Journal of Financial Management Strategy
Alzahra University
Vol. 10, No. 39, Winter 2022

pp. 25-28

Research Paper

Investigating the Effect of Effective Tax Rate and Quality of Corporate Governance on Tax Avoidance in Companies Listed on the Tehran Stock Exchange[1]

Ali Namazian[2], Omid Pourheidari[3], Hadis Zeinali[4]

Received: 2020/12/04 Accepted: 2022/10/10

INTRODUCTION

Despite oil revenues, due to its price fluctuations, sanctions, and damages to the country's revenues, one of the alternatives to earn an income is tax. Tax is the government's share of the profit earned based on the legal tax rates. But in practice, due to the existence of loopholes regarding tax, tax avoidance by taxpayers has caused a difference between legal tax rates and effective tax rates and so the actual tax received. On the other hand, because of the specialization of the companies' activities, and as a result of the separation of management from ownership, the managers as representatives of the shareholders have been managing the companies. This can lead to a conflict of interest between the goals of the companies and the government as a tax collector which causes the managers to take actions such as tax avoidance in line with their own and the shareholders' interests, which is in conflict with the interests of the governments and can cause an increase in the company's profits and, as a result, an

1. DOI: 10.22051/JFM.2022.34226.2471
2. Ph.D. Student, Department of Accounting, Kerman Branch, Islamic Azad University, Kerman, Iran. Email: namazianali2010@gmail.com.
3. Professor, Department of Accounting, Faculty of Management and Economics, Shahid Bahonar University of Kerman, Kerman, Iran. Corresponding Author. Email: opourheidari@uk.ac.ir.
4. Assistant Professor, Department of Accounting, Kerman Branch, Islamic Azad University, Kerman, Iran. Email: hadisazeinali@gmail.com.

increase in the value of its shares. One of the solutions to prevent these actions is to have strong corporate governance quality companies. Since the simultaneous effect of the effective tax rate and the quality of corporate governance on tax avoidance has not been paid much attention in recent years in domestic research, this article, by providing empirical evidence, tries to update the information available in the literature, the knowledge enhancement of the current research is examined in three dimensions: to investigate the simultaneous effect of the effective tax rate and the quality of corporate governance on tax avoidance over sixteen years, to increase the level of analysis and to enrich the literature of the research and its comparability.

MATERIALS AND METHODS

Multivariable linear regression is used to test research hypotheses. The population includes all the companies accepted in the Tehran Stock Exchange. The selection process of 100 sample companies over sixteen years is presented in Table (1). The data of this research has been collected using the information bank of the Tehran Stock Exchange and Securities Organization (Kodal) and Rahavard Novin software. Also, the basic financial statements of the companies accepted in the Tehran Stock Exchange and the notes accompanying their financial statements at the end of each financial year are used as research tools.

Table 1. Sample selection process

The total number of companies admitted to the Tehran Stock Exchange until the end of 2018 = 513		
The total number of companies per year - 8208 companies		
Description of the limitation	Companies included	Companies left over
The number of companies that were not active in the stock market in the period of 2003-2018.	2960	5248
The number of companies have been admitted to the stock market since 2003.	2846	2384
The number of companies that were part of holdings, investments, financial intermediaries, banks or leasing companies.	384	2000
The number of companies that have changed their financial year during the research period.	400	1600
The number of companies their information was not available during the research period	-	-
Number of companies - year of observation	-	1600

RESULTS AND DISCUSSION

Considering that the tax avoidance variable is calculated through the difference between the accounting profit and the profit subject to tax, the average of this variable -0.021 shows that the before-tax profit of the companies (accounting profit) is lower than the profit subject to their taxes. The average effective tax rate is 0.113 while the effective legal tax rate is 22.5%, and this deviation from the legal rate indicates tax planning activities. Also, the minimum effective tax rate of 0.000 indicates that some companies do not pay any taxes even though they report profits.

Based on the estimation results of model (1), the significance level of the t-value related to the effective tax rate variable is less than 0.05, and its coefficient (0.284) is positive. Therefore, at the confidence level of 95%, it can be said that there is a positive and significant relationship between the effective tax rate and tax avoidance of the companies admitted to the stock exchange.

Based on the estimation results of model (2), the significance level of the t-value related to the effective tax rate variable (0.0001) is less than 0.05 and its coefficient (0.231) is positive. Therefore, at the confidence level of 95%, it can be said that there is a positive and significant relationship between the effective tax rate and the tax avoidance of companies admitted to the stock exchange. But by adding the variable of corporate governance quality to the above relationship, the significance level of the t-value related to the effective tax variable × corporate governance quality increases to (0.7691) above 0.05, and shows that the quality of corporate governance does not have a significant effect on the relationship between the effective tax rate and tax avoidance, and it is rejected at the confidence level of 95%.

CONCLUSION

The first hypothesis was approved, according to the theory of paying power and theoretical basis, and because the coefficient of the effective tax rate was significant. The second hypothesis can be investigated from two dimensions. The first dimension is the positive effect of the quality of corporate governance on tax avoidance, which indicates that there are few signs of a relationship between corporate governance and reducing tax avoidance. Considering that tax avoidance benefits the shareholders and is positively related to the increase in shareholder income, there is a conflict of interest between the goals of managers in companies and governments earning money through taxes. Even with the increase in the quality of corporate governance, managers will still avoid taxes. In the second dimension considering that corporate governance is not fully developed in Iran and its current mechanisms and structures have not yet been implemented in a standard and widespread manner, controlling and monitoring the environment, along with less efficiency, will cause this effect to decrease in the monitoring dimension.

Keywords: Tax; Quality of Corporate Governance; Tax Avoidance; Effective Tax Rate.

JEL Classification: G18, G34, H26, K34.