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The Impact of Managerial, Governmental and Institutional Ownership On Tax Avoidance: Evidence from Egypt

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Abstract:

This research aims to study the determinants of tax avoidance in the Egyptian environment, represented in the patterns of ownership and the board of directors, in addition to study the impact of tax avoidance on the value of the company. during the period from 2015 to 2019. Through the applied study, the researcher reached several main results, the most important of which are: From the side of ownership patterns, The results confirmed the existence of a negative effect of administrative ownership and a positive impact of institutional ownership in reducing tax avoidance practices, and from the side of the characteristics of the board of directors, the results confirmed the existence of a negative effect of duplication and a positive impact of the size of the board on reducing tax avoidance practices, and from The side of operational characteristics, the results confirmed the existence of a positive effect of both company size and financial leverage on reducing tax avoidance practices, as well as confirmed a Positive impact of tax avoidance on the value of the company, and based on the previous results, the researcher recommended the need to develop tax laws to reduce tax avoidance practices and legalize administrative ownership.

Keywords: governmental ownership – Institutional ownership – Tax Avoidance.

1. Introduction:

Taxes are an essential element to both natural and legal persons, as each category is subject to a different tax obligation regulated by the prevailing law in the state. There are many terms in the literature related to the concept of taxes such as Tax Planning, Tax Evasion, Tax Avoidance, and Aggressive Tax Avoidance, but in this research the focus will be on tax avoidance.

In light of the economic consequences and the noticeable spread of the culture of participation in the stock markets through trading of shares as one of the investment alternatives for savings, tax avoidance has become a topic with an accounting and social dimension, which can attract unwary attention favoured by the media, government, consumers and the general public towards both corporations and large investors in a phenomenon referred to as 'Tax-Shaming'. (Kasim & Saad, 2019)

On the other hand, profitability indicators and rates alone are no longer sufficient to evaluate investment projects, especially in the stock market. Rather, the concept of Firm Value has become one of the basic and supportive elements for investment decisions and a key element to attract potential investors and the preferences of owners of cash capital, which prompted the accounting thought. Recently, interest in studying the factors affecting the value of the company, including tax avoidance, in addition to studying the determinants that affect the direction of companies' management of tax avoidance developing practices, especially in emerging or countries with high legal tax rates.

2. Literature Review:

Tax avoidance has become a subject of academic controversy in recent times, especially since the beginning of recession and economic austerity and the shrinking role of the public sector after the global financial crisis in 2008, and the tendency of many countries to reform the tax system after noticing the low level of tax receipts for large companies, which he referred to (Albaz & Albaz, 2019) as “Immoral Behaviour” for corporate management by manipulating the sources and spending of available funds in order to reduce the value of tax paid on the company’s activities and operations, which prompted the characterization of tax avoidance as a moral issue (Moral Story-Telling), and he explained (Aburajab, Maali, Jaradat, & Alsharairi, 2019) defined the apparent reduction in the company’s income tax in any way, whether by legal or questionable legality, which was emphasized by (Gunn, Koch, & Weyzig, 2020) that tax avoidance is the explicit reduction of the tax expense paid in unethical ways. Especially in countries with a high legal tax rate, as indicated by (Helgadóttir, 2021) that tax avoidance is opportunistic measures to reduce the value of the tax, as managers carry out to Achieving personal gains or for the benefit of the shareholders, and it is often done with the approval of the main shareholders in the case of concentration of ownership, as defined (Huang & Zhang, 2020) as tax avoidance is a set of policies and procedures used by the administration to reach the lowest possible tax burden without deviating from the formal tax legal texts, and on the side The last description (Akbari, Salehi, & Bagherpour Vlashani, 2019) of tax avoidance practices as tax management by controlling the amount of tax paid in an implicit manner with the tax law prevailing in the country, and emphasized by (Brooks & Sun, 2020). that these practices are commonly used in international companies (Multinational) in particular to reduce the tax burden, and the result of these practices lies in the difference between legal tax rates (Statutory Tax Rates - STRs) and actual tax rates (Effective Tax Rates - ETRs), but from From a different point of view, (Tandean & Winnie, 2016), see that tax evasion is a form of tax evasion, but it is legitimate practices, which companies carry out to take advantage of legal loopholes as much as possible in legislation and regulations. (Herron & Nahata, 2020) considers tax avoidance practices to be legal activities from a formal point of view, but the expansion of corporate management in these practices makes them questionable from the ethical side, as the tax payments borne by the company can create a primary motive for managing profits with the aim of Avoiding or reducing these payments to achieve tax savings and reduce the tax base. The Organization for Economic Co-operation and Development (OECD) has indicated the difficulty of establishing a specific definition of tax avoidance, but it calls the financier’s arrangements that aim to reduce his tax obligation legally contrary to the legislative intent (Gunn, Koch, & Weyzig, 2020)

Accounting literature is distinguished by the presence of many studies and researches that dealt with tax avoidance, but there is - so far - there is an academic debate about the benefits and costs associated with tax avoidance for both management, shareholders, and the state (Hoseini, Gerayli, & Valiyan, 2019) where each study tackled them from an angle Or a different point of view, (Akbari, Salehi, & Bagherpour Vlashani, 2019) indicated that taxes are expenses that are seen as reducing profits, and here also appears a conflict of interest between the state represented in tax departments and companies, and this conflict occurs because the company’s management is trying Reducing the value of taxes paid to a minimum, while the state wants to increase the tax revenues received from companies to the maximum extent possible. In other words, the repercussions of tax avoidance from different and different benefits and costs from the point of view of all categories of stakeholders and the following reviews Researcher these benefits and costs. (Abdelfattah & Aboud, 2020).

Benefits of tax avoidance: Taxes are considered essential expenses from the shareholders’ point of view and a burden on their companies (Aldoseri, Albaz, & Ghali, 2022), and they must be reduced as much as possible

(Helgadóttir, 2021) and (Kasim & Saad, 2019) pointed out that corporate management resorts to Tax avoidance practices depend mainly on the benefits they achieve from tax savings and the consequent increase in profits (Hoseini, Gerayli, & Valiyan, 2019) and the provision of cash outflows (Abdelfattah & Aboud, 2020) to subsequently contribute to solving liquidity problems in the short and medium term From the perspective of the board of directors, gaining the confidence of shareholders is the most important benefit of tax avoidance (Tandean & Winnie, 2016) ensuring the continuity of management and proving its efficiency in achieving financial stability (Tang, 2019) through reducing The rate of taxes paid, which is reflected in the amount of incentives and bonuses earned in the short and medium term (Gunn, Koch, & Weyzig, 2020) which is called (Helgadóttir, 2021) job security for the board of directors, and he had previously indicated (Abdelfattah & Aboud, 2020).that the ethical problem is That managers expect to evade tax through Tax avoidance practices will benefit them in the form of additional resources or other benefits, and thus the shareholders will reward the managers by offering compensation that will encourage future managers to be always more perfect in improving the company's performance - from the shareholders' point of view - so that it increases the company's profits by Tax avoidance (Aldoseri, Albaz, & Ghali, 2022), and some managers even believe that tax avoidance behaviour is an ethical behaviour and one of their responsibilities towards shareholders as long as it is done in accordance with the law (Tandean & Winnie, 2016), and in the end, the shareholders benefit more from the management's benefit from tax avoidance practices (Zhang, Cheong, & Rasiah, 2017) From the perspective of the stock market, tax avoidance practices have a direct impact on stock prices in the stock market through news. The good results resulting from the disclosed profits number after being inflated through these practices (Albaz & Albaz, 2019).and therefore the main motive for corporate management of tax avoidance practices is to improve the company's financial and operational conditions in the light of the following The law and tax legislation prevailing in the country, although some of these practices are outside the tax legislator's intent, but are not considered an explicit legal violation. From the point of view of financing, (Herron & Nahata, 2020) indicated that tax avoidance savings are the ideal alternative to financing in light of the company's inability to obtain External financing or high interest costs. In general, it has been pointed out (Abdelfattah & Aboud, 2020). that tax avoidance is seen as a value-generation management practice, and its ultimate goal is to transfer wealth from the state to shareholders, and this will be achieved each time the company successfully avoids paying a portion of the tax due (Brooks & Sun, 2020). and thus shareholders will be keen on the idea of encouraging management to tolerate this practice (Helgadóttir, 2021) and thus managers will be willing to engage in avoidance activities The tax is to take advantage of expanded discretion (Kasim & Saad, 2019)

and thus shift wealth to their advantage, and shareholders in turn will vaguely accept managers' tax actions so as not to attract the attention of the tax authority.

Costs of tax avoidance: Tax avoidance practices have many negative dimensions and costs borne by companies in the event that doubts are raised about the company's involvement in these practices (Abdelfattah & Aboud, 2020).for example, the mental image of the company is affected. On the level of potential investors or consumers (Gunn, Koch, & Weyzig, 2020) and the attendant costs of litigation, political costs, and societal boycotts (Aldoseri, Albaz, & Ghali, 2022), in addition to the collapse of stock prices in the stock market (Huang & Zhang, 2020). As well as the intransigence of the relevant tax authorities in dealing with the company in the future (Brooks & Sun, 2020). and (Tandean & Winnie, 2016) indicated that the company may receive penalties or fines from the tax authorities will cause an unexpected cost of value, Which will affect the company's cash flow (Hoseini, Gerayli, & Valiyan, 2019) and tax avoidance practices have a negative impact on investors, as the management's resort to administrative opportunism through tax avoidance individually will lead to the transfer of wealth from shareholders to Illegal management (Kasim & Saad, 2019) but it will also be accompanied by resorting to the services of legal experts and expensive taxes (Tandean & Winnie, 2016), and at the level of large companies, (Tang, 2019) explained that these companies, especially international companies (Multinational Corporations balance the benefits (cash savings) and costs (loss of reputation/legal and financial penalties/political risks) associated with tax avoidance practices (Gunn, Koch, & Weyzig, 2020) according to management strategies in dealing with the authorities Tax avoidance and the strength of the laws in force in the country, which prompted (Beer, De Mooij, & Liu, 2020) to describe tax avoidance as a type of profit management, but it is done in light of the law and at the state level. (Herron & Nahata, 2020) pointed out that tax avoidance is one of the most important reasons for the decline in state revenues, and in general, tax avoidance can be considered as a A management practice that has costs and benefits which must be properly evaluated by evaluating its net results. for the state while (Barros & Sarmento, 2020) believe that despite the negative effects of tax avoidance at the state level on the one hand, it is considered an activity that supports the value of companies through achieving financial savings from Another aspect, which is consistent with (Akbari, Salehi, & Bagherpour Vlashani, 2019)

where tax avoidance refers to legally reducing tax payments based on the uncertainties surrounding tax laws and legislation, which is called the gray area of law, and creates an incentive for corporate management towards tax avoidance practices, and although it is a behaviour that includes a legitimate use of tax laws, it violates its purpose Thus, tax avoidance includes the companies' management following procedures and policies that reduce the tax burden as much as possible, but in a manner that does not violate the provisions of tax laws and legislation (Albaz & Albaz, 2019). A distinction must be made between two types of tax avoidance (Aldoseri, Albaz, & Ghali, 2022), first Acceptable Tax Avoidance Practices, which are practices that are consistent with the spirit of the law and the intent of the tax legislator, such as government bonds or the expansion of investment in tax-exempt activities under legislation or law. Second, arbitrary tax avoidance practices, which are practices that depart from The purpose of the tax legislator is close to the concept of tax evasion and falls within the management of profits (Huang & Zhang, 2020). and here The researcher agrees with (Akbari, Salehi, & Bagherpour Vlashani, 2019) in dividing the mechanisms of tax avoidance

3. Methodology:

This research is considered one of the tax research related to capital markets, where this research aims to identify the factors affecting tax avoidance practices in addition to determining the impact of tax avoidance on the value of the company in a practical way by finding practical evidence from all companies operating in the Egyptian stock market, and this quality became Applied research is the prevailing trend at the international level in tax accounting thought when linking the branches of accounting science (tax and finance), and according to the nature of the research, the positive approach was relied upon to conduct it.

From the above the researcher develops a hypothesis, this hypothesis aims to measure the effect of tax avoidance on the value of the company in the presence of some control variables. The researcher used the Panel data analysis method, using the Fixed Effect model, and the results of the fourth hypothesis test are as follows:

"There is no significant effect of tax avoidance practices on the value of the company"

The researcher prepared a model for an applied study, and the following equation shows the nature of the relationship between the research variables:

FV i,t = α + β1 TA i,t + β2 MO i,t + β3 IO i,t + β4 GO i,t + β5 CO i,t + β6 BODS i,t + β7 BODI i,t + β8 BODD i,t + β9 BODM i,t + β10 BODW i,t + β11 FS i,t + β12 AGE + β13 LEV i,t + β14 ROA i,t + β15 OCF i,t + β16 CAPEX + β17 DIVID + E

Indication level	t Value	estimated model	independent variable
0.0101	2.582350	0.583171	C
0.0001	3.973769	0.133507	TA
0.0007	3.416194	1.169217	ROA
0.0000	10.18448	0.049710	D(OCF)
0.0346	-1.989929	-10.64865	MO
0.0000	7.851181	0.131336	D(LEV)
0.0410	-2.028518	-0.379501	GO
0.0418	-2.287010	-0.023366	FS
0.0437	1.993390	0.097870	DIVID
0.0279	2.203985	0.009251	D(CAPEX)
0.0000	-5.789373	-0.043200	BODS

4. Results and Conclusion:

The most important reasons for the spread of the phenomenon of tax avoidance in developing countries is the high legal tax rate, which prompts the management of companies in these countries to try to avoid paying tax as it is a burden on profits and a main result of the decline in financial performance indicators. Where There are many scientific theories in the accounting literature that deal with the interpretation of tax avoidance practices, but agency theory is the closest to explaining the direction of corporate management of such practices. In addition to, Firm value has become an essential indicator in the modern business environment to evaluate investment alternatives and guide investors and stakeholders within the stock markets, especially those who do not have a financial or accounting background. Moreover, the result of the hypothesis test showed a negative effect of administrative ownership on reducing tax avoidance (a positive relationship), while the effect of both institutional ownership and concentration of ownership was positive on reducing tax avoidance (an inverse relationship), and there was no effect for government ownership over tax avoidance. Also the test showed that there was a negative effect of duplication in the board of directors on reducing tax avoidance (a positive relationship), while the effect of both the size of the board and the number of sessions was positive in reducing tax avoidance (an inverse relationship), and it was not There is an effect of autonomy and the representation of women on tax avoidance. Finally, the study showed a positive effect of tax avoidance practices on the value of the company (a positive relationship).

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