Indian Journal of Fundamental and Applied Life Sciences ISSN: 2231– 6345 (Online)
An Open Access, Online International Journal Available at http:// http://www.cibtech.org/sp.ed/jls/2014/01/jls.htm
2014 Vol. 4 (S1) April-June, pp. 1565-1570/Amoghina et al.
Research Article

SURVEYING THE EFFECTS OF CORPORATE GOVERNANCE ON TAX POLICY

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ABSTRACT
It is expected that shareholders would prefer to tax violations. Hence, trying to pay less tax emphasizes on this Subject, that is saving amount of tax reduction for benefit to shareholders. Although the most companies with design & complex transactions are avoided of pay high taxes , which shareholders are not Benefited of it. On the other, tax strategies are adopted by the representative of shareholders & presidents of companies. So, it may Provided cause to creation an agency problem, and the complexity of Subject tax be considered. In this study, 85 companies were studied during the years 2008 to 2012 by removal of systematic sampling of listed companies in Tehran Stock Exchange. The researcher will answer this question: What an impact can corporate governance have on tax violation? According to the results of hypothesis testing, relationship was not observed between the dependent variables (tax Violations) & corporate governance variables (percentage of managerial ownership, Institutional Ownership, Independence of the Board). It can be concluded about corporate governance that, management did not control & interest to the violation & tax management in Iranian companies. This argument, however, is inconsistent with the results of external studies, but it is confirmed of the results of the internal investigation indirectly

Keywords: *Corporate governance, tax culture, tax violations*

INTRODUCTION

Governments are generated revenue To cover their costs from various sources. The most old of it is dedicated of the "Taxation". Revenue sources is increased in during the economic activity of governments gradually . Today, one part of the government's revenues is through borrowing from the central bank, the sale of crude oil and sales of various services such as postal services, transport & public monopolies also, it is now with divesting of State-owned enterprises. Economists and public finance experts believed , Taxation" is pillars of sustainable revenue for financing governments. Rational governments try other sources of revenue convert into investment & give future generations. Tax system, that is able to full fill the three goals: Efficiency, Justice, Simplicity and other words, it does not disrupt the economic behaviour of individuals, & is sustainable by a different cortex The taxpayer faces with complexity of the problem, when he is faced with an unfair tax system, the negative effect will have on the feeling of her collaboration in the areas of tax. Such a system is generated error & may be created pessimism & reduced degree of collaboration payers. Tax experts believed which can be predicted this results (Mohammadi, 2013).Tax is one of the sources of government revenue. Second source of revenue is after the oil in Iran. Therefore, the purpose of governments is to identify factors affecting on tax revenues. Thus, tax was identified as an expense in the Companies. Results of recent studies show the company procedural implemented major role in the elasticity of tax. So, increase the tax rate does not lead to increase government tax revenue necessarily. In other words, companies try to avoid from paying the tax costs with tax violations such tax evasion. Generally, tax violation occurs through two: First, a law is legal that, companies try not to pay your legitimate taxes by identify and perform all kinds of good transaction with tax exemption laws. This method is of accounting services in tax field . The second method is illegal, & is made for eliminating or reducing taxes. In this method, company try to eliminating or reducing tax with design of complex transaction. The main purpose of such transaction are not profitable. But it made with the purpose of reducing or eliminating tax costs(Di say& Darmapala,2006). U.S. Congress Joint Committee on taxation known illegal methods of tax evasion as Pre-been designed. They has been defined basis for the avoidance or evasion of taxes on income without risk or economic loss(Chen et al,2009).Trying to pay less tax emphasizes On this issue: Reduced the amount of tax is saved beneficial to shareholders. This issue may not be correct, for example: the famous Enron case shows this issue. At the time, Enron tax circle was changed to a commercial sector which aims was to achieve annual revenues (the amount of tax savings) . Although, more companies are avoiding by design and complex transactions for paying heavy taxes and high costs , which shareholders may not benefit from this issue certainly(Di say et al,2009). On the other, tax Strategies are adopted by the representatives of shareholders and presidents of companies. So that it may to provide cause the agency& may be considered The complexity of issue tax. This study attempts to investigate significant correlation between the company's procedure with tax violations in companies listed on the Stock Exchange. Many experts had come to the conclusion already that company's procedure are related to with tax of companies.

Importance and necessity of research

According to importance of taxation in the economy of developing countries, it is expected that these countries should made very extensive research on factors affecting tax procedures. With regard to the tax issues &non-dependence on oil revenues & the tax revenues are appropriate budgeting strategies unfortunately in our country, so it is expected that further research be done in this issue. In this research according to probable impact on company's procedure as institutional shareholders or their focusing, has been effort to explain the relationship between company's procedure systems with their tax violations. We have examined company's procedure important indicators such as the percentage of managerial ownership, institutional ownership, Board of Directors independence, sovereignty shareholders& internal auditors with effective tax rate.

Corporate governance

Definitions presented are vary for corporate governance. Definitions are presented in the following excerpts shows the different attitudes to corporate governance: From the perspective of the International Federation of Accountants (2004)" Corporate governance is methods applied by company's managers to determine the strategies. It is one of reason that company achieved to objectives, risk control & efficient use of resources." According applied(1992)" Corporate governance is a system which companies are directed and controlled. The main focus is integrity and accountability of the organization's senior executives on the principles of transparency." According to World Bank (2001)" Corporate governance is balance between economic and social goals, as well as individual and public goals." Corporate governance provides policies for effective use of resources and commitment to accountability." Its main purpose is that was approached company interests, persons (beneficiaries) & society. "(Hasass yegane,2006). Organization of Economic Cooperation and Development (2004)" Corporate governance involves a set of relationships between CEOs, board members, shareholders and other stakeholders of the company." From the perspective Solomon &Solomon(2004) "Corporate governance system control and coordinate that both domestic s and foreign companies".

The main distinguishing factor of these definitions can be considered area of inclusion corporate governance. From a perspective, the system can be relational "managers" with "shareholders" as the theoretical basis of the "agency theory" in its limited form. On the other side of the spectrum and a broad perspective, corporate governance includes Relationship Company with all its stakeholders, it can be as "stakeholder theory".

Literature

Aghayi & Chalaki (2009) studied the relationship between corporate governance characteristics and earnings management . The study used abnormal accruals for measure earnings quality. The research findings indicate that, there is a negative relation between institutional ownership & board independence with earnings management. But other corporate governance characteristics have not significant relationship with earnings management.

Rezaei (2009) analysed the role of incentives and effective tax rates on investment dynamics with respect to the macroeconomic approach. The results show: Tax exemptions as tax incentives have little impact on investment. But the investment can be stimulated with system reform of asset depreciation.

Arabsalehi & Zyiaei (2010) examined the relationship between earnings quality and company's procedure. In this study, the quality of earnings were measured on based the relationship between earning , cash, accruals & the ratio of cash flows to operating profit. Their results indicated a significant relationship there is between earnings quality with the ratio of non-board members & the size of the board members with the quality of earnings.

Yaghubiseilan (2012) examined the taxl impact on the capital structure of banks(governmental and non-governmental). His study shows: There are not significant effect between the tax on the capital structure of banks (the debt) on the banks.

Ajinika et al(2005) examined the relationship between board members composition & institutional investors with characteristics of management earnings forecast.Their study shows: A direct significant is relationship between non-responsible managers & the prediction accuracy earnings . Percentage of institutional ownership has inverse relation with prediction error.

Bedard et al (2008) found: Characteristics such as size of board members, independence members & CEO duty dichotomy Significant relationship have with credibility forecast earnings by management.

Nurati et al (2010)studied relationship between corporate governance and earnings forecasts, using a sample of 235 Malaysian companies in the period 2006-1999. Their results showed that, the audit committee have non-responsible managers. The size of the audit committee is negatively correlated with the absolute error of prediction. In other words, the size of the audit committee is positive correlated with earnings prediction accuracy. Anticipated earnings are more valid in the larger firms.

Thymusy (2010)studied the relationship between tax violation of Hong Kong companies & company's procedure. They found that, there is a significant relationship between factors of company's procedure with the company's effective tax rate among listed companies in the Iranian capital market.

Huzinof & Kalam (2012) in the research studied Related to tax evasion, tax management and accountability of corporate social responsibility. They found that, there are positive impact the social expectations of management fees on the effective rate of tax & based accounting standards, but there are negative impact the authority corporate governance and diversification of tax management fees with cash effective rate of tax.

Research objectives

The main objective: The relationship between the company's procedure and tax violations.

The secondary objectives:

The relationship between managerial ownership percentage & effective rates of tax.
The relationship between institutional ownership & effective rates of tax.
The relationship between board independence & effective rates of tax.

Research hypotheses

1- There are significant relationship between managerial ownership percentage & effective rates of tax.
2- There are significant relationship between institutional ownership & effective rates of tax.
3- There are significant relationship between Independence of the Board & effective rates of tax.

RESEARCH METHODOLOGY

1- Variables and how to measured

Variables are one of the key elements of research. variable is something that can be changed terms of the amount & usually something that can accept different numerical values(statistical into language”

variance”). So there is anything that is a variable, In fact, characteristics are that the researcher can to observe, control or manipulate. (Khaki, 1993). For research hypothesis testing will be used of multivariate regression test, test t, test F, and the Durbin – Watson. Model thymus (2010) will be analysed according to the Iranian capital market conditions and the availability of information.
ETR: Dependent variable of the model is used to measure the tax violation. The effective rate of tax is applied for Measure variable tax violations. The effective rate of tax is obtained of dividing the total cost of the tax on profit before tax.
DS: It is represents the ownership percentage of executives and board of directors .It is obtained of divided by the number of shares in the hands of managers and board of directors on the total number of shares outstanding.
BI: This variable indicates the independence of the Board. It is obtained of divided by the total number of members of the non- board of directors on the total number of members of the board of directors.
INST: This variable indicates the percentage of institutional ownership. It is obtained of divided by total shares outstanding on institutional shares.
Size: This variable indicates controlled variable model . It is obtained of natural logarithm of total company assets.

2- Statistical Society
The community is the largest collection of creatures that, desirable are at a given time & Have at least one a characteristic trait. A prerequisite is information available for any research. The current state of Iran, the only information is available about the company accepted in Tehran Stock Exchange . So, statistical society included manufacturing firms listed in Tehran Stock Exchange during the years is 2007-2012.They have the following conditions :
- Financial year end be 29 Esfand solar year.
- They were not investment companies.
- They to be presented annual audited financial statements during the years 2007 to 2012 .
- Company's shares are not traded for more than 90 days consecutive in during the years 2007 to 2012.

The number of companies reached 85 that, had these characteristics .

Table 1: Sample selection based on the limitations of the research

Listed companies in Tehran Stock Exchange by the end of 2011	478
Financial intermediation & insurance companies	38
Companies that are not The end of their financial year (29 Esfand solar year)	87
Companies that have Operational interruptions over a four-month	132
information of companies that, is not available or have been removed from the stock	123
Remaining companies in the sample	85

Results of hypothesis testing

Table 2: Results of hypothesis test to investigate the relationship between corporate governance components with tax violations

sig = 0.017		**D.W= 2.062**		**Enter**
Result	sig	T-statistics	Differential	Explanatory variable
Is related	.000	15.546	1.251	Fixed amount
No correlation	.074	1.791	.002	DS
No correlation	.970	.038	8.43	BI
No correlation	.905	-.119	.000	INST
Is related	.006	2.751	.025	Size
		R^2 = .36		

According to the table, it is observed the amount is sig=0/017 less than 5% at the 95% significance level. Therefore, the regression model was significant, and the linearity assumption is is verified.
T-test in ordinary regression: The sig variable percentage of managerial ownership(0/074), Ratio institutional shareholder ownership(0/905), Independence of the Board(0/970) Indicate no between the independent variables and the tax violations at the 95% significance level. Then, Suppose H0 is accepted &H1 hypothesis rejected. So all the research hypothesis is rejected.
Reviews test (D.W):We use of the test D.W using SPSS in order to evaluate the independence of errors(the difference between the actual and predicted quantities by the regression equation) at different periods. D.W amount calculated for all data in the cumulative (2007-2012) is 062/2. So, we can conclude that the error terms are independent in different periods & the assumption of autocorrelation are rejected between errors estimated model.

CONCLUSION

To achieve an appropriate answer to the questions posed in the research, hypotheses is formulated of The theory. that, Strong corporate governance to prevent the mismanagement are of companies tax.
Managers will be explained for reasons that with representation theory for reasons , is trying to control costs. In relation to taxation would behavior regardless of the acts costs. So, our initial expectation was exist a significant relationship between the dependent variables (tax violations) and corporate governance. But according to the results of testing the hypothesis did not observe between the dependent variables & corporate governance any relationship (separately). Therefore, we can conclude about corporate governance that, controlling of management is not for the violation management tax at Iranian companies, strong managers & corporate governance does not affect in this issue. This result is Contrary with the findings Clara (2008), But, results is confirming indirectly Babajani (2012) .

Offers research

Based on the research findings, Lack of relationship it is indicating between corporate governance (in terms of different criteria) with tax violations that, can not manage on fees behavior& tax expression through the institutional or non-institutional management. For their decisions analysts and investors are advised to the corporate governance variable(represented tool of management) do not consider along with other criteria for the assessment of tax management & tax violations. It is suggested that the Securities Exchange will made of appropriate information systems for the users.

Suggestions for future research

It is suggested that ,study will performed based violation & treatment their on the classification of listed companies . Given the extensive discussion of corporate governance, it is suggested that will studied other corporate governance measures such as institutional investors (active and passive), using quality internal and independent auditors the and .....it is suggested that will examined other variables such as type of industry, type of auditor (audit quality), the type of audit opinion and in the framework of control variables on the results.

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