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Journal of Accounting and Taxation

Full Length Research Paper

Do corporate governance best practices restrain tax evasion? Evidence from Greece

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The aim of the present paper is to examine the association between corporate governance practices and the extent of tax evasion for the Greek listed companies when they operated in an accounting environment characterized by a high level of book-tax conformity. The results suggest that tax evasion is lower when the chairman of the board is also the owner of the company. A strong negative association is also reported between tax evasion and a) the percentage of stock held by the owner and its family members and b) the percentage of stock held by board members. The remuneration of the board members through the distribution of profits has been found to significantly decrease the evasion of taxes whereas tax evasion is higher when board members are also employees of the company. The findings contradict international codes on corporate governance practices and suggest that they may not apply to public firms with concentrated ownership.

Key words: Corporate governance, tax evasion, accounting fraud, board composition.

INTRODUCTION

The separation of ownership and control, typical of large corporations, has led to the establishment of corporate governance practices in order to protect the interests of minority shareholders. In such a corporate setting, the decisions are taken by the managers, who however do not bear a large share of the economic consequences of their actions. The so called “agency problem” was first introduced by Berle and Means (1932) who studied the role of taxes in firms with dispersed ownership. However, the majority of the literature has approached the agency problem in the context of fraudulent financial reporting (that is, overstatement of earnings) neglecting the tax implications. It was only after the extreme accounting scandals, involving companies like Enron, WorldCom and Tyco, that tax evasion drew the attention of the scholars as it became evident that quoted companies have the means to evade taxes and at the same time to manipulate accounting earnings upwards by using tax shelters (Desai, 2005; Desai and Dharmapala, 2009b).

Tax evasion may be conducted for the benefit of the shareholders since it leads to increased cash flows and consequently to increased market value of the firm. However, Hanlon and Slemrod (2009) note that shareholders will enjoy the merits of the increased cash flows only if tax evasion is not discovered by the internal revenue service. Otherwise, the shareholders will bear

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not only the taxes that were evaded but also the fines and penalties that will be imposed by the tax authority. The agency perspective on tax avoidance suggests that concentrated ownership leads to a greater incentive to avoid taxes (Desai and Dharmapala, 2009a). However, in firms with dispersed ownership, the shareholders are unaware of the tax decisions that are taken by the managers and thus tax evasion may exacerbate the agency problem. Desai and Hines (2002) found a strong negative market reaction after it was known that a company uses tax shelters. Desai et al. (2007) and Hanlon and Slemrod (2009) have reached similar conclusions but the market reaction was much more moderate for better-governed firms.

The first corporate governance code was enacted in Greece in 1999 (Committee on Corporate Governance, 1999), following the crash of the capital market, in an attempt of the Capital Market Commission to restore public confidence. This early code took the form of a white paper depicting the intent of the legislator to provide time to the companies to comply with the spirit and not merely with the letter of the regulation. A set of these corporate governance practices became obligatory for the listed companies three years later with the issuance of Law 3016/2002. The provisions of Law 3016/2002 are complemented by the consolidated Law 2190/1920 for the limited liability companies with regard to the responsibilities of the board members and the chief executive officer.

Research on corporate tax evasion must take into account the (divergent) incentives of the firms when reporting for tax and financial accounting purposes. When tax and accounting earnings are highly aligned, the underreporting of taxable income will also lead to reporting lower profits to the shareholders. On the other hand, when different accounting regimes apply for taxation and financial reporting purposes, tax aggressive behavior does not affect the reported earnings[1]. Greek public companies operated in an accounting environment characterized by a high level of book-tax conformity up to 2005 since Greek GAAP were applicable both for financial reporting and tax purposes. In 2005, the adoption of International Financial Reporting Standards (I.F.R.S.) became obligatory for the Greek public companies. After 2005, the accounting regime can be characterized as a two-book one since the financial statements are published according to IFRS whereas Greek GAAP still applies for tax purposes.

The aim of the present paper is to examine the association between corporate governance practices and the tax behaviour of the Greek public when they operated in an accounting environment characterized by a high level of book – tax conformity. Specifically, this research focus on the period 2000-2004, since in 2005 Greece adopted International Financial Reporting Standards (IFRS) and moved from a one-book to a two-book system. As noted above, the separation between tax and financial reporting alters managers' reporting incentives. The impact of deferred taxation on corporate tax decisions is left for future research.

The rest of the paper is organized as follows. First is a presentation of the literature review, followed by a description of the methodology as well as sample and data collection. Thereafter, the univariate and multivariate results is reported, and then conclusion.

LITERATURE REVIEW

One of the most crucial roles of the board of directors is to mitigate the agency problems that arise in large corporations due to the separation of ownership and management. The effectiveness of the board of directors in deterring earnings management and other cases of accounting fraud has been examined in a number of studies. Fama (1980) and Fama and Jensen (1983) contend that corporate boards should include top-level managers who have a thorough knowledge of the organization that enables them to take decisions that will potentially maximize its wealth. At the same time, the board should include outside members in order to monitor top-management and protect minority interests. The participation of outside members in the board has been found to be effective in constraining earnings manipulation by a number of studies (Beasley, 1996; Dechow et al., 1996; Fanning and Cogger, 1998; Beasley et al., 1999; Beasley et al., 2000; Klein, 2002; Xie et al., 2003; Saksera, 2003; Carcello and Nagy, 2004). Osma and Noguer (2007) have found that outside members are able to prevent earnings manipulation only in firms that have a nomination committee principally made up of institutional directors.

According to Jensen (1993), the independent members of the board are more effective in their monitoring role when they also hold shares of the company. The research by Beasley (1996) has come to support this notion as he has found that the more shares the independent members hold the less possible it is that the company issues falsified financial statements. Beasley (1996) has also shown that independent outside members with long tenures on the board exercise their duties more efficiently since they have a better understanding of the company and more negotiating power in the board. However, Xie et al. (2003) have reached contradictory conclusions since outside board members with longer tenures turn out to be less effective monitors. The authors assume that this may happen because the independent members have been co-opted by management. There are also opposite opinions regarding the impact of multiple directorships. Fama (1980) argues that serving on more boards is an indication of great

[1] However, the companies face the question of whether to report lower accounting earnings or disclose the book-tax difference (Hanlon and Heitzman, 2010).

skills and competence while Morck et al. (1988) believe that serving on more boards is very time-consuming and thus prevents directors from focusing on each of the companies. The studies of Beasley (1996) and Crutchley et al. (2007) corroborate Mock's et al. (1988) argument. The financial sophistication of the board members has been examined by Xie et al. (2003) and has been found to play an important role in constraining the propensity of managers to engage in earnings management.

The effect of the board size has also been examined in a number of studies which have reached contradictory conclusions. Beasley (1996) has found that the companies that have committed accounting fraud have larger boards, reinforcing the opinion of Jensen (1993) that a large board is not very functional due to bureaucratic problems. On the other hand, Xie et al. (2003) found that companies with larger boards are less likely to engage in earnings management, which may be due to the broader experience of the board members and the increased likelihood that there are more members with a financial background. The effect of the board size on the credibility of the financial statements has also been examined by Dechow et al. (1996) and Carcello and Naggy (2004) but the results were not statistically significant. The number of the board meetings (as a proxy for the level of commitment of the board members) has been found by Xie at al. (2003) to be negatively associated with the incidence of earnings management. However, similar research conducted by Erickson et al. (2006) did not yield any significant results.

A good corporate governance practice is considered to be the separation of the roles of the chairman of the board and the chief executive officer (CEO).When the same individual holds both positions, it is much more difficult for the board of directors to evaluate CEO's performance and at the same time it is much easier for the CEO to control the board in order to serve his own personal interests (Jensen, 1993). The majority of the studies (Dechow et al., 1996; Abbott et al., 2000; Saksera, 2003; Carcello and Nagy, 2004; Erickson et al., 2006) show that fraudulent financial reporting occurs in organizations where the chairman of the board is also the CEO. However, this assumption was not confirmed in the studies of Beasley (1996) and Xie et al. (2003). Dechow et al. (1996) also found that the role of the board weakens when the chairman of the board is also the firm's founder, reinforcing Jensen's theory (1993) that the owner in this case takes decisions without reporting to the board. Beasley (1996), Abbott et al. (2000) and Saksera (2003) also examined whether accounting fraud is associated with the tenure of the CEO, assuming that as his tenure increases, his power increases which could decrease the monitoring provided by the board. However, they did not find any significant results.

Family relationships among board members are considered to facilitate the management of earnings (Fanning and Cogger, 1998). Beasley et al. (1999) found close family relationships in the 40% of the fraud cases that they examined. On the other hand, the participation of institutional directors in the board seems to protect minority shareholder rights. Dechow et al. (1996) and Osma and Noguer (2007) have found that financial statement quality is greatly enhanced by the addition of institutional directors to the board. However, similar research conducted by Beasley (1996), Abbott et al. (2000) and Klein (2002) did not give any significant results.

Apart from the role of the board of directors in ensuring the quality of financial reporting, the role of the audit committee has also been under scrutiny. Abbott et al. (2000), Beasley et al. (2000), Klein (2002), Bédard et al. (2004) and Crutchley et al. (2007) have found that the existence of an independent audit committee is negatively related to the likelihood that a firm will engage in earnings management. More specifically, Klein (2002) has found that the audit committee is effective when at least 50% of its members are independent whereas Bédard et al. (2004) suggest that there is a significant reduction in the likelihood of aggressive earnings management only when the audit committee solely consists of independent members. These findings come in support of the Sarbanes-Oxley Act which requires the independence of all the members of the audit committee. Moreover, audit committees that have members with corporate or financial backgrounds (Beasley et al., 1999; Xie et al., 2003; Bédard et al., 2004) as well as audit committees that meet frequently (Beasley et al,. 1999, 2000; Xie et al,. 2003) have also been found to be important factors in constraining the propensity of managers to engage in earnings management.

METHODOLOGY AND DATA COLLECTION

Study sample

The study sample consists of the public companies listed on Athens Stock Exchange (A.S.E.) during the period 2000-2004. Data regarding the corporate governance practices have been manually collected from company annual reports. Data regarding the extent of tax evasion are available since the Greek public companies are obliged to publish the outcomes of the tax audits on the Athens Stock Exchange website, on their corporate website and in any new prospectus that they release (Athens Exchange Rulebook, Article 275). The above-mentioned announcements and prospectuses are used as the main source of information for estimating the extent of tax evasion. Information regarding the outcome of the tax audits was obtained for 96 firms in total and for 225 fiscal years. Specifically, there are 39 observations for the year 2000, 50 observations for 2001, 52 observations for 2002, 41 observations for 2003 and 43 observations for 2004. The mean rate of tax evasion has been estimated at 13.58% for the year 2000, at 22.70% for 2001, at 20.79% for 2002, at 17.25% for 2003 and 20.32% for 2004. Respectively, the mean tax gap has been estimated at €295,237 for 2000, at €350,672 for 2001, at €327,719 for 2002, at €275,871 for 2003 and at

€247,048 for 2004.

RESULTS AND DISCUSSION

Univariate results

The association between corporate governance practices and the extent of tax evasion is first investigated by means of univariate analysis. Each year under study was examined separately since governance rules that were followed by the companies on a voluntary basis in one year (years 2000-2002) became obligatory later on (years 2003-2004) with the issuance of Law 3016/2002. Variable selection is based upon previous literature and the Greek corporate governance principles and recommendations. The research hypotheses are developed as follows.

H1: The extent of tax evasion is higher when the same individual holds the positions of the chairman of the board and the chief executive officer

The hypothesis is tested by estimating the extent of tax evasion both as the rate of tax evasion and as the amount of the tax gap. T-test is applied in order to test the differences between the means whereas Mann-Whitney and Kolmogorov-Smirnov tests are used to test the differences in the medians. The results are presented in Table 1. Statistically significant differences are found only for the years 2002 and 2003 and only with respect to the level of tax gap. Contrary to expectations, tax evasion is significantly lower in firms where the chairman of the board is also the CEO.

H2: The extent of tax evasion is higher when the chairman of the board is also the owner of the firm (that is, main shareholder)

It must be noted that in the majority of the companies the owner (that is, main shareholder) is also the founder of the company. The same method as above has been applied. The results are presented in Table 2. Whereas no statistically significant differences have been found regarding the rate of tax evasion, the results showed that the tax gap was significantly different between the two groups in four out of the five years of the sample. Once again, contrary to what is considered as best practice by corporate governance codes, tax evasion is lower in firms where the owner (and in most cases also the founder) of the company serves as the chairman of the board.

H3: The extent of tax evasion increases as the percentage of stock held by board members increases

The association between the level of the tax gap and the percentage of stock held by board members is examined by estimating the Spearman's rho and the Kendall's tau-b correlation coefficients. The results are presented in Table 3 and show a strong negative relation. Contrary to expectations, the more shares the board members hold, the more tax compliant the company is.

H4: The extent of tax evasion increases as the percentage of stock held by the main shareholder and its family members increases

Information regarding the percentage of stock held by the main shareholder and its family members are drawn from company annual reports[2]. In the majority of the cases, the main shareholder (owner) is also the founder of the company and the chairman of the board whereas a number of his family members also serve on the board[3]. According to the results presented in Table 4, there is a strong negative association between the percentage of stock held by the family of the owner and the extent of tax evasion.

H5: The extent of tax evasion is lower when board members are compensated through distribution of profits

It is possible for the Greek companies to distribute profits to the board members when the retained earnings after the statutory reserves and dividends are positive (Consolidated Law 2190/1920)[4]. It is expected that in this case the board members will not favour the reduction of earnings through tax evasion since it would affect their cash compensation. There is limited evidence (that is years 2001 and 2002) that the extent of tax evasion is lower when board members are compensated through profit distribution. The results are presented in Table 5.

H6: The extent of tax evasion is higher when the board members are also employees of the company

Although corporate governance code calls for the independence of the board of directors, it is common for the Greek companies to have their employees serve on the board. As the board members in this case are compensated through their salary and not solely through profit distribution, they may not have a strong incentive to report higher earnings. According to expectations, strong positive association is found between the salary compensation of the board directors and the level of tax evasion as measured by tax gap. The results are reported in Table 6.

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[2] The main shareholders of the company, the family relationships among them as well as the family relationships among the members of the board are disclosed in the annual reports.

[3] The Pearson, Spearman's and Kendall's tau-b correlations between the percentage of stock held by board members and the percentage of stock held by the main shareholder and its family members are estimated at 0.785, 0.704 and 0.608 respectively.

[4] Florou (2010) provides a thorough examination of the role of taxes in board members' compensation.

Table 1. Univariate results when the sample is partitioned into two groups based on whether the chairman of the board is also the chief executive officer.

Panel A: 43 companies for the year 2004					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	25	23.50%	9.86%	184.993	108.000
No	18	15.91%	10.47%	333.236	111.101
Non-parametric tests for independent samples					
Mann-Whitney		0.389		0.491	
Kolmogorov-Smirnov		0.271		0.329	
Parametric test for independent samples					
T-test				0.349	

Panel B: 41 companies for the year 2003					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	22	14.50%	10.16%	145.438	68.575
No	19	20.44%	10.03%	348.293	214.000
Non-parametric tests for independent samples					
Mann-Whitney		0.958		0.047*	
Kolmogorov-Smirnov		0.87		0.105	
Parametric test for independent samples					
T-test				0.044*	

Panel C: 52 companies for the year 2002					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	33	22.35%	9.59%	190.300	77.147
No	19	18.09%	11.16%	602.354	171.481
Non-parametric tests for independent samples					
Mann-Whitney		0.827		0.064	
Kolmogorov-Smirnov		0.82		0.311	
Parametric test for independent samples					
T-test				0.029*	

Panel D: 50 companies for the year 2001					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	28	20.27%	9.87%	291.828	78.800
No	22	25.79%	19.66%	425.565	100.434
Non-parametric tests for independent samples					
Mann-Whitney		0.085		0.446	
Kolmogorov-Smirnov		0.081		0.757	
Parametric test for independent samples					
T-test				0.297	

Panel E: 39 companies for the year 2000					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	19	13.08%	11.22%	278.378	141.190
No	20	14.06%	11.13%	311.253	131.911
Non-parametric tests for independent samples					

Table 1. Continue

ann-Whitney	0.835	0.792
Kolmogorov-Smirnov	0.768	0.728
Parametric test for independent samples		
T-test		0.799

*denotes 0.05 level of significance.

Table 2. Univariate results when the sample is partitioned into two groups based on whether the chairman of the board is also the owner (that is. main shareholder) of the company.

Panel A: 43 companies for the year 2004					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	31	23.10%	11.32%	238.926	101.296
No	12	13.16%	8.59%	268.028	128.804
Non-parametric tests for independent samples					
Mann-Whitney		0.165		0.414	
Kolmogorov-Smirnov		0.234		0.301	
Parametric test for independent samples					
T-test				0.538	
Panel B: 41 companies for the year 2003					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	29	16.40%	10.04%	224.475	78.881
No	12	19.30%	8.20%	400.075	216.066
Non-parametric tests for independent samples					
Mann-Whitney		0.543		0.078*	
Kolmogorov-Smirnov		0.216		0.075*	
Parametric test for independent samples					
T-test				0.275	
Panel C: 52 companies for the year 2002					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	40	23.54%	11.19%	146.444	73.459
No	12	11.62%	9.61%	931.968	438.297
Non-parametric tests for independent samples					
Mann-Whitney		0.171		0.001***	
Kolmogorov-Smirnov		0.528		0.04**	
Parametric test for independent samples					
T-test				0.000***	
Panel D: 50 companies for the year 2001					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	36	21.58%	10.89%	232.085	61.661
No	14	25.59%	19.47%	655.608	240.280
Non-parametric tests for independent samples					
Mann-Whitney		0.635		0.001***	
Kolmogorov-Smirnov		0.681		0.006***	
Parametric test for independent samples					

Table 2. Continue

T-test				0.002***	

Panel E: 39 companies for the year 2000					
Variable	**# firms**	**% Tax evasion**		**Tax gap (€)**	
		Mean	**Median**	**Mean**	**Median**
Yes	12	11.03%	9.33%	144.038	108.762
No	27	19.34%	15.83%	635.435	286.748
Non-parametric tests for independent samples					
Mann-Whitney		0.111		0.003***	
Kolmogorov-Smirnov		0.284		0.012**	
Parametric test for independent samples					
T-test				0.001***	

*denotes 0.10 level of significance. ** denotes 0.05 level of significance and *** denotes 0.01 level of significance.

Table 3. Correlation results between tax gap and the percentage of stock held by board members.

Year	Spearman's rho	Kendall's tau-b
2004	-0.319*	-0.225*
2003	-0.311*	
2002	-0.404**	-0.269**
2001	-0.488**	-0.330**
2000	-0.422**	-0.298**

* denotes 0.05 level of significance and ** denotes 0.01 level of significance.

Table 4. Correlation results between tax gap and the percentage of stock held by the family of the main owner

Year	Spearman's rho	Kendall's tau-b
2003	-0.332*	-0.238*
2002	-0.335*	-0.240*
2001	-0.331*	-0.220*
2000	-0.353*	-0.262*

* denotes 0.05 level of significance.

members serve on more boards

H7: The extent of tax evasion is higher when the board
The contradicting opinions regarding the impact of multiple directorships have been discussed in section 2. In the present study three proxies are used in order to assess "multiple directorships". First, it is estimated as the number of board members that serve on other boards, second it is estimated as the total number of the board positions held by board members and third it is estimated as the percentage of the board members that serve on other boards. The correlation results presented in Table 7 reinforce the hypothesis that board members with multiple directorships are not effective in their monitoring role.

Based on previous research, the tenure of the board, the total number of the board members, the number of the independent directors and the financial sophistication of the board members have also been examined but without yielding any significant results.

Multivariate results

Previous studies have shown that the larger the company the more tax compliant tends to be (Giles, 1998; the

Table 5. Univariate results when the sample is partitioned into two groups based on whether the members of the board are compensated through profit distribution.

Panel A: 52 companies for the year 2002			
Variable	**# firms**	**% Tax evasion**	**Tax gap (€)**
		Median	**Median**
Yes	13	5.32%	2.815.947
No	39	11.21%	1.477.268
Non-parametric tests for independent samples			
Mann-Whitney		0.046**	0.064*
Kolmogorov-Smirnov		0.112	0.012

Panel B: 50 companies for the year 2001			
Variable	**# firms**	**% Tax evasion**	**Tax gap (€)**
		Median	**Median**
Yes	17	9.11%	3.210.773
No	33	20.89%	1.424.942
Non-parametric tests for independent samples			
Mann-Whitney		0.029**	0.040**
Kolmogorov-Smirnov		0.056*	0.031**

* denotes 0.10 level of significance. ** denotes 0.05 level of significance.

Table 6. Correlation analysis between tax gap and the amount of salaries paid to board members.

Number of companies that have their employees serve on the board of directors				
Year	**Total number of firms**	**Board includes employees**	**Board does not include employees**	**Missing Information**
2004	43	37	3	3
2003	41	34	2	5
2002	52	45	3	4
2001	50	41	3	6
2000	39	32	4	3

Correlation results			
Year	**Pearson**	**Spearman's rho**	**Kendall's tau-b**
2004	0.345*	0.326*	0.225*
2003	0.548**	0.596**	0.415**
2002		0.367**	0.261**
2001		0.318*	0.251*
2000	0.611**	0.410**	0.561**

* denotes 0.05 level of significance and ** denotes 0.01 level of significance. The variables have been expressed as logarithms (base 10).

previous section between corporate governance Kourdoumpalou and Karagiorgos, 2012).

In order to test whether the statistically significant associations found in practices and tax evasion may be attributed to the size of the companies. multiple regressions which take the following form were run.

Log (Tax Evasion) = a + b1 (Corp. Governance Practice) + b2 Log (Total Assets) + ε

Where: Log (Tax Evasion) = the log (base 10) either of the rate of tax evasion (% tax evasion) either the log (base 10) of the tax gap

Corp. Governance Practice = the corporate governance variable that is examined

Log (Total Assets) = the log (base 10) of the total assets as a proxy for the firm size

Table 7. Correlation analysis between tax gap and directorships held by board members.

Correlation results between tax gap and the number of board members that serve on other boards.		
Year	**Spearman's rho**	**Kendall's tau-b**
2004	0.443**	0.337**
2003	0.472**	0.356**
2002	-0.055	-0.037
2001	0.068	0.054
2000	0.245	0.21
Correlation results between tax gap and the total number of board positions held by board members		
Year	**Spearman's rho**	**Kendall's tau-b**
2004	0.429**	0.307**
2003	0.502**	0.342**
2002	-0.101	-0.054
2001	0.105	0.082
2000	0.435*	0.326**
Correlation results between tax gap and the percentage of board members that also serve on other boards		
Year	**Spearman's rho**	**Kendall's tau-b**
2004	0.552**	0.390**
2003	0.406**	0.286*
2002	0.176	0.128
2001	0.315*	0.242*
2000	0.176	0.125

* denotes 0.05 level of significance and ** denotes 0.01 level of significance.

Similar to univariate analysis, each year is examined separately since law obligations have changed over the five-year period. The amount of total assets is used as a proxy for the size of the firms since it cannot be as easily manipulated as the measure of earnings or profits. Regression results are not reported here for brevity but are available upon request.

The extent of tax evasion, measured as the amount of the tax gap, continues to appear significantly lower in the companies where the owner is also the chairman of the 2000. 2001 and 2002).

In accordance to Mann-Whitney board (that is, significant associations found for the years and Kolmogorov-Smirnov tests for the years 2001 and 2002. the rate of tax evasion is found to be lower when board members are compensated through profit distribution. Moreover a strong negative relationship is found between the extent of the tax gap in years 2001 and 2002 and the distribution of profits to the board members. There is limited evidence (only for year 2001) that tax evasion decreases as the percentage of stock held by board members increases. There is also limited evidence (that is, only for year 2000) that tax evasion is higher in companies where the board members are also employees of the company. Both results agree with the outcomes of univariate analysis. Lastly, the extent of tax evasion is found to be higher in companies that the board members serve on more boards. As previously, "multiple directorships" is first estimated as the number of board members that serve on other boards. second as the total number of the board positions held by board members and third as the percentage of the board members that serve on other boards.

Conclusion

This paper has examined the association between corporate governance practices and the extent of tax evasion. Although univariate analysis has shown that the amount of the tax gap is significantly lower in companies where the board of director is also the chief executive officer. the results were not corroborated when controlling for firm size. This suggests that larger companies tend to separate the two roles. This is consistent with previous studies (Xanthakis et al., 2004; Florou and Galarniotis, 2007; Grant Thornton, 2008) suggesting that voluntary adoption of corporate governance practices among Greek public companies increases with firm size.

Tax evasion has been found to be significantly lower in the companies where the chairman of the board is also the owner of the company. In addition. there is a strong

negative association between tax evasion and a) the percentage of stock held by the owner and its family members and b) the percentage of stock held by board members.

The results contradict international codes on corporate governance practices that call for greater independence of the board. In the case of family-controlled public companies the owner acts in order to ensure the long-term prosperity of the firm and does not behave in an opportunistic manner pursuing shortsighted goals and personal benefits. On this account. Robins (2006) states that “the particular concerns of owner managed companies provide just one illustration of problems likely to arise from across-the-board application of strict. detailed rules”.

The remuneration of the board members through the distribution of profits has been found to significantly decrease the evasion of taxes. This is according to expectations as the tax and accounting earnings during the period of study aligned. A decrease in the reported earnings would also decrease or even prevent the distribution of profits to the board members. Lastly, it has been found that tax evasion is higher when the board members also hold positions on other boards. This may indicate the inability of the directors to manage successfully multiple corporations. Another plausible explanation is that individuals who participate in multiple boards do so in order to gain personal benefits by recording personal expenses in company’s accounts. which later on are rejected by the tax authority.

The present paper focuses on an accounting period characterized by a high level of book – tax conformity. It is of great interest to examine how managers balance the tax incentives to external reporting incentives after the application of International Financial Reporting Standards. This is left for future research.

Conflict of Interests

The authors have not declared any conflict of interests.

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