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ABSTRACT

The aim of the study is to examine the relation between tax avoidance and timeliness of financial reporting and the impact of corporate governance on the listed companies in Tehran stock exchange. The statistical population of the research includes all listed companies in Tehran stock exchange during 2009 to 2013 which have been selected 85 firms based on systematic elimination method. Tax avoidance, timeliness of financial reporting, and ownership structure and board composition were selected as independent, dependent and moderator variables, respectively. In this research, Desay & Darampela (2006) measurement model were used. The results suggested that there is a significant relation between tax avoidance and timeliness of financial reporting of the listed companies in Tehran stock exchange. Also, ownership structure and board composition significantly impact on the relation between tax avoidance and timeliness of financial reporting of those companies.

KEY WORDS: Tax avoidance; Timeliness of financial reporting; corporate governance.

INTRODUCTION

Tax avoidance is a kind of saving in paying public taxes and it means trading for minimizing tax debts through preventing from cash transfer of shareholders to the government (Desay & Darampela, 2006). In another definition, it was referred to legal gaps in tax law. It also means proposing transactions and events during a special period to utilize tax benefits in which peoples seeking out decreasing tax paying through official abuse from tax laws. Direng et al., (2007) defined tax avoidance as a firm ability to pay less tax in long-term period and called its measurement as long-term effective tax rate. In their research, they highlighted that tax avoidance (less effective tax rate) is not necessarily a wrong action, since there are many articles in laws allowing/encouraging firms to reduce their tax. As such, there are ambiguous cases in complex transactions (Aron et al., 2012).

Based on theoretical concepts of Iran's financial reporting, timelines of financial reporting is defined one of the dominant limitations on qualitative properties of financial information existed in articles 8-23: "whenever inappropriate delay is occurred in information reporting, the information may lose its connectivity property. It may be necessary to establish a kind of balance between relative advantages of "timeliness of reporting" and "providing reliable information". To providing on time information, it is often required to provide existed information before all aspects of a transaction or event is determined which decreases the reliability of the information. On the contrary, when reporting is delayed due to identifying all aspects of an issue, the information may totally become reliable, so it may be useless for users who must make their decision during this period. Regarding to legal requirements during providing information, the important issue that should be considered to achieve the balance between connectivity and reliability is how to response to the needs of users' economic decisions the best possible (Amer, 2012). The purpose of the research is to examine the relation between tax avoidance and timeliness of annual financial reporting of the listed companies in Tehran stock exchange.
2- Research background:
Khadami Pour & Amini Nia (2013) investigated the relation among tax avoidance and debt cost, and the impact of institutional ownership on this relation in the listed companies in Tehran stock exchange during 2001 to 2010. The results suggested that there is a negative relation between tax avoidance and debt cost.

Mojtahed Zadeh & Asna Ashari (2014) examined the relation of privatization and corporate governance mechanisms with reporting speed and financial performance. The results indicated that the financial performance of these agencies have been significantly increased after privatization, and it has significant relation with ownership structure mechanisms, board independence and type (quality) of auditor.

Jami & Kazemi Asgarani (2014) examined the relationship between ownership structure with financial reporting speed in the listed companies in Tehran stock exchange. Regarding data analysis, there is a significant relation between institutional ownership and corporate governance with financial reporting speed. There is no relation, also, among external ownership and managerial ownership.

Aron & Thomas (2013) investigated the relation between tax avoidance and timeliness of annual financial reporting. With 16340 firms during 1993 to 2010, the evidences showed that tax avoidance is occurred along with lack of financial reporting timeliness.

Fernandez et al., (2013) investigated the relation among corporate governance and value added tax of the listed companies in Brazilian stock exchange. Their results showed that companies with high corporate governance reach to low value added to pay taxes. On the other hand, the results indicated that corporate governance heavily helps firm performance and shareholders' value to be enhanced.

Armstrong et al., (2014) examined the correlation between corporate governance, motivation and tax avoidance. The findings demonstrated that corporate governance tends to decrease high-level tax avoidance and to increase very low level tax avoidance in order not to result in over-investment or under-investment by management.

3- Research methodology:
3-1- The research hypotheses:
- There is a significant relation between tax avoidance and timeliness of financial reporting in the listed companies in Tehran stock exchange.
- Ownership structure significantly impacts on the relation between tax avoidance and timeliness of financial reporting in the listed companies in Tehran stock exchange.

3-2- Research method:
This research is applied, practical and semi-empirical in terms of the goals, kind of examination and kind of collection, respectively. It has been conducted through post event approach (via past information).

3-3- Statistical population and sample:
The statistical population of the research includes all listed companies in Tehran stock exchange during 2009 to 2013. Therefore, 85 firms were selected as statistical sample of the research based on the below conditions:
1- Their fiscal year should end in 19/3/
2- Their trading interval should be 3 months at the highest level, except the intervals related to general assembly of shareholders.
3- Banks, monetary institutions, investment companies and holding are excluded (because their types of activity are different from others).
4- Loss companies are eliminated.
5- The information of the studied firms should be available.
6- During the research, they should have not changed their fiscal year.

4-3- Regression model:
\[
\text{Timeliness}_t = a_0 + a_1 \text{Tax avoidance}_t + a_2 \text{Size}_t + a_3 \text{Age}_t + a_4 \text{Industry}_t + \epsilon_t
\]
\[
\text{Timeliness}_t = a_0 + a_1 \text{Tax avoidance}_t + a_2 \text{Ownership}_t + a_3 (\text{Ownership}_t \times \text{Tax avoidance}_t) + a_4 \text{Size}_t + a_5 \text{Age}_t + a_6 \text{Industry}_t + \epsilon_t
\]

Tax avoidance: Following Kar Pashko and Desay & Darampela (2006), it has been calculated from the difference between accounting earnings (earning before tax) and taxable income as tax avoidance criteria, and also from income statement for estimating taxable income.
**Timeliness**: The time of intermediate period to providing audited semiannual mid-term reports to stock exchange which is calculated based on a day.

**Ownership**: The ratio of held stocks by institutional shareholders.

**Size**: Natural logarithm of book value of total assets.

**Age**: The years of listing in Tehran stock exchange.

**Industry**: It is based on the classification of Tehran stock exchange.

5-3- **Data analysis method**:

Modified Wald statistics is used between the remaining of fixed effects regression model to examine heteroscedasticity. As well, F and Hausman test are used to determine of fixed effects or random effects model. To illustrate the explanatory power of the explanatory variables, coefficient of adjusted determination (adjusted $R^2$) will be used to evaluate significant variables, $t$-statistics and to assess the overall adequacy of the model. The statistical analyses will be performed using EXCEL and EVIEWS 7 software.

4- **Results**:

4-1- **Examination of heteroskedasticity**:

To examine heteroskedasticity, Arch error terms test (LM) is performed. The obtained results are as follow:

<table>
<thead>
<tr>
<th>Description</th>
<th>Statistics amount</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>1.026995</td>
<td>0.152</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>2.130528</td>
<td>0.152</td>
</tr>
</tbody>
</table>

Regarding table 1, due to the significance level of $f$-statistics is not significant in 5% error level, homogeneity of variance is confirmed and heteroskedasticity of error terms are rejected.

4-2- **Significance test of fixed effects method**:

<table>
<thead>
<tr>
<th>Description</th>
<th>Statistics amount</th>
<th>Freedom degree</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section F</td>
<td>5.625401</td>
<td>84</td>
<td>*0.002</td>
</tr>
<tr>
<td>Cross-section Chi-square</td>
<td>137.006521</td>
<td>84</td>
<td>*0.004</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Statistics amount</th>
<th>Freedom degree</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section F</td>
<td>7.182465</td>
<td>23</td>
<td>*0.001</td>
</tr>
</tbody>
</table>

Regarding the results of both table (F and Hausman), the obtained probability were less than 5% in each tests, so fixed effects method should be used in the related regression model.

3-4- **The first hypothesis test**:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Estimated coefficients</th>
<th>Estimation of deviation</th>
<th>$t$-statistics</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>2.487</td>
<td>0.429</td>
<td>5.797</td>
<td>*0.017</td>
</tr>
<tr>
<td>Tax avoidance</td>
<td>-0.692</td>
<td>0.176</td>
<td>-3.931</td>
<td>*0.038</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.447</td>
<td>0.058</td>
<td>7.706</td>
<td>*0.000</td>
</tr>
<tr>
<td>Type of industry</td>
<td>1.616</td>
<td>0.751</td>
<td>2.151</td>
<td>0.072</td>
</tr>
<tr>
<td>Firm size</td>
<td>3.298</td>
<td>0.574</td>
<td>5.745</td>
<td>*0.019</td>
</tr>
<tr>
<td>F-statistics</td>
<td>96.152</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significance level</td>
<td><strong>2.000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>2.267</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted coefficient of determination</td>
<td>0.581</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Regarding the table 3, the estimated coefficient of tax avoidance on timeliness of financial reporting of firms is -0.692, indicating there is a negative and adverse relation between them, as increase in tax avoidance may due to increase in lack of timeliness of financial reporting. Durbin-Watson statistic test value is determined among 1.5 to 2.5, there is no correlation between errors and regression can be used. Adjusted coefficient of determination is 0.581 indicating independent and control variables can describe 58.1% of dependent variable changes. Significance level of F-statistics is significant in 1% error level; it can be stated that the whole model of the research is statistically significant. To confirm/reject the above hypothesis, finally, since significance level of t-statistics of tax avoidance variable is significant in 5% error level, H0 is rejected and the hypothesis is not rejected.
confirmed. It can be said, therefore, there is a significant relation between tax avoidance and timeliness of financial reporting of the listed companies in Tehran stock exchange. The research’s empirical model is defined as:

\[
\text{Timeliness}_{it} = 2.487 - 0.692\text{Tax avoidance}_{it} + 3.298\text{Size}_{it} + 0.447\text{Age}_{it} + 1.616\text{Industry}_{it} + \epsilon_{it}
\]

4.4- The second hypothesis test:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Estimated coefficients</th>
<th>Estimation of deviation</th>
<th>t-statistics</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>0.715</td>
<td>0.226</td>
<td>3.163</td>
<td>*0.041</td>
</tr>
<tr>
<td>Tax avoidance</td>
<td>-0.336</td>
<td>0.063</td>
<td>-5.334</td>
<td>*0.008</td>
</tr>
<tr>
<td>Ownership structure</td>
<td>2.498</td>
<td>0.571</td>
<td>4.374</td>
<td>*0.026</td>
</tr>
<tr>
<td>Ownership structure* tax avoidance</td>
<td>2.891</td>
<td>0.462</td>
<td>6.257</td>
<td>*0.000</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.348</td>
<td>0.102</td>
<td>3.411</td>
<td>*0.035</td>
</tr>
<tr>
<td>Type of industry</td>
<td>0.718</td>
<td>0.692</td>
<td>1.037</td>
<td>0.077</td>
</tr>
<tr>
<td>Firm size</td>
<td>4.516</td>
<td>0.738</td>
<td>6.119</td>
<td>*0.000</td>
</tr>
<tr>
<td>F-statistics</td>
<td>142.158</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significance level</td>
<td>**0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>1.716</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted coefficient of determination</td>
<td>0.442</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* 5% error level and ** 1% error level

Regarding the table 4, the estimated coefficient of tax avoidance on timeliness of financial reporting of firms is -0.336, indicating there is a negative and adverse relation between them, as increase in tax avoidance may due to increase in lack of timeliness of financial reporting. The impact of ownership structure on the relation between tax avoidance and timeliness of financial reporting is positive and direct regarding to estimation coefficient of 2.891, i.e. ownership structure can impact on decreased tax avoidance and increased timeliness of financial reporting. Durbin-Watson statistic test value is determined among 1.5 to 2.5, there is no correlation between errors and regression can be used. Adjusted coefficient of determination is 0.442 indicating independent and control variables can describe 44.2% of dependent variable changes. Significance level of F-statistics is significant in 1% error level; it can be stated that the whole model of the research is statistically significant. To confirm/reject the above hypothesis, finally, since significance level of t-statistics of tax avoidance variable is significant in 5% error level, H0 is rejected and the hypothesis is confirmed. It can be said, therefore, ownership structure significantly impacts on the relation among tax avoidance and timeliness of financial reporting of the listed companies in Tehran stock exchange. The research’s empirical model is defined as:

\[
\text{Timeliness}_{it} = 0.715 - 0.336\text{Tax avoidance}_{it} + 2.498\text{Ownership}_{it} + 2.891(\text{Ownership}_{it} \times \text{Tax avoidance}_{it}) + 0.348\text{Age}_{it} + 0.718\text{Industry}_{it} + \epsilon_{it}
\]

5- Conclusion and recommendations:

Based on the obtained results, the following suggestions can be made:

1- Tax avoidance is occurred in companies in which one of qualitative properties of financial information (timeliness of financial reporting) doesn’t run correctly, so it is suggested to these companies to issue their income statement in a suitable time to mitigate the difference between declared tax and determined tax by tax affairs organization in order to enable stakeholders to make suitable decisions based on transparency and correct information.

2- Developing necessary standards for financial information disclosure in right time can both persuade firms to run this correctly and help stakeholders to make suitable decisions. Therefore, it is recommended to firms’ managers to mitigate tax avoidance as well as other benefits through timely disclosure of financial reporting.

3- Ownership structure can also play monitoring and preventive role, because it can apply more monitoring roles on board composition, as a result, chief executor officer can play well controlling role and prevent managers to tax avoidance and temporary decrease of tax costs which leading to increased false earning and rewarding managers. It has also suggested to firms’ shareholders to use experienced and honest members for
board of directors, because board of directors can play preventive role with increasing monitoring role through a suitable auditing committee in order to evade from tax.

REFERENCES


