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A Systematic Literature Review on Corporate Tax Planning

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Tax Planning; ETR; Transfer Pricing

ABSTRACT
An overview of the evolution of tax planning research is the goal of this study. Corporate tax planning, or the capacity of the corporation to plan its tax affairs, refers to the use of a variety of techniques to legally lower its tax bills or to take advantage of tax law gaps. The narrative method of reviewing the literature is used in this work, and it entails compiling and synthesising previously published studies on corporate tax planning. The information was gathered from publications by American Accounting Association, Emerald, Elsevier, Inderscience, Taylor and Francis Ltd. that were published in international journals that were indexed by Scopus. Samples from 2010 to 2022 included up to 33 articles about corporate tax planning. Many empirical studies use a quantitative approach by showing that by utilizing transfer pricing with agency theory, corporate tax planning performance can be measured.

INTRODUCTION

Taxes are an important factor in many business decisions and influence investment decisions such as alternative financial product selection, investment fund selection, and asset allocation. In the context of mutual funds, the options chosen by fund managers can affect their respective returns, especially from a tax perspective (Sialm, C. and Starks, 2012).

EDirectors and CEOs are crucial in selecting a tax management strategy because they are in charge of allocating resources, ensuring performance, and boosting shareholder wealth. The options available to directors for distributing resources and enhancing performance are limited. A board that wants to boost top-line performance will direct resources toward objectives like advertising-driven sales growth or physical (capital) expansion. They can also decide to concentrate on bottom-line results as an alternative. When the board allocates resources to value-maximizing activities like tax planning, the result is lower taxes and increased bottom-line performance. Effective tax management is a key factor in driving bottom-line performance (Minnick & Noga, 2010). The pay-performance-sensitivity (PPS) for CEOs and directors is the most significant factor in tax management. The findings demonstrate that higher PPS leads to better tax management regardless of the strategy (domestic or foreign). Companies that have a higher proportion of independent directors frequently concentrate on managing foreign taxes. Domestic taxes are typically the main focus of organizations with bigger boards that are less established(Minnick & Noga, 2010) .

It is unclear whether top management is directly involved in tax planning or whether documented tax effects are a by-product of investments, financing, and operational decisions made within the company. Tax planning is included in tax director compensation contracts, for example tax director

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incentive compensation where showing that both top management incentives and company culture have a significant impact on effective tax rates (Armstrong et al., 2012).

Corporate tax is one of the key factors multinational companies consider when formulating and executing their business strategies. This influences decisions regarding the location of foreign direct investment (FDI), amount of invested capital, where profits are recorded and the choice of whether to retain profits or keep cash in a foreign subsidiary or repatriate profits. Tax planning can affect the role of subsidiaries within the group structure and thus have far-reaching implications for corporate strategy beyond tax liability (Cooper & Nguyen, 2020). Multinational corporations can transfer profits between jurisdictions using a variety of means to increase profits in lower tax jurisdictions and reduce profits in higher tax jurisdictions. This allows them to pay less tax by shifting profits to higher tax jurisdictions (Zucman, 2014).

Multinational businesses provide goods and services around the world. Multinationals use transfer pricing in intra-company transactions to transfer profits across countries and avoid taxes at the international level (Dischinger & Riedel, 2011; Klassen & Laplante, 2012; Cristea, 2016; Simone et al., 2017; R.B. Davies, J. Martin, M. Parenti, 2018; Kohlhase & Wielhouwer, 2022) Transfer pricing in business-to-business transactions is one of the most important means of profit shifting (Heckemeyer & Overesch, 2017).

The goal of this study is to use a thorough literature analysis to examine and summarize the growth of empirical research on corporate tax planning. In this investigation, manuscripts that had been published between 2010 and 2022 were reviewed. Additionally, only credible international journals were included in the searches. Theoretically, this study advances our understanding of tax planning.

METHODS

This study's methodology included a systematic review of the literature (SLR). SLR is a methodical, empirically based way to conduct a literature review.

The method for choosing the literature is as follows (Reisman, 2021): 1. Using to find pertinent articles 2. Restricting searches to publications published in peer-reviewed scientific journals, as these are the most reliable sources available, 3. Because the primary topic of this article is business tax planning, searches are conducted using the terms "company tax planning," "effective tax rates," and "transfer prices" with publication years between 2010 and 2022.

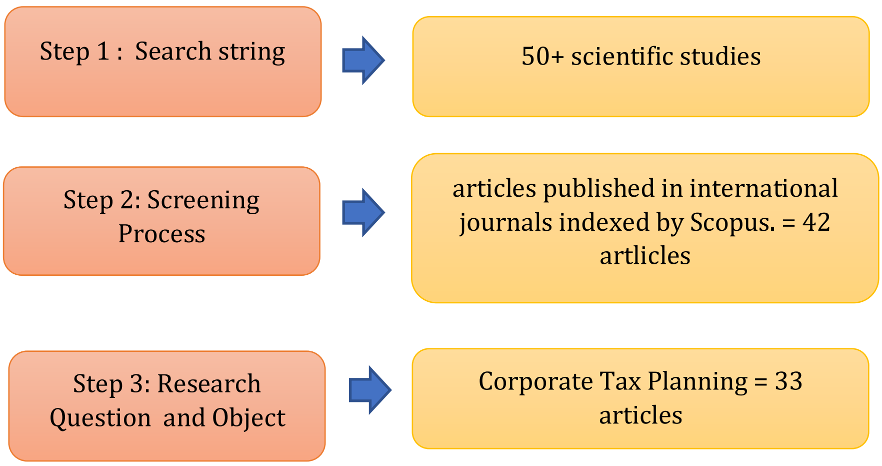

Figure 1. The method for choosing the literature

Thematic analysis was performed to analyze the data for this article. Thematic analysis, which tries to uncover patterns or define themes using data that has been gathered by research, is one technique to get outcomes by analyzing data (Braun & Clarke, 2006; Heriyanto, 2018). Three phases are present, including: 1. Compare: look for commonalities among various literary works. 2. Compare and contrast: identify contrasts between other literary works and draw conclusions. 3. Critique: express your own viewpoint in light of the sources you have read.

RESULTS

Articles are categorized based on the study methodology employed, the year of publication, and the name of the journal to address the question. The majority of the research methods employed in each article are quantitative as opposed to qualitative and experimental. So, a qualitative or experimental approach can be used to conduct additional study on tax planning corporate An analysis of the research methodology employed in each of the articles that have been reviewed is shown in Figure 2 below.

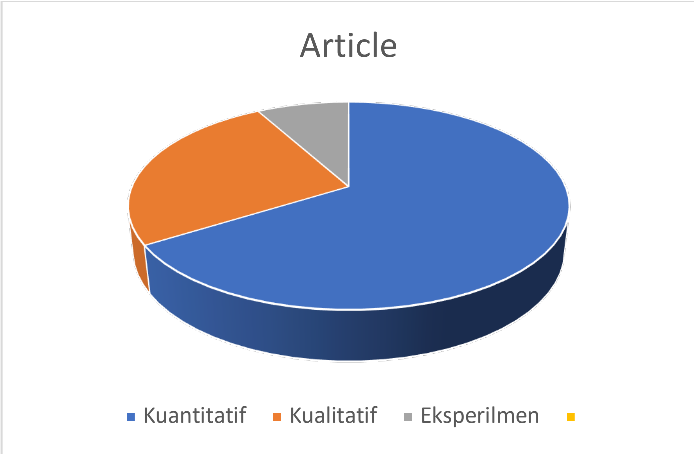

Figure 2. Article research results

Figure 2 shows that there are 6 papers using a qualitative technique, 26 articles using a quantitative approach, and 1 article using an experimental approach.

The trends for article publications change with time. In 2009, there were 5 publications, which was the most. With only 1 publication apiece, 2004 and 2007 saw the lowest number of publications. From 2013 to 2022, the publication of this research has once more dropped. The decline in publications is due to the saturation of research on auditor independence issues, which has caused attention to shift to other audit-related issues. Figure 3 displays the outcomes of the evolution of research trends on auditor independence.

The trends in article publishing alter with time. The maximum number of publications was 13, which was in 2019. The years 2010 through 2017 and 2021 have the fewest publications, each with just one. Three papers each were published in 2020 and 2022, whereas six pieces were published in 2018. The saturation of research on corporate tax planning concerns, which drove focus to move to issues related to tax planning or other forms of tax evasion, was the cause of the fall in publications. The findings of the development of research trends on company tax planning are shown in Figure 3.

Figure 3. Corporate Tax Planning Publication Trends

The American Accounting Association provided 9.37%, Taylor and Francis Ltd. contributed 3.12%, Elsevier by 28.12%, and Emerald Group Publishing Ltd. contributed 59.39% of the publications from empirical research on corporate tax planning from 32 sample papers. Secondary data and generally applied theories, including agency theory, corporate governance theory, tax planning theory, behavioral theory, and legitimacy theory, are most prevalent in the findings of empirical study on corporate tax planning.

DISCUSSION

According to (Badertscher, B. A., Katz, S. P., & Rego, 2013) , agency theory separates ownership and centralizes control over all predictions resulting from the effects of tax evasion. Tax evasion will result in an increase in cash flow after taxes, which will present management with riskier investment options (Armstrong, C. S., 2015). Agents and participants will experience distinct agency conflicts. The principle will decide whether to engage in significant tax avoidance, which will boost after-tax cash flow, or minimal tax avoidance, which will reduce the company's risk (Lubis et al., 2023).

(Bradshaw et al., 2019) Look at China's publicly traded enterprises to see that SOEs substantially less frequently cheat the tax system than non-SOEs, with local versus centrally held SOEs showing different patterns. A promotion test used to assess the performance of SOEs with managerial incentives throughout the year discovered a correlation between higher SOE tax rates and a higher rate of promotions for SOE managers, indicating that managerial incentives and tax reporting depend on the ownership structure of the business.

Using the transfer pricing method, which was applied to every trade where each product had a cost price or unit cost that was calculated based on a management information system, (Kohlhase & Wielhouwer, 2022) performed study on the tax planning of multinational corporations. The BU production manager contributes to the system, but the HO is ultimately responsible for it. The HO chooses between two markups that could be applied to this unit cost: one for managerial incentive purposes (for example, a cost component that would encourage PC to sell at a higher price) and one to satisfy the fairness requirement for international transfer prices. Costs like as R&D, overhead, royalties, and marketing that are not included in basic unit costs are distributed through the final markup.

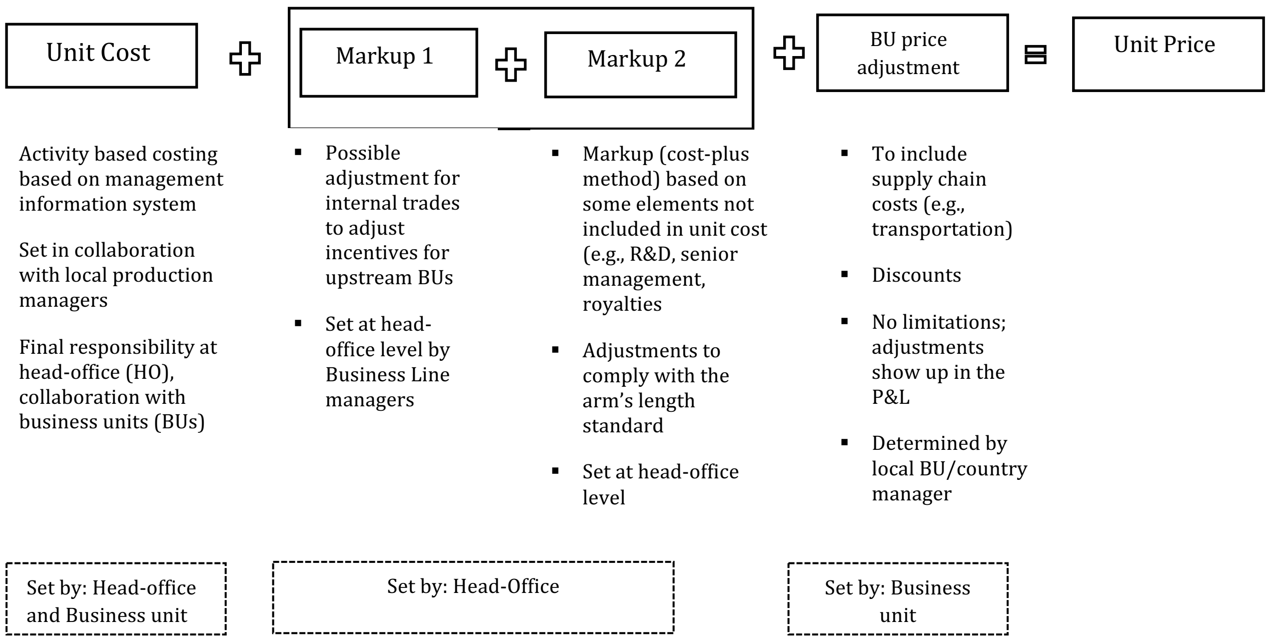

Figure 4. Transfer Pricing System of the MNC

Meanwhile, according to (Ftouhi & Ghardallou, 2020) One of the following strategies can be used for international tax planning: (1) geographically-based revenue transfers; (2) business development; (3) tax havens; and (4) legal loopholes. The transfer of revenues by geographic location is the initial method of international tax planning. International businesses may falsely charge high prices for products coming from low-tax nations in this context and vice versa in order to reduce their tax liability (Beer et al., 2020).

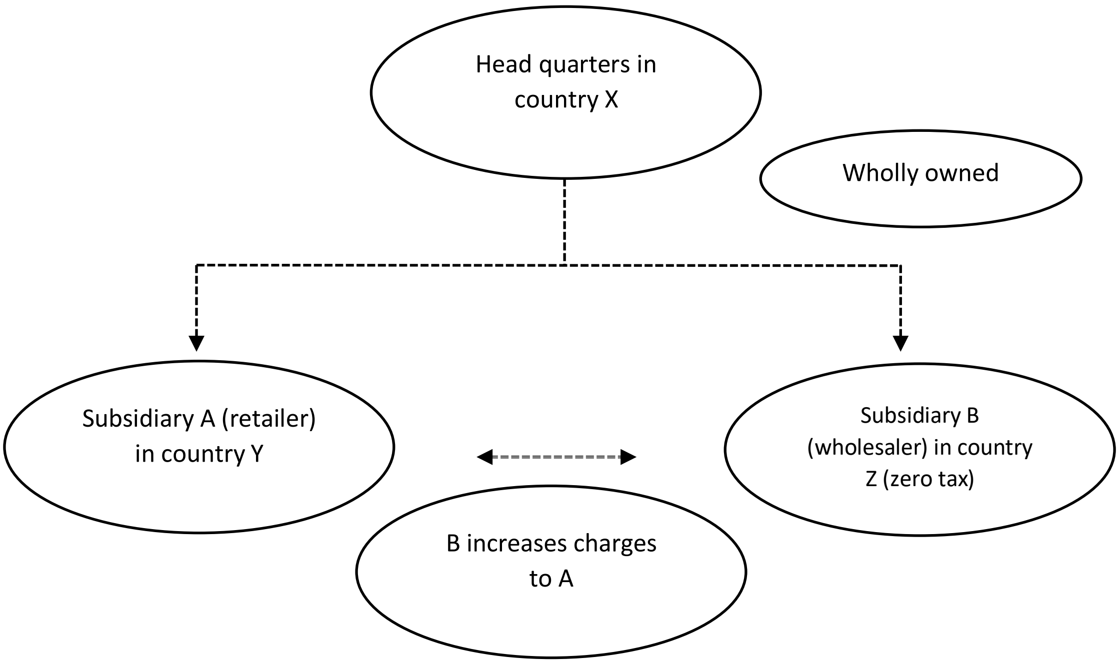

Figure 5. Geographically-Based Revenue Transfers

Figure 5 illustrates that whereas subsidiary (A) works in a country with a high tax rate, subsidiary (B) is situated in a country with no taxes. Company (B) may impose higher charges on subsidiary (A) when selling a product in order to reduce profits in country Y and so reduce the tax on profits. (Ftouhi & Ghardallou, 2020) One of the most common strategies used by multinational corporations to move their earnings to nations with lower tax rates is transfer pricing manipulation, as seen in Figure 5. These prices can be set up so that a group's profits are transferred to its subsidiaries in nations with the most favorable tax laws.

Using qualitative research methods and a single case study of the Stora Enso Group, one of the top pulp and paper manufacturers in the world, Ylönen and Laine's research (Ylönen & Laine, 2015) revealed the connection between tax planning and disclosure of corporate social responsibility (CSR). This section analyzes how Stora Enso used transfer pricing agreements in their Veracel pulp trade to avoid paying a sizable sum of tax. In order to move the eucalyptus pulp from its affiliated firm Veracel in Brazil to its paper mills in northern Europe, Stora Enso used its Dutch subsidiary, Stora Enso Amsterdam B.V. (Fig. 6).

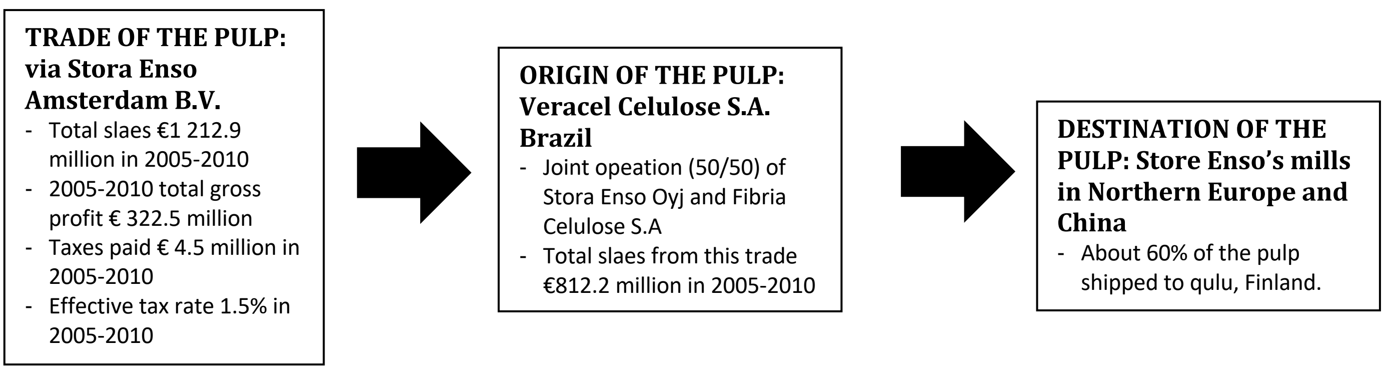

Figure 6. Overview of Veracel Plup Trade

The former holding company SEA was given a new responsibility as the intermediate business for invoicing the pulp trade from Brazil to Stora Enso's paper mills in Finland, China, and Germany as the Veracel trade commenced in 2005. Due to the fact that the pulp from Brazil is carried via Antwerp and then Zeebrugge, both in Belgium, SEA has only served as a booking hub in this pulp trade.

The financial statements of SEA reflect the significant annual amount of pulp commerce. Beginning in 2006, SEA sales were at least 150 million euros every year, reaching a high of over 250 million euros in 2008. According to Stora Enso records, figures from Finnish customs, and annual reports from the Port of Oulu, between 2005 and 2010, 60–70% of the Veracel pulp traded through SEA was sent to Oulu, resulting in respectable profits for SEA. By the end of 2010, SEA had made 297 million euros from this transaction since it began in 2005. For the time frame, the average profit margin was 27%. Less than 600 million euros worth of profits were made by Stora Enso overall throughout that time. SEA thus produced half of the Group's earnings with a little staff, although having a turnover of less than 2% of the Group's turnover.

SEA paid very little tax on these huge gains. Even though the company's annual tax rates varied significantly, it only paid 4.5 million euros in taxes from its overall income from 2005 to 2010.This amounted to an effective average tax rate of only 1.5 percent, which is significantly lower than the Netherlands' statutory tax rates. Even though SEA is just one of Stora Enso's subsidiaries, these numbers demonstrate how vital it has been to the company's business strategy and tax planning.

CONCLUSION

Research on tax planning in recent years has focused more on transfer prices. This study presents the development of empirical research on the components that influence transfer pricing. A systematic literature review method was used to achieve the research objectives. Most of the research utilizes agency theory as the basic theory because it is considered a theory that links the interests of agents and principals which can affect corporate tax avoidance which will increase cash flow after tax, or minimal tax avoidance, which will reduce corporate risk.

One of the strategies that can be considered besides transfer pricing in tax planning is the effective tax rate and tax avoidance as an agenda for tax planning. . To allocate resources, ensure performance, and increase shareholder wealth, directors and CEOs play an important role in choosing a tax management strategy. There are not many options available to directors to share resources and increase performance,

This systematic literature review has limitations because it limits the search for articles to only the years 2010 – 2022. This literature study considers transfer prices, effective tax rates and tax avoidance as tax planning in companies. Future researchers can conduct research by considering aspects of geographic-based income transfer, business development, tax havens, and legal loopholes. As a future research agenda

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