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Research Article

CORPORATE GOVERNANCE AND TAXATION: THE NEED FOR A SPECIFIC MODEL

Carvalho, H.L.M*

Department of Accounting, University of Uberlândia, Minas Gerais State, Brazil

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ABSTRACT

The objective of this study is to discuss the need to obtain a specific model of governance related to taxation. The basis for conducting the research is the fact that there is no specific model of governance that will serve as a foundation for firms to implement the system or governments require a corporate structure that includes effective management of the elements related to taxation. As a methodological basis, the data on governance reported by the World Bank and data from the Tax Justice Network on tax evasion of the country were used. The time cut was the year 2013, due to the availability of data to perform the comparative basis of this research. Thus, it can be concluded that current models of corporate governance do not exaggerate obscured tax evasions, which supports the need to obtain a specific governance model for taxation and their particular relationship.

INTRODUCTION

According to the Organization for Economic Cooperation and Development (OECD) corporate governance can be conceptualized as "a set of relationships between the company's management, its shareholders, creditors and other stakeholders, providing the structure by which the company's objectives are established "(OECD, 2017, p.12).

One of the main purposes of corporate governance is to preserve the value of the organization with information control and disclosure policies. The improvement of internal controls will maximize the reliability of accounting information, compliance with regulations and compliance with legislation. It is possible to characterize corporate governance as a system composed of practices, procedures, rules, policies, customs and norms to be adopted by organizations. This system will guide the administration and control of the companies, resulting in a better performance in the future. The implementation of these practices will provide the company with greater transparency, resulting in a more responsible work and increasing its reliability, credibility and tranquility towards the agents involved.

Thus, the Accounting approach, which was usually the analysis of the financial statements, has been substituted for the understanding of the risk of the business and the control environment of the company. The models or principles of corporate governance, based on agency problems, although more mature and whose general purpose is to increase firm compliance (OECD, 2017), cannot provide answers that can be observed in terms of improvement of the tax aspect, either for the organization's own objectives or for government objectives. This is because the basic models of governance do not only involve the size of the agency, but three others: stakeholder model, stewardship model, and the political model (TURNBULL, 1997). Thus, it can be seen that several mechanisms can be invoked to explain the different deviations that exist in firms, despite the existing governance models. Therefore, the existence of these deviations suggests that there is not a complete explanation of their occurrences only by the theoretical assumptions of the agency, as mentioned by Donaldson and Davis (1991).

In the particular case of this work, only the taxation aspect will be considered in relation to the governance environment. This relationship can be seen from data presented by Tax Justice Network on tax evasion in countries, compared with the governance indicators also published by the World Bank (2017). The comparative analysis of evasion and governance shows that there is no direct and inversely proportional and significant relationship between levels of governance and avoidance, as might be expected, given the underlying assumptions of good governance practices.

Thus, the treatment of the tax aspect in conjunction with the general elements of corporate governance does not seem to demonstrate what is really desired in terms of compliance,

Corresponding author:* **Carvalho, H.L.M
Department of Accounting, University of Uberlândia, Minas Gerais State, Brazil

which is why there is a real and observable need for a specific conceptual framework of tax governance.

In addition, in terms of a theoretical platform, the study of governance has been used from the seminal bases of the institutional theory, contractual theory of the firm, and its derivation, the agency theory, which is the one that dominates the epistemological view of governance research, as mention Campos, Diniz and Martins (2011) and Nicholson and Kiel (2007).

Therefore, the present research will focus on verifying and indicating the construction of a governance model that contemplates the elements of the two-dimensional relationship faced by taxation, based on a non-traditional theoretical support, unlike the governance research that predominantly tests hypotheses derived from Theory in Finance (CAMPOS, DINIZ and MARTINS, 2011).

MATERIALS AND METHODS

Location and duration of study

This study was conducted at the University of Uberlândia, Brazil, using data from the World Bank related to the level of governance and tax evasion in 14 countries. The data were structured in Tables 1 and 2 below.

Table 1 shows the avoidance ranking and the corresponding percentage of evasion in relation to each country's PIB. Russia and Brazil lead the eviction indicators, while the USA and China, are in the last places of this sample of 14 countries.

Table 1 Index Tax Evasion

Countries	Index	% Tax Evasion of PIB
Russian Federation	1	14,2
Brazil	2	13,4
Italy	3	11,6
Spain	4	7,6
Turkey	5	7,3
Korea, Rep.	6	7,1
France	7	6,6
Argentina	8	6,5
Germany	9	6,4
United Kingdom	10	4,8
Japan	11	3,1
Mexico	12	2,4
United States	13	2,3
China	14	2,2

Table 2 shows the governance data of the selected countries. As Germany and the United Kingdom lead this question, with Russia and China being the worst.

Table 2 Index Governance

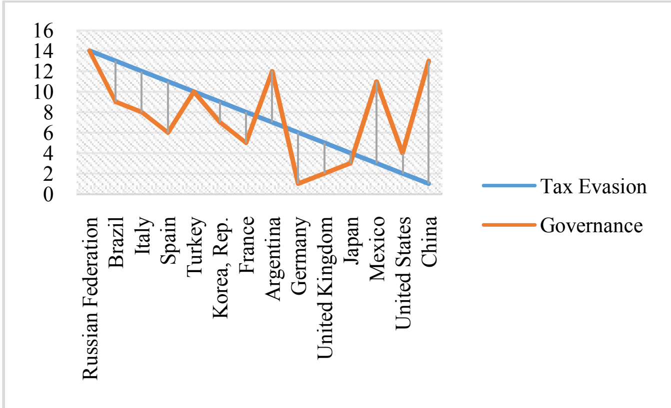
Countries	Index	Governance Indicator
Russian Federation	14	-0,71
Brazil	9	0,00
Italy	8	0,52
Spain	6	0,84
Turkey	10	-0,09
Korea, Rep.	7	0,78
France	5	1,18
Argentina	12	-0,34
Germany	1	1,48
United Kingdom	2	1,41
Japan	3	1,33
Mexico	11	-0,14
United States	4	1,23
China	13	-0,56

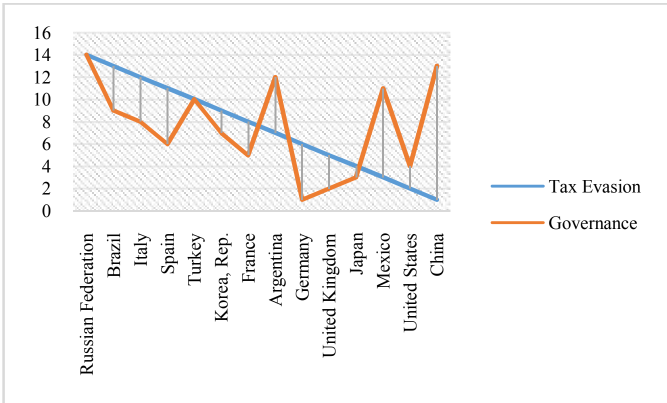
Statistical Correlation

To analyze the possible existence of correlation between the data, a statistical analysis was done, in order to verify the strength of the association between governance and fiscal evasion. For that, MS Excel software was used as a calculation tool.

RESULTS

Relation between evasion and governance





Graph 1 Graphical behavior of evasion in relation to Governance

The Graph 1 shows the behavior between evasion and governance, so that there is no evidence that there is no direct and inversely proportional and significant relation between levels of governance and avoidance, as one might expect, given the underlying assumptions of good governance practices.

Statistically, the R^2 of the variables analyzed was 0.1037 proving that the strength of the correlation between governance and avoidance is weak.

DISCUSSION

Governance contributes as it provides management with more transparency, accountability and compliance to improve management and, consequently, firm results. When it comes to the taxation aspect, organizations have a double responsibility: planning for disbursements and fulfilling their legal obligations to the state and society.

Governments, for their part, also have two responsibilities: to raise resources that serve to supply public services and promote economic and social development.

With this in mind, beyond the conflict of interest in collecting the maximum (Governments) and collecting less (Companies), there is a common point of synergy: financing a better society and business continuity.

This common interest is what we can call the two-dimensional character of taxation that traditional governance models cannot explain. As could be seen in the results, it was to be expected that countries with better governance indices would have lower ranking in tax evasion. This is because, governance structures are implemented, among other functions, to ensure compliance with rules to which firms are subject, as is the case of tax rules. The dominance of the assumptions of agency theory in governance studies is grounded in so-called agency problems, evidenced by the conflict of interests between agent and principal (FAMA, JENSEN, 1983). However, this assumption cannot explain all organizational occurrences, since there are other models of performance not based on this conflict of interest, but rather on other non-financial factors, explained by organizational psychology and sociology, in which there is the presence of convincing based on the mutual interest of achieving results and performance accountability, rather than a vision limited to conflicts of interest (DONALDSON and DAVIS, 1991).

This assumption is supported by the so-called Stewardship Theory, as described by Barney (1990) and Donaldson (1990). In this way, the possible explanations for existing organizational relationships are expanded, so that the agency's assumptions begin to have an important complement, in search of the causal mechanisms that underpin governance studies. In this line, Gjesdal (1981) indicates that there is a connection between the problem of information agency and the models supported by the Stewardship Theory, since the relations between agent and principal, besides the possible conflicts of interest, have characteristics of the assumptions of Theory Stewardship.

The aspect of bidimensionality can be observed at a time when the particular choice of a firm, such as its management model, despite its interactions, serves itself and another entity of a different nature, in this case governments. Thus, tax governance involves both the size of private organizations and the public dimension, a fact not described by any previous theoretical basis, not even by the so-called Stakeholders Theory, whose presupposition involves the implementation of governance practices aiming to have an action accountability to its various Stakeholders. However, when it comes to the tax aspect, this responsibility does not seem to be observed, given the high levels of tax evasion observed by the OECD (2009) and the World Bank (2017).

With the results obtained, statistical and graphical, it is noticed that the traditional models of governance should reveal a better environment of tax control, in which countries with better governance indexer had a lower rate of tax evasion. However, this was not observed. Alemanda, for example, has the highest governance ranking, but is ranked 9th in evasion, when it was expected to be one of the first nations. Likewise, China has one of the worst governance indices, but has a low level of evasion. With this, the present study will contribute to the expansion of the literature and governance approach to fill a theoretical gap in its tax context. The use of the Stewardship Theory in this environment allows for a more complete understanding of taxation and its established relationships, especially government and business. It will also contribute to the development of Stewardship Theory, analyzing a scenario not yet studied from this perspective.

On the other hand, to consider that the agency theory, traditionally used in the scope of governance studies, does not support all existing tax aspects, allows a new field of studies on this approach, a fact that is currently little considered, despite the great impact that taxation has for societies and for firms as suggested by Thomas (1971) and Pohlmann and De Iudícibus (2010).

CONCLUSION

Considering that the models or principles of corporate governance cannot respond to existing deviations, especially in terms of improving the tax aspect, since the traditional assumptions of conflict of interest (Agency Theory) are that they support such models, not considering, therefore, the existence of other causal mechanisms that explain tax relations, such as its two-dimensional character.

We have the thesis to be defended in this study is on the need for a specific model of governance related to taxation. This model should be considered including the perspective of the Stewardship Theory, since tax governance has a peculiar aspect of bidimensionality whose traditional theoretical assumptions cannot fully explain.

Thus, although some assumptions remain present, such as the environment of contraposition, contractual relations and the need to implement measures based on mitigating principles, the aspects of tax governance are unprecedented in order to intermediate two competing dimensions, so that its principles concepts must meet these two dimensions in a concomitant way.

These dimensions relate to the issue of tax accountability, supported by the Stewardship Theory, since it is in the interest of governments to make sure that organizations are collecting the legally due taxes, so that these resources can be employed in public services. On the other hand, private organizations have the interest of maximizing their results, in order to ensure their continuity, so that as far as the tax aspect is concerned, its management should be within the legal limits, so that its follow-up does not compromise its existence.

In addition, it should be noted that the mechanisms already explained by the Agency Theory will certainly contribute to the development of the proposed objective, but that its explanatory limitation shows an opportunity and the need to increase the theoretical contribution on governance, refers to the tax aspect. For this reason, the present study will deal with tax governance, considering the perspective of the Stewardship Theory whose pillars seem best to explain the reasons why there is a need for a specific conceptual framework of tax governance. Thus, the present study hopes to overcome the theoretical gap existing in governance studies that cannot explain the tax behavior that permeates them, as well as present a structure that presents the most complete causal mechanisms for tax relations, which is not observed by the perspectives theoretically used by the governance literature.

The theoretical contribution of the present study is to identify that the Agency Theory does not explain, as Nicholson and

Kiel (2007), from its assumptions, all relations of governance, which includes the tax aspect, before its two-dimensional context of tax governance, and that this gap can be explained by the Stewardship Theory. Therefore, the conceptual framework that is addressed will address the elements already exposed by the agency problems, as well as those not explained by this approach, indicating a more complete explanation of the mechanisms of responsibility related to governance.

In practical terms, a conceptual framework of tax governance appears to be of common interest to governments and organizations, although these actors have distinct objectives, those of better tax collection and those that diminish their contribution. Therefore, the structure to be proposed can be used by both governments and organizations to improve tax relations, especially for the tax management aspects of firms and the reduction of tax evasion by governments.

Regarding relevance, the present study is based on the fact that taxation is one of the elements of greatest impact for governments and for taxpayers, in this case, private organizations. Thus, treating tax governance in a specific way, in the sense of identifying and constructing a Conceptual Structure of Tax Governance, that attends to the two dimensions involved in this theme is the original mission of this work.

Finally, it should be considered that tax governance sheds new light on existing understandings of business tax planning and government revenue collection. So that these areas, with this proposed new perspective, will gain theoretical and practical impetus for future research and development of the epistemological frontiers of these themes.

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