EJABM European Journal of Applied Business and Management

European Journal of Applied Business Management, Special Issue of ICABM2018, 2018, pp. 77-93. ISSN 2183-5594

Literature review

How corporate governance'structures influence tax planning strategies?

Submitted in 19, July 2018
Accepted in 11, November 2018
Evaluated by a double blind review system

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Abstract

Purpose: The main purpose of this paper is to discuss the role corporate governance characteristics has in tax planning decisions by revisiting the main empirical literature in the last years.

Design / Methodology/ Approach: Firstly, we discuss concept of corporate governance and its attributes. After, we analyse the concept of tax planning. Finally, we present some of the main conclusions of recent empirical studies.

Findings: Recent literature suggests that the link between corporate governance and tax plan-ning can generate new insights into the real relation of tax planning and the attrib-utes of corporate governance. In some studies taxes have been treated only as mar-ket imperfections that influence capital structure and dividend policies, while other authors have incorporated the possibility of agency problems in their analyses. We conclude that corporations with smaller boards of decision-makers seem to be more risky averse and so less willing to carry out tax planning strategies. Also we highlight that tax planning activities can induce to a reduction on the market value of firms.

Originality / Value: This paper added value relies on a systematic analysis of the literature about corporate governance structures and tax planning activities. The added value of this work relies on a global analysis of empirical literature results about corporate governance and tax planning activities providing a more extensive overview of the relation. Our conclusions provide insights that tax authorities and politicians can use to better focus their strategies and actions in order to increase compliance, reduce tax evasion, fight underground economy and increase country´s competitiveness.

Keywords: Tax planning; corporate governance; management; ownership.

1. Introdução

Corporate governance is a classic theme but a renewed one, with new problems and new proposals, and flagrantly up-to-date (Abreu, 2010). The economic scandals that highlighted the accounting manipulation have damaged investors' trust in both the United

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States and European financial markets (Méndez and García, 2007). To Câmara *et al*. (2008) the debate on the corporate governance has acquired a notorious strength, namely after a series of traumatic episodes revealed in big listed companies, which led to a new reflection particularly in juridical and economic literature. The impacts of corporate decisions making on a wide range of interests than shareholders are now being given more recognition (Du Plessis *et al*., 2018).

The tax base of any country in the world is no longer restricted to the country's territory. In fact it may be extended to the rest of the world. Due to the characteristics of the current economic reality, a country can attract and tax wholly or partly: (1) foreign capital; (2) foreign direct investment; (3) foreign consumers; (4) foreign workers; (5) foreign individuals with high incomes, including pensioners. These possibilities encourage the "tax competition" among countries (Tanzi, ano 2). Also provide mechanisms to implement complex tax planning activities. In this context it seems that the study of tax compliance and tax evasion consequences has never been, until now, the topic of such intense research within the scientific community, market investors, and of interest among politicians[1]. Especially since 1980, significant changes have occurred in the world, mainly economic transformations, which had repercussions on the tax systems of different states and in public expenditure (Tanzi, ano 2). Among these changes we mention the greater level of integration of the world economy and the development of international trade, as well as the increase in capital flows. These circumstances justify the growing financial net results of some economic groups and an increasing globalization of their financial and productive operations.

The relation between corporate governance and taxes is ambiguous (Hanlon and Heitzman, 2010) and important for several reasons. Firstly, because tax planning is a complex task and can allow management opportunism. Second because it is a riscky activity associated to future uncertainty and with a long-term results perspective. Also this relation can be analyzed in various aspects. As the separation of management and ownership was identified as the basic corporate governance conflict, tax rules should in principle be drafted in a way that ensures that they do not encourage behavior of management that is in conflict with the interests of the shareholders or the company itself. Formulated in a positive way: the tax system attempts in many ways to align management objectives closely with stockholder objectives and to eliminate inefficiencies that can result from the separation of ownership and management (Friese *et al.* 2008).

According to Desai and Dharmapala (2008) the link between corporate governance and taxation has been neglected. Corporate finance scholars have treated taxes only as market imperfections that influence capital structure and dividend policies, while public finance scholars have not incorporated the possibility of agency problems in their analyses. An emerging literature suggests that revisiting this link can generate new insights into the real effects of tax policies and the workings of corporate governance. In this context, the main purpose of this paper is to discuss the role of corporate governance attributes in the tax planning decisions. This paper explores the link between corporate governance characteristics and tax planning. We apply the expression tax planning to refer to all the activities designed to have a positive effect on effective tax rate. From an economic perspective it is a rational behavior that a company uses legal loopholes in order to reduce the amount of taxes to pay. As a consequence, the net result available to investors increases and company value should be higher. However, the market doesn´t always respond according to this rule. There are examples of companies largely penalized in their market value because of being accused of financial scandals or because of the use of tax shelters to hide incomes.

This paper is organized as follow. In the next section, we discuss concept of corporate governance and its characteristics. Then, we analyse the importance of tax planning and present some of approaches. Finally, we present some of the main empirical studies conclusions in the last years.

2. Corporate Governance

The *corporate governance movement* began in the 70th in the last century in the United States of America. It spread to Europe, through United Kingdom. The reality of these two countries presents, however, important affinities: nearly all big companies are listed (the shares are negotiable on the stock market) and the property of the shares is dispersed (controlling shareholders are rare). It is different from the corporate reality in Continental Europe. There are fewer listed companies and the shareholding property is a lot more concentrated, *i.e.*, there are controlling shareholders in a great majority of the big companies.

Therefore, it would seem that the problems and the solutions for corporate governance in the European continent are different from those of North America. For Abreu (2010) those problems and solutions are not so different, justifying his position. It is true that in the European continent the dominating shareholders actively intervene in the companies' life, but it is also notice the absenteeism on the minority shareholders part (sometimes in great numbers), given the lesser liquidity of the market. Furthermore, it is also true that if there are shareholders that are also managers, the administrators have a lot less power and freedom and may be tempted to act to the benefit of the majority shareholders in detriment to the minority ones and the social interest. Thus, "*some of the measures of corporate governance talked about on the other side of the Atlantic are adopted or adoptable here*" (Abreu, 2010: 17)[2]. In this area the author namely refers to the reinforcement of the administrators' loyalty and responsibility, the role of the non-executive independent administrators as supervisors, the structure of supervision and, within the purpose of this work, the transparency between the company and the market.

Through the 1970s and 1980s the research on corporate governance issues was largely focused on United States corporations. In more recent years, however, we have witnessed an explosion of research on corporate governance around the world, for both developed and emerging markets. According to Méndez and García (2007) in contexts featured by high ownership concentration and board of directors dominated by representatives of controlling shareholders, it is more difficult to extrapolate from studies on the Anglo-Saxon markets. Specific research is therefore needed to take in account these characteristics, which are the norm in many countries (Shleifer and Vishny, 1997).

According to Esperança *et al.* (2011) good governance practices are essential to give confidence to investors. This confidence, generated by corporate governance mechanisms, which lead to the protection of minority shareholders, promotes the financial market development. Corporate managers should act exclusively in the economic interests of shareholders, including noncontrolling shareholders (Kraakman and Hansmann, 2017).

The literature provides a wide range of settings for the corporate governance subject. The study has its roots in Berle and Means (with the publication of the book "*The Modern Corporation and the Private Property*" in 1932) and, earlier still, Adam Smith (with the publication of the book "*An Inquiry into the Nature and Causes of the Wealth of Nations*" in 1776). Basically, it is important to underline that investors in corporations require assurance that their contributions, financial capital, human capital, social capital, will

produce a return. Corporate Governance concerns the institutions that make these investments possible, from boards of directors, to legal frameworks and financial markets, to broader cultural understanding about the place of the corporation in society (Davis, 2005). It is, therefore, the "control" of corporations and that is why it is so relevant and vital to businesses.

Corporate governance compromises the rules, pratices and rocedures by wich managers are held accountable (Jacoby, 2018). Corporate governance involves a vast number of distinct economic phenomenon's, making the attribution of only one definition impossible. We find several definitions of this concept, but all share, explicitly or implicitly, some common elements. They all refer to the existence of conflicts of interest between insiders and outsiders, with an emphasis on those arising from the separation of ownership and control (Jensen and Meckling, 1976), mostly about the partition of wealth generated by a company. The decision of how to deploy internal funds is central to the conflict between shareholders and managers so any discussion of the efficacy of corporate governance mechanisms to control managers must address this issue.

In fact there is a consensus regarding the assumption that the corporate governance problem cannot be satisfactorily resolved by complete contracting because of significant uncertainty, information asymmetries and contracting costs in the relationship between capital providers and insiders (Grossman and Hart, 1986; Hart and Moore, 1990; Hart, 1995).

In a wide scope, corporate governance encompasses all the mechanisms that relate to the determination of the will of the company and its implementation, be it in terms of defining the type of economic activities to be developed, be it in regard to the operational organization of these activities, be it in the making of financial decisions and investments, or be it in regard to the return of invested capitals or their remuneration.

The corporate governance mechanisms are incorporated in the control and supervision of the management exercise and aim to ensure that the company is managed effectively. In other words, the administration of every company should contemplate mechanisms that include an efficient allocation/production/development of resources and mechanisms that ensure accountability for how those resources are used.

Standard and Poor's (2002) developed a framework for evaluating corporate governance. Their framework included three main governance components: ownership structure and influence, board and management structure, and financial transparency and information disclosure. In this point we use this taxonomic device to describe the governance attributes.

2.1. Ownership structure and influence

Ownership structure and the influence that certain shareholders exert on management play a key role in corporate governance. To Ashbaugh-Skaife *et al.* (2006) governance mechanisms, that monitor management actions and limit their opportunistic behaviour, protect the interests of shareholders and the interests of bondholders as well. The authors state that, sometimes, the interests of shareholders and bondholders can diverge, namely because shareholders with significant ownership positions can exercise their influence to force management to take more risky investments, where shareholders as a group receive the benefits of successful outcomes but bondholders bear a disproportionate share of the failures. The study by La Porta *et al.* (1998), done in 27 developed countries and focusing on listed companies, shows that firms with majority shareholders are dominant and, in

most cases, these shareholders are a family. The concentration of ownership has the great advantage of allowing for the majority shareholder to have sufficient power to control the management and to implement the necessary changes, but it also carries its own agency problems with the possibility of expropriation of the minority shareholders. However, to corporate governance what really matters is the ability of shareholders to intervene and exercise control over the management if necessary.

2.2. Board and management structure

According to Ashbaugh-Skaife *et al.* (2006) the board structure, as a component of corporate governance, deals with such thing as:

(1) board size and composition;

(2) board leadership and committee structure;

(3) competency of the board members;

(4) the number of outside independent directors on the board, to represent the interests of all stakeholders; and

(5) the compensation of the board members.

The first three elements address the board's role and ability to provide independent supervision of management performance. Boards often delegate supervision of key functions or decision making to standing committees – audit, remuneration, nominating or governance, finance and investment. In relation to the fourth element, Bhojraj and Sengupta (2003) argue that firms with a greater proportion of outside directors on the board provide better monitoring of management actions. According to Eng and Mak (2003: 327) "*the role of the board of directors is to monitor management decisions*". In this sense, having a higher proportion of outside non-executive directors on the board would result in better monitoring of the activities by the board and limit managerial opportunism (Fama, 1980; Fama and Jensen, 1983). Outside directors who are less aligned to management may be more inclined to encourage firms to disclose more information to outside investors. Forker (1992) finds that a higher percentage of independent members on boards enhanced the monitoring of financial information and reduced the benefits of withholding information. The fifth element, board compensation, is another element to be considered. Key issues are whether board members are remunerated and motivated in ways that ensure the long-term success of the company. To Jensen (1993) boards with greater ownership in the firm are more likely to do a better job of monitoring management and fulfilling their fiduciary responsibilities.

2.3. Financial transparency and information disclosure

The corporate information is communicated through several ways to the market. The market participants interpret the information and use it in their investment decisions. Firms that generate a large quantity of relevant and credible information should facilitate the participants to form more precise evaluations. These firms are considered transparent. In opposition, firms with vague or imprecise information will inhibit the correct evaluation by investors. These firms are considered opaque (Ang and Ciccone, 2000).

The overall level of transparency is probably a function of several components, like ownership structure and firm specific characteristics (Ang and Ciccone, 2000). Accounting disclosure standards, as mentioned by Lowenstein (1996), are only one possible means of achieving transparency. To Ang and Ciccone (2000) corporate governance mechanisms induce the company to disclose information to the market but, despite that, important information may still be possessed by management. This information is often defined as *asymmetric information* and is often directly related to the company's future performance. According to the authors, management directly controls the amount of information they disclose, the truthfulness of the information, and the communication channel, but information quality may also be influenced by the precision of the communication channel and the firm's previous disclosure reputation. Despite this, it seams consensual that transparent disclosure is a critical instrument to reduce the information asymmetry between the company and the market. In this sense, a greater disclosure transparency facilitates the monitoring of managements' actions and makes it less probable that management will act opportunistically. Therefore, the perception market participants depend on "*both the willingness and ability of managers to reveal their superior information*" (Ang and Ciccone, 2000:5).

As a concluding remark, in what concerns the described attributes of governance, we recall Hart's conditions (Hart, 1995) stating that these attributes/"*institutions*" are only ways of dealing with an agency problem.

3. Tax Planning

The concept of tax planning is difficult to define. Literature presents us with a large set of definitions with similar meanings. One evidence of that difficulty is the set of different expressions present in empirical literature to refer these practices, for example, tax planning (Halon and Heitzman, 2010), tax management (Minnick and Toga, 2010) , tax avoidance (Anouar and Houria, 2017), among other.

Flesch (1968) defined tax avoidance as the art of avoiding tax without actually breaking the law. So Oats (2005) considered this definition wide and it fails to understand the degrees and the distinctions between the acceptable and unacceptable tax avoidance. Other authors considered tax avoidance as a legal activity (Sikka and Haslam, 2007). Halon and Heitzman (2010) state tax avoidance as the reduction of explicit cash taxes, which includes all transactions from investing in a municipally bond to engage into tax shelters. The concept is not always use with the same meaning which difficult the comparison between empirical studies results. Minnick and Toga (2010, p. 708) define tax management "*as the ability to pay a low amount of taxes over a long period of time*".

Tax planning activities often involve a large amount of monetary resources. Fees related to tax and legal area represent around 30% of the revenues of International Accountancy firms (AccountancyAge, 2016). There are several factors firms take into account before engage into those practices. Some firms limit their tax planning activities based on reputational effects. They fear to be considered poor corporate citizens for having low tax rates (Hanlon and Slemrod, 2009). Other companies implement tax planning activities in order to increase financial accounting results. Firms engage in tax planning activities with the purpose to improve accounting results (Desai and Weaver, 2006). Although Graham *et al*. (2014) state that it´s important that tax planning activities do not harm earnings per share. Also firms attend to Generally Accepted Accounting Principles Effective Tax Rate (GAAP ETR) and paid cash taxes before defining tax planning strategies.

European Journal of Applied Business Management, Special Issue of ICABM2018, 2018, pp. 77-93. ISSN 2183-5594

McBarnet (1992) refers that large corporation compliance strategy tend to "*to escape tax. but at the same time, whether successful in that first goal or not, it allows them to escape any risk of stigma or penalty*" (p. 334). Companies tax avoidance is, in most situations, possible due to the various interpretations of the tax law letter (Sikka and Haslam, 2007). It depends on the use of preferential provisions in the tax code, such as exclusions, exemptions, deductions, credits, preferential rate and deferral of tax liability. In this context companies with good tax planning strategies are able to legally avoid a high amount of taxes. These savings have enormous possibilities through the use of foreign Direct Investment (FDI) options. Some researchers state tax planning as a key factor for competitiveness in a competitive environment (Anouar and Houria, 2017). Nowadays International institutions like OEDC or European Commission have been made efforts to fight illegal tax avoidance. For example, according to news published on 4th October 2017 the European Commission has ruled that Amazon must pay €250m in back taxes to Luxembourg. European Commission is developing efforts to crack down on tax avoidance by tech giants (COM, 2017). Close to a third of the growth of the overall industrial output in Europe is already due to the uptake of digital technologies. In 2017, 9 out of the top 20 companies by market capitalisation were technology companies, accounting for 54% of the total top 20 market capitalisation (PWCb, 2017).

Walker (2006) refers to several possible actions to improve corporate tax compliance namely simplifying the tax code, obtaining better data on noncompliance, continuing to oversee the effectiveness of Internal Revenue Service (IRS) enforcement, leveraging technology, and sending sound compliance signals through increased collections of taxes owed. The IRS has estimated the amount of clear noncompliance to total $32 billion for tax year 2001 in the U.S. (Walker, 2006).

Considering small companies and entrepreneurs, Kirchler (1999, p. 133) refers that *"especially entrepreneurs who take the risk of establishing an enterprise perceive taxes as severe reduction of their profit and possibilities for reinvestment"*.

Legal tax rules influence a large spectrum of corporative decisions in particular multinational corporations. In respect to finance theory it influences capital structure decisions, including the choice of debt, equity, leasing, and other financing instruments. The relation between tax administration and corporative tax payers play a role in corporate risk management, dividend, and share repurchase policies. Also taxes can shape the form and timing of compensation and pension policies. Sometimes they influence the choice of organizational form (corporate *versus* partnership). Finally, the complexity and richness of the international tax code provides a variety of incentives that affect corporate decisions.

There are several instruments of corporation tax fraud. As examples we can consider not declaring income, unlawfully claiming or over-claiming investment tax credit and expenses, unlawfully, providing false information on a company's place of establishment or hiding money from the government through laundering or illegal accounting schemes.Taylor and Richardson (2012) examined tax management practices within corporate groups and found that transfer pricing and the use of intragroup debt are the most widely used techniques to reduce the tax liabilities on groups. Also the world economy development and technologic advances create conditions for the appearing of new ways of develop business activities. COM (2017) outlines some examples: online retailer model, (business model of Amazon, Zalando, Alibaba); social media model (business model of Facebook, Xing, Qzone); subscription model (Netflix, Spotify, iQiyi; and collaborative platform model, (Airbnb, Blablacar, Didi Chuxing). According to PWCa, (2017, p. 6)"the effective tax rate for digital business models lies between -10%

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and 25%". On average, digital business models are taxed at a rate of 10.20% which is 11.73%percentage point lower than traditional business models. The reason for this is an assumed higher portion of costs that do not require capitalisation in the investment structure (in particular software developed in-house and intangible assets) as well as more favourable depreciation rules for digital capital goods and the applicability of special tax incentives for research, development and innovation (PWCb, 2017).

4. Empirical studies overview

Several studies analyse the relation between corporate governance structures and tax planning. Some studies investigate the impact of ownership structure on corporate tax avoidance, others the effect of board of director composition on corporate tax aggressiveness or equity value.

Therefore, very little is known about the differences in the willingness of firms to minimize taxes. According to Fama and Jensen (1983) when equity ownership and corporate decision-making are concentrated in just a small number of decision-makers, these owner-managers will likely be more risk averse and thus less willing to invest in risky projects. Because tax avoidance is a risky activity that can impose significant costs on a firm, some authors predict that firms with greater concentrations of ownership and control, and thus more risk averse managers, avoid less income tax than firms with less concentrated ownership and control.

Andreoni *et al.* (1998, p. 818) observe that, from a national policy perspective, the issue of tax aggressiveness is ‘‘*a problem as old as taxes themselves."* Because the tax literature has not historically differentiated between the corporate and individual aspects of tax aggressiveness, previous models of corporate tax aggressiveness have been formulated on the basis of individual taxpayer compliance (Slemrod, 2004). However, more recent studies by Chen and Chu (2005), Crocker and Slemrod (2005), and Desai and Dharmapala (2006) consider corporate tax aggressiveness in the context of agency theory, which is more appropriate in the corporate environment because of the principal-agent relationship between shareholders and management.

Desai and Dharmapala (2006) consider the association between corporate governance and tax aggressiveness within the agency framework with specific reference to equity-based incentive compensation and the interaction between rent extraction and tax aggressiveness. They argue that under various conditions, well-governed corporations have a greater capacity to become more tax aggressive, whereas poorly governed corporations have a greater capacity to become less tax aggressive.

From an agency perspective, the marginal benefits of tax aggressiveness to shareholders include greater tax savings for the corporation, whereas the marginal costs include the potential for tax fines and penalties to be imposed by the tax administration, reputational costs, and political costs (Slemrod, 2004; Scholes *et al.,* 2005; Hanlon and Slemrod, 2009; Chen *et al.*, 2010). To Desai and Dharmapala (2006) agency costs lead shareholders to discount the value of firms by reference to levels of tax planning activity. They argue the lack of transparency associated with tax planning provides managers with a “screen” or cover to hide self serving actions.

A survey by Henderson Global Investors (2005) found reluctance on the part of managers to disclose tax related risk management information to shareholders. This lack of awareness on the part of shareholders can lead to information asymmetry between managers and shareholders facilitating moral hazard. A related concern of shareholders

is that managers who are "aggressive" with respect to tax planning may also be "aggressive" in their financial reporting decisions (Frank *et al.* 2009). To Desai and Dharmapala (2006) it is also relevant to consider the role of corporate governance mechanisms in moderating any relationship between tax planning and firm value.

Minnick and Noga (2010) investigate how corporate governance play a role in long-run tax management. The authors find that incentive compensation drives managers to make investments into longer-horizon pay outs such as tax management. Furthermore, they find that this investment into tax management benefits shareholders. Their results show that better tax management is positively related to higher returns to shareholders.

According to Lanis and Richardson (2011) taxes are a motivating factor in many corporate decisions. Recent evidence shows that managerial actions designed solely to minimize corporate taxes through tax aggressive activities are becoming an increasingly common feature of the corporate landscape in many countries around the world. Nevertheless, corporate tax aggressiveness brings with its significant costs and benefits for management, shareholders and society as a whole.

Lanis and Richardson and (2011) analyses the role of the board of directors in influencing the tax aggressiveness of the corporation in an Australian agency setting, in addition to the wider perspective of corporate social responsibility. The association between board of director composition and tax aggressiveness needs further study as tax policymakers need to have a better understanding of this association to develop effective guidelines to address any shortcomings in the internal tax management practices of corporations. According to the authors, this should improve government efforts to collect corporate income tax revenue. The authors predict that the inclusion of a higher proportion of outside members on the board reduces the likelihood of tax aggressiveness. They find that a negative and statistically significant association between outside board of director membership and tax aggressiveness holds across various regression model specifications. Thus, more independent boards appear to deter tax aggressiveness through better governance.

To Wahab and Holland (2012) tax planning by firms is a highly significant activity. Although traditionally tax planning has been viewed as benefiting shareholders via increased net earnings, more recently the underlying motivation has been questioned. Desai and Dharmapala (2006) argue that when an information asymmetry exists between managers and shareholders with respect to tax planning, it can facilitate managers acting in their own interests resulting in a negative association between tax planning and firm value. Badertscher *et al.* (2013) predict that firms with greater concentrations of ownership and control, and thus more risk averse managers, avoid less income tax than firms with less concentrated ownership and control.

The results from Wahab and Holland (2012) show that tax planning is not valued by shareholders and is in fact value reducing. The authors find a consistent negative relationship between tax planning and firm value arises which is generally robust to a number of different specifications and controls. This overall result is consistent with some of the prior exclusively US based research. However, in contrast to US findings of Desai and Dharmapala (2009) and Wilson (2009), corporate governance mechanisms do not appear to moderate the agency costs associated with tax planning. According to Wahab and Holland (2012) two possible explanations exist, firstly UK corporate governance mechanisms are ineffective per se, or secondly, there is insufficient tax related information made available for a potential control mechanism to operate and this deficiency is noted by shareholders. These differences suggest researchers should pay

European Journal of Applied Business Management, Special Issue of ICABM2018, 2018, pp. 77-93. ISSN 2183-5594

attention to tax related institutional and policy differences that exist between countries when interpreting existing research.

Badertscher *et al.* (2013) examine whether variation in the separation of ownership and control influences the tax practices of private firms with different ownership structures. They followed Fama and Jensen (1983). The authors assert that when equity ownership and corporate decision-making are concentrated in just a small number of decision-makers, these owner-managers will likely be more risk averse and thus less willing to invest in risky projects. Because tax avoidance is a risky activity that can impose significant costs on a firm, they predict that firms with greater concentrations of ownership and control, and thus more risk averse managers, avoid less income tax than firms with less concentrated ownership and control. Their results were consistent with their expectations.

Armstrong *et al.* (2015) examine the link between corporate governance, managerial incentives, and corporate tax avoidance. According to the authors, unresolved agency problems may lead managers to engage in more or less corporate tax avoidance than shareholders would otherwise prefer. They find no relation between various corporate governance mechanisms and tax avoidance at the conditional mean and median of the tax avoidance distribution. However, using quantile regression, they find a positive relation between board independence and financial sophistication for low levels of tax avoidance, but a negative relation for high levels of tax avoidance.

According to Mulyadi and Anwar (2015) sometimes corporation use earnings management practice to control its income which will impact tax in the same time. Previous research suggested that there is significant impact of corporate governance to corporate earnings management and corporate tax management. Their research focus on the number of board members, number of independent board and board compensation disclosure as corporate governance proxy. They use discretionary accrual to measure earnings management, and effective tax rate as tas management measurement. Their findings show that there is significant impact of corporate governance to earnings management and also in tax management. Lanis and Richardson (2016) examined the impact of outside directors on tax aggressiveness. They found a negative association between the interaction effect of the proportion of outside directors on the board and tax aggressiveness.

Table 1 summarizes the mains conclusions of empirical studies that focus on the relation between corporate governance characteristics ans tax planning.

Table 1. Summary of empirical studies about coporate governance and tax planning

Authors	Study conclusions
Fama and Jensen (1983) Badertscher *et al.* (2013)	Firms with greater concentration of ownership and control (existence of small number of decision-makers) are more risk averse and less willingness to practice tax avoidance. Literature state than tax avoidance activities are considered risky projects. A lower number of shareholders is negatively associated with tax avoidance practice due to a higher risk aversion level.
Desai and Dharmapala (2006)	Well-governed corporations have a greater capacity to become more tax aggressive.
Minnick and Noga (2010)	Incentive compensation drives managers to make investments into longer-horizon pay outs such as tax management. There is a positive relation between better tax management and higher returns to shareholders.
Lanis and Richardson and (2011)	When corporation board of directors includes a higher proportion of outside members it reduces the likelihood of tax aggressiveness. There is a negative association between outside board of director membership and tax aggressiveness. More independent boards appear to deter tax aggressiveness through better governance.
Desai and Dharmapala (2006) Wahab and Holland (2012)	When an information asymmetry exists between managers and shareholders (agency theory) with respect to tax planning, it can facilitate managers acting in their own interests resulting in a negative association between tax planning and firm value. Tax planning activities have a negative relation with firm value increase. Tax planning is not valued by shareholders and it's value reducing factor.
Desai and Dharmapala (2009) and Wilson (2009)	Corporate governance mechanisms do not appear to moderate the agency costs associated with tax planning.
Armstrong *et al.* (2015) Lanis and Richardson (2016)	There is a positive relation between board independence and financial sophistication for low levels of tax avoidance, but a negative relation for high levels of tax avoidance. There is negative association between the interaction effect of the proportion of outside directors on the board and tax aggressiveness.
Mulyadi and Anwar (2015)	There is a significant impact of corporate governance on earnings management and also in tax management.

Source: Authors

3. Conclusions

This paper examines the role that corporate governance characteristics have on firm's tax planning activities. The added value of this work relies on a global analysis of empirical literature results about corporate governance and tax planning activities providing a more extensive overview of the relation. Corporate governance consists on the system of rules, practices and processes by which a company is directed and controlled. The expression tax planning was applied to refer to all the activities designed to have a positive effect on effective tax rate. From an economic perspective it is a rational behaviour that a company uses legal loopholes in order to reduce the amount of taxes to pay. We conducted a review over recent empirical literature about corporate governance characteristics and tax planning activities and observed that decisions regarding to tax obligations are

conditioned by firm's management features. Our conclusions provide insights that tax authorities and politicians can use to better focus their strategies and actions in order to increase compliance, reduce tax evasion, fight underground economy and increase country´s competitiveness.

The analysis of existent empirical literature shows evidences that corporations with small board of decision-makers tend to show lower levels of tax planning's. Also earnings management can induce to practice of more aggressive tax management activities. Despite the positive effect that a tax planning strategy pretends to have on a corporation financial net result there are evidences that those practices induce to a reduction of the company market value.

This paper only analyses the more recent literature about the relation between corporate governance characteristics and tax planning activities without an empirical statistic analysis. We can conclude that there is not possible to stablish a the effect corporate governance characteristics have on tax planning activities. It seems to us that this field of knowledge remains as an important research domain. In Portugal, as far as we know, corporate governance and it´s relation with tax decisions is still a field of knowledge to be explored in the future. So, in future research should provide empirical analysis applied in portuguese companies.

Notes

[1] The literature on tax compliance and tax evasion can be divided into four categories (Kim, 2008): (1) theoretical investigation of tax compliance decisions; (2) empirical examination of the compliance; (3) analysis of audit programs; (4) empirical estimation of tax evasion magnitudes.

[2] In this domain the author also underlines that, in spite of the clear signs of convergence in corporate governance, "*it does not seem predictable or predicable to total convergence or uniformity*" (Abreu, 2010: 20). He enhances therefore the weight of the infra structural, cultural and regulatory differences. Furthermore, "*there is not a sole model of good corporate governance*" (OECD, 2004: 13).

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