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The Effect of Board Characteristics and Company Size on Tax Transparency[1]

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Research Paper

INTRODUCTION

In recent years, making serious reforms in the tax system has attracted the attention of tax system policy makers. A review of research conducted in the field of taxation indicates that it is mainly focused on tax avoidance, tax evasion, tax policies and factors affecting them. Also, in the field of tax transparency, more attention has been paid to tax transparency at the level of macro-countries, or from the perspective of tax avoidance or evasion in multinational companies, with emphasis on the disclosure of their tax status in different countries.

Based on the research conducted in the field of taxation, one of the topics that the author thinks is neglected and less discussed in the financial and tax literature is the issue of "tax transparency" at the level of companies and the factors affecting it.

In simple terms, Tax transparency means properly measuring, presenting and disclosing the amount of tax in the financial statements. Tax transparency, in addition to the proper fulfillment of the company's social responsibility (from the perspective of identifying and paying tax obligations according to the tax law), will help the investors and tax system

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policymakers to make appropriate decisions. Qualified opinion of auditors due to a material misstatement in tax reserve, or the inclusion of important annual adjustments in the financial statements due to the tax reserve amendment indicate that the tax transparency of companies has become one of the important issues in the capital market. Therefore, knowing the effective factors of tax transparency, in addition to solving macroeconomic problems such as tax evasion, is also very important from the perspective of the capital market.

So, The purpose of this research is to investigate the effect of board characteristics and company size on tax transparency..

MATERIALS AND METHODS

To achieve the objectives of the research, a sample of 540 company-year of listed companies in Tehran Stock Exchange which were selected according to the systematic exclusion pattern, was collected. To test the research hypotheses, a multivariate regression model was used.

In this research, tax transparency was measured with five criteria (disclosure of tax status, absence of material distortions in tax reserve, absence of significant ambiguity regarding taxes, absence of material annual adjustments for tax, and speed in determining the final tax filing). Also, the effect of the board characteristics on two levels, including the level of the components of board characteristics (size, independence and financial knowledge of the board, the non-executive chairman and the non-duality of the role of the CEO) and the level of the combined criteria of characteristics, were tested with the correlation research method.

RESULTS AND DISCUSSION

According to the findings, the average score of the characteristics of the board of directors indicates that on average there were less than 3 components of the characteristics of the board of directors in the sample companies, and these characteristics are mainly the non-duality of the role of the CEO and the non-obligation of the chairman of the board of directors. Also, the average ratio of non-obligatory members to total members in the sample is 0.7, and the average ratio of members with financial knowledge to total members is 0.19, and in 44% of the sample companies, the number of members with financial expertise is more than one person. Also, the average tax transparency in companies is 0.77, and the lowest and highest values in companies are 0.2 and 1, respectively. That is, on average, 3 of the components of tax transparency have been observed in the sample companies.

The results of the hypothesis test show that the combined measure of board characteristics (total of attributes) has a direct impact on corporate tax transparency. At the component level, the coefficients of the two components, namely the size and the financial knowledge of the board members, have a direct and meaningful impact on the tax transparency of the company, but other features include independence of the board, non-duality of the CEO and non-executive chairman have not significant impact on tax transparency. In addition, the size of the company has no significant impact on corporate tax transparency. Among the control variables, financial leverage has an inverse relationship, and return on assets has a direct relationship with tax transparency.

CONCLUSION

Considering that the results of the research indicate the direct impact of the characteristics of the board of directors on the tax transparency of companies, it is suggested to the Securities and Exchange Organization and policy-makers to pay attention to the effective compliance with the requirements of corporate governance, regarding the composition and structure of the board of directors; and investors to consider the issue of tax transparency and the impact of the characteristics of the board of directors on it in their decision making. Also, according to the results of the research on the significant impact of the size of the board of directors and the financial knowledge of the board members on tax transparency, it is recommended that legislative and regulatory bodies to consider requirements to increase the number of board members of companies. In this regard, including the requirement of a minimum number of 7 board members for large companies in the corporate governance guidelines of the

Securities and Exchange Organization can be effective in promoting tax transparency in the capital market.

Keywords: Tax Transparency, Board Characteristics, Company Size.

JEL Classification: M41, M42, M48.