The Impact of Financial Crisis Effect on Tax Avoidance of Accepted Companies Study Case in Tehran Stock Exchange

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ABSTRACT

The aim of this research is checking financial crisis effect on tax avoidance when marginal profit is more than sumptuary profit company will be proceeding tax avoidance activities. In fact, when company has financial problems (financial distress), tax avoidance benefit would be more than its expense and manager will have more motive for tax avoidance.

This research is attended to checking financial problem effect on tax avoidance. The period of this research is contains 1388 to 1393. Sample is included 104 accepted companies in Tehran stock exchange. 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 7 software. Results show there is direct and meaningful connection between financial crisis and tax avoidance it means, if company have more financial crisis, tax avoidance will be more.

KEYWORDS

financial crisis, tax avoidance, conservatism, Tehran stock exchange

INTRODUCTION

In most countries, the bulk of government revenue through tax-funded resources. The share of total public revenues among different countries. In the meantime, avoidance and tax evasion in the country has led to the country's tax revenue is estimated to be less than that (khani et al, 1392). Considering that one of the main objectives of managers and representatives of the shareholders in the company is to maximize shareholder wealth and stakeholders using different mechanisms to achieve this and supervision of management, therefore, we can expect that one of the main motivations tax avoidance by managers, are realizing the goal of maximizing shareholder wealth. Moreover, in many instances incentive plans for directors and managers of companies considered to be part of these plans are based on company performance criteria (Pour Heydari et al., 1393). Financial crisis, one of the common phenomena in the domestic and global economy are considered. Crisis, many economic costs for the country to follow. The final stage is the bankruptcy of financial distress.

The financial distress of bankruptcy procedures, which at this stage, companies are struggling to repay their debts. Because if we can about the possibility of bankruptcy and financial distress before the actual event obtain information, economic and social effects it can reduce or avoid its consequences. Therefore, accurate prediction of financial distress in the financial world is very important.

From the standpoint of economic, financial distress can also be interpreted to the detriment of the company, in which case the company suffered heavy losses and have been consecutive. Distressed companies may have less authority but a bold tax policy, given the need to raise cash, important and necessary, especially given that the income tax expense, significant cash even for companies the company removes the financial crisis. Policies as policies are costly for the company to do previously thought, with increased benefits found Aggressive Tax policy, will be pleasant and memorable. In general, the management company may have to perform risky policies and tax avoidance during periods of financial distress is. At the same time, the management company may, hazards or damage the reputation of the audit by the tax authorities consider as well. As a result, the company is expected to Aggressive Tax policy during the period of financial crisis, increased.

In particular, large companies in financial distress may be periods when companies reduce their tax liabilities, are encouraged to take a more aggressive stance, furthermore, the tax is one of the costs incurred by the companies. Aggressive Tax policy, tax benefits and reduced demand for debt and a challenge to senior management as a result of lower debt levels occur (Bahrami Saatlu, 1394).
PROBLEM STATEMENT

This study clarifies the relationship between the financial crisis on tax avoidance in companies listed on the Stock Exchange of Tehran. The period of study is 6 years and the dependent variable in this study is tax avoidance. Also in the study of variable financial crisis has been used as the dependent variable. Control variables used in this study include firm size, leverage, and return on assets are investment opportunities. In order to measure the effective tax rate used is tax avoidance. The total cost for corporate taxes divided by income before corporate taxes and to determine the company's financial crisis of working capital is used. So that in the years the company has negative working capital, is in crisis. In this study, companies that are experiencing financial crisis the number 0 and the other companies assign number 1. Control variables used in this study are as follows:

\[ \text{SIZE} = \text{size of company} \]
\[ \text{LEV} = \text{Leverage} \] is the ratio of corporate debt to total assets of the company.
\[ \text{Q}_{lt} = \text{The ratio of market value to book value of assets,} \]
\[ \text{ROA} = \text{net profit which we will explain them.} \]

HISTORY RESEARCH

Richardson and Laniz and Taylor (2015) and aggressive tax financial difficulties, the global financial crisis (GFC) of 2008 and the impact of the interaction between board independence and financial crisis in aggressive tax assessed. The regression results show that both the financial crisis and the GFC is associated with aggressive tax. More importantly, the positive correlation between the financial crisis and aggression by the GFC is tax. It also observed that the interaction between board independence and financial crisis positively associated with aggressive tax.

Tisporydo and Spatys (2014) several different implications for tax policy now, when it is presented in financial distress. An example would be an increase in the cost of capital, reduced access to foreign funds (including debt) and, in general, tend to accept greater risk managers change the equilibrium position a company for tax avoidance.

Mehrani and Seyedi (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 that the government wants more taxes from companies that obtain their tax avoidance; as a result of the policy of reducing taxes by tax avoidance strategies may not afford to do this, companies are not required.

Foroughi et al (1391) examined the effect of tax evasion on future stock price crash risk involved. The researchers confirmed the differences between taxable profit and taxable profit actually used as a measure of tax evasion. The results showed that tax evasion would lead to future stock price crash risk. In this sense, in the event that your activities do to evade taxes, because these activities require the use of an obscure and complex reporting system, the ability of managers to maintain and increase the accumulation of negative information inside the company and, consequently, future stock price crash risk increases.

Jahromi (1391) examined the relationship between tax avoidance and corporate transparency payments. He studied 367 during the period 1387 to 1389 the company received no significant relationship between tax avoidance and corporate transparency. However, when this relationship was tested by a three-year cash effective tax rate for companies that are less transparency and a higher effective tax rate as a result of tax avoidance and less. The result of his research confirmed the approach the value of corporate tax avoidance. He also argued that the use of the effective tax rate is better than the average 5-year effective tax rate used to reduce fluctuations and changes the better.

RESEARCH OBJECTIVES

The aim of this study was to investigate the relationship between financial crisis on company tax avoidance. With respect to the tax treatment of companies and significance of the financial crisis aim of this study can be expressed as follows:

The introduction of scientific methods to communicate between the crisis of corporate finance and tax avoidance.

THE HYPOTHESIS

- Financial crisis 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).
ETR_{it} = \beta_0 + \beta_1 \text{FDISTRESS}_{it} + \beta_2 \text{SIZE}_{i,t-1} + \beta_3 \text{LEV}_{it} + \beta_4 \text{NOL}_{i,t} + \beta_5 \text{MKTBK}_{i,t} + \beta_6 \text{ROA}_{i,t} + \epsilon_{i,t}

ETR_{it} = \text{Company tax avoidance } i \text{ in year } t.
FDISTRESS_{it} = \text{Measure of financial crisis.}
SIZE = \text{Size Enterprises}
LEV = \text{Leverage}
NOL_{i,t} = \text{The company's operating i losses in } t.
MKTBK_{i,t} = \text{The ratio of market value to book value of assets.}
ROA_{i,t} = \text{Return on assets of the company and } \epsilon_{i,t} \text{ the residue is regression.}
\epsilon_{i,t} = \text{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:

\[ \text{ETR} = \frac{\text{Total Tax Expense}_{it} + \text{Pre Tax Incom}_{it}}{\text{Total Tax Expense}_{it}} \]

\( \text{Total Tax Expense}_{it} \) = The total tax cost of firm \( i \) in year \( t \).
\( \text{Pre Tax Incom}_{it} \) = Represents a pre-tax profit company \( i \) in year \( t \).

**The Independent variable:**

Financial crisis: a company that has negative working capital is in a financial crisis. In this study, companies that are experiencing financial crisis the number 0 and the other companies assign number 1. Working capital is calculated by the following equation.

Current liabilities - current assets working capital = (Working Capital)

**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.

**HYPOTHESIS TESTING**

Then the effect of the independent variable and the dependent variable control is discussed. The following model was used to test the hypothesis.

Hypothesis: the financial crisis has a significant effect on tax avoidance.

\[ ETR_{it} = \beta_0 + \beta_1 \text{FDISTRESS}_{it} + \beta_2 \text{SIZE}_{i,t-1} + \beta_3 \text{LEV}_{it} + \beta_4 \text{NOL}_{i,t} + \beta_5 \text{MKTBK}_{i,t} + \beta_6 \text{ROA}_{i,t} + \epsilon_{i,t} \]

Tab. 1. Descriptive statistics of variables

<table>
<thead>
<tr>
<th>Skewness</th>
<th>Middle</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Standard deviation</th>
<th>Average</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.026</td>
<td>0.123</td>
<td>0.000</td>
<td>0.37</td>
<td>0.0913</td>
<td>0.112</td>
<td>Tax avoidance</td>
</tr>
<tr>
<td>0.856</td>
<td>5.91</td>
<td>0.000</td>
<td>3.147</td>
<td>0.621</td>
<td>5.96</td>
<td>size of the company</td>
</tr>
<tr>
<td>2.506</td>
<td>0.623</td>
<td>0.000</td>
<td>3.147</td>
<td>0.242</td>
<td>0.628</td>
<td>Lever</td>
</tr>
<tr>
<td>8.413</td>
<td>2.960</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Net profit</td>
</tr>
<tr>
<td>1.712</td>
<td>1.000</td>
<td>0.000</td>
<td>5.000</td>
<td>0.664</td>
<td>1.398</td>
<td>Investment opportunities</td>
</tr>
</tbody>
</table>

Tab. 2. shows the results of hypothesis testing

<table>
<thead>
<tr>
<th>Statistics related to the overall level model</th>
<th>meaningful</th>
<th>T-statistic</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>The coefficient of determination</td>
<td>0.040</td>
<td>2.049</td>
<td>0.017</td>
</tr>
<tr>
<td>Adjusted coefficient of determination</td>
<td>0.147</td>
<td>-1.449</td>
<td>0.0212</td>
</tr>
<tr>
<td>Durbin Watson</td>
<td>0.820</td>
<td>-0.226</td>
<td>-0.005</td>
</tr>
<tr>
<td>F statistic</td>
<td>0.010</td>
<td>2.561</td>
<td>0.054</td>
</tr>
<tr>
<td>Significance level F</td>
<td>0.189</td>
<td>-1.315</td>
<td>-0.006</td>
</tr>
</tbody>
</table>

F statistic and its significance level confirmed Level is generally used. Durbin-Watson statistic indicates there is no correlation between the model's error component and according to the adjusted coefficient of determination 0.607 model of independent variables and the dependent variable using a control model can be predicted. Factor and a
significant level of financial crises indicate the direct and meaningful relationship is with tax avoidance. This means that the financial crisis is now more likely to have more tax avoidance and the control variables, only the return on assets and tax avoidance there is a significant positive effect.

**DISCUSSION AND CONCLUSION**

Since tax expenditures constitute one of the most important company expenses and liquidation of companies and dividends would reduce shareholders, tax expense and tax payable focus of attention of CEOs and board of directors as well as shareholders are. Therefore, tax policy (aggressive or conservative) including the policy that the shareholders and directors in assessing the operation of capital market remains cautious. On the other hand, failed firms more than other firms will be the policy of tax avoidance. The findings suggest that a bold policy of tax increase failed firms to create extra cash flow. Thus, according to learn in this research is to answer the question: Is there a significant relationship between the financial crisis and is tax avoidance? To answer this question now of population 104 companies listed on the Tehran Stock Exchange during the period 1388 to 1393 was chosen to studied. Results of this study suggest that a significant relationship between tax avoidance and financial crisis and there is a positive.

This means that the financial crisis is now likely to have more tax avoidance while among the control variables between return on assets and tax avoidance there is a significant positive effect. This is consistent with research findings Richardson; Laniz and Taylor (2015) and Richardson et al (2015) are consistent. They began to examine the issue of whether when companies are under financial distress and when profit margins are less than marginal losses, their incentive for tax avoidance more. In fact, when companies are under financial pressure, heavier than its disadvantages are the benefits of tax avoidance, and tax avoidance motive several times the same thing.

**Offers:**

Finally, with regard to the results of this study, the following suggestions are offered:

Since the activity involves tax avoidance hide the facts and complex transactions, the Company's information environment is negatively affected and reduces the transparency of financial reporting. It is recommended to legislative bodies, laws that require companies to be more transparent activities and practice your tax disclose.

Because of the linear relationship was used in this study, the effect of the financial crisis on tax avoidance through non-linear relationships examined.

The financial crisis and tax avoidance are examined throughout the life cycle.

**REFERENCES**


[3] Jahromi, M. (1391) corporate transparency and tax avoidance, essays, Tehran University to obtain a Master of Accounting from the School of Management.


