Tipe Artikel: Paper Penelitian

TAX AVOIDANCE AND FIRM PERFORMANCE: EMPIRICAL EVIDENCE OF BENEFITS AND RISKS OF COMPANY TAX PLANNING

Prinintha Nanda Soemarsono[1]*, Bani Alkausar[2] Wahyu Firmandani[3], Yanuar Nugroho[4], Heru Tjaraka[5]

ABSTRACT

Purpose: *This study provides empirical evidence on how a company's efforts to avoid paying taxes through its tax planning strategy affect its performance.*

Methodology/approach: *This study is explanatory research and uses samples of the companies listed in the Indonesia Stock Exchange (IDX) during the period 2015 to 2022 using a purposive sampling method. The analytical method used is the regression equation.*

Findings: *The findings suggest that company carries out tax avoidance to streamline corporate tax payments to improve the company's financial performance. The company's actions in tax avoidance efforts have been proven to provide additional benefits for the company through the addition of cash flow.*

Practical and Theoretical contribution/Originality: *This research contributes to theory and practice. First, this study provides empirical evidence of the agency theory regarding the efforts of company managers to meet investors' expectations through corporate tax planning strategies to maximize company's financial performance. Second, this study guides companies in their efforts to implement tax planning, which positively impacts company performance by increasing company profits.*

Research Limitation: *For further research, external factors that affect the company's financial performance can be added, such as political connections.*

KEYWORDS: *Governance; Firm Performance; Financial Accounting; Tax Avoidance; Tax Planning.*

ABSTRAK

Tujuan penelitian: Penelitian ini bertujuan untuk memberikan bukti empiris penerapan strategi pajak perusahaan dalam rangka peningkatan kinerja perusahaan.

Metode/pendekatan: Penelitian ini merupakan penelitian ekplanatori menggunakan sample perusahaan listing pada

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Afiliasi:
[1,2,3,4]Fakultas Vokasi, Universitas Airlangga, Surabaya, Indonesia
[5]Fakultas Ekonomi dan Bisnis, Universitas Airlangga, Surabaya, Indonesia

***Correspondence:**
prinintha.nanda@vokasi.unair.ac.id

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Bursa Efek Indonesia. Analisis yang digunakan menggunakan analisis regresi.
Hasil: Strategi pajak perusahaan terbukti dapat memberikan manfaat bagi perusahaan. Manfaat yang dimaksud adalah peningkatan kinerja keuangan perusahaan yang diakibatkan penurunan beban pajak yang harus dibayar oleh perusahaan.
Kontribusi Praktik dan Teoretis/Orisinalitas: Penelitian ini berkontribusi pada teori dan praktik. Pertama penelitian ini memberikan bukti empiris mengenai teori agensi berdasarkan upaya manager dalam memenuhi ekpetasi pemilik perusahaan melalui strategi perencanaan pajak yang berdampak peningkatan kinerja keuangan perusahaan. Kedua, penelitian ini memberikan gambaran implementasi strategi pajak perusahaan yang dapat memberikan dampak pada peningkatan laba perusahaan.
Keterbatasan Penelitian: Penelitian ini hanya berfokus pada faktor internal saja, sehingga untuk penelitian berikutnya dapat dikembangkan untuk faktor eksternal perusahaan.

KATA KUNCI: Akuntansi Keuangan; Kinerja Perusahaan; Penghindaran Pajak; Perencanaan Pajak; Tata Kelola Perusahaan.

INTRODUCTION

Firm performance serves as a critical measure of business success and competitiveness in the market. It provides valuable insights into a company's ability to generate profits, meet customer needs, adapt to changing market conditions, and deliver value to shareholders. Examining firm performance allows stakeholders, including investors, managers, employees, and analysts, to evaluate the financial health, operational efficiency, and long-term viability of a company. Taxation is a fundamental aspect of business operations, and the relationship between firm performance and tax has significant implications for both companies and stakeholders (Wang et al., 2022). Taxes directly impact a firm's financial performance, profitability, cash flow, investment decisions, and overall competitiveness. As a business entity, the company has an orientation to generate profits for its business continuity. The company's goal is to make as much money as possible, which is in the best interest of the company's owners. The company's strategy to maximize profit can be done in various ways, including using a tax strategy (Fan & Chen, 2022). Tax strategy plays a vital role in shaping a firm's financial performance. Taxes, such as corporate income tax, reduce a firm's net income, which subsequently affects its profitability indicators, such as gross profit margin, operating profit margin, and net profit margin. High tax expenses can lower a company's earnings and financial performance, impacting its ability to generate returns for shareholders. In addition to making more money, the company gets more directly from its bank account when the tax burden goes down. The tax burden reflects a significant responsibility for companies, so it motivates them to be able to minimize it (Ouyang et al., 2020)

In general, tax avoidance is carried out by companies by taking advantage of legal loopholes (gray areas) in tax regulations and legislation to be able to minimize their tax burden (Benkraiem et al., 2021). Tax avoidance refers to the legal strategies and practices adopted by individuals or firms to minimize their tax liabilities by taking advantage of loopholes, exemptions, or incentives provided by tax laws. While tax avoidance is within the boundaries of the law, it often involves exploiting the technicalities of tax regulations to reduce the amount of tax owed. The primary objective of tax avoidance is to optimize a firm's tax position and maximize after-tax profits. Tax avoidance strategies can vary in complexity and scope, ranging from simple actions like claiming legitimate deductions and credits to more sophisticated approaches such as transfer pricing, profit shifting, and the use of tax havens.

The company always maximizes profits to increase the company's value since companies with high value, according to investors, are companies with a high level of operating profit or companies with high performance based on the profits generated each period. Implementation of tax avoidance is not without risk because companies that are proven to have violated the rules will be subject to sanctions and threatened with a bad reputation (Nebie & Cheng, 2023). Therefore, companies need to consider the risks and benefits of implementing tax avoidance, commonly known as benefits and risks. Hence, the company's performance (firm performance) can increase in line with the smaller the company's burden, in this case, the tax burden.

Company managers should meet investor expectations by maximizing company performance. Managers should ensure that the company is in the right conditions following company goals. They also should be able to implement the company's financial strategy to achieve this goal. Corporate strategy can be carried out in various ways, one of which is through tax avoidance efforts by utilizing a tax planning strategy. The tax avoidance can increase the risk for the company in the future. First, tax avoidance creates costs in the future if it is later examined by a tax authority. Second, a tax planning strategy for tax avoidance may be perceived by investors as a risky aggressive strategy. The company cannot ensure that the tax planning strategy implemented will be effective in carrying out tax savings due to tax avoidance. Because the company's tax planning strategy does not only focus on legal areas but also on gray areas which can become sanctions for companies if tax audit procedures are carried out by tax authorities.

Tax avoidance actions to improve company performance are interesting as a phenomenon regarding corporate tax planning efforts (Duhoon & Singh, 2023). Tax avoidance efforts carried out by companies have the potential risk of causing burdens in the future because sanctions illustrate how tax avoidance actions can provide risks and benefits to companies (Le et al., 2022). Companies need to consider the risks and benefits of the tax avoidance efforts undertaken by the company as a corporate strategy. The negative effect between tax avoidance and firm performance is supported by several research results, which state that tax avoidance creates a burden in the future that has the potential to harm the company (Khuong et al., 2020) found that companies that carry out tax avoidance are at risk of experiencing a decline in stock prices. Tax avoidance actions provide bad news for investors because they are considered risky companies. After all, in the future, the company has the potential to be examined by the tax authorities.

Tax avoidance, while legal, carries certain risks for individuals and firms. These risks can arise due to various factors, including changes in tax regulations, increased scrutiny from tax authorities, reputational damage, and potential financial and legal consequences. The company's tax planning strategy will result in a decrease in transparency because tax planning strategies are often carried out by for example shifting income, recognizing non-deductible expenses, and increasing the complexity of company activities. Therefore, the corporate tax planning strategy has several advantages and disadvantages. Companies must be able to calculate the benefits and risks of carrying out tax avoidance efforts so that the company's goals can be achieved.

Research on tax avoidance and firm performance is essential for various reasons. First, previous research on tax avoidance has only focused on mechanisms to reduce corporate tax avoidance actions, such as studies which focuses on corporate governance mechanisms as an effort to suppress company tax avoidance actions (Boussaidi & Hamed-Sidhom, 2021; Khan et al., 2022; Ouyang et al., 2020; Tang, 2020). There needs to be research that can explain the impact caused by the company's tax avoidance efforts, primarily if it is associated with its financial impact. Second, there needs to be empirical evidence that explains the company's efforts to improve firm performance through tax avoidance by company managers, especially for companies in Indonesia, where family companies dominate.

Several studies have investigated the link between tax avoidance and financial performance indicators. Some findings suggest a positive relationship between tax avoidance and profitability measures, such as return on assets (ROA) and return on equity (ROE). Tax avoidance strategies that result in lower tax burdens can enhance after-tax profits and improve financial performance. However, several studies showed that excessive tax avoidance may have adverse effects on financial performance due to increased compliance costs, reputational risks, and potential legal consequences. Thus tax avoidance creates a burden in the future that has the potential to harm the company (Khuong et al., 2020). Companies that carry out tax avoidance are at risk of experiencing a decline in stock prices (Garg et al., 2022). Furthermore, tax avoidance can enhance firm value when aligned with shareholder interests, but may be detrimental if it results from managerial opportunism. Tax avoidance actions provide bad news for investors because they are considered risky companies. Overall, previous studies have concluded that corporate tax avoidance has a negative impact. In line with the results of previous research, the hypothesis in this study is as follows:

H_1 : Company Tax Avoidance Has a Negative Effect on Firm Performance Tax Avoidance

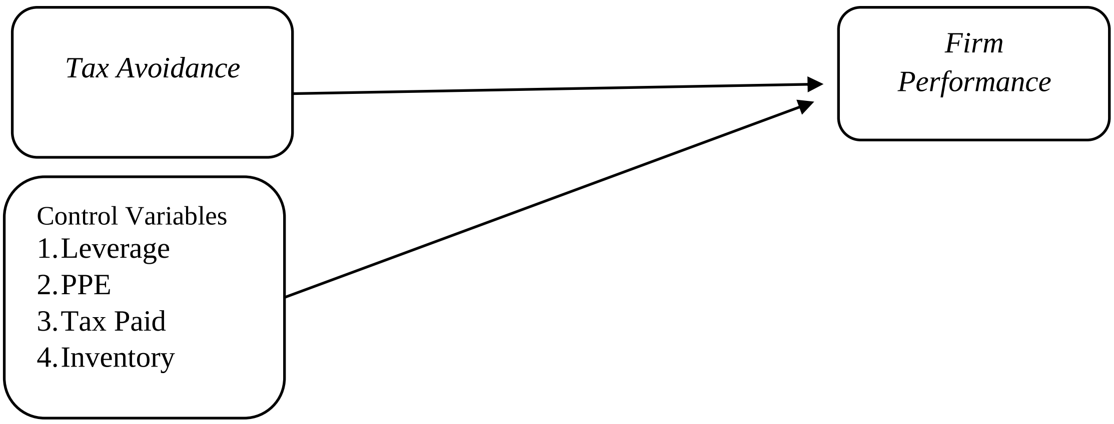

Figure 1. Conceptual Model

METHOD

This study is explanatory research and uses samples of the companies listed in the Indonesia Stock Exchange (IDX) using a purposive sampling method. This study uses 496 firm-year observations (panel data) from 62 firms in the Indonesian Stock Exchange (IDX) listed from 2015 to 2022. This study observed financial reports from companies listed and available on the Indonesia Stock Exchange (IDX) from 2015 to 2019. Stata is used to test the data. The analytical method used is regression equation analysis, utilizing the empirical model as follows:

(1) $FP_{(i,t)} = Constanta + \beta 1 TA_{(i,t)} + \beta 2\ LEV_{(i,t)} + \beta 3\ PPE_{(i,t)} + \beta 4\ Inventory_{(i,t)} + \beta 5\ TXPD_{(i,t)} + \varepsilon_{(i,t)}$

(2) $FP_{(i,t)} = Constant$ [illegible] $LEV_{(i,t)} + \beta 4\ PPE_{(i,t)} + \beta 5\ Inventory_{(i,t)} + \beta 6$ [illegible]

This study uses the dep[illegible]ndependent variable (Tax Avoidance), and control v[illegible]ct between tax avoidance and firm performance. T[illegible]tudy will be discussed as follows:

Tax Avoidance

Corporate tax avoidanc[illegible]ns (Kimea et al., 2023). Tax avoidance by compani[illegible]ally, while tax evasion is committed illegally ([illegible]). The company's tax avoidance measurement uses the cash effective tax rate (Cash ETR) (Kimea et al., 2023). The CETR (cash effective tax rate) value describes how much the company takes tax avoidance. The CETR (cash effective tax rate) value consists of 0-1. The higher the cash ETR, the lower the tax avoidance (Wahab et al., 2022). In addition to describing the company's tax strategy for the long term, this study also measures tax avoidance using tax deferral measurements. Tax deferral provides an overview of the extent to which companies make efforts to defer tax payments through tax planning which causes temporary differences in the calculation of taxable income.

Firm Performance (FP)

Company performance provides an overview of how well the company performs its business operations. The company's performance value can be seen from how much the company's value is according to investors (Khuong et al., 2020). In this study, returns on assets (ROA) and sales growth (ROA) are used to measure company performance. Sales growth is measured by measuring the value of last year's sales growth compared to this year. The level of sales growth will directly affect the level of company performance.

Leverage (LV)

Leverage is measured based on how much the company's total assets are financed through corporate debt (Jin, 2021). Companies with high levels of leverage describe poor company performance because they depend on the debt component in the company's capital structure.

Property, Plant, & Equipment (PPE)

Property, Plant, & Equipment provides strategic opportunities for corporate tax planning through acquiring and charging depreciation costs. In addition, the existence of Property, Plant & Equipment provides an overview of how big the company is, which has implications for the level of company operations. The high level of company operations will likely affect the value of goods and services produced for consumers.

Tax Paid (TXPD)

The amount of tax paid describes the amount of money paid by the company in a certain period. The greater the value of the tax paid by the company, the smaller the tendency of the company to take tax avoidance actions.

Inventory

The total inventory ratio describes how much the company's operational level is. The greater the inventory ratio value, the greater the company's operating level is, which can directly affect the company's sales value. Increasing the company's sales value directly improves the company's financial performance as a source of income.

RESULTS AND DISCUSSION

Descriptive statistical results (table 1) show the firm performance variables (ROA & Sales Growth), tax avoidance (measured by CETR and Tax Deferral), and control variables. The CETR variable has a mean value of 0.2083 with a minimum value of 0 and a maximum value of 41.42. In general, the CETR value is below the tax rate of 25%, indicating that the company is to take tax avoidance actions. The Tax Defferal variable has a mean value of 0.1987 with a minimum value of 0 and a maximum value of 17.82. The ROA variable has a mean value of 0.1134 with a minimum value of 0 and a maximum value of 0.71. The Sales Growth variable has a mean value of 0.1364 with a minimum value of 0 and a maximum value of 10.6. The results of the comparison between the mean and the standard deviation values also show that, generally, the values of each variable are normally distributed.

Table 1. Statistic Descriptive

Variable	n	Mean	Min	Max	Std. Dev
CETR	496	0.2083	0.000	41.42	3.0576
Tax Defferal	496	0.1987	0.000	17.82	1.1189
ROA	496	0.1134	0.000	0.71	0.1193
Sales Growth	496	0.1364	0.000	10.6	0.8162
Leverage	496	5.0545	0.01	1422.48	80.7673
PPE	496	0.3853	0.000	5.69	0.3647
Inventory	496	0.2009	0.000	0.86	0.1207
Tax Paid	496	0.0388	0.000	0.86	0.06152

Table 2. Regression CETR and Firm Performance

Variable	Prediction	Firm Performance			
		ROA		Sales Growth	
		Coeff.	Sig.	Coeff.	Sig.
Constanta	?	0.064	(0.000)	0.122	(0.289)
Tax Avoidance	Negative	0.023	(0.000)	0.015	(0.423)
Leverage	Negative	-1.677	(0.979)	-9.799	(0.866)
PPE	?	0.020	(0.162)	0.000	(0.998)
Inventory	?	-0.012	(0.778)	0.016	(0.967)
TXPD	Positive	1.551	(0.000)	0.571	(0.545)
n		310		310	
Adj.R2		0.435		0.014	

* PPE (Plant, Property, and Equipment)

Table 3. Regression Tax Deferral and Firm Performance

Variable	Prediction	Firm Performance			
		ROA		Sales Growth	
		Coeff.	Sig.	Coeff.	Sig.
Constanta	?	0.078	(0.000)	0.130	(0.257)
Tax Avoidance	Negative	0.010	(0.025)	0.001	(0.988)
Leverage	Negative	-8.270	(0.912)	0.000	(0.861)
PPE	?	0.022	(0.199)	0.001	(0.993)
Inventory	?	-0.024	(0.638)	0.007	(0.987)
TXPD	Positive	0.127	(0.000)	0.127	(0.868)
n		310		310	
Adj.R^2		0.210		0.016	

* PPE (Plant, Property, and Equipment)

The results of the regression equation analysis in Tables 2 and 3 are used as a decision-making of the hypothesis that has been formed. The variables used in the model consist of tax avoidance are measured using the cash effective tax rate and tax deferral. Firm performance is measured using return on assets and sales growth. Based on the test results in table 2 for measuring tax avoidance using the cash effective tax rate, it shows that tax avoidance has a positive effect on the company's financial performance (measured by return on assets (coeff. 0.023, sig. 0.000). Conversely, for measuring the performance of companies using sales growth shows that tax avoidance does not affect the company's financial performance (coeff. 0.015, sig. 0.423). The results in table 3 show the results of the regression analysis to determine the effect of long-term tax avoidance as measured by tax deferral. The analysis results show that tax avoidance positively affects the financial performance of a company as measured by return on assets (coeff. 0.010, sig. 0.025). On the other hand, different results are shown by financial performance, measured using sales growth, indicating that tax avoidance does not affect the company's financial performance (coeff. 0.001, sig. 0.988). Based on that hypothesis that was formed, it is not proven that companies that take tax avoidance actions tend to decline in financial performance.

Table 4 is a follow-up analysis conducted to understand more deeply the interaction effect on the influence of tax avoidance on the company's financial performance. The interaction variable used is leverage. The company's leverage indicates the proportion of debt used to finance its assets. Since the company's debt has future consequences, it may affect its profits and the amount of tax it must pay due to a decrease in the company's total income.

The results of testing the interaction of the leverage variable on the effect of tax avoidance and the company's financial performance show that they are in accordance with predictions. Companies that take tax avoidance tend for their financial performance to be unfavorable, especially for companies with high leverage ratios (coeff. -0.056, sig. 0.001).

Table 4. Interaction Leverage Between Tax Avoidance (CETR) and Firm Performance (ROA)

Variable	Prediction	Firm Performance (Return on Assets)	
		Coeff.	(Sig.)
Intercept	?	0.069	(0.000)
Tax Avoidance	Negative	0.056	(0.000)
Tax Avoidance*Leverage	Negative	-0.056	(0.001)
n		310	
Adj.R^2		0.452	

Tax Avoidance and Firm Performance

The test results in table 2 show that tax avoidance has a positive influence on firm performance in Indonesia. The majority of companies in Indonesia are family-owned companies. Family companies tend to dominate shareholders and influence minority shareholders (Almaharmeh et al., 2024). The more family members who are shareholders in a company, the higher the company's tendency to engage in tax avoidance (Nebie & Cheng, 2023). Companies can use tax avoidance to cover losses thereby increasing firm performance. The test results prove that the tax avoidance carried out by the company has succeeded in achieving its goals, thus encouraging increased firm performance (Mulamula et al., 2023). This is in line with agency theory which states that owners and management have different interests. Company owners encourage management to carry out tax avoidance so that the company's profits can increase. An increase in tax avoidance will increase firm performance

Tax avoidance carried out by companies aims to reduce the tax burden legally. By minimizing tax liabilities, firms can increase their after-tax profits, which can positively affect financial indicators such as net income, earnings per share (EPS), and return on assets (ROA). Higher after-tax profits provide firms with greater resources for reinvestment, growth, and shareholder returns. Firms can enhance their bottom line and improve profitability ratios such as gross profit margin, operating profit margin, and net profit margin. Increased profitability can result in a higher return on assets (ROA) and demonstrate effective tax management. Effective tax management and lower tax liabilities can increase after-tax profits and dividends, ultimately enhancing shareholder value. In addition, tax avoidance can provide benefits for companies to save company cash flow which companies can use to facilitate investment (Khuong et al., 2020). Companies with good financial performance may take advantage of tax planning to secure company profits from additional company burdens in the form of tax burdens. Tax avoidance can provide more benefits for companies, but to be able to provide benefits for companies there needs to be increased supervision and managerial capabilities. Companies need to carry out an analysis so that the strategy set is able to encourage companies to improve the company's financial performance.

Tax Planning and Firm Performance

Commercial accounting standards in Indonesia have several differences with the tax laws in force in Indonesia, such as the recognition of depreciation of fixed assets and unrealized gains or losses from foreign currency exchange rate. The difference in useful life between commercial and fiscal accounting can impact to depreciation rates for fixed assets so that profits according to fiscal accounting can be different from profits according to commercial accounting. In commercial accounting, the company will recognize a gain or loss from the exchange rate difference even though the gain or loss has not been realized. This is different from fiscal which recognizes gains or losses from exchange differences when they are realized. These differences can cause profits according to commercial accounting to be different from profits according to fiscal accounting. Companies can take advantage of deferred tax income or deferred tax expense to obtain profits for the company in the form of cash or fiscal profits (Carini et al., 2020).

Table 3 shows that tax avoidance as measured using deferral tax has an effect on firm performance as measured using ROA. Tax deferrals are known to affect fiscal profits, so that the company's ROA is also affected. Tax deferral can be one of the tax planning strategies used by companies (Beer et al., 2020). Tax planning refers to the process of making strategic decisions and implementing measures to minimize an individual's or a firm's tax liabilities within the boundaries of the law. The success of the company's financial performance is determined by the company's efforts to implement policies and strategies that benefit the company financially. By strategically managing tax obligations and leveraging available tax incentives, firms can optimize their tax position while complying with legal requirements. However, it is essential to balance tax planning activities with ethical considerations, compliance with tax laws, and potential reputational risks. Understanding the relationship between tax planning and firm performance allows firms to make informed decisions, allocate resources efficiently, and achieve sustainable growth and profitability.

Leverage Interaction Between Tax Avoidance and Firm Performance

Leverage refers to the use of debt financing to finance a firm's operations and investments. Leverage is a measure that shows how much the value of the company's debt is used to finance the company's assets. The debt component of the company directly affects future costs in the form of interest expenses. The rela[illegible]etween leverage and profitability is complex. Debt financing provides firms [illegible]rtunity to benefit from financial leverage, where the use of debt magnifi[illegible] on equity for shareholders. This can result in higher profitability, especially [illegible] of low borrowing costs. However, higher levels of debt can also lead to hig[illegible]ducing profitability and the ability to generate sustainable returns.

Companies with high leverage levels will [illegible]penses and significantly affect the tax burden because the interest e[illegible] the company's debt can be a deduction from profits in calculat[illegible]me tax. Changes in the company's capital component through [illegible]verage show results in a decrease in the value of the cash effectiv[illegible]at the company is making efforts to avoid tax (Shen et al., 2024; [illegible]024). This proves that the tax avoidance carried out by the company does not reflect an efficient tax strategy but purely because the addition of interest expense results in a decrease in the amount of tax paid by the company. Hence, companies with high leverage ratios tend to take tax avoidance actions, indicating the company's financial performance is not good.

CONCLUSION

The relationship between tax avoidance and firm performance is complex and context-dependent. While tax avoidance strategies can potentially enhance financial performance and market value, excessive tax avoidance may have negative consequences, such as increased compliance costs, reputational risks, and legal challenges. Understanding the nuances of tax avoidance and its impact on various dimensions of firm performance is essential for policymakers, investors, and managers to make informed decisions and strike a balance between tax optimization and sustainable business practices.

This study provides empirical evidence about company performance due to the company's efforts to commit tax avoidance through corporate tax planning. The company carries out tax avoidance efforts to streamline corporate tax payments in order to improve the company's financial performance. However, several companies have been proven not to have conducted tax planning correctly, resulting in a decrease in the company's financial performance.

The company's actions in tax avoidance efforts have been proven to provide additional benefits for the company through the addition of cash flow. The addition of the company's cash flow can be an opportunity for the company to fund investment and increase production so that it is possible for the company's profits to increase with additional investment and operating activities. Companies must be able to take advantage of this to maximize profits through a tax planning strategy.

This research contributes to theory and practice. First, this study provides empirical evidence of the agency theory regarding the efforts of company managers to meet investors' expectations through corporate tax planning strategies to maximize company's financial performance. Second, this study guides companies in their efforts to implement tax planning, which positively impacts company performance by increasing company profits. This research only considers internal factors that influence the occurrence of tax avoidance in companies. In addition, companies also need to consider risk vs. benefits in implementing corporate tax planning because of the future costs that will arise in the future if the tax authority audits the company. For further research, external factors that affect the company's financial performance can be added, such as political connections.

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