

Firm and Investor Responses to Uncertain Tax Benefit Disclosure Requirements

Leslie A. Robinson; Andrew P. Schmidt

+ [Author & Article Information](#)

Journal of the American Taxation Association (2013) 35 (2): 85-120.

<https://doi.org/10.2308/atax-50458>

Views 

Share 

Tools 

Cite 

ABSTRACT

We examine whether proprietary costs affect disclosure quality and how investors react to disclosure quality in a new proprietary cost setting. We apply [Verrecchia's \(1983\)](#) proprietary cost theory to the FIN 48 adoption setting and argue that proprietary costs result from beliefs that the new disclosures could weaken a firm's competitive position when negotiating with tax authorities. FIN 48 is an ideal setting to examine how proprietary costs affect disclosure given the proprietary nature of uncertain tax positions, and the ability to construct objective measures of both proprietary costs and disclosure quality. We construct disclosure quality scores for S&P 1500 firms and offer two empirical findings. First, we find a negative association between proprietary costs and disclosure quality. Second, investors reward firms for low disclosure quality, especially small firms and firms with high proprietary costs. Both findings are consistent with [Verrecchia's \(1983\)](#) theory, and suggest that proprietary costs moderate investor demand for full disclosure.

JEL Classifications: G14, L15, M41, M44, M45

Keywords: [FIN 48 \(ASC 740-10\)](#), [proprietary costs](#), [disclosure quality](#), [tax avoidance](#)

You do not currently have access to this content.

Sign in

Don't already have an account? [Register](#)

[Skip to Main Content](#)

Member Login

Log in

Pay-Per-View Access
\$25.00

AAA Members: Please log in for free access to content. Note, Teaching Notes are a full member benefit and are not available to student members.

 [Buy This Article](#)



[View Metrics](#)

Citing Articles Via

Google Scholar

CrossRef (68)

Email Alerts

Article Activity Alert

Publish Ahead of Print Alert

New Issue Alert

[Information for Authors](#)

[Authorship Policy](#)

[Plagiarism Policy](#)

[Data Integrity Policy](#)

[Citing Corrected Articles Policy](#)

[Minimizing Overlapping Decision Rights Policy](#)

[Prior Publication Policy](#)



[Cookie Policy](#) [Accessibility](#) [Terms & Conditions](#) [Get Adobe Acrobat Reader](#)

© Copyright 1998 - 2023 American Accounting Association. All rights reserved.