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Research Paper

Tax Planning and Firm Value with the Moderating Role of the Board of Directors[1]

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INTRODUCTION

Accounting plays a crucial role in economic decision-making, as financial statements prepared by accounting systems serve as vital sources of information for managers, investors, creditors, and other societal stakeholders to fulfill their responsibilities. Financial analysts utilize the information available in these financial statements to conduct various analyses and share their findings. Financial reports, in particular, are among the most important outputs of accounting information systems, providing financial information to external users within a specific framework.

Company valuation is paramount in economic decision-making, relying on information available in financial statements. The volume of research in the field underscores its significance.

This article examines the role of corporate governance in relation to tax planning and company valuation, aiming to determine whether corporate governance structures

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(including board characteristics and tax policies) influence tax planning. Tax planning incurs significant costs for companies and shareholders and plays a crucial role in financial decision-making. Additionally, this article explores the effects of tax planning on company performance and valuation. For instance, research suggests that tax avoidance can reduce corporate transparency and incentivize managers to divert company resources for personal gain. Moreover, studies indicate a negative relationship between effective tax rates and stock prices, suggesting that tax reduction can diminish stock value.

MATERIALS AND METHODS

This research is applied in nature with a descriptive (non-experimental), correlational approach, predicting changes in the dependent variable based on changes in independent and moderator variables. Regression analysis is employed to test hypotheses. Data is gathered through library and field studies, utilizing common software from the Tehran Stock Exchange, including Rahavard Novin. Collected data is organized and analyzed using Excel and EViews software.

Data collection methods include:

1. **Library Method:** Gathering theoretical foundations and research background from books, reputable journals, and articles.
2. **Documentary Method:** Collecting data through examination of financial statements available on the Tehran Stock Exchange and Rahavard Novin software.

The population comprises all companies listed on the Tehran Stock Exchange. Sample selection employs a systematic elimination method based on specific criteria:

- Listed on the stock exchange before 2014 and continuously listed until the end of 2018.
- Fiscal year ending in March without changes during the study period.
- Availability of information.
- Exclusion of investment companies, banks, and insurance companies due to their distinct nature.

- Inclusion of companies with positive pre-tax profits due to challenges in interpreting effective tax rates for loss-making firms.

After applying these criteria, 148 companies were included in the study.

RESULTS AND DISCUSSION

The study investigates the impact of tax planning on firm value, moderated by board characteristics in the Tehran Stock Exchange. Results support the first hypothesis, revealing a significant positive relationship between tax planning and firm value, measured through effective tax rates. This finding contrasts with prior studies (Kavala and Mohez, 2019; Tarmidi and Sari, 2019; Jabarzadeh Kangarloo et al., 2018), which suggested negative associations between effective tax rates and stock prices.

Additionally, control variables such as firm size and asset returns show positive coefficients, signifying significant relationships with firm value. The Durbin-Watson statistic confirms error independence, while an adjusted R-squared value of 0.854 indicates that 85% of the variation in firm value is explained by model variables.

Findings from the second hypothesis indicate that board size negatively moderates the tax planning-firm value relationship. Larger boards with reduced flexibility may diminish managerial inclination towards tax planning. Conversely, the third hypothesis demonstrates that board independence positively moderates this relationship, enhancing tax planning and firm value. Moreover, the fourth hypothesis reveals that CEO duality negatively moderates the relationship, limiting CEO discretion and reducing tax planning effectiveness. Lastly, the fifth hypothesis highlights that gender diversity on boards positively moderates tax planning and firm value.

CONCLUSION

1. The study confirms a significant positive relationship between tax planning and firm value, suggesting potential and current investors prioritize companies with higher effective tax rates for potential higher value creation. Company managers should also emphasize tax planning strategies.
2. Investors are advised to exercise caution with companies exhibiting larger board sizes and CEO duality, which negatively impact tax planning and firm value.

3. Investment focus should be directed towards companies with board independence and gender diversity, as these factors positively influence tax planning effectiveness and firm value.

Keywords: Tax Planning, Company Valuation, Board of Directors Characteristics.

JEL Classification: G30, H26, H32.