact that contingencies presented in the balance sheet can directly affect management's compensation assessment indicators and have a greater negative impact on management, so management has an incentive to manipulate them. At the same time, the study by Chen Xiaolin et al. (2013) also find that the greater the volatility of the external environment, the greater the scope for ruling and manipulation of management power in contingency information disclosure, and the lower the overall number of corporate contingency information disclosure. Zhang Dunli and Zhang Ting (2018) further confirmed that contingency information disclosure is a tool for management's self-interest motive and management power is significantly negatively related to on-balance sheet

presentation of contingent information, while it is significantly positively related to off-balance sheet disclosure of contingent information. In addition, Zhang Ting and Zhang Dunli (2019) also find through an empirical study that the higher the auditor's industry expertise, the greater the amount of expected liabilities presented on the balance sheet and the higher the frequency of contingencies disclosed in the off-balance sheet notes of the audited companies; meanwhile, the more important the client, the stronger the promotion effect of the auditor's industry expertise on the disclosure of contingencies by the firms.

In summary, it can be seen that the disclosure system of contingent information under the new standard still has some problems to be improved. Although audit factors can influence information disclosure "after the fact", management's autonomy is still the main "before the fact" determinant.

2.2. Economic Consequences of Contingency Information Disclosure

Contingency is an estimate of future economic events by management, which indicates that there may be some uncertainty in the future of the enterprise, thus the disclosure of contingencies has been paid attention by stakeholders and regulators in the capital market.

First, in terms of the impact on corporate financing, Ma Chen et al. (2011) argue that contingent liabilities indicate an increase in uncertainty and risk in the company's future operations, which may reduce the company's ability to absorb funds in the capital market.

Second, in terms of the link between analysts' forecasting ability and stock prices, Dong Xiaohong et al. (2015) examine the impact of the degree of detail of contingency information disclosure on analysts' forecasts and find that the more detailed the disclosure of contingent information, the greater the divergence of analysts' surplus forecasts, and the higher the accuracy of star analysts' surplus forecasts, but there is no significant correlation between the accuracy of non-star analysts' surplus forecasts. Meanwhile, Dong Xiaohong et al. (2017) also study the value correlation between contingent information and stock prices in terms of accounting information quality characteristics, and they find that on-balance sheet recognized contingent information is significantly negatively correlated with stock prices and cumulative compensation rates, while off-balance sheet notes disclosed contingent information is significantly positively correlated with stock prices and cumulative compensation rates. Banks and Kinney (1982) also study the disclosure of contingencies in relation to stock prices of listed companies, and they find that the disclosure of contingent liabilities is immediately absorbed by stock prices, which in turn generates a significant negative market reaction. Since the full contingency is disclosed in the annual report and the regulators require separate announcements for significant contingencies, they also examine the difference in market reaction to the annual report announcements and separate announcements and find that the negative market reaction is greater for contingencies disclosed in the annual report than for contingency announcements disclosed separately.

Then, in terms of the impact on firm value, Gleason and Mills (2002) argue that investors may pull back funds from firms that disclose contingent liabilities and subsequently invest them in firms with less uncertainty and no contingent liabilities, thereby damaging the firm's earnings position and

firm value.

Next, in terms of the impact on surplus management, Kasznik and Lev (1995) find that bad news firms make more manipulable disclosures than good news firms. This confirms the speculation that disclosure of contingent liabilities can be used by management for surplus management.

Finally, in terms of impact on the audit, Koprowski (2009) argues that significant contingencies receive extra attention from auditors, who usually take a more cautious approach in order to reduce their own litigation risk, which affects the type of audit opinion.

In summary, it can be seen that although the disclosure of contingent information can reduce the degree of information asymmetry, its inherent risk of uncertainty and liability attributes still have a very significant adverse impact on the firm.

3. Hypothesis Development

Contingency, as an uncertain factor, increases the business and financial risks of enterprises. For risk prevention purposes, companies have a tendency to engage in tax avoidance activities. A study by Shen Huihui (2010) on listed companies in China also shows that when the uncertainty of the company's environment increases, the motivation for surplus management becomes stronger, and tax avoidance is exactly one of the purposes and means of surplus management. From the specific reasons, first of all, according to the prudence principle, the contingent assets of enterprises need to meet the condition of "substantial certainty" before they are recognized in accounting, while the contingent liabilities should be recognized as soon as they meet the condition of "probable". However, these recognized contingent liabilities are not recognized under the tax law, and therefore more income tax is paid in the current period for tax purposes than for accounting purposes, which directly reduces the cash flow available to the enterprise. Secondly, the capital occupied by the contingent liability makes it more difficult for the company to allocate capital and increases the level of risk premium in the capital asset pricing model, which ultimately leads to a decline in the overall market value of the company. Finally, contingent information also affects the company's image, which then affects the decision-making behavior of report users, because investors can identify the degree of disclosure and influence of negative contingent information in the company's financial report and reduce their confidence in the company; at the same time, the disclosure of contingent information also affects the external audit market, for example, the frequency of off-balance-sheet note disclosure increases audit fees and reduces audit quality (Dong Xiaohong, Dai Deming et al., 2016). All these phenomena that damage corporate value may induce management to increase after-tax profits to reduce corporate risk through complex and ambiguous tax avoidance practices. Therefore, this paper proposes the following reasonable hypotheses.

H1: The higher the degree of disclosure of contingent information, the more tax avoidance behaviors of enterprises.

Under imperfect capital market conditions, the more the disclosure of contingent information, the more negative effect it may bring to the enterprise, which is mainly reflected in the financing constraint caused by the contingent information. According to information asymmetry theory and agency theory, the cost of external financing is often greater than the cost of internal financing, and when an enterprise is unable to

obtain optimal external funding support due to increased risk, it can only rely heavily on internal financing. At this time, if a potential debt or loss caused by a company's past actions once becomes a reality, resulting in internal funding constraints, the company will face serious financing constraints and fall into financial distress. Tax avoidance is considered as an alternative to traditional financing methods (debt financing and equity financing) (Kelvin et al, 2015). In contrast to the high cost of external financing, tax avoidance is directly accompanied by an undetectable reduction in cash expenditures, which is a welcome relief for companies already in distress. The higher the degree of financing constraint, the higher the demand for internal liquidity. Therefore, when a firm faces a strong financing constraint due to contingencies, it may induce aggressive tax avoidance behavior to alleviate the financing constraint. Accordingly, this paper proposes the following reasonable hypothesis.

H2: The disclosure of contingent information promotes corporate tax avoidance behavior mainly through increasing financing constraints.

The internal control system is an important risk management mechanism, which not only provides reasonable assurance that the enterprise complies with national laws and regulations and the enterprise's internal rules and regulations, controls various risks faced by the enterprise's business process, but also improves the quality of the enterprise's accounting information. On the one hand, high-quality internal control reduces the uncertainties of the enterprise. For example, Mao Xinshu and Meng Jie (2013) empirically tested the impact of internal control quality on the litigation risk of a company, and they find that the higher the quality of internal control, the lower the number and amount of litigations a company is involved in, namely the number of pending litigations or arbitrations is reduced. On the other hand, the new standard's more accurate measurement of projected liabilities helps to improve the quality of accounting information, but since the on-balance sheet data is directly linked to management's remuneration, management's self-interest motivation will minimize the on-balance sheet presentation and turn to disclosure in the off-balance sheet notes, which increases the risk of fraud in financial reporting. High-quality internal controls can effectively curb such agency problems. In summary, the higher the quality of internal control, the smaller the amount of contingencies presented and the fewer the off-balance sheet disclosures, the more it reduces the risk of information asymmetry and uncertainty and the cost of financing. High-quality internal control alleviates the shortage of funds to a certain extent and weakens management's incentive to seek aggressive tax avoidance. Therefore, this paper proposes the following reasonable hypothesis.

H3: High-quality internal control weakens the positive relationship between contingency information disclosure and corporate tax avoidance.

4. Data and Empirical Method

4.1. Data

According to the relevant provisions on information disclosure in AS 13 - Contingencies implemented in 2007, in addition to disclosing the content related to the initial measurement of projected liabilities specified in the 2000 version of the contingency standard in the notes to the statements, enterprises should also disclose the more accurate

types of subsequent measurements of projected liabilities and the reasons for their formation, etc. In order to ensure the consistency in the measure of contingency information disclosure indicators, this paper takes 2007 as the starting point of the study. The empirical data of all A-share listed companies in China from 2007 to 2020 are selected, this paper investigates the impact of contingency information disclosure on corporate tax avoidance behavior, and analyzes the mediating effect of financing constraints in this process and the moderating effect of high-quality internal control, respectively. The data on contingent information and the rest of the financial data of listed companies are obtained from the CSMAR database, and the samples are screened according to the following criteria: (1) exclude listed companies in finance and insurance, as well as ST and PT companies; (2) exclude companies that made initial public offerings in the current year; (3) exclude listed companies with missing values of relevant data during the study period; (4) excluding the samples with effective tax rate less than 0 or greater than 1; (5) excluding the samples with projected liabilities equal to 0. After the above processing, 6316 company-annual observations are finally obtained. In order to avoid the problem of extreme values of variables, this paper also performs a two-sided 1% Winsorize treatment for continuous variables.

4.2. Measurement

4.2.1. Dependent variables

Drawing on Li Jianying et al. (2015), this paper chooses the effective tax rate (ETR) as the dependent variable to measure the effective income tax liability of a firm, i.e., $ETR = (\text{current income tax expense} - \text{deferred income tax expense}) / \text{pre-tax profit}$, and $\text{deferred income tax expense} = (\text{ending deferred income tax liability} - \text{beginning deferred income tax liability}) - (\text{ending deferred income tax asset} - \text{beginning deferred income tax asset})$. The lower the effective tax rate (ETR), the higher the degree of tax avoidance of a company.

4.2.2. Independent variables

Given that off-balance sheet disclosures of contingent information need to be collected manually, this paper focuses on the amount of projected liabilities presented in the balance sheet. There are two main methods of calculating the contingencies recognized on-balance sheet (ELEV) in existing studies. Dong Xiaohong et al. (2017) choose to measure the ratio of projected liabilities to total assets to control for the impact from the size of assets, while Zhang Ting and Zhang Dunli (2019) use the natural logarithm of the

total amount of projected liabilities at the end of the period as a proxy. Here we draw on the second method to measure the contingencies recognized within the financial statements, which is denoted by LnELEV in the following.

4.2.3. Intermediate variables

Drawing on the results of Kaplan et al (1997), Zhang Jinxin et al (2013), Chen Zuohua and Fang Hongxing (2018) and classical calculation methods, this paper selects several financial indicators to construct an index to measure the degree of financing constraints of firms (referred to as "KZ index"):

$$KZ = -1.002 \text{Cashflow} + 0.283 \text{TobinQ} + 3.139 \text{Leverage} - 39.368 \text{Dividends} - 1.315 \text{Cashholdin gs}$$

where Cashflow is the ratio of a firm's current cash flow to its opening fixed assets, which is calculated as the firm's net income plus depreciation and amortization; TobinQ is the ratio of the firm's market value to its total assets at the end of the period, which in turn equals the market value of equity plus the market value of net debt; Leverage is the ratio of the firm's debt to its total assets at the end of the period; Dividends is the ratio of common stock dividends paid in the reporting period to the beginning of the period fixed assets; Cashholdings is the ratio of cash and cash equivalents balance at the end of the reporting period to the beginning of the period fixed assets. Higher value of "KZ index" represents higher degree of financing constraint of the firm.

4.2.4. Adjustment variables

Drawing on the common practice of scholars such as Mao Xinshu and Meng Jie (2013) and Chen Zuohua and Fang Hongxing (2018), this paper selects the internal control index (ICindex) published in the White Paper on Internal Control of Chinese Listed Companies by Shenzhen Diebold as the basis for measuring the quality of internal control, and takes the natural logarithm of this index, the larger the value of internal control index (LnICI), the higher the quality of internal control of listed companies.

4.2.5. Control variables

Referring to the existing literature, the following control variables are selected in this paper: firm size (Size), gearing (Lev), firm age (Lnage), return on assets (ROA), nature of ownership (SOE), majority shareholder ownership (TOP1), whether the CEO and Chairman of the Board are the same person (Dual), proportion of fixed assets (Fixed), and proportion of independent directors (Indd). In addition, year (Year) fixed effect and industry (Industry) fixed effect are also controlled. The detailed definitions of the variables are shown in Table 1.

Table 1. Definitions of variables

Variable	Definition
ETR	$ETR = (\text{current income tax expense} - \text{deferred income tax expense}) / \text{earnings before income taxes}$
LnELEV	Natural logarithm of the total projected liabilities at the end of the period
KZ	"KZ index" of corporate financing constraints
LnICI	Natural logarithm of the Dibble Internal Control Index
Size	Natural logarithm of total assets
Lev	Ratio of total liabilities to total assets
Lnage	The number of years the company has been in existence, equal to the current year plus one minus the natural logarithm of the year the company was founded
ROA	Ratio of net income to total assets
SOE	Dummy variable that takes a value of 1 for firms with ultimate controllers who are state-owned and 0 otherwise
Fixed	Ratio of net fixed assets to total assets
TOP1	Shareholding ratio of the largest shareholder
Dual	Dummy variable that takes a value of 1 for firms with chairmen and CEOs who are the same and 0 otherwise
Indd	Proportion of independent directors in total directors
Industry	Industry dummy variables, based on the SEC's 2012 industry classification
Year	Year dummy variables

4.3. Empirical model

The regression model constructed in this paper is as follows:

$$ETR = \beta_0 + \beta_1 ELEV + \beta_2 Controls + \sum Industry + \sum Year + \varepsilon$$

The article uses OLS regression method to test the hypotheses, while controlling for Year fixed effects and Industry fixed effects. In the model, the dependent variable ETR is expressed as the effective income tax rate of the firm in the current year, and a lower ETR indicates a higher degree of tax avoidance. The independent variable ELEV is represented by the contingent Information recognized in the financial statements of the firm, i.e., the expected liabilities. Controls represent the control variables.

5. Empirical Results

5.1. Descriptive statistics

Table 2 reports the descriptive statistics of the main variables. The mean value of the effective tax rate (ETR) is 0.176, which is slightly lower than the general income tax rate of 25% for firms, and the maximum and minimum values are 0.803 and 0, respectively, indicating that the effective tax rate varies widely across firms. The mean value of expected liabilities in the table (LnELEV) is 16.25, and the maximum and minimum values are 20.57 and 11.19, respectively, indicating that there is no significant difference in the amount of expected liabilities accrued by the sample enterprises that make information disclosure on contingencies.

Table 2. Descriptive statistics

Variable	N	Min	Median	Max	Mean	Std
ETR	6316	0	0.163	0.803	0.176	0.165
LnELEV	6316	11.19	16.23	20.57	16.25	2.096
KZ	6316	-11.34	1.748	13.66	1.526	2.465
LnICI	6316	2.194	6.521	6.903	6.492	0.166
Size	6316	19.14	21.83	26.27	22.03	1.398
Lev	6316	0.046	0.462	1.100	0.461	0.223
Indd	6316	0.300	0.333	0.571	0.371	0.053
Top1	6316	0.088	0.343	0.764	0.361	0.154
ROA	6316	-0.266	0.037	0.211	0.038	0.063
Lnage	6316	1.609	2.944	3.401	2.852	0.412
Fixed	6316	0.002	0.193	0.733	0.229	0.171
SOE	6316	0	0	1	0.456	0.498
Dual	6316	0	0	1	0.233	0.423

Table 3. Baseline regression results

Variables	(1) ETR	(2) ETR
LnELEV	-0.002* (1.653)	-0.005*** (-3.317)
Size		0.013*** (4.585)
Lev		0.081*** (4.680)
Indd		0.003 (0.067)
Top1		0.029 (1.492)
ROA		0.487*** (13.626)
Lnage		0.027*** (3.900)
Fixed		-0.059*** (-3.034)
SOE		0.018** (2.510)
Dual		0.006 (0.858)
Constant	-0.142*** (5.438)	-0.192*** (-3.438)
Year FE	Yes	Yes
Industry FE	Yes	Yes
N	6316	6316
Adj.R2	0.003	0.071

Note: robust t-value are shown in parentheses. *, **, *** indicate 10%, 5%, 1% significance levels, respectively.

5.2. Baseline regression results

Our baseline regression results are shown in Table 3. The regression results in columns (1) and (2) show that the coefficient on projected liabilities (LnELEV) is significantly negative regardless of the inclusion of control variables. We find that there is a negative relationship between the projected liabilities and the effective tax rate of the firm. The results show that the larger the amount of presentation of the projected liability, the more contingent information disclosures, the more tax avoidance behaviors of enterprises.

5.3. Mechanism Analysis

We argue that the disclosure of contingent information primarily increases the tax avoidance incentives of firms by increasing financing constraints. First, whether the funds are tied up beforehand by the uncertainty or the expenses actually incurred afterwards, it directly leads to a decrease in the firm's available cash flow. Second, the disclosure of negative

information about contingencies is not conducive to firms' access to external financing, which indicates that contingencies create financing constraints for firms to some extent. When firms face high external financing costs and liquidity risks, management may be forced to choose tax avoidance (a complex and opaque means) as an alternative to traditional financing methods to alleviate the current difficulties. Column (2) of Table 4 presents the regression results of the impact of projected liabilities on financing constraints, where we find that the coefficient of projected liabilities (LnELEV) is significantly positive at the 1% level, indicating that the more contingencies, the higher the degree of financing constraints of the firm; the coefficient of projected liabilities (LnELEV) in column (3) of Table 4 is still significantly negative and the magnitude of the coefficient is smaller than the baseline regression, indicating that contingent information disclosure can indeed increase corporate tax avoidance by increasing the financing constraint.

Table 4. Mechanism Analysis

Variables	(1) ETR	(2) KZ	(3) ETR
LnELEV	-0.005*** (-3.317)	0.094*** (3.957)	-0.003** (-2.082)
KZ			-0.007*** (-4.284)
Size	0.013*** (4.585)	-0.324*** (-10.562)	0.002 (0.729)
Lev	0.081*** (4.680)	6.839*** (34.072)	0.143*** (6.344)
Indd	0.003 (0.067)	1.542*** (3.072)	0.018 (0.364)
Top1	0.029 (1.492)	-0.870*** (-4.012)	0.023 (1.107)
ROA	0.487*** (13.626)	-9.297*** (-18.740)	0.645*** (16.518)
Lnage	0.027*** (3.900)	0.459*** (5.558)	0.026*** (3.532)
Fixed	-0.059*** (-3.034)	0.298* (1.797)	-0.055*** (-2.746)
SOE	0.018** (2.510)	0.124* (1.666)	0.022*** (2.902)
Dual	0.006 (0.858)	-0.047 (-0.635)	0.003 (0.432)
Constant	-0.192*** (-3.438)	5.055*** (8.540)	-0.025 (-0.422)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
N	6316	6316	6316
Adj.R ²	0.071	0.292	0.075

Note: robust t-value are shown in parentheses. *, **, *** indicate 10%, 5%, 1% significance levels, respectively.

5.4. Heterogeneity by ownership structure

The internal control system is an important part of the corporate governance mechanism. First, a series of risk assessment and control activities performed by compliance-oriented internal control can help reduce the risk of corporate violations and further reduce contingencies. Second, high-quality internal control can reduce financial restatement and improve the quality of corporate accounting information, which can protect the interests of investors and enhance the

confidence of shareholders. Finally, a well-developed internal control can impose strict constraints, monitoring and punishment mechanisms on management, and thus discouraging management from aggressive tax avoidance activities. Table 5 reports the regression results of this part of the analysis. We find that the coefficient of the interaction term LnELEV*LnICI between projected liabilities and internal control is significantly positive, indicating that internal control negatively moderates the relationship between contingency information disclosure and corporate

tax avoidance, which means that high-quality internal control can mitigate the positive relationship between the degree of

contingency information disclosure and corporate tax avoidance.

Table 5. Heterogeneity by ownership structure

Variables	(1) ETR	(2) ETR
LnELEV	-0.005*** (-3.317)	-0.076* (-1.905)
LnELEV*LnICI		0.011* (1.785)
LnICI		-0.175* (-1.676)
Size	0.013*** (4.585)	0.012*** (5.769)
Lev	0.081*** (4.680)	0.097*** (7.119)
Indd	0.003 (0.067)	0.015 (0.350)
Top1	0.029 (1.492)	0.020 (1.192)
ROA	0.487*** (13.626)	0.454*** (10.800)
Lnage	0.027*** (3.900)	0.024*** (4.049)
Fixed	-0.059*** (-3.034)	-0.078*** (-5.133)
SOE	0.018** (2.510)	0.015** (2.571)
Dual	0.006 (0.858)	0.005 (0.744)
Constant	-0.192*** (-3.438)	0.995 (1.465)
Year FE	Yes	Yes
Industry FE	Yes	Yes
N	6316	6316
Adj.R ²	0.071	0.060

Note: robust t-value are shown in parentheses. *, **, *** indicate 10%, 5%, 1% significance levels, respectively.

6. Conclusions

This paper empirically examines the impact of disclosure of contingent information on corporate tax avoidance behaviors by using the listed companies in Shanghai and Shenzhen A-shares in China from 2007 to 2020 as the research sample. The following conclusions are obtained: (1) The higher the degree of disclosure of contingent information, the more tax avoidance behaviors of enterprises. (2) The financing constraint brought by contingent information is an important channel to influence corporate tax avoidance; (3) The improvement of corporate internal control effectiveness can mitigate the positive influence of the degree of contingent information disclosure on corporate tax avoidance behavior. The research in this paper enriches the literature on the factors influencing corporate tax avoidance and the economic consequences of contingency information disclosure and internal control quality.

According to the findings of the study, this paper proposes the following recommendations: (1) regulators should strengthen the supervision of contingent information disclosure, further improve the standards of contingent information disclosure, and reduce the manipulability of contingent information in the process of confirmation and disclosure. (2) Enterprises should establish a reasonable and effective internal control system to reduce information

asymmetry and financing cost, and reduce the aggressive tax avoidance risk of financing constrained enterprises; at the same time, enterprises should strengthen checks and balances and supervision of management to reduce management's self-interest activities and unreasonable tax avoidance behavior, so as to better protect the interests of owners and investors.

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