The Effect of the Structure of the Board on Tax Avoidance in Companies Listed in Tehran Stock Exchange

Hamidreza Shaheb¹, Seyed Kazem Ebrahimi²*

¹ Department of Accounting, Damghan Branch, Islamic Azad University, Damghan, Iran
² Department of Accounting, Damghan Branch, Islamic Azad University, Damghan, Iran

ABSTRACT

Whereas, stockholders want to have maximum profit and value of company so, it is possible that they want tax reduce and less pay tax. However, society willing is companies recognize and pay their tax equitably. Some of company’s design and present their management proceedings so that decrease their tax commitments because paying tax will transfer companies and their owner property to government. Tax escape and tax escape are such activities that may companies try to decrease tax by that. In between, board of director structure can show management decisions and its effect on avoidance activities from company tax payment. This research is checking connection between tax avoidance and board of director structure contains: board of director independence and board of director dichotomy tasks. Because of this, 104 accepted companies in Tehran stock exchange is checked on 1388 to 1393. Stability test of research variable, F test of Limer to distinguish data are panel or money and hypothesis test of research all done with Eviews software. Research results show if there is more board of director independence, tax avoidance will be less and there isn’t any meaningful connection between board of director dichotomy tasks and tax avoidance.

KEYWORDS
dichotomy duties of Director, Tax Avoidance, Structure of the Board, Tehran Stock Exchange

INTRODUCTION

In literature, accounting, tax avoidance is both broad and narrow definition. In the next massive tax avoidance as "clear cut taxes per Rial earnings before taxes" is defined. According to this definition all transactions tax liabilities affect the Company evident among tax avoidance are and the actual activities of tax avoidance activities to reduce their financial and business lobbies for tax benefits, having not discriminate. In the limited root conceptual distinction between tax evasion and tax avoidance on the legality of the actions of taxpayers. Tax evasion is a violation of the law: When taxpayers from reporting their taxable income related to labor or capital refused. To an illegal action that knocks him to deal with the legality of the tax authorities. In contrast, tax avoidance is done within the framework of tax laws and Moody's no reason to worry explore the possibilities of their actions. It will be interesting and challenging is that universally accepted definition of definition or tax avoidance and tax structures and tools are bold. Definitions and terms used in this regard is that according to the agreement is different societies. The gray area between these two concepts have always been conflicts and bickering (Mehrani and Seyedi,1392).

According to the general definition of corporate governance as a tool that companies with guidance and controlled. The board of directors, as the governing body of the role of care and supervision in order to protect the interests of executives’ responsible ownership, more important than ever. The main responsibility of the board, creating efficient on corporate governance in the interests of shareholders and balance the interests of various stakeholders, including customers, employees, investors and local communities. In all measures provides that the board of directors is expected to adopt your trading decisions in such a way that it is reasonably believed that the best interests of the company.

PROBLEM STATEMENT

The most straightforward mechanism to monitor the management board and to discipline managers play an important role in the proof of the unsuitability of their performance plays and should include members who are independent of management of the company and its main shareholder. Enron's collapse in 2001, drew attention to the effectiveness of outside directors’ board of directors. From
the perspective of agency theory, the presence of independent outside directors on the board of directors and regulatory practices them as individuals to reduce conflicts of interest between shareholders and company executives in board meetings, help is remarkable. It should be noted that the CEO plays an important role in creating the right mix of executives and non-executive members of the Board of Directors shall play. There is such a combination of basic elements, a board of directors is effective because while the managers responsible for valuable information about the activities of the company are offering, outside directors with professional and impartial perspective, the decision of managers will sit in judgment.

The board of directors having the expertise, independence and strength, the necessary legal, corporate governance is a potentially powerful mechanism counts (Bird and Hickman, 1992). created different challenges and has created difficulties for managers is increasing as tax avoidance policy, non-debt tax shield is used by more companies, resulting in tax benefits of debt is reduced, while bankruptcy costs the agency is unlikely to change. Accordingly, the policy of tax avoidance, tax benefits and a reduction in the demand for debt is a challenge to senior management so as to reduce the level of debt is created. It is expected that a greater number of outside directors on the board of directors to provide better advice on the effect of substitution of debt to senior management, consulting companies play an important role. Independence is also the duty of the Chairman of the Board CEO is also important in this context.

Previous studies argue that the non-executive board members of the board, and board independence increases. In view of the outside directors as professional judges whose task is to monitor competition among top managers of the company, can be best appreciated to take them. It is expected that the appointment of a higher proportion of outside directors on the board of directors, its effectiveness in monitoring the management and improvement of laws and regulations increase, according to the corporate tax rate, to the conclusion that a negative relationship between board independence there are non-executive and policy tax avoidance. Therefore, delegations are likely to have more independence, a bold tax policy through monitoring and further consultation, weaken.

Outside directors on the behavior of top management decisions on key policies such as tax avoidance policy that affects society as a whole, with supervision. This decreased sensitivity to tax avoidance policy as a result of increased board independence, reduce.

In general, the likely relationship between board independence and policy tax avoidance due to reduced work effort outside directors at the time of financial distress, trimmed the lead to ineffective monitoring and consultation with outside directors. In addition, the outside directors of the Manager of the company in important decisions including the optimal level of debt and the combined company's capital structure are in a better position. Outside directors, in addition to the important role in protecting the interests of shareholders, by providing independent advice and expert advice without bias and prejudice and advice to the Board of Directors, improve the quality of decision-making are now. Therefore, it is expected that the board makes decisions with a greater proportion of outside directors’ optimal financial structure that maximizes shareholder wealth.

**History Research**

Balakrishnan et al (2012), to the issue of whether aggressive tax practices, corporate transparency, reduce or not. The researchers used a standard information asymmetry, earnings quality and standard error of prediction of analysts as the company's transparency. The results showed that aggressive tax strategies to reduce corporate transparency. In addition, managers in companies with aggressive tax practices by increasing the level of disclosure transparency problem trying to reduce tax.

Armstrong et al (2013) also examined the effect of corporate governance on tax avoidance. They found the impact of corporate governance on tax avoidance on both ends of the spectrum or in other words the sequence of the table there was tax avoidance. It was important to note that this positive relationship between the proportion of non-bound researchers, as well as financial skills and expertise of the board tax avoidance function observed in the spectrum; But was in the low range, in other words, did not see the trail down tax avoidance function. Also, they have a significant relationship between corporate governance and tax avoidance, whether in Asia or in the average distribution function, did not see.

They argued that corporate governance in companies that seek to balance tax avoidance and tax avoidance is too high, it tends to reduce tax avoidance is very low at companies that also seeks to increase tax avoidance is corporate governance. In fact, maybe that was why there was no significant relationship in their research.

Mansouri (1392) in the master's thesis examines the relationship between corporate governance mechanisms and tax planning in companies listed on Tehran Stock Exchange for the fiscal period of 1382 to 1390. In this study, the regression model was used. The results indicate that the independence and financial literacy and the size of the duality of the role of CEO and Chairman of the Board and the influence of the state on the board of directors had no significant effect on tax planning. The results also suggest that institutional investors are negative and significant relationship with tax planning. The study results show that the control variables leverage and size of company tax planning there is a significant relationship. But between variables control the amount of investment and return on assets was no significant relationship with tax planning.

Mehrani and Seyed (1392) showed a significant and positive relationship between the level of tax avoidance and tax differences diagnostic and expressed there. As a result of that study showed the government intends to provide companies with tax avoidance, tax obtain a result, the policy of reducing taxes by tax avoidance strategies may not be efficient for the companies.
RESEARCH OBJECTIVES

The aim of this study was to investigate the relationship between the structure of the board of directors on company tax avoidance. According to the tax treatment of companies and significance of the financial crisis is expressed objectives of the study as follows:

Effect of the structure of the board of directors on corporate tax avoidance

RESEARCH HYPOTHESES

The main hypothesis: the structure of the board has a significant effect on corporate tax avoidance.
- First hypothesis: the independence of the board has a significant effect on corporate tax avoidance.
- The second hypothesis: the duality of tasks the board has a significant effect on corporate tax avoidance.

COMMUNITY SAMPLE

The population in this study contains information about all companies listed on the Tehran Stock Exchange since the beginning of 1388 to the end of 1393, which has the following requirements:
- In terms of increased comparability, the financial period ending 29 March.
- During the period under review (1388-1393) does not change the fiscal year.
- Financial information that is available.
- The financial companies (such as banks, financial institutions) and financial intermediation are not investment companies or firms.
- That the number of companies selected based on the conditions above are 104 companies in Tehran Stock Exchange.

METHODS OF DATA ANALYSIS

To analyze and answer the research questions the methods used descriptive and inferential statistics. Descriptive statistics variables used to describe the situation. In order to analyze the data, the data in Excel sorted and ratios to be calculated. To evaluate the hypothesis of stability software research (Eviews) is used.

RESEARCH MODEL

In order to test this hypothesis, the following model used to follow the Richardson (2015).
The first hypothesis

\[ ETR_{it} = \beta_0 + \beta_1 IND_{it} + \beta_2 SIZE_{i,t-1} + \beta_3 LEV_{it} \]
\[ + \beta_4 NOL_{it} + \beta_5 MKTBK_{it} + \beta_6 ROA_{it} + \epsilon_{it} \]

ETR = Company tax avoidance i in year t.
IND = Represents the independence of the board.
SIZE = size of the company
LEV = Leverage
NOL = The company's operating i losses in t.
MKTBK = The ratio of market value to book value of assets.
ROA = Return on assets of the company
\[ \epsilon_{it} \] = The remaining component is regression.

The second hypothesis

\[ ETR_{it} = \beta_0 + \beta_1 Dual_{it} + \beta_2 SIZE_{i,t-1} + \beta_3 LEV_{it} \]
\[ + \beta_4 NOL_{it} + \beta_5 MKTBK_{it} + \beta_6 ROA_{it} + \epsilon_{it} \]

ETR = Company tax avoidance i in year t.
Dual = Represents the duality of CEO duties
SIZE = Size Enterprises
LEV = Leverage
NOL = The company's operating i losses in t.
MKTBK = The ratio of market value to book value of assets.
ROA = Return on assets of the company
\[ \epsilon_{it} \] = The remaining component is regression.

VARIABLES AND HOW TO CALCULATE THEM

The dependent variable (ERT):

- Tax avoidance: In order to calculate the tax avoidance of the effective tax rate (ETR) which is used is calculated as follows:
  \[ ETR = Total \ Tax \ Expanse_{i,t} + Pre \ Tax \ Incom_{i,t} \]
  \[ Total \ Tax \ Expanse_{i,t} = The \ total \ tax \ cost \ of \ firm \ i \ in \ year \ t. \]
  \[ Pre \ Tax \ Incom_{i,t} = Represents \ a \ pre-tax \ profit \ company \ i \ in \ year \ t. \]

The Independent variable:

- Board structure: In order to measure this factor in the study of criteria such as board independence and board dichotomy used tasks.
- Board independence: independence of the board as the ratio of outside directors to the board members defined.
- Dualism duties of the Board: CEO when the duality of tasks that the Chairman of the Board and CEO at the same time be used.

Control variables:

- Company size: the natural logarithm of total assets
- Financial leverage: the ratio of debt to total assets of the company.
- Operating loss: loss from operating activities of the entity that is a dummy variable with a value of zero and one (One, for the case of operating losses, and zero otherwise).
- Investment opportunity: the ratio of market value to book value of assets (market value or market value of the assets of the company, the total value of the company or the market value of equity and book value of debt is calculated.)
- Return on assets: net profit or loss divided by total assets.

DESCRIPTIVE STATISTICS

Descriptive statistics of research variables in the entire period of study is presented in Table 1.
The results presented in Table 1 show that the average value of the net profit is lowest. While the opposite is true standard deviation of tax avoidance and this indicates that all of the companies surveyed in terms of tax avoidance are the lowest dispersion. According to the results presented in Table 1 it can be concluded that the variable tax avoidance and net profit has also skewed to the left.

| Tab.1. Descriptive statistics of variables |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Skewness         | Middle          | Minimum         | Maximum         | Standard deviation | Average         |
| 0.026            | 0.123           | 0.000           | 0.37            | 0.0913            | 0.112           |
| 1.640            | 0.80            | 0.000           | 1.000           | 0.135             | 0.731           |
| 0.856            | 5.91            | 0.000           | 3.147           | 0.621             | 5.96            |
| 2.506            | 0.623           | 0.000           | 3.147           | 0.242             | 0.628           |
| 0.092            | -               | 0.545           | 0.186           | 0.096             |                |
| 8.413            | 2.960           |                |                |                  |                |
| 1.712            | 1.000           | 0.000           | 5.000           | 0.664             | 1.398           |

**TEST RESEARCH HYPOTHESES**

Then the effect of the independent variable and the dependent variable control is discussed. In order to test the research hypotheses, the following model is used.

The main hypothesis: the structure of the board has a significant effect on corporate tax avoidance.

In the structure of the board of directors and board independence dichotomy duties of the board is used.

First hypothesis: the independence of the board has a significant effect on tax avoidance.

\[ ETR_{it} = \beta_0 + \beta_1 IND_{it} + \beta_2 SIZE_{it-1} + \beta_3 LEV_{it} + \beta_4 NOL_{it} + \beta_5 MKT BK_{it} + \beta_6 ROA_{it} + \varepsilon_{it} \]

The second hypothesis: the independence of the board is used.

\[ ETR_{it} = \beta_0 + \beta_1 Dual_{it} + \beta_2 SIZE_{it-1} + \beta_3 LEV_{it} + \beta_4 NOL_{it} + \beta_5 MKT BK_{it} + \beta_6 ROA_{it} + \varepsilon_{it} \]

**DISCUSSION AND CONCLUSION**

Theoretical and empirical evidence suggests that companies tend to reduce their tax obligations. Including corporate tax avoidance strategies that can be used to reduce taxes, improve performance and corporate value. However, it should be noted that corporate tax measures and strategies favorable and unfavorable consequences for company foundations. Agency theory acknowledges that as representatives of the owners and managers have a duty to take steps in order to maximize the company's value and with respect to the shareholders as the center of gravity; also
pay attention to other interest groups. This study examined the relationship between board structure and avoid the tax. 146 companies listed on Tehran Stock Exchange outcome indicates that significant negative relationship between board independence and there is tax avoidance. The independence of the board means that there is less tax avoidance. As well as lack of communication between the board duality tasks with tax avoidance. Mansouri (1392) in the master’s thesis examines the relationship between corporate governance mechanisms and tax planning in companies listed on Tehran Stock Exchange for the fiscal period of 1382 to 1390. In this study, the regression model was used. The results indicate that the independence and financial literacy and the size of the duality of the role of CEO and Chairman of the Board as well as the influence of the state on tax planning board has no effect. The results also suggest that institutional investors are negative and significant relationship with tax planning. As a result, in these circumstances, tax avoidance may be an effective measure to reduce the actual tax. In addition, you may also market other groups and companies who do tax avoidance, negative reactions and negative reputation for the company to bring this action. Review other issues that can affect this relationship requires a separate research and more.

Offers:

According to theoretical and empirical research, it is advisable to managers and decision makers in decisions and tax strategies, while taking into account the long-term horizons and repercussions to consider the probability of each tax policy. Investors are also advised to consider the strategies and corporate tax planning, cash flow and the possible consequences related to the future performance of the company in the US and information about their decisions in terms of their pattern. Like other studies, this study also faced difficulties in generalization of results should be considered. First, according to environmental conditions and applicable laws and regulations, take advantage of certain patterns of tax avoidance is not possible. According to the results of this study can be used for future research, suggestions are as follows:

- Stressed the importance of some of the features of the board, such as board size and CEO duality of responsibility as factors affecting the company's capital structure by the Stock Exchange.
- Preparing the ground for the presence of non-executive members of the board of directors are independent and effective.
- Because of the linear relationship was used in this study, the effect of the structure of the board on tax avoidance through non-linear relationships examined.
- Considering that the board structure is one of the mechanisms of corporate governance, recommended in future research other corporate governance mechanisms such as ownership structure, capital structure, independent auditors and also be examined.

- Tax avoidance is examined throughout the life cycle.

REFERENCES