Journal of
Empirical Research In Accounting

Alzahra University, Faculty of Social Sciences and Economics
Empirical Research in Accounting, Fall 2022, V. 12, No. 45, pp.49-52

The Impact of Ownership Type of Shareholders (Institutional and Non-Institutional) on the Relation between Tax avoidance and Firm Value[1]

Mohammad Shahsavarzadeh[2], Mahdi Nazemi Ardakani[3], Azad Azimi[4], Javad Alizadeh[5]

Received: 2022/03/14
Accepted: 2022/08/17

Research Paper

Introduction

Tax avoidance is a form of saving in paying public taxes and is known as the concept of making transactions to minimize tax liabilities by preventing the transfer of cash from shareholders to the government, in other words, tax avoidance is a type of malpractice. It is the official use of tax laws. Corporate tax avoidance is considered a value-creating activity that transfers wealth from the government to shareholders and limits corporate tax payments.

On the other hand, some authors, such as Desai et al. (2007), believe that managers who seek their interests make the company's structure more complicated and conduct transactions that reduce taxes, and in this way use the company's resources for personal interests. They use themselves. They believe that the presence of strong tax officers increases the supervision of

1. DOI: 10.22051/JERA.2021.36219.2868
2. Ph.D. Student, Department of Accounting, Semnan Branch, Islamic Azad University, Semnan, Iran. (Corresponding Author). (mohammad.shahsavar2020@gmail.com).
3. Assistant Professor, Department of Accounting, Faculty of Accounting and Finance, yazd University, yazd, Iran. (m.nazemiardakani@gmail.com).
4. Ph.D. Student, Department of Accounting, Qazvin Branch, Islamic Azad University, Qazvin, Iran. (Azad_azimi23@yahoo.com).
5. Ph.D. Student, Department of Finance, Faculty of Accounting and Finance, Tehran University, Tehran, Iran. (javad.alizadeh.91@gmail.com).

managers' work and reduces the misuse of internal resources of companies. Also, weak corporate governance increases the level of tax avoidance. The composition of shareholders of different companies is different, part of the ownership of companies is in the hands of institutional shareholders and another part is in the hands of individual shareholders and natural persons.

The general perception is that institutional shareholders tend to accumulate profits and real shareholders tend to distribute profits, and the more free-floating shares in a company, the greater the tendency to distribute profits and increase the value of the company in the short term. . As mentioned, tax avoidance is also a value-generating activity in the short term, and small shareholders of the company are interested that the company's tax rate should be reduced by the company's management. Also, tax avoidance ultimately increases net profit and leads to a decrease in cash outflows due to taxes. Therefore, considering the interest of small shareholders to increase the amount of profit after tax deduction, it can be expected that these investors will play an active role in tax avoidance. But institutional shareholders are interested in increasing the company's value in the long term, considering their long-term horizon, and since tax avoidance is a temporary activity with a short-term effect, it can be expected that institutional investors will prevent tax avoidance.

As a result, tax avoidance is related to the type of ownership of shareholders, both institutional and non-institutional, and this relationship can affect the value of the company.

Methodology

This research is based on the objective of the applied type and its data using the post-event approach, and in terms of the descriptive data collection method, it is of the correlation type. In the current research, the statistical population consists of companies admitted to the Tehran Stock Exchange between 1390 and 1398. In this research, by expanding the models introduced in Lim's research (2011), the hypothesis has been tested.

Results and Discussion

The results of the descriptive statistics show that for the variable of tax avoidance, companies had an average of 11% tax avoidance. For the financial leverage variable, it can be said that for every 100 Rials of total debt and stock market value, there are 50 Rials of debt. The average size of companies is 14.66 rials. On average, in the selected sample, 78% of the shares are with institutional owners.

Our results show that according to research hypotheses, there is a significant negative relationship between tax avoidance and the market value of companies.

Thus, the negative and significant coefficient of the tax avoidance variable (-0.4) shows that there is a negative and significant relationship between tax avoidance and the Kitobin ratio (a measure of company value), and this indicates the confirmation of this research hypothesis.

Also, another hypothesis titled the direct effect of institutional ownership on the relationship between tax avoidance and the company's market value has been proposed, and the positive and significant coefficient of the variable intensity of institutional owners' avoidance (9.77) shows that the structure of institutional ownership affects the relationship between tax avoidance And the market value of the company has a significant direct effect, so this hypothesis is also confirmed by the research.

And finally, a hypothesis with the title of the inverse effect of the ownership level of small shareholders on the relationship between tax avoidance and the company's market value has been proposed, and the negative and significant coefficient of the non-institutional shareholders' avoidance intensity variable (-9.79) shows that the institutional ownership structure has an effect on the relationship There is an inverse and significant effect between tax avoidance and the company's market value, so this hypothesis is also confirmed by the research.

Conclusion

The obtained results show that institutional shareholders have higher motivation and the ability to monitor management performance. Therefore, when the level of institutional ownership is high, a more detailed review

of managerial performance is carried out to a greater degree. Therefore, institutional investors can reduce the opportunities of using tax avoidance techniques. However, surveys from the perspective of small and short-term shareholders show their acceptance of tax avoidance and benefiting from its short-term benefits.

Keyword: tax avoidance, type of shareholder ownership, firm value.
JEL Classification: H2, M41.