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INVESTIGATING THE RELATIONSHIP BETWEEN CORPORATE OWNERSHIP AND TAX DECISIONS IN TEHRAN STOCK EXCHANGE

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ABSTRACT

This research investigates the relationship between corporate ownership and tax decisions in the companies accepted in Tehran Stock Exchange. The statistical population of research is all the companies accepted in Tehran Stock Exchange, that 85 companies were selected in the time period of 2009 to 2014 for testing research hypotheses. In order to investigate the relationship between variables, four hypotheses were compiled and tested. To analyze the data the multivariate regression model and Eviews software based on mixed data have been used. The research results showed that there is not a significant relationship between the Board of Directors size and tax avoidance and conservatism. In other hypotheses the relationship between family ownership percentage and tax avoidance and conservatism was confirmed. Moreover, in other hypotheses the relationship between the percentage of non-executive members of the Board of Directors and tax conservatism was confirmed, but the relationship between the percentage of non-executive members of the Board of Directors and tax avoidance was not confirmed. Finally, in the last two hypotheses the relationship between the duality of Manager Director's duties and tax avoidance and conservatism has not been confirmed.

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KEY WORDS

Tax Decisions, Corporate Ownership, Tehran Stock Exchange

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INTRODUCTION

Tax payments are among the major costs that people and enterprises bear due to their income-generating activities. As tax payment transmits the wealth from the company and the owners to the government, most of the companies design and perform managerial measures in a way to minimize the company's tax commitments [1]. The theoretical bases and empirical evidences show that the companies are trying to reduce or postpone their income tax. Tax avoidance, tax being bold, tax evasion, interest management, and etc. are the tools that the companies might use to reduce the tax if necessary, depending on the situation [2]. In this research, the phenomena of tax avoidance and tax conservatism as two tools of the companies accepted in Tehran Stock Exchange are investigated. Tax avoidance is actually a kind of using legal gaps in the tax laws to reduce the tax, and there are not generally restrictive laws about tax avoidance control [3]. Tax avoidance can be a tool for storing the tax and reducing the company's costs and consequently increasing stakeholders' wealth [2]. Tax avoidance is performed in the tax laws framework, and the taxpayer does not have any reason for concern to probable discovering of his/her measures. In the tax avoidance, the person is not concerned of revealing his/her action, because he/she has not performed an illegal action, and this factor causes encouraging tax avoidance phenomenon [2]. Conservatism can be regarded as a mechanism to control managers' motivations to report more than real interest and preventing overly opportunistic and optimistic behaviors in offering managers' information as owners' representative [4]. Conservatism in the accounting has a long history. [5] believe that conservatism has impacted on the theory and practice of accounting during the centuries. These researchers know the conservatism when the bad news is reflected more rapidly than good news in accounting reports [5]. Some researchers argued that corporate governance is a factor impacting on the reaction type of company towards companies' tax rate changes. When the government is weak, the tax rate increase results in the companies thinking measures to reduce the tax of enterprise. The companies perform these actions through various methods such as violating the laws, using the legal gaps, and etc. When the corporate governance is strong, the tax rate increase of enterprise can provide the background of acquiring more output for the company [2]. The empirical evidences show that the companies have motivation to reduce the tax, so that by performing conservative accounting save their tax cost. Moreover, investigating the relationship between the difference of diagnostic and definitive tax

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and assertive tax shows that the strategy of reducing the tax by doing conservative accounting used by the companies is also regarded legal by the government, because provided that such a strategy is regarded illegal by the government, the government can determine more tax than the assertive tax for the companies that have taken a conservative approach Seyedi,[6].

MATERIALS AND METHODS

Tax avoidance and conservatism are among the policies that can be used for tax incentives by the companies, and in this regard the corporate governance is one of the factors that can have impact on it [6]. Corporate governance plays important and significant role in performing and implementing tax conservatism. Corporate governance is actually a set of mechanisms that: 1) ensures that the company's assets are used effectively and efficiently; 2) and prevents inappropriate distribution of assets to the managers or other partners at the expense of the rest of stakeholders. Thus, stronger governance results in controlling management better, the accounting data is offered on time, and the possibility of exposing litigation case costs reduces; therefore, it can be proposed that the companies with stronger corporate governance will show higher and more ratio of conservatism [7]. In this respect, a complementary approach believes that the adequate and appropriate governance results in better control and organizing management, and in this regard it is expected that the effective and efficient corporate governance results in performing and implementing conservatism. Two observations existing in the literature support this approach. Firstly, Watts and Watts in 2003 explained that the demand for conservatism is originated from the contractual role of accounting. Ahmad and Duellman in 2007 offered evidences that conservatism helps the managers in reducing company's representative costs [8] Thus, it can be inferred that the demand for conservatism will be higher, provided that the financial reports are prepared and made ready under weaker corporate governance. In investigating the relationship between accounting conservatism and corporate governance, the factors such as company history or age, time period of company's investment cycle, and the standard deviation of daily stock input have important role. With regard to the measurement indicators based on the market and conservative commitment and corporate governance indicators, it can be inferred that the companies with proper governance will participate significantly in higher conservative levels in their financial report activities [9] The potential interests of conservatism accounting in corporate governance indicate positive relationship between corporate governance ability and conservatism[10].

Moreover, the studies on the relationship between corporate governance and tax avoidance have shown that the managers having proper corporate governance will have more motivations for tax avoidance, because the presence of other governance mechanisms prevent managers to extract the rent that is created from their tax avoidance activities. In comparison, the managers with weak and low level corporate governance will not have motivations for aggressive tax avoidance, because the lack of control and monitoring makes possible for these managers to exploit the profits that their aggressive tax planning creates. The executive costs of tax avoidance such as the costs related to structuring complex tax interactions, inability to return and invest foreign incomes and potential and probable political costs are determining and important for the future operations, and if the stakeholders and managers have various priorities for tax avoidance, the corporate governance mechanisms for impacting on managers' tax avoidance decisions will be used [11]. Better corporate governance through increasing organizational ownership should result in unity and better coordination of managers and stakeholders' motivations, and hence it should result in a tax avoidance level that closer to the optimum selection from stakeholders' viewpoint. In fact this relationship with regard to the increase or decrease of effective and efficient tax rates depends on the point that, whether the primary level of investment in tax avoidance is very high or very low [12]. The performed studies in this field have shown that the improvements and progresses in corporate governance result in more tax avoidance that particularly is performed through applying international tax planning strategies. Tax avoidance improves significantly the company's value that this point is only true for the companies with proper corporate governance[11]. It can be said that the corporate governance mechanisms play important and significant role in tax avoidance. Corporate governance of company level, more accurately, the organizational ownership is regarded as important determinants in creating strong motivations in changing decisions and tax avoidance activities. The quality of corporate governance results in impacting of tax avoidance on the company's value; for instance it results in proper results for the companies that have proper corporate governance [13]

Two regression models have been offered for this research. For testing the first, third, fifth, and seventh hypotheses, regression model number 1, and for testing second, fourth, sixth and eighth hypotheses the regression model number 2 are used.

$$TaxAvoidance_{it} = \beta_0 + \beta_1 DUAL_{it} + \beta_2 BSIZE_{it} + \beta_3 BCOM_{it} + \beta_4 ACCOM_{it} + \beta_5 SIZE_{it} + \beta_6 LEVERAGE_{i} + \beta_7 ROA_{it} + \varepsilon_{it}$$

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Number 1

$$TaxConservat_{it} = \beta_0 + \beta_1 DUAL_{it} + \beta_2 BSIZE_{it} + \beta_3 BCOM_{it} + \beta_4 ACCOM_{it} + \beta_5 SIZE_{it} + \beta_6 LEVERAGE_i + \beta_7 ROA_{it} + \varepsilon_{it}$$

Number 2

$DUAL_{it}$ = virtual variable with value one if there is duality, otherwise zero

$BSIZE_{it}$ = Board of Directors size

$BCOM_{it}$ = Percentage of family ownership

$ACCOM_{it}$ = Percentage of non-executive members

$LEVERAGE_i$ =Financial leverage

$SIZE_{it}$ =Company's size

ROA_{it} = Asset output

$TaxAvoidance_{it}$ =Tax avoidance

$TaxConservat_{it}$ = Tax conservatism

RESULTS

The sample under examination was investigated during the time periods of 2009 to 2014. In this part, the mean, median, standard deviation, maxima and minima (dispersion criteria) of used variables have been calculated and have been presented in **Table- 1**.

Table: 1. Descriptive Indicators of Case Study Variables

Research Variables	Mean	Median	Maxima	Minima	Standard Deviation
Tax avoidance	0.104	0.092	0.231	-0.087	0.088
Tax conservatism	-0.041	-0.024	0.72	-0.70	0.31
Duality of CEO duties	0.17	0.21	1	0	0.38
Board of Directors size	5.05	5.5	7	5	0.22
Percentage of family ownership	0.72	0.61	1	0	0.49
Percentage of non-executive members	0.61	0.54	0.8	0.25	0.21
Financial leverage	0.66	0.68	0.98	0.03	0.17
Company's size	5.86	5.78	8.11	4.73	0.61
Asset output	0.15	0.13	0.7	-0.3	0.14

Mean is regarded as the major and most important central indicator that indicates the balance point and is the gravity center of distribution. The median is a point that divides one sample into two equal parts. In other word, 50 percent of observations are located before and 50 percent of observations are located after it, as it has been shown in **Table-1**. In general, dispersion criteria are the criteria that investigate and compare the dispersion of observations around the mean.

DISCUSSION

Test of Sub-Hypothesis H1a

Hypothesis: There is a significant relationship between the Board of Directors size and tax avoidance.

ISSN: 0976-3104

With regard to the results of **Table- 2**, since the t-statistics of the Board of Directors size variable is smaller than 1.965, and its significance level is greater than 0.05, hence there is not a significant relationship between the Board of Directors size and tax avoidance. Considering that the significance level of F-statistics is obtained greater than 5 percent, so the assumption of the linearity of model and its significance is accepted. The Durbin-Watson value that is the statistics of autocorrelation existence in the disruption component of model with the score 1.745 also shows the lack of correlation between the errors.

Table: 2. Results of Sub-Hypothesis H1a Test

Variable	Coefficients	Standard Deviation	T-Statistics	Significance Level
Constant value	0.342	0.089	3.789	0.000
Board of Directors size	0.051	0.084	1.663	0.457
Financial leverage	-0.084	0.071	-2.742	0.034
Company's size	-0.019	0.086	-3.029	0.000
Asset output	-0.164	0.074	-5.664	0.000
F-statistics		24.218	Determinant coefficient	0.412
Significance level of F-statistics		0.000	Adjusted determinant coefficient	0.406
EGLS method			Durbin-Watson value	1.745

Test of Sub-Hypothesis H1b

Hypothesis: There is a significant relationship between the Board of Directors size and tax conservatism.

With regard to the results of **Table- 3**, since the t-statistics of the Board of Directors size variable is smaller than 1.965, and its significance level is greater than 0.05, hence there is not a significant relationship between the Board of Directors size and tax conservatism. Considering that the significance level of F-statistics has been obtained greater than 5 percent, so the assumption of the linearity of model and its significance is accepted. The Durbin-Watson value that is the statistics of autocorrelation existence in the disruption component of model with the score 1.745 also shows the lack of correlation between the

Table: 3.Results of Sub-Hypothesis H1b Test

Variable	Coefficients	Standard Deviation	T-Statistics	Significance Level
Constant value	0.278	0.082	2.663	0.000
Board of Directors size	0.033	0.072	1.009	0.684
Financial leverage	-0.112	0.096	-3.656	0.000
Company's size	-0.027	0.066	-3.374	0.000
Asset output	-0.188	0.084	-6.012	0.000
F-statistics		27.231	Determinant coefficient	0.488
Significance level of F-statistics		0.000	Adjusted determinant coefficient	0.481
EGLS method			Durbin-Watson value	1.995

Test of Sub-Hypothesis H2a

Hypothesis: There is a significant relationship between the percentage of family ownership and tax avoidance. With regard to the results of **Table- 4**, since the t-statistics of the percentage of family ownership variable is greater than 1.965, and its significance level is smaller than 0.05, hence there is a significant relationship between the percentage of family ownership and tax avoidance. Considering that the significance level of F-statistics has been obtained greater than 5 percent, so the assumption of the linearity of model and its significance is accepted. The Durbin-Watson value that is the statistics of autocorrelation existence in the disruption component of model with the score 2.067 also shows the lack of correlation between the errors.

Table: 4. Results of Sub-Hypothesis H2a Test

Variable	Coefficients	Standard Deviation	T-Statistics	Significance Level
Constant value	0.279	0.094	3.344	0.000
Percentage of family ownership	0.099	0.071	2.497	0.009
Financial leverage	-0.079	0.088	-2.463	0.000
Company's size	-0.031	0.076	-1.998	0.027
Asset output	-0.214	0.094	-7.784	0.000
F-statistics		46.232	Determinant coefficient	0.589
Significance level of F-statistics		0.000	Adjusted determinant coefficient	0.583
EGLS method			Durbin-Watson value	2.067

Test of Sub-Hypothesis H2b

Hypothesis: There is a significant relationship between the percentage of family ownership and tax conservatism. With regard to the results of **Table- 5**, since the t-statistics of the percentage of family ownership variable is greater than 1.965, and its significance level is smaller than 0.05, hence there is a significant relationship between the percentage of family ownership and tax avoidance. Considering that the significance level of F-statistics has been obtained greater than 5 percent, so the assumption of the linearity of model and its significance is accepted. The Durbin-Watson value that is the statistics of autocorrelation existence in the disruption component of model with the score 1.995 also shows the lack of correlation between the errors.

Table: 5. Results of Sub-Hypothesis H2b Test

Variable	Coefficients	Standard Deviation	T-Statistics	Significance Level
Constant value	0.263	0.089	2.978	0.000
Percentage of family ownership	0.081	0.077	2.374	0.018
Financial leverage	-0.048	0.96	-1.991	0.044
Company's size	-0.22	0.81	-2.069	0.011
Asset output	-0.308	0.077	-5.291	0.000
F-statistics		29.074	Determinant coefficient	0.499
Significance level of F-statistics		0.000	Adjusted determinant coefficient	0.491
EGLS method			Durbin-Watson value	1.995

Test of Sub-Hypothesis H3a

Hypothesis: There is a significant relationship between the percentage of non-executive members of the Board of Directors and tax avoidance.

With regard to the results of **Table- 6**, since the t-statistics of the percentage of non-executive members of the Board of Directors variable is smaller than 1.965, and its significance level is greater than 0.05, hence there is not a significant relationship between the percentage of non-executive members of the Board of Directors and tax avoidance. Considering that the significance level of F-statistics has been obtained greater than 5 percent, so the assumption of the linearity of model and its significance is accepted. The Durbin-Watson value that is the statistics of autocorrelation existence in the disruption component of model with the score 2.018 also shows the lack of correlation between the errors.

Test of Sub-Hypothesis H3b

Hypothesis: There is a significant relationship between the percentage of non-executive members of the Board of Directors and tax conservatism.

THE IIOAB JOURNAL ISSN: 0976-3104

With regard to the results of **Table- 7**, since the t-statistics of the percentage of non-executive members of the Board of Directors variable is greater than -1.965, and its significance level is smaller than 0.05, hence there is a significant relationship between the percentage of non-executive members of the Board of Directors and tax avoidance. Considering that the significance level of F-statistics has been obtained greater than 5 percent, so the assumption of the linearity of model and its significance is accepted. The Durbin-Watson value that is the statistics of autocorrelation existence in the disruption component of model with the score 2.221 also shows the lack of correlation between the errors.

Table: 6. Results of Sub-Hypothesis H3a Test

Variable	Coefficients	Standard Deviation	T-Statistics	Significance Level
Constant value	0.199	0.092	1.996	0.000
Percentage of non-executive members of the Board of Directors	-0.028	0.083	-1.374	0.121
Financial leverage	-0.041	0.091	-2.431	0.009
Company's size	-0.304	0.086	-4.001	0.000
Asset output	-0.474	0.067	-7.096	0.000
F-statistics		26.212	Determinant coefficient	0.512
Significance level of F-statistics		0.000	Adjusted determinant coefficient	0.501
EGLS method			Durbin-Watson value	2.018

Table: 7. Results of Sub-Hypothesis H3b Test

Variable	Coefficients	Standard Deviation	T-Statistics	Significance Level
Constant value	0.548	0.088	4.599	0.000
Percentage of non-executive members of the Board of Directors	-0.217	0.091	-3.225	0.000
Financial leverage	-0.088	0.074	-4.279	0.000
Company's size	-0.221	0.089	-3.886	0.000
Asset output	-0.339	0.078	-5.096	0.000
F-statistics		22.213	Determinant coefficient	0.485
Significance level of F-statistics		0.000	Adjusted determinant coefficient	0.479
EGLS method			Durbin-Watson value	2.221

Test of Sub-Hypothesis H4a

Hypothesis: There is a significant relationship between the separation of Managing Director post and the president of Board of Directors and tax avoidance.

With regard to the results of **Table- 8**, since the t-statistics of the separation of Managing Director post and the president of Board of Directors is smaller than 1.965, and its significance level is greater than 0.05, hence there is not a significant relationship between the separation of the Managing Director post and the president of Board of Directors and tax avoidance. Considering that the significance level of F-statistics has been obtained greater than 5 percent, so the assumption of the linearity of model and its significance is accepted. The Durbin-Watson value that is the statistics of autocorrelation existence in the disruption component of model with the score 1.889 also shows the lack of correlation between the errors.

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Table: 8. Results of Sub-Hypothesis H4a Test

Variable	Coefficients	Standard Deviation	T-Statistics	Significance Level
Constant value	0.299	0.070	2.019	0.000
The separation of Managing Director post and the president of Board of Directors	0.003	0.099	0.523	0.865
Financial leverage	-0.037	0.074	-2.141	0.008
Company's size	-0.127	0.091	-2.278	0.000
Asset output	-0.401	0.089	-8.213	0.000
F-statistics		21.27	Determinant coefficient	0.587
Significance level of F-statistics		0.000	Adjusted determinant coefficient	0.579
EGLS method			Durbin-Watson value	1.889

Test of Sub-Hypothesis H4b

Hypothesis: There is a significant relationship between the separation of Managing Director post and the president of Board of Directors and tax conservatism.

With regard to the results of **Table- 9**, since the t-statistics of the separation of Managing Director post and the president of Board of Directors is smaller than 1.965, and its significance level is greater than 0.05, hence there is not a significant relationship between the separation of Managing Director post and the president of Board of Directors and tax avoidance. Considering that the significance level of F-statistics has been obtained greater than 5 percent, so the assumption of the linearity of model and its significance is accepted. The Durbin-Watson value that is the statistics of autocorrelation existence in the disruption component of model with the score 2.002 also shows the lack of correlation between the errors.

Table: 9.Results of Sub-Hypothesis H4b Test

Variable	Coefficients	Standard Deviation	T-Statistics	Significance Level
Constant value	0.329	0.084	2.897	0.000
The separation of Managing Director post and the president of Board of Directors	0.037	0.094	1.741	0.099
Financial leverage	-0.029	0.088	-1.978	0.045
Company's size	-0.222	0.081	-4.309	0.000
Asset output	-0.388	0.091	-7.023	0.000
F-statistics		34.213	Determinant coefficient	0.551
Significance level of F-statistics		0.000	Adjusted determinant coefficient	0.546
EGLS method			Durbin-Watson value	2.002

CONCLUSION

The tax is a cost imposed by the government on all profit units that somehow generate income. Provided that the companies and legal entities are regarded as units that perform activity in respect of acquiring benefit and interest, it can be expected that they seek solutions to reduce their payable tax. In financial literature in the foreign countries, the legal endeavors and solutions of companies for reducing the cost of tax are recognized by different names such as tax management, tax payment avoidance and bold tax procedure. The activities of avoiding tax payment are commonly referred to the tools of saving tax that transfer the resources from the government to the stakeholders and hence increase the value of company after the tax. The result of investigating 85 companies accepted in Tehran Stock Exchange indicates that there is not a significant relationship between all corporate governance dimensions and tax avoidance and tax conservatism, although according to the theoretical framework it was expected that a significant relationship existed between all corporate governance dimensions and tax avoidance and tax conservatism. Regarding the research literature investigation, it can be claimed that the government is more willing to receive the tax more than the assertive tax from the companies that use tax avoidance, and recognizes more tax for this group of companies. Thus, in such conditions the tax avoidance and tax conservatism might not be an efficient measure to reduce the real tax, and perhaps this is the reason that the companies that intend to reduce the tax turn to other solutions such as interest management, tax evasion, and etc. Additionally, the market and other groups might also show negative reaction to the companies that perform tax avoidance measures, and these measures create negative reputation for the company. Moreover, some researches show that the tax increases conservatism motivation in the companies, and on the other hand the government also regards the conservatism of companies as permitted procedures and by disposing tax more than assertive tax does not penalize conservative companies; thus the companies have the motivation to postpone their tax by conservative accounting actions. With regard to the results obtained from research, some suggestions are offered as follows:

- The managers and decision makers while regarding the long term horizon view, are recommended to consider the probable impact and consequences of each one of tax policies. The investors while regarding the tax strategies and planning of companies, are also recommended to consider the related probable consequences on cash flows and the future performance of companies, and consider the related data in their decision making model.

- The decision makers and users are recommended to consider tax avoidance and conservatism aspects in their decisions about tax reduction, and regard other consequences raised from each one of these strategies.

- Considering the role of non-executive managers in strengthening the effectiveness of Board of Directors' performance, it is suggested to consider this important point more and by offering solutions the role of non-executive managers in the Board of Directors composition is strengthened, because this factor can minimize taking improper tax decisions and policies. Or considering the point that the accounting literature shows that the existence of non-executive managers has constructive role in improving all financial reporting. Cases such as long term membership of non-executive managers in the Board of Directors composition might damage their dependency and reduce their effectiveness, that in this respect the companies accepted in the Stock Exchange should care more. The non-executive managers, due to the lack of executive posts have more independence than the executive managers. So, when the independency of the Board of Directors increases, it is likely that the manipulation ratio in real activities such as sale, arbitrary costs, and operational activities, and particularly improper tax policies reduce. According to the representative theory there is a contradiction of interests between the managers and owners in the organization, and hence the existence of non-executive managers in the Board of Directors composition is in this respect important that their interests do not contradict with the company's interests, therefore they can perform more effective monitoring role and judge impartially and with a professional vision about the managers' decision makings.

CONFLICT OF INTEREST

Authors declare no conflict of interest.

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