Assessing the Relationship between the Foreign Investment and the Tax Evasion in the Listed Firms on the Tehran Stock Exchange (TSE)

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Received: 19th Jan 2017, Accepted: 25th Jan 2017, Published: 15th April 2017

Abstract
The present research is aimed to explore the relationship between the foreign investment and the tax evasion in the listed firms on the Tehran stock exchange (TSE). The research has been carried out between 2011 and 2015 in the listed firms on the Tehran stock exchange. Here, the foreign investment and the tax evasion were considered as independent variable and dependant variable, respectively. It is classed as an applied research. If researches are classified by the nature and method, so the present search method according to the nature is classed as a descriptive one and based on the method is categorized as a correlation one. The library method was utilized in this research. The research data were collected from the sample firms’ data by recourse to their financial statements, descriptive notes and the stock exchange journal. According to the systematic write off method, 81 firms were selected as the statistical sample. To describe and summarize the collected data the descriptive and inferred statistics have been used. To analyze the data some pretests such as variance anomaly, Lymer F-test, Hasmen test and the Jark-Bera test were conducted firstly, then the multiple regression test (Eviews software) was exploited to confirm or deny research hypotheses. Results demonstrated a meaningful relationship between the foreign investment and the tax evasion in listed firms on the Tehran stock exchange. Equally, there is a significant difference between the foreign investment and the tax evasion in big and small firms.

Key Words: Foreign investment, tax evasion, Tehran stock exchange

Introduction
Some researchers such as Chen et al, 2010; Desai and Dharmapala 2006; in the framework of the agency theory found that tax evasion activities provides managers with opportunism contexts, among these opportunistic activities the process of the profit manipulation and resource deviations can be mentioned (Desai & Dharmapala, 2006). Legal gaps in the taxation act were noted in another definition as transactions and circumstances in a definite period of time in order to use tax benefits in which people are seeking to find leeway and legal abuse of the taxation act to decrease their payable tax.

In Dyreng et al (2007) work the tax avoidance means the firm capacity for paying less tax amount in the long period of time and its measure named as the long-term effectual tax rate.

In their research, they emphasize the point that the tax avoidance (the low effective tax rate), does not necessarily mean as an illegal act; because there are several cases in the law that allow firms or encourage them to decrease their tax, and there are ambiguous cases especially in the complex transactions (Aron et al,2012).

Among effectual economic factors to attract direct foreign investment, tax incentives in the host countries can be mentioned. Accordingly, tax incentives by considering different tax rates in host countries will cause to affect the direct foreign investment in these countries. Under this situation, if the host country government in order to compensate tax losses paid by foreign investors offers them a tax discount, it would be anticipated that the amount of direct foreign investment increases there.

Salihu et al, (2015) proceeded to examine whether there is a relationship between the foreign investment and the tax evasion in the listed firms on the Malaysia stock exchange. According to carried out analysis, findings demonstrated that there is a meaningful relationship between the foreign investment and the tax evasion. Given the mentioned subjects, we are seeking to find a proper answer for these questions that whether there is a meaningful relationship between the foreign investment and the tax evasion in the listed firms on the Tehran stock exchange, or not?

It is hope that this answer can be work for investors, managers, stockholders and other beneficial groups.

The research literature
Tax evasion
Albert Boqzyan stated that: we have inherited the tax evasion from the past. Since the government and the tax office have not urged tax payers to give over doing this habit, so the trend is continuing yet. Also, he added: according to the historical trend,
the government does not have sheer perseverance to foster a culture of paying tax because the government depends upon oil and the budget deficit balances through oil earnings. This economist by declaring that tax auditors as well as tax payers know about tax evasion ways, said, yet given the social deprivation no one desire to stop tax avoidance. Also he expressed that: tax debits are not only related to people, but also public companies and even the central bank are owed to the tax office and the government does not try to catch accrued liabilities. Therefore, when state firms which are considered as a part of the government don’t feel obligated to pay their tax timely, how can you expect people to do? (Darabi et al; 2013).

Key factors in the tax evasion
Key factors in the tax evasion are as follow:
1. Lack of a proper understanding and the importance of tax necessity and its role in the economy.
2. Lack of a good interpretation of a mechanized system to trace, understand and collecting data related to individual’s earnings.
3. Lack of reliance and a mutual understanding between internal revenue agents and tax payers.
4. Discriminating between tax payers to identify tax (not to give true information to the taxation system).
5. High taxation rates (Shabahang, 2005).
6. Tax evasions are divided into two wide groups:
7. A) Taxation tricks (a law-based method: it means a tax payer tries to decrease their tax through legal terms and available tax loopholes without departure from the law apparently).
B) Tax evasion, the second method is used by those who make attempt to not to pay their tax through deceiving or illegal acts. For example, they have two different books of account to record transactions, one of them for themselves in which costs and earnings are shown correctly, and the second one is presented to internal revenue agents for calculating their tax, also in the case of cash transactions and cash payments for buying goods and services which are not recorded in the second book of account, it will complicate internal revenue agents work to trace and to discover them (Safari, 2006).

Tax avoidance and tax evasion
The difference between the tax evasion and the tax avoidance is related to the legality or illegality behavior of tax payers. The tax evasion is a kind of contravention. When a tax payer refuses to give an accurate account of their taxable income form their own work or capital, an illegal act is done that keeps them far from state and taxation authorities. But in the tax avoidance, the individual is not concern about exposing their action. The tax avoidance is resulted from legal gaps in the taxation law (Dezh, 2011). Various studies demonstrate that the most common contexts of the tax evasion are as follow:
1. Lack of expansion of the taxation culture in the society: the taxation culture is an assortment of individuals’ point of view, insight and reaction towards the taxation system. On the other word, the point of view, insight, deduction, aspirations, social values, current laws, education level and awareness are among factors which shape the taxation culture (Darabi et al; 2013).
2. Lack of full exchange of information and nonexistence of a supervision system and a regular follow-up to levy a tax.
3. Assessing the jeopardy and weakness in its administrating.
4. Refusing to submit tax returns and the weakness of administrating assurances: different reasons will lead to not to submit the tax return. If the tax payer records their tax return with delay, the best eventualities are provided to not to submit the tax return and so it will lead to the tax evasion. And this is the most common reason. Another reason is that internal revenue agents do not severely punish tax payers for doing this and it is likely due to lack of their familiarity and nonexistence of full control of them over taxation acts and inadequate skills for the fulfillment of taxation acts.
5. Delay in levy a tax (Darabi et al; 2013).

Foreign investment
The direct foreign investment is usually promoted through investment in the production, manufacturing and exploiting raw materials and countries accept it to fill out the available gap between national savings and investment, achieving technical knowledge and removing currency straits. The World Trade Organization defines the direct investment as follow: when an investor who inhabits in a country (home country) buys a property from another country (host country) to manage it. The FDI occurs (Dadkhah, 2013).
1. The general foreign investment
The general foreign investment is predicated upon an investment which is made by governments or international institutes, and some of developing plans or commercial activities related to country’s economical life are invested by the government (Dadkhah, 2013).
2. The private foreign investment
The private investment is considered as an important foreign investment. In the west industrial countries, the foreign investment composes a main part of accomplished investments in abroad. Equally, in the developing countries, there is an urgent need for growing stream of the private investment. The main goal of people or private firms of investing abroad is to make a profit. Earning a profit separates the foreign investment from other forms of foreign financing (Imam, 2011).

Foreign investment and tax avoidance
Indeed, levy tax on many firms in not only for compensating cost, because by levy a tax on firms liquidity will change, that after compensating costs it is the most important reason to levy tax. In fact, tax avoidance needs a minimum level of firm’s complexity. In tax avoidance, tax payers are not concern about the possibility of disclosure, because they necessarily record all their transactions in detail but in a fake mode. Indeed, economic factors using legal loopholes and the revision of economical decisions try to decrease their tax liability. Since tax avoidance is seemingly a legal activity, therefore is considered more than tax evasion. Given tax paid by people and firms are spent by the government, so taxpayers are so sensitive about how the government spends that money. People watch the government expenditures carefully, and if they believe that the government spends carefully and in favor of people, so it will lead to their reliance (Pajouyan & Eskandari, 2011). In parallel to the relationship between foreign investment and tax evasion; Sadeghi (2014) showed tax rate has a negative and meaningful impact on direct foreign investment and neighborhood effects between countries are also confirmed.

Salihu et al (2015) examined the relationship between foreign investment and tax evasion in listed firms on the Malaysia stock exchange. According to accomplished analyses results implies that there is a meaningful and positive relationship between foreign investment and tax evasion. Bradshaw et al (2014) demonstrated shareholders are benefited from tax evasion. The results indicated that foreign investment reduces tax evasion in firms. The less income taxes rate is, the less tax evasion occurs. In addition, the government makes tax decisions to control shareholders and tax is considered as a cost for them, equally, findings are conformed to the impact of the ownership structure on tax evasion. Jian et al (2012) found a there is a meaningful relationship between tax evasion and foreign investment.

Research Hypotheses
1. There is a meaningful relationship between foreign investment and tax evasion in listed firms on the Tehran stock exchange.
2. There is a meaningful relationship between foreign investment and tax evasion in big and small firms.

Research Methodology
Since the present study is aimed to examine the available situations, so it is a descriptive research based on the method and according to the purpose it is an applied one because research results can be administrated in the study area. Given in this study the relationships among variables are examined, so hypotheses are tested using the regression model. The research statistical society is comprised of listed firms on the Tehran stock exchange during 2011 to 2015. The statistical sample was composed of 81 firms.

The present regression model derived from the research of salihu et al (2015) as follows:

\[ TA_i = \alpha_0 + \alpha_1 \text{Foreign}_{i,t} + \alpha_2 \text{SIZE}_{i,t} + \alpha_3 \text{Profit}_{i,t} + \alpha_4 \text{Lev}_{i,t} + \varepsilon_{i,t} \]

Data analysis
The first hypothesis
H0: there is not a meaningful relationship between foreign investment and tax evasion in listed firms on the Tehran stock exchange.
H1: there is a meaningful relationship between foreign investment and tax evasion in listed firms on the Tehran stock exchange.

Table 1: regression test and the first hypothesis model
According to table-1, Durbin-Watson statistic is 2.18 that show there is no correlation in errors. Because it lies between 1.5 and 2.5. The Tempered coefficient of determination is 0.54, which demonstrates independent and control variables in the present model can predicate 54% of changes related to the dependant variable (tax evasion). Since the F-statistic is meaningful in the 1% error level, it can be said that, the research model is statistically meaningful and appropriate. Conjectural coefficient of the foreign investment variable to tax evasion equals -0.575, which shows there is a negative and indirect relationship between foreign investment and tax evasion. It manes by increasing the foreign investment level in firms tax evasion decreases. The effect of company size as a control variable on tax evasion is positive. Other control variables such as financial lever and profitability do not have any impact on tax evasion because of being higher than 5% possibility level. Finally, since in the present research the significance level of t-statistic of the independent variable is lower than the 5% error level, therefore, the existence of a negative and meaningful relationship between foreign investment and tax evasion in listed firms on the Tehran stock exchange is confirmed at 95% confidence level.

The second hypothesis
H0: there is not a significant difference between foreign investment and tax evasion in listed firms on the Tehran stock exchange.
H1: there is a significant difference between foreign investment and tax evasion in listed firms on the Tehran stock exchange.

\[ \text{TA}_t = 0.882 - 0.575\text{Foreign}_{t} + 0.063\text{SIZE}_{t} + 0.161\text{Profit}_{t} - 0.155\text{Lev}_{t} + \epsilon_{t} \]
0.775, which demonstrates there is a negative and indirect relationship between foreign investments and tax evasion. It means big firms by increasing foreign investment will have a lower level of tax evasion. The impact of company size as a control variable on tax evasion is positive. Since control variables such as financial lever and profitability have 5% possibility level, so they have no effect on tax evasion. Finally, since the significance level of t-statistic of the research independent variable is lower than 5% error level, therefore, the existence of a negative and meaningful relationship between foreign investment and tax evasion in big firms is confirmed at 95% confidence level. Finally, given the conjectural coefficients of foreign investment on tax evasion in big and small firms are different and meaningful, so the null hypothesis is denied and the first hypothesis is accepted instead, hence, it can be stated that there is a meaningful difference between foreign investment and tax evasion in big and small firms. Consequently, in big firms compared to small-sized ones, foreign investment has a significant impact on tax evasion.

Discussion and conclusion
The first hypothesis
The result of testing research hypothesis demonstrated that there is a meaningful relationship between foreign investment and tax evasion in listed firms on the Tehran stock exchange. It means increased foreign investment will reduce tax evasion. Hence, Jian et al; (2015) examined the relationship between foreign investment and tax evasion in listed firms on the China stock exchange. They found that there is a meaningful relationship between tax evasion and foreign investment. Salihu et al 2015; examined the relationship between foreign investors and tax evasion in listed firms on the Malaysia stock exchange. According to accomplished analyses, results showed that there is a meaningful difference between foreign investment and tax evasion in big and small firms. Consequently, in big firms compared to small-sized ones, foreign investment has a significant impact on tax evasion.

The second hypothesis
The result of testing the research hypothesis demonstrated that there is a meaningful difference between foreign investment and tax evasion in big and small firms. So, in large companies in comparison to small ones, the foreign investment has a big effect on the tax evasion. Consequently, Anwar et al; (2014) examined the relationship between the ownership structure, the corporate governance and the tax evasion in listed firms on the Malaysia stock exchange. The present study was aimed to offer a model to estimate this relationship. According to obtained benefits and costs of tax evasion activities, research results implies that, there is a meaningful correlation between domestic, foreign and governmental ownerships with tax evasion activities in listed firms on the Malaysia stock exchange. Salihu et al. (2015) examined the relationship between the foreign investment and tax evasion in listed firms on the Malaysia stock exchange. Given to accomplished analyses, results showed that there is a meaningful and direct relationship between foreign investment and tax evasion.

Suggestions
1. According to the result of the first hypothesis, there is a meaningful relationship between foreign investment and the tax evasion in listed firms on the Tehran Stock Exchange. Investors, stockholders and other beneficial groups are suggested to invest in firms with higher levels of the foreign investment, because the tax evasion in those is less than other firms and they are considered as a good option for investment.
2. Given the result of the second hypothesis, there is a meaningful difference between foreign investment and tax evasion in big and small firms. The stock exchange is offered to classify firms according to their size and tax evasion, through which investors, stockholders and other beneficial groups can decide carefully when they are going to buy or sell a share; therefore they can reduce their investment risk.

References