Journal of Family Business Strategy 5 (2014) 347–357

Contents lists available at ScienceDirect

Journal of Family Business Strategy

journal homepage: www.elsevier.com/locate/jfbs

Tax aggressiveness in private family firms: An agency perspective

Tensie Steijvers [a,*], Mervi Niskanen [b]

[a] KIZOK Research Center, Hasselt University, Agoralaan Building D, 3590 Diepenbeek, Belgium
[b] University of Eastern Finland, School of Business, Kuopio, Finland

ARTICLE INFO

Article history:
Received 8 March 2013
Received in revised form 16 April 2014
Accepted 9 June 2014

Keywords:
Tax aggressiveness
Family firms
CEO ownership
Board of directors

ABSTRACT

This article investigates, from an agency perspective, whether private family firms, compared to private nonfamily firms, are more tax aggressive. Moreover, for private family firms, the effect of the extent of separation between ownership and management on tax aggressiveness is studied. Additionally, we verify whether effective board monitoring moderates this relationship. Using Finnish survey data, results show that private family firms are less tax aggressive than nonfamily firms. For the subsample of private family firms, firms with a lower CEO ownership share are more tax aggressive whereas the presence of an outside director in their board mitigates this direct effect.

© 2014 Elsevier Ltd. All rights reserved.

Introduction

Accounting practices in (private) family firms are rarely studied (Salvato & Moores, 2010), even though "accounting research is one of the eldest business disciplines and family business represents the prevalent form of economic organization in the world" (Songini, Gnan, & Malmi, 2013, p. 71). With respect to the accounting topic of our study, tax aggressiveness, current scant literature mainly focuses on public family firms and how their use of tax aggressiveness differs from public nonfamily firms (for example Chen, Chen, Cheng, & Shevlin, 2010). Whether tax aggressiveness also prevails within private family firms and how this tax aggressive behaviour can differ within the heterogeneous group of private family firms remains unstudied.

However, private family firms are characterized by an entanglement of the family throughout the organization which affects the nature and extent of agency conflicts within the family firm and is expected to affect the management's tax aggressive behaviour. Tax aggressiveness is defined as downward management of taxable income through tax planning activities which can be legal or illegal or may lie in between (Frank, Lynch, & Rego, 2009). Recent evidence shows that management engaging in tax aggressive activities to minimize tax payment is becoming an increasingly common feature of the corporate landscape around the world (Lanis & Richardson, 2011). Desai and Dharmapala (2006) indicate that the analysis of a tax aggressiveness decision is embedded in an agency framework in which managers can enjoy private benefits of control at the expense of other shareholders. As the CEO plays an economically significant role in determining the level of tax avoidance that firms undertake, the CEO is the key driver of corporate behaviour (Dyreng, Hanlon, & Maydew, 2010; Hambrick & Mason, 1984; Zona, Minoja, & Coda, 2013). To determine the level of tax aggressiveness a family firm decides to engage in, the CEO will trade off the marginal benefits against the marginal costs of managing taxes (Molero & Pujol, 2012).

For private family firms, the benefits do not only include the tax savings. Critical characteristics of tax aggressive activities are complexity and obfuscation. Such a complexity can allow the CEO to mask any kind of rent extraction vis-à-vis the other shareholders (for example perquisite consumption and excessive salaries). This rent extraction can be considered as agency costs for the firm. On the cost side, the CEO has to take into account the time that has to be invested to implement the tax evasion measures, not only the possible penalty from tax authorities harming his own reputation, but also the possible damage to the firm's reputation and family's socioemotional wealth (SEW) which is a key noneconomic reference point for decision making (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010). SEW represents noneconomic goals (Chrisman, Chua, Pearson, & Barnett, 2010) such as preservation of the family dynasty and perpetuation of family values through the business that meet the family's affective needs (Gomez-Mejia, Haynes, Nunez-Nickel, Jacobson, & Moyano-Fuentes, 2007). Private family firms have a much longer investment horizon and greater reputation concerns (Gedajlovic & Carney, 2010) indicating that they do not only have financial goals. If the family firm engages in

* Corresponding author. Tel.: +32 11 268627; fax: +32 11 268700.
E-mail addresses: tensie.steijvers@uhasselt.be (T. Steijvers), mervi.niskanen@uef.fi (M. Niskanen).

http://dx.doi.org/10.1016/j.jfbs.2014.06.001
1877-8585/© 2014 Elsevier Ltd. All rights reserved.

tax aggressive behaviour, reputational damage cannot only occur due to tax-penalties, reported upon in the press, but also due to the aggressive usage of legal measures that corporations take to avoid taxes. Tax returns of all companies and individuals are public information in Finland, the context of our study. When this information is released by the tax authorities, the press can publish the information as well as investigate any deviations from the norm. However, given the large amount of private Finnish firms, this will not occur systematically.

Chen et al. (2010) indicate that our understanding of the determinants of tax reporting aggressiveness is limited. This literature is relatively young and therefore, most studies have only examined firm specific determinants using a number of proxies such as firm size, leverage, scale of operations... without much examination of executives and their incentives (Hanlon & Heitzman, 2010). Shackelford and Shevlin (2001), Scholes, Wolfson, Erickson, Maydew, and Shevlin (2005) and Desai and Dharmapala (2006) call for more research of tax management in the presence of agency conflicts. Based on Chen et al. (2010) who study the impact of public family ownership on tax aggressiveness, we investigate from an agency perspective whether private family firms, compared to private nonfamily firms, are more or less eager to engage in tax aggressive behaviour. Moreover, we will study whether the extent of separation between ownership and management, affecting the extent of agency problems, will also affect tax aggressive behaviour. Additionally, we extend prior knowledge by studying how effective monitoring by a board of directors may mitigate the agency problems arising from separation between ownership and control, resulting in tax aggressive behaviour.

In our study, we use Finnish data as Finland belongs to the group of high tax alignment countries like for example France and Spain (Van Tendeloo & Vanstraelen, 2008). High tax alignment means that there is a high alignment between financial reporting and tax accounting. While the general rule is that all the revenues and expenses have to be reported identically in the tax returns and the official financial statements, there are some exceptions. These can be applied in family as well as nonfamily firms. According to Atwood, Drake, Myers, and Myers (2012) tax aggressive strategies can be defined as those that create permanent or temporary book-tax differences as well as those that create no differences. As for permanent tax avoiding strategies on the revenue side, the most important exceptions are that revenues received from the sale of shares listed in the firms permanent assets and dividends received from other companies are tax exempt. This has led to a situation, where setting up group structures has become a popular tax planning mechanism. When it comes to permanent tax avoiding strategies on the expense side, a few types of expenses are not tax deductable. These expenses include fines, penalties, and bribes. As for temporary tax-avoiding strategies, Finnish firms can also make use of a depreciation reserve and depreciation adjustment (see for example Niskanen & Keloharju, 2000). When companies make investments, they decide on a planned schedule for depreciations. Every year, they can then decide (within the limits allowed in the tax laws) to depreciate more or less than planned. If they depreciate less, they accumulate tax reserves, which are reported in the balance sheet. This can then be used in later years to reduce the amount of profits and the amount of taxes paid. An additional way to avoid tax payments in open European economies such as Finland is to set up subsidiaries in countries with lower tax rates or to channel some of the operations through countries with lower tax rates.[1]

So, contrary to low tax alignment countries such as the US, tax aggressive behaviour becomes visible in the financial statements of firms in high tax alignment countries. Consequently, tax aggressive behaviour has a real impact for firms in high alignment countries: the firm's real economic performance may not become visible in their financial reports due to tax aggressive behaviour. This may make it very difficult for shareholders and other stakeholders to understand and value the true economic performance of the firm. Therefore, studying the determinants of tax aggressiveness in the context of high tax alignment countries is very important.

Our article contributes to the literature in several ways. First, our study is the only study focusing on tax aggressiveness in a private family firm context. Prior research generally focuses on differences in firms' tax reporting between private and public firms (e.g. Beatty & Harris, 1999; Mills & Newberry, 2001) or between public family firms versus nonfamily firms (for example Chen et al., 2010). We focus only on private (family) firms because specific agency problems in private family firms make us eager to believe that there are different agency problems within the heterogeneous group of private family firms leading to differences in tax aggressiveness. Additionally, we take into account the socio-emotional wealth perspective which complements the agency view. Moreover, previous studies only investigate the direct effect of board monitoring on tax aggressive behaviour (e.g. Lanis & Richardson, 2011; Minnick & Noga, 2010). In this article, we study the moderating effect of board monitoring, which can shed a new light on this stream of literature. Additionally, the existing literature on tax aggressiveness is dominantly US based (which is a low tax alignment country) and does not necessarily translate to other high tax alignment countries such as Finland.

This article proceeds as follows. In the next section, the theoretical underpinnings are discussed and hypotheses are derived. In section 'Data and variables', the dataset and variables are discussed. Section 'Results' presents our results and section 'Discussion and conclusion' highlights the major conclusions and implications.

Literature review and hypotheses development

According to traditional agency theory, the privately, family owned and managed firms are often considered as a low agency cost case (Fama & Jensen, 1983; Jensen & Meckling, 1976). Family members would be more likely to behave altruistically. Parental altruism is a utility function in which the welfare of parents is positively linked to the welfare of their children. Altruism may have several beneficial effects such as the creation of a self-reinforcing system of incentives encouraging family members to be considerate of one another (Schulze, Lubatkin, & Dino, 2003a) and the enforcement of incentives to communicate and cooperate with each other (Van den Berghe & Carchon, 2003). When a firm is owned solely by a single owner-manager, it can even be considered as a zero agency cost case (Ang, Cole, & Lin, 2000).

However, by (partially) separating ownership from management in private family firms, agency costs may arise due to information asymmetries and strains on the limits of bounded rationality among family owners. The interests of owner(s) and manager(s) may not be completely aligned: the ability of the CEO to act in his own interests at the expense of (other) family firm owners will increase (Chua, Chrisman, & Sharma, 2003). Engaging in tax aggressive behaviour by the CEO may be a reflection of this shareholder-manager agency problem (Hanlon & Heitzman, 2010).

Engaging in tax aggressive activities is accompanied by costs and benefits within the context of private family firms. As Dyreng et al. (2010) indicate that the CEO plays an economically significant role in determining the level of tax avoidance that firms undertake, we take the perspective of the CEO in studying the costs and

[1] Recent evidence suggests that for example a Finnish-Swedish Pulp- and Paper company StoraEnso has avoided approximately 50 million EUR in taxes by channeling its pulp-sales through the Netherlands (Finér, Laine, & Ylönen, 2012).

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات