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Investigating the Moderating Role of Information Asymmetry on the Relationship between Tax Reducing Policies and Earnings Quality in Companies Listed on the Tehran Stock Exchange¹

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Research Paper

1. INTRODUCTION

The main role of accounting information in financial markets is to provide the necessary grounds for the optimal allocation of resources. Following the recent financial scandals, investors' trust and confidence in the financial reporting system has weakened and the quality of profit has emerged as an important factor in determining the credibility and reliability of the reported figures. As a result, determining the quality of accounting information and its results is of interest to investors, managers, legislators, and standards, developers. Therefore, considering that accounting standards provide considerable flexibility in the application of accounting methods for financial reporting, examining how to maximize the profits of shareholders and at the same time protect the interests of the government. Also maintained, it is one of the challenging and researchable topics in financial and accounting literature. In this regard, tax reduction policies are among the topics related to these two categories. In addition, in the conditions of information asymmetry,

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the emergence of tax-reducing phenomena and policies is facilitated, because managers can be more opportunistic to increase their interests. Since tax auditors cannot fully monitor the financial activities of companies due to the limitations of compliance audits, compliance audits are carried out in a very low volume and in an environment where the amount of information is much less than company managers. The motivation to increase the use of reducing methods and tax evasion increases (Sepasi and Fathi, 2014: 58).

Theoretical foundations and empirical evidence show that companies try to reduce and postpone their income tax. In this connection, tax avoidance, tax evasion and sustainability of tax profits using information inequality between taxpayers and the tax administration are tools that companies may use if necessary depending on the circumstances (Mansour Far, Ghayor, and Abbasi Molan, 2018: 174 and Askari and Azimi, 2018: 180). However, the tax-reducing activities of companies as a driver of the companies' behavior have not been given special attention (Nabus, 2019: 263). On the other hand, shareholders' reliance on the financial and accounting information reported by the company is one of their constant concerns for evaluating, forecasting, and analyzing securities and making decisions about them. Also, to reduce the tax paid through the application of tax-reducing policies, on the one hand, managers may try to reduce the taxable profit or smooth it, and on the other hand, in the presence of information asymmetry, the dimensions of the company's profit quality influence to provide opportunistic actions. Therefore, according to the said contents, the necessity of research that can investigate the importance of tax reduction policies in reducing taxes paid in Iran is well felt. Based on this, the question of this research is to investigate whether tax reduction policies hurt profit quality. Asking such a question stems from the fact that there are very little research and evidence related to the policies that reduce the tax on the quality of profit. This issue has made the researchers investigate the moderating role of information asymmetry on the

relationship between tax-reducing policies and profit quality in companies listed on the Tehran Stock Exchange.

2. MATERIALS AND METHODS

This research is practical in terms of results; In terms of the implementation process, a little; In terms of the purpose of the research, it is analytical with a correlational approach, and also in terms of the logic of implementation, it is inductive research, and from the point of view of the time dimension, it is post-event and retrospective. The studied statistical population includes 120 companies from the companies admitted to the Tehran Stock Exchange in the period from 2010 to 2019. The method of data collection is document mining, and Excel 2016 software was used for data processing to categorize, sort, and measure research variables. Also, to estimate the research model and perform research tests, econometrics software (Eviews) version 10 was used.

3. RESULTS AND DISCUSSION

Findings show that there is an inverse and significant relationship between tax reduction policies and earnings quality and the information asymmetry exacerbates this relationship. This means that company managers manage the company's profit to reduce the amount of taxes through tax reduction policies and thereby distort the quality and quantity of profit. In other words, one of the elements and factors affecting the quality of profits can be the tax incentives of company managers. Also, the results indicate that information asymmetry with a moderating role intensifies the relationship between these two variables; That is, in a situation where there is information asymmetry between company managers and investors, the managers will easily apply tax

reduction policies, and with the incentives to reduce the tax paid, the quality of the reported profit of the companies will be challenged. The results of examining the hypotheses of this research with the results of studies by Ben Karim, Gaya, and Lakhal (2020: 1714); Atwood, Drake, and Myers (2010: 111) agree.

4. CONCLUSION

The existence of tax incentives to reduce the taxable income affects the quality of profit and in the conditions of information asymmetry, it provides the basis for opportunistic management actions.

In the conditions of information asymmetry, the risk of reducing taxable profits increases through the application of tax-reducing policies. Therefore, profit quality can be considered an important factor for risk management in the field of tax accounting.

According to the obtained results, it is suggested to the investors that when making investment decisions and evaluating the quality of information of the companies, they should refer to the tax audit report as one of the statements of social responsibility and Pay attention to its effect on profit quality and future profitability.

Keywords: Tax Avoidance, Tax Evasion, Tax Profit Stability, Earnings Quality, Information Asymmetry.

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