



The Influence of Different Executive Characteristics on Corporate Tax Avoidance

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Abstract. Based on the national policy background of increasing tax incentives in recent years, this paper studies the relationship between executive characteristics and corporate tax avoidance with a sample of all A-share listed companies from 2015 to 2020, and examines the influence of the gender, education, major and salary of the executive core team on corporate tax avoidance. The empirical results of this paper show that the proportion of males in the executive core team is positively correlated with the degree of corporate tax avoidance; the average education level of the executive core team is positively correlated with the degree of corporate tax avoidance; the proportion of executives with economic and regulatory backgrounds in the core executive team is positively correlated with the degree of corporate tax avoidance; the average salary level of the executive core team is positively correlated with the degree of corporate tax avoidance.

Keywords: Executive Characteristics · Corporate Tax Avoidance

1 Introduction

In recent years, the Chinese government has successively introduced a series of structural tax reduction policies to alleviate the negative impact of the macroeconomic downturn on business operations, such as adjusting the export tax rebate rate several times, replacing business tax with value-added tax, raising the threshold for value-added tax, and reducing small tax rates. Micro-enterprise income tax and other measures. Taxation is an unavoidable expenditure in the daily business activities of enterprises, but for the goal of maximizing their own profits, enterprises often adopt various tax avoidance behaviors that are on the edge of the tax law to reduce the tax burden of enterprises. On the other hand, tax avoidance will bring greater risk to the company. Once the management turns tax saving and tax avoidance into “black box” operations in pursuit of high profits, the company will face huge loss of value.

In a complex and volatile institutional and business economic environment, whether management takes tax avoidance to enhance corporate value depends on executives' assessment and their ability and attitude to deal with risks. The high-level team theory believes that the background characteristics of executives will affect the choice of their behavior, and the choice of behavior will greatly affect the value of the enterprise [3]. Therefore, this paper studies how the gender, education, major, salary level and other

characteristic factors of the executive core team affect the degree of tax avoidance of enterprises, and analyzes the factors of corporate tax avoidance motives from multiple dimensions.

The innovation of this paper may be reflected in that, from the perspective of expanding the research perspective on the incentives of corporate tax avoidance, the relationship between executives and corporate tax avoidance is studied from four dimensions: gender, education, major, and salary level of the core team of executives. To some extent, it enriches the empirical studies related to executive characteristics and corporate tax avoidance.

2 Theoretical Analysis and Research Hypothesis

In order to cope with the fierce industry competition in the process of operation and management, enterprises adopt effective tax avoidance behaviors to maximize their own interests. When making tax avoidance decisions, executives will weigh between tax avoidance benefits and tax avoidance costs, hoping to reduce operating costs and increase the profit margin of the enterprise. The inherent characteristics of executives, such as gender, education, major, salary, etc., have different decision-making tendencies, thus affecting the final tax avoidance behavior [6].

In terms of gender, there are big differences in the way of doing things between men and women due to many factors. Under normal circumstances, men are more inclined to be tough, confident, decisive, and thrill-seeking, and are more tolerant of risks, so they are more prone to aggressive tax avoidance decisions [1]. Compared with men, women tend to be stable, moderate, and conservative, and have a shallower acceptance of risks [2]. They tend to give up aggressive tax avoidance strategies, and thus are more inclined to adopt conservative tax-related decisions. Based on this, this paper proposes hypothesis 1:

H1: The proportion of men in the executive core team is positively correlated with the degree of corporate tax avoidance, that is, the greater the proportion of men, the higher the degree of corporate tax avoidance.

In terms of educational background, the higher the educational level of executives, the higher the level of their cognition and ability, the more likely they have a higher-level overall view of things, and make more reasonable and scientific decisions [4]. Since the executives' own interests are closely related to the benefits of the enterprise, the higher the executives' education level, the better they are able to accept new ideas and adapt to environmental changes [5], the better they are able to process information, and the more familiar they are with the methods or ways to better maintain the enterprise's own earnings, the more likely they are to make corporate tax avoidance decisions. Based on this, this paper proposes hypothesis 2:

H2: The average education level of the executive core team is positively correlated with the degree of corporate tax avoidance, that is, the higher the average education level, the higher the degree of corporate tax avoidance.

Professionally, executives with professional advantages in economics and management generally have more theoretical knowledge or practical experience related to taxation, and have clear guidance and suggestions for effective tax avoidance options, more

precise tax avoidance solutions to improve the tax profit margin of enterprises [8]. On the contrary, some senior executives specializing in technology are more inclined to technology research and development and product development, lack the familiarity and sensitivity of tax laws and policies, are more conservative in the face of tax-related decisions, and tend to avoid tax avoidance decisions. Based on this, this paper proposes hypothesis 3:

H3: The proportion of executives with a background in economics and management in the executive core team is positively correlated with the degree of corporate tax avoidance, that is, the greater the proportion of executives with a professional background in economics and management, the higher the degree of corporate tax avoidance.

In terms of compensation, high salary incentive is one of the main ways to bind corporate interests to those of executives [7]. The higher the compensation given to executives by a company, the more likely it is to increase the motivation of executives to defend corporate interests, and tax avoidance is one of the important measures to increase the after-tax profits of a company. Therefore, this paper argues that the higher the executive compensation is, the more likely it is to take more tax avoidance decisions. Based on this, this paper proposes hypothesis 4:

H4: The average salary level of the executive core team is positively correlated with the degree of corporate tax avoidance, that is, the higher the average salary level, the higher the degree of corporate tax avoidance.

3 Research Design

3.1 Sample Selection and Data Sources

This paper takes all A-share listed companies from 2015 to 2020 as the initial sample, and performs the following processing: (1) delete the financial industry sample; (2) delete the sample that has just been listed in the past two years; (3) delete the ST and PT samples; (4) delete the samples whose current income tax expense is less than or equal to zero; (5) delete the missing values that cannot be completed. This paper only studies the impact of the overall characteristics of the executive core team composed of the chairman, CEO and CFO on the degree of corporate tax avoidance. For professional characteristics, this paper redefines majors containing the words MBA, management, economics, finance and accounting as economic management majors, and other majors such as electrical engineering, chemical engineering, semiconductor, material science and engineering and other science and technology majors as non-economic management majors.

3.2 Variable Selection

This paper uses the accounting tax difference index to reflect the degree of corporate tax avoidance by measuring the difference between the accounting tax burden and the statutory tax burden. The relationship between the two is that the greater the accounting tax difference, the higher the degree of corporate tax avoidance.

Table 1. Variable definition

Symbols	Variable definition
BTD	(Total profit - taxable income)/Total assets at the end of the previous year
gender	Share of men in chairman, CEO, and CFO
degree	The average number of educational qualifications of chairman, CEO and CFO
major	Proportion of economic management majors among chairman, CEO, and CFO
salary	Average monetary compensation of chairman, CEO, and CFO
size	Ln(total asset)
lev	Total liabilities/total asset
growth	Growth rate of total asset
adm	Management costs/total asset
roa	Net profit/total asset
year	Year dummy variable
ind	Industry dummy variable

The characteristic variables of the executive core team selected in this paper include four characteristic factors of gender, education, major and salary. Among them, for gender characteristics, if the executive is male, it is 1, and if the executive is female, it is 0, and the proportion of males in the core team of executives is used as the measure of this characteristic; 1 for the following, 2 for the junior college, 3 for the undergraduate, 4 for the master, 5 for the doctorate, and the mean value of the educational variable of the executives is used as the measure of this characteristic; for the professional characteristics, this paper takes the executives majoring in economics and management as 1, the number of senior executives who are not majoring in economics and management is 0, and the proportion of senior executives majoring in economics and management is used as the measure of this feature; for the salary feature, the average salary of the executive core team is used as the measure of this feature.

According to the existing literature, select the enterprise size (size), total asset-liability ratio (lev), enterprise growth (growth), return on total assets (roa), management expense ratio (adm), industry dummy variable (ind), annual dummy variable variable (year). The variable definition is shown in Table 1.

3.3 Model Construction

To examine the relationship between executive characteristics and corporate tax avoidance, a model is constructed to examine H1, H2, H3, H4. If the executive compensation stickiness coefficients β_1 , β_2 , β_3 and β_4 in the regression results of the model are significantly positive, it means that H1, H2, H3, and H4 are verified.

$$\begin{aligned}
 BTD_{i,t} = & \beta_0 + \beta_1 gender_{i,t} + \beta_2 degree_{i,t} \\
 & + \beta_3 major_{i,t} + \beta_4 salary_{i,t} + \sum \beta_i control + \sum IND \\
 & + \sum YEAR + \varepsilon_{i,t}
 \end{aligned} \tag{1}$$

4 Empirical Results and Analysis

Table 2 shows the regression results of the model. The regression coefficient of gender in the model is 0.006, and it is significantly positive at the 5% level, indicating that the proportion of men in the executive core team is positively correlated with the degree of corporate tax avoidance, that is, the greater the proportion of men, the higher the degree of corporate tax avoidance, the regression results support H1; the regression coefficient of degree is 0.003, and it is significantly positive at the 1% level, indicating that the average education level of the executive core team is positively correlated with the degree of corporate tax avoidance, that is, the higher the average degree, the higher the degree of corporate tax avoidance, and the regression results support H2; the regression coefficient of major is 0.002, and it is significantly positive at the 5% level, indicating that the proportion of executives with a background in economics and management in the core team is positively correlated with the degree of corporate tax avoidance, that is, the higher the proportion of executives with a professional background in management,

Table 2. Regression result

Variables	$BTD_{i,t}$
$gender_{i,t}$	0.006** (3.45)
$degree_{i,t}$	0.003*** (2.69)
$major_{i,t}$	0.002** (1.94)
$salary_{i,t}$	0.003*** (2.17)
$size_{i,t}$	0.004** (2.31)
$lev_{i,t}$	-0.017*** (-8.27)
$growth_{i,t}$	0.011*** (3.02)
$adm_{i,t}$	1.003*** (2.06)
$roa_{i,t}$	0.207*** (-1.46)
$year$	yes
$industry$	yes
Obs	1421
Cons	4.342
adjusted R^2	0.376

the higher the degree of corporate tax avoidance, the regression results support H3; the regression coefficient of salary is 0.003, and it is significantly positive at the 1% level, indicating that the average salary level of the executive core team is positively correlated with the degree of corporate tax avoidance, that is, the higher the average salary level, the higher the degree of corporate tax avoidance, and the regression results support H4.

In order to ensure the robustness of the empirical results, this paper adopts the following methods to test the robustness: (1) use the effective tax rate to replace the tax difference, measure the degree of corporate tax avoidance from another perspective, and compare and analyze with the above results; (2) in order to exclude the interference of other policies or major events, only the data from 2017–2019 is retained for re-regression. The regression results show that the test results are still stable, and there is no substantial difference with the previous conclusions.

5 Conclusion

This paper takes all A-share listed companies from 2015 to 2020, excluding the financial industry as a sample, to study the impact of executive characteristics on the degree of corporate tax avoidance, and to study the differences in the relationship between executive characteristics and tax avoidance in different life cycle stages of enterprises. The empirical results of this paper show that the proportion of males in the executive core team is positively correlated with the degree of corporate tax avoidance; the average education level of the executive core team is positively correlated with the degree of corporate tax avoidance; the proportion of executives with economic and regulatory backgrounds in the core executive team is positively correlated with the degree of corporate tax avoidance; the average salary level of the executive core team is positively correlated with the degree of corporate tax avoidance.

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