

DETERMINANTS OF TAX AVOIDANCE IN EMERGING ECONOMIES: A SYSTEMATIC LITERATURE REVIEW AND FUTURE AGENDA

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Abstract

Tax avoidance remains a pressing concern in Nigeria, where aggressive tax planning by those charged with governance undermines government revenue mobilization and fiscal stability. This paper pursues a dual purpose. First, it synthesizes determinants that influence aggressive tax avoidance behaviours, drawing on 257 peer-reviewed studies published between 2013 and 2024 in accounting and finance journals. Second, it develops a conceptual framework to consolidate insights on the effects of tax avoidance on firm values and market growth, thereby deepening the understanding of this relationship in accounting research. Using a systematic keyword network analysis supported by VOS viewer software, the study identifies four key determinants of tax avoidance: - (1) weak board governance structures, (2) poor institutional and regulatory environments, (3) firm-level characteristics, and (4) international and global factors, including the use of tax havens, offshore structures and transfer pricing as factors that affect tax avoidance. Findings further reveal that the effects of tax avoidance on firm value, market growth, and corporate transparency are highly contradictory across the literature. This review makes both practical and theoretical contributions by clarifying governance-related drivers of tax avoidance, exposing institutional weaknesses, and highlighting the global dimensions of the phenomenon. It also identifies gaps in the existing body of research and proposes avenues for future inquiry, with particular emphasis on emerging economies such as Nigeria.

Keywords: Tax avoidance, Tax planning, Board governance, Determinants, VOS viewer, Review

Introduction

Tax avoidance has increasingly attracted scholarly attention across developed and emerging economies in recent times (Densai & Dharmapala, 2006; Amrstrong et.al, 2015; Uwuigbe et al 2018; Putra et al 2018; Balakrishnan et al 2019; Zeng 2019). According to Duhoon and Singh, (2023), companies adopt acceptable (tax management) and non-acceptable (tax evasion) methods to reduce tax liabilities. While tax avoidance is legal and is

done by corporate board by taking advantage of tax loopholes, for opportunistic gain, fisher (2014) opines that tax evasion violates taxation rules and is punishable and unacceptable. Dyreng, Hanlon and Maydew (2010) argue that all transactions that lead to a reduction in tax liability reflect the tax avoidance behaviour of the firm. It is important to note that tax avoidance, tax management and tax planning, as per Duhoon and Singh, (2023) are simultaneous term that can be used interchangeably. While

literature provides that tax avoidance is legal, abuse of it could be illegal. This flagrant abuse of tax avoidance strategies has led to government lost of revenues. It has been documented that “around \$650bn in revenue has been lost by governments across the globe due to shifting of nearly 40% of total profits by multinational companies to tax haven countries”. Clearly explanations on why this is possible is an issue still far from identifying. It is evident that countries with low institutional and regulatory arrangements face tax avoidance menace. This is more evident in emerging economies (see for instance; Ying *et al.* 2017; Fernandez *et al.* 2019; Bradshaw *et al.* 2019; Chan *et al.* 2013; Liu and Lee 2019; Miafrolla 2019; Alkurdi and Mardini 2020; and Zaqeeba & Iskandar 2020)

The issue remains particularly pressing in emerging markets where aggressive tax planning by corporate boards and those charged with governance erodes government revenues, undermines fiscal stability, and hampers sustainable economic development (Uwuigbe *et al.*, 2018). Despite successive tax reforms and institutional frameworks, corporate leaders continue to exploit regulatory loopholes to minimize tax liabilities. This behaviour not only weakens public finances but also raises concerns about corporate accountability, ethical governance, and long-term firm value. The exact determinants of these ugly issues remain largely underexplored, thereby putting strain on the efforts of successive governments. Hanlon and Heitzman (2010) emphasize that tax avoidance should be understood along a continuum ranging from benign tax planning to aggressive forms of tax minimization that threaten fiscal integrity. In developing economies like Nigeria, where tax compliance is relatively low, aggressive avoidance strategies exacerbate revenue shortfalls and erode public trust in corporations.

In developed climes, the governance–taxation nexus has become a critical field of inquiry Ying *et al.* 2017; Fernandez *et al.* 2019; Bradshaw *et al.* 2019; Chan *et al.* 2013; Liu and Lee 2019; Miafrolla 2019; Alkurdi and Mardini 2020; Zaqeeba & Iskandar 2020 Densai & Dharmapala, 2006; Amrstrong *et.al* 2015; Uwuigbe *et al* 2018; Putra *et al* 2018;

Balakrishnan *et al* 2019; Zeng 2019). The board of directors, as the apex of corporate governance, plays a pivotal role in shaping a firm’s taxation strategies. As per the agency theory, the corporate board has two functions: decision initiation and implementation. Decisions surrounding tax avoidance reflect managerial preferences, shareholder expectations, and broader organizational priorities.

Existing studies suggest that managers often adopt tax avoidance practices to maximize post-tax profits, particularly to satisfy risk-averse shareholders, while in some cases pursuing opportunistic motives for personal gain. However, the consequences of such behaviour remain contested in the literature. While some evidence points to positive effects on firm value and competitive advantage, other studies highlight adverse implications for market growth, corporate transparency, and public trust. This study, therefore, seeks to investigate through systematic literature reviews the determinants of tax avoidance behaviours so as to advance understanding of the relationship between board governance and tax avoidance within the Nigerian and broader international contexts. The purpose of the paper is twofold. First, it synthesizes determinants that influence aggressive tax avoidance behaviours, drawing on 257 peer-reviewed studies published between 2013 and 2024 in accounting and finance journals. Second, it develops a conceptual framework to consolidate insights on the effects of tax avoidance on firm values and market growth, thereby deepening the understanding of this relationship in accounting research. This study makes significant contributions to theory and practice.

Regulators and policy makers would use it to understand the importance of strengthening governance mechanisms and other factors to curb harmful tax avoidance, while practitioners will be shown the strategic and ethical trade-offs that accompany tax planning decisions will be highlighted which is expected to assist practitioners. The fragmented findings of prior literature, limitations in the extant literature, and effects on firm values would help scholars to get set for a future research agenda, especially as it concerns future research on emerging

economies, such as Nigeria. The remainder of the paper is structured as follows. Section 2 presents a conceptual framework of tax avoidance. Section 3 outlines the research methodology, including data collection and analytical techniques. Section 4 presents the findings. Section 5 provides the discussion of the findings. Finally, Section 6 concludes with implications and directions for future research.

Conceptual Framework -Determinants of Tax Avoidance.

Several literatures provide that tax avoidance is affected by factors such as board governance mechanisms, firm-level characteristics and institutional and regulatory oversights (Fernandez *et al.* 2019; Bradshaw *et al.* 2019; Chan *et al.* 2013; Liu and Lee 2019; Miafrolla 2019; Alkurdi and Mardini 2020; Zaqeeba & Iskandar 2020; Densai & Dharmapala, 2006; Amrstrong et.al 2015 Board characteristics such as size, independence, diversity, and expertise have been found to influence managerial discretion over tax planning. For instance, independent and diverse boards are argued to strengthen oversight, thereby reducing overly aggressive tax strategies (Minnick & Noga, 2010). Conversely, weak governance structures, entrenched managers, and politically connected directors may encourage riskier tax practices that align with personal or short-term shareholder gains. Empirical studies remain inconclusive, with some reporting that effective governance mitigates avoidance, while others find no significant relationship, suggesting contextual variation across industries and countries.

Similarly, firm-level characteristics have a lot to do with the tax avoidance menace. For instance, the size of a firm is an important determinant of how a firm reports objectively. A small firm would tend to indulge in tax avoidance behaviour than a large firm. Conversely, multinational firm would ordinarily not indulge in tax avoidance because of reputational issues. Finally, the institutional arrangement in place could influence tax avoidance behaviour. In a situation where there are weak regulatory monitoring mechanisms, firms tend to indulge in tax avoidance behaviour. The institutional

context – which includes the quality of governance, legal systems, tax administration and regulatory enforcement – plays a crucial role in shaping the level and nature of tax avoidance in emerging economies (Ying *et al.* 2017; Fernandez *et al.* 2019; Bradshaw *et al.* 2019; Chan *et al.* 2013; Liu and Lee 2019; Miafrolla 2019; Alkurdi and Mardini 2020; and Zaqeeba & Iskandar 2020). Weak institutions create an environment where tax avoidance becomes easier, more common and harder to detect or penalize despite countries' efforts in instituting General Anti-avoidance rules (GAAR) and Specific Anti-avoidance rules (SAAR).

Research Methodology

Literature reviews from a methodological point of view can be approached as a **form of content analysis**, in which both qualitative and quantitative aspects are combined to evaluate structural (descriptive) and content-related criteria (Stafan & Martin, 2008). In using this approach, four key steps are involved. These are

- a. **Material collection:** The first step involves defining and delimiting the material to be analyzed. This includes establishing the scope of the review, identifying relevant databases and journals, and determining the unit of analysis. Clear inclusion and exclusion criteria are also specified at this stage to ensure methodological rigour.
- b. **Descriptive analysis:** At this stage, formal aspects of the collected material are examined. For example, the number of publications per year, geographical distribution of studies, or authorship patterns may be assessed. This descriptive overview provides a structural background against which deeper theoretical analysis can be situated.
- c. **Category selection:** This is the stage where structural dimensions and analytic categories are selected for the review. These dimensions represent the major themes or topics of analysis, while categories provide the finer subdivisions necessary for systematic coding.

Material evaluation: Finally, the material is analyzed according to the chosen structural dimensions. This step enables the identification of key issues, recurring patterns, and emerging trends.

We used the Scopus database to extract our literature. Scopus is one of the most extensive databases consisting of peer-reviewed journals (Cooper & Nguyen, 2020). Network search analysis was used for “tax avoidance” OR “Aggressive tax planning”, OR Tax planning OR Tax management, which were the four search keywords used to extract relevant studies

from the database. This search provides us with a total of 1057 over the period. Then, we applied the PRISMA approach for the selection of relevant papers as shown in Figure 2. PRISMA guidelines ensure the quality of selected papers and also address the misinterpretation issues in the reviewed articles. Then, the research articles published in English and those whose themes aligned with the present theme were retained. This criterion limited the number of articles to 498. Case studies and conceptual papers were also excluded, and finally, 257 articles were considered for the systematic review.

Table 1 provides the details of the number of papers reviewed for the study

Year	Number of Papers(N=257)
2013	11
2014	14
2015	17
2016	18
2017	20
2018	20
2019	22
2020	23
2021	25
2022	27
2023	29
2024	31

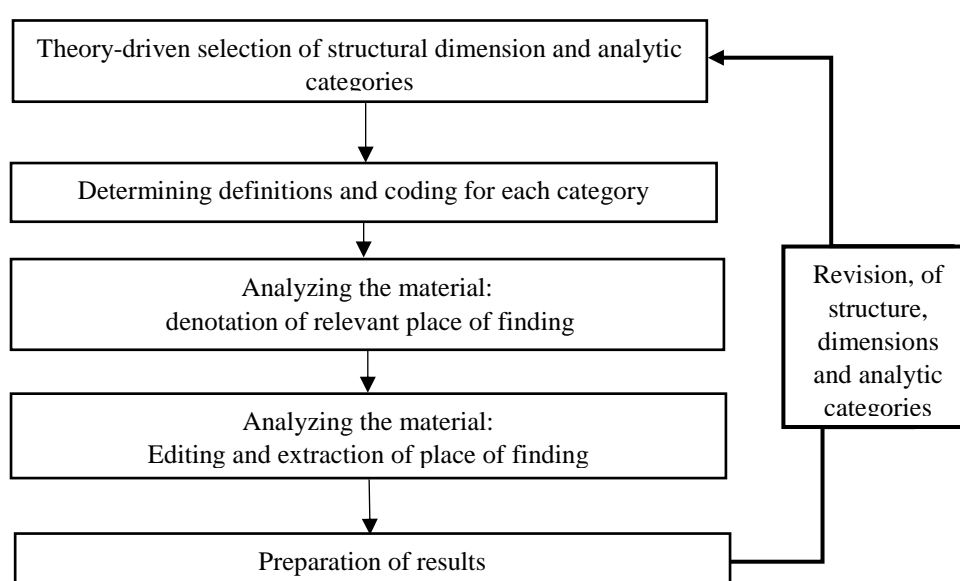


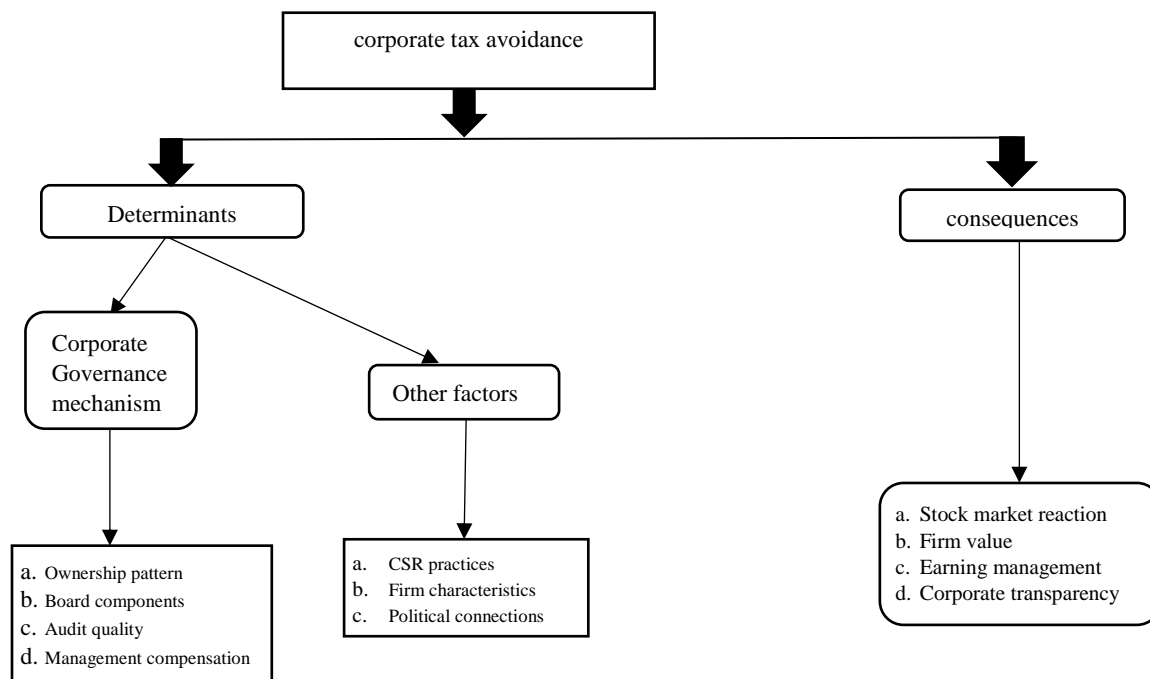
Figure 1: Research process of a systematic review

Results of Systematic Analysis

This section is divided into two sub-parts. The first part explains the determinants of tax avoidance, while the second part describes the effects of tax avoidance on firm value and market growth. The determinants of tax avoidance are well explained in Figure 1 and Table 3 below. The effect of tax avoidance on firm value and market growth is provided in Table xxx. Four key determinants of tax avoidance are identified to include: (1) weak

board governance structures, (2) poor institutional and regulatory environments, (3) firm-level characteristics, and (4) international and global factors, including the use of tax havens, offshore structures and transfer pricing as factors that affect tax avoidance. Second, our analysis reveals that the effects of tax avoidance on firm value, market growth, and corporate transparency are highly contradictory across the literature.

Figure 2: Tax Avoidance Determinants



Source(s): extracted from literature

Table 2: Effects of corporate governance components on tax avoidance:

Determinants	Findings	Research papers	Related theories
a. Ownership pattern Family firms	Less TA	Alkurdi and Mardini (2020), bauweraerts <i>et al.</i> (2020), Chen, Chen, Cheng, and Shevlin (2010), Landry <i>et al.</i> (2017), Sanchez-Marin <i>et al.</i> (2016),	agency theory
	more TA	Gaaya <i>et al.</i> (2017), Supantri and Rahmati (2020), Ying <i>et al.</i> (2017)	
Institutional ownership	Less TA	Alkurdi and Mardini (2020), Khurana and Moser (2013), Ying <i>et al.</i> (2017), Resti Yulistia <i>et al.</i> (2020).	
	More TA	Bird and Karolyi (2017), Jiang <i>et al.</i> (2021), Khan <i>et al.</i> (2017)	
	Inverse-U	Wahab <i>et al.</i> (2017)	
Dual class ownership	Less TA	McGuire <i>et al.</i> (2014)	
Government	More TA	Ying <i>et al.</i> (2017), Fernandez <i>et al.</i> (2019)	

Ownership	Less TA	Bradshaw <i>et al.</i> (2019), Chan <i>et al.</i> (2013), Liu and Lee (2019), Miafrolla (2019)	
b. Board components independent directors	Less TA	Alkurdi and Mardini (2020), Zaqeeba and Iskandar (2020)	
Directors’ religion	More TA	Cho and Yoon (2020)	
Management capability	Less TA	Park, Youl Ko, Jung, and Lee (2016), Tang Liu, Liu and Li (2019)	
	More TA	Dyreng <i>et al.</i> (2010)	
Board size	More TA	Hosseini <i>et al.</i> (2019), Zenzem and Ftouhi (2013),	
Women directors	Less TA	Francis <i>et al.</i> (2014), Hoseini <i>et al.</i> (2018), Jarboui <i>et al.</i> (2020), Lanis <i>et al.</i> (2017), Richardson <i>et al.</i> (2016)	
c. audit quality Auditor financial expertise	Less TA	Deslandes <i>et al.</i> (2020), Hsu <i>et al.</i> (2018), Wei and Chen (2016)	
Big four	Less TA	Gaaya <i>et al.</i> (2017)	
Independent authors	Less TA	Deslandes <i>et al.</i> (2020)	
Auditors’ tenure	Less TA	Deslandes <i>et al.</i> (2020)	
d. compensation executive compensation	More TA	Chee, Choi, and Shin (2017), Taylor and Richardson (2014)	
	Less TA	Huang <i>et al.</i> (2018), Sudirjo (2020)	
	No impact	Philips <i>et al.</i> (2013)	
e. CSR practices CSR disclosure	Less TA	Gulzar <i>et al.</i> (2018), Lanis and Richardson (2015), Laguir, Stagliano and Elbaz (2015), Mao and Wu (2019), Park (2017)	Social responsibility theory
	More TA	Abdelfattah and Aboud (2020), Alsaadi (2020), Arifin and Rahmati (2020), Zeng (2019)	
Firm characteristics			

Source(s): extracted from literature

Leverage	Less TA	Kismanah <i>et al.</i> (2018), Lin, Tong and Tucker (2014)	Traditional theory
	More TA	Hamilah, 2020	
	No impact	Salman (2018)	
Size	Less TA	Salman (2018)	
	No Impact	Hamilah (2020), Kismanah <i>et al.</i> (2018), Mulyati, Subbing, Fathonah, And Prameela (2019)	
	More TA	Suchayo <i>et al.</i> (2020)	
Capital intensity	More TA	Salman (2018)	
Inventory intensity	No impact	Urrahmah and Mukti (2021)	
Profitability	More TA	Firmansyah and bayuaji (2019), Salman (2018)	
	Less TA	Kismannah <i>et al.</i> (2018)	
Political characteristics			
Political	More TA	Suchayo <i>et al.</i> (2020), Wahab <i>et al.</i> (2017)	
Connections	No impact	RestiYulistia <i>et al.</i> (2020)	

Source(s): Danhun & Singh, 2023

Source(s): extracted from literature

We further investigated the measurement of tax avoidance in the extant literature. Our observations show that there is a recurring

challenge in tax avoidance research, especially the inconsistency in how tax avoidance is measured. We found that scholars have been

using different proxies to measure tax avoidance, often leading to contradictory conclusions about its impact on firm value, transparency, and stakeholder outcomes. For instance, some studies used effective tax rates (ETR) as a proxy, while others relied on book–tax differences (BTD), cash effective tax rates (CETR), or long-run tax rates. Each of these

measures captures a different dimension of tax behaviour, which partly explains the variation in empirical results across the literature. Details of this are shown in the table for ease of reference. Table 2 presents a summary of commonly used measures of tax avoidance and the documented effects associated with them.

Table 2: Measures of Tax Avoidance and Their Documented Effects

Measure of Tax Avoidance	Description	Key Studies	Documented Effects
Effective Tax Rate (ETR)	Ratio of tax expense to pre-tax income.	Chen et al. (2010); Dyreng et al. (2008)	Power ETR is often linked to aggressive tax planning; mixed evidence on firm value (value-enhancing vs. value-destroying).
Cash Effective Tax Rate (CETR)	Ratio of cash taxes paid to pre-tax income.	Chen et al. (2014); Frank et al. (2009)	Captures actual cash outflow; often associated with short-term liquidity benefits but potential long-term reputational risks.
Long-Run ETR	Average ETR over multiple years.	Dyreng et al. (2008)	Provides a more stable measure; firms with persistently low rates seen as engaging in sustained avoidance.
Book–Tax Differences (BTD)	Difference between accounting profit and taxable income.	Desai & Dharmapala (2006); Tang & Firth (2012)	High BTD associated with earnings management and lower transparency; investors interpret large BTD as risk signals.
Tax Shelter Participation / Indicators	Use of tax havens, offshore affiliates, or special tax shelters.	Lisowsky (2010); Rego (2003)	Direct evidence of aggressive avoidance; associated with reputational risk and regulatory penalties.

Sources: various literature

The consequences of this, as extracted from the literature, are shown in Table 3

Discussion

Tax avoidance has emerged as a critical issue warranting sustained scholarly and policy attention. In emerging economies such as Nigeria, the implications are particularly severe due to the country's heavy reliance on tax

revenues to finance public goods, infrastructure development, and poverty alleviation programs (Fagbemi & Uadiale, 2012; Oboh & Ajibolade, 2018). Persistent evidence, however, indicates that aggressive tax planning by those charged with governance in corporations continues to weaken government fiscal capacity, exacerbate

inequality, and erode public trust in institutions. This challenge persists despite significant reform efforts in Nigeria, including the introduction of the Finance Acts (2019–2023), the strengthening of the Federal Inland Revenue Service (FIRS), and the adoption of global initiatives such as the OECD’s Base Erosion and Profit Shifting (BEPS) framework (Okafor, 2021; Iyoha et al., 2022). Yet, corporate tax avoidance remains pervasive. Empirical studies attribute this persistence to weak enforcement mechanisms, regulatory gaps, and board-level governance failures, which enable firms to

exploit loopholes in the tax system (Anetor et al., 2020; Ogbeide & Akanji, 2023). From the extant literature, several determinants of tax avoidance in emerging economies have been identified and consolidated. These determinants can be broadly categorized into four key domains: firm-specific characteristics, board governance factors, institutional and environmental factors, and individual or behavioural factors. Each of these domains captures critical elements that shape the extent and nature of corporate tax avoidance practices.

Table 3: Consequences of Tax Avoidance Behaviour

Outcomes	Effect of tax avoidance practices	Authors
a. Stock market response	Negative Positive	Hanlon and Slemrod (2009) Blaufus, Mohlmann, and Schwabe (2019), Jia and Gao, 2021
b. Firm value	Increases Declines	Chyz (2013), Guenther <i>et al.</i> (2017), Li <i>et al.</i> (2019), Lim (2011), Wahab and Holland (2012) Park <i>et al.</i> (2016)
c. Earning management	Negative	Putri <i>et al.</i> (2016), Balakrishnan <i>et al.</i> (2019), Susanto, Pirzada and Adrianne (2019)
d. Corporate transparency	Decreases	Balakrishnan <i>et al.</i> (2019)
Source(s): Literature review		

In addition to identifying determinants, numerous studies have examined the effect of tax avoidance on firm value. However, findings across the literature remain inconsistent and, at times, contradictory. While some studies suggest that tax avoidance enhances firm value by improving after-tax earnings and cash flows, others argue that the practice undermines firm value due to increased reputational risks, regulatory scrutiny, and agency conflicts. The contradictory nature of these outcomes highlights the complexity of tax avoidance and underscores the need for a nuanced understanding of the mechanisms and contextual factors that drive these divergent results. These issues are further examined and discussed in the subsequent subsections.

Firm-Specific Determinants

Firm size, profitability, leverage, and asset structure have consistently been linked to tax

avoidance in the various literatures. Large firms typically have more resources and access to sophisticated tax consultants, enabling them to exploit loopholes in tax laws (Rego, 2003; Richardson & Lanis, 2007). However, they are also subject to higher regulatory and public scrutiny, which may constrain overly aggressive tax planning (Lanis & Richardson, 2011). Profitability is another major driver: highly profitable firms often seek to minimize effective tax rates to protect after-tax earnings (Chen et al., 2010). The role of leverage has been emphasized in studies showing that firms with high debt ratios benefit from the tax-deductibility of interest, which substitutes for other avoidance strategies (Graham & Tucker, 2006). Similarly, capital intensity and the nature of assets influence avoidance practices: firms with greater intangible assets can engage in profit shifting through transfer pricing, whereas those with tangible assets rely more on

depreciation allowances (Tang, 2016). Multinational enterprises (MNEs) display stronger incentives and opportunities for tax avoidance. They exploit cross-border transactions, thin capitalization, and tax havens to minimize global tax burdens (Desai, Foley, & Hines, 2006; Hanlon & Heitzman, 2010). Industry affiliation also matters, as firms in extractive industries, banking, and technology often have higher avoidance levels due to regulation loopholes and globalized operations (Taylor & Richardson, 2012).

Corporate Governance Determinants

Board characteristics such as independence, expertise, size, and diversity influence oversight of management's tax strategies (Minnick & Noga, 2010; Lanis & Richardson, 2011). Independent and diverse boards are generally associated with lower levels of aggressive avoidance, as they prioritize ethical and reputational considerations (Francis, Hasan, & Wu, 2013). Family ownership and concentrated shareholding may either mitigate or exacerbate tax avoidance depending on whether controlling owners prioritize long-term reputation or short-term gains (Chen et al., 2010), while foreign ownership has been associated with more aggressive strategies due to the transfer of international practices (Atwood, Drake, Myers, & Myers, 2012). Executive incentives also matter. Equity-based compensation can encourage managers to pursue tax avoidance to increase firm value and share prices (Rego & Wilson, 2012). However, excessive managerial opportunism may lead to tax avoidance strategies that benefit managers at the expense of shareholders (Desai & Dharmapala, 2006).

Institutional and Environmental Determinants

Beyond firm-level attributes, country-specific institutional environments significantly shape avoidance behaviours. The complexity of tax codes and the availability of loopholes create fertile grounds for avoidance (Hanlon & Heitzman, 2010). Regulatory and enforcement quality is equally critical. In countries with weak enforcement capacity, low tax morale, and corruption, avoidance is more prevalent (Richardson, 2006). Conversely, strong legal

systems, investor protections, and the rule of law reduce the scope of aggressive practices (Atwood et al., 2012). For developing countries such as Nigeria, where enforcement capacity is limited, tax avoidance remains pervasive and undermines fiscal stability (Uwuigbe et al., 2018).

Individual and Behavioral Determinants

Managerial and behavioural factors influence tax avoidance decisions. Risk-taking CEOs are more likely to pursue aggressive strategies (Dyreng, Hanlon, & Maydew, 2010), while the same cannot be true for risk-averse CEOs. Ethical orientation and corporate culture further determine whether avoidance is framed as a legitimate financial strategy or as an unethical practice (Lanis & Richardson, 2012). Firms that rely heavily on public goodwill or that operate in industries with high visibility may avoid overly aggressive strategies to protect their legitimacy (Hanlon & Slemrod, 2009). Having said this, we turn to the literature on the effects of tax avoidance on firm values.

Effects of Tax avoidance on firm values

As noted earlier, there are contradictory results on this. There is literature that argues that reducing tax liabilities directly increases after-tax cash flows, which should translate into higher firm value. Desai and Dharmapala (2009) suggest that when managers act in the interest of shareholders, tax avoidance is a legitimate channel for enhancing firm performance and market valuation. This "tax savings hypothesis" holds that effective tax planning provides firms with additional internal funds to invest in growth opportunities or distribute as dividends (Rego, 2003; Chen et al., 2014). Empirical evidence supports this perspective. For example, Wang (2010) finds that firms with higher levels of tax avoidance exhibit higher future profitability and market value, particularly when corporate governance mechanisms are strong. Similarly, Balakrishnan, Blouin, and Guay (2019) argue that tax avoidance can improve capital market outcomes, such as stock returns, when avoidance is transparent and well-aligned with shareholder interests.

On the other hand, tax avoidance can erode firm value through reputational risks, regulatory

penalties, and agency costs. Desai and Dharmapala (2006) posit the “agency cost hypothesis,” which argues that managers may use opaque tax avoidance strategies to conceal rent-seeking or opportunistic behavior, thereby harming shareholders. Tax avoidance can increase the risk of penalties, back taxes, and litigation if authorities challenge aggressive schemes (Hanlon & Heitzman, 2010). Furthermore, tax avoidance may damage a firm’s reputation with stakeholders. Hanlon and Slemrod (2009) document that public announcements of tax shelter involvement are often followed by negative stock market reactions, suggesting that investors view aggressive avoidance as value-reducing. Reputational damage can also weaken customer and employee loyalty, especially in industries with high public visibility (Lanis & Richardson, 2012). Recent research highlights that the relationship between tax avoidance and firm value is conditional on governance quality, disclosure, and institutional environment. Strong governance tends to shift tax avoidance from value-destroying to value-enhancing by reducing managerial opportunism (Minnick & Noga, 2010; Armstrong et al., 2015). In contrast, in weak governance environments—typical of many emerging markets—tax avoidance is often associated with managerial entrenchment and rent extraction (Desai & Dharmapala, 2009). Atwood et al. (2012) find that in countries with strong investor protections and effective legal enforcement, tax avoidance is more likely to increase firm value. In contrast, in environments with weak institutions and poor enforcement, tax avoidance may exacerbate corruption and reduce firm value.

1. Conclusion, Recommendations and Implications of the Study

Tax avoidance is driven by a confluence of firm characteristics, governance structures, institutional contexts, and managerial attributes. While economic incentives such as size, profitability, and tax rates are important, effective governance and strong institutional environments play critical roles in moderating avoidance behaviours. The growing recognition of behavioral and reputational factors highlights that avoidance is not solely an economic decision but also a reflection of ethical and

societal considerations. Our findings have revealed that the effects of tax avoidance on firm value are context-dependent: Under strong governance and institutional quality, tax avoidance can enhance value by lowering tax burdens and increasing cash flows. Under weak governance and high agency costs, tax avoidance can destroy value by enabling managerial opportunism, creating reputational risks, and inviting regulatory sanctions. These findings have both theoretical and policy implications. For regulators and policymakers, it underscores the need for stronger governance mechanisms to mitigate harmful tax avoidance. For practitioners, it highlights the managerial trade-offs embedded in tax planning decisions. For academics, it maps the determinants of tax avoidance, identifies limitations in the existing body of research, and outlines avenues for future inquiry. On the basis of these findings, countries are encouraged to strengthen General anti-avoidance and Specific anti-avoidance rules as well as other specific factors that affect tax avoidance in merging countries.

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