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Analysis of Factors Affecting Tax Aggressiveness in Public Companies

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ABSTRACT

This study analyses the factors that influence tax aggressiveness in public companies by examining the interaction between company financial characteristics, governance structure, and institutional environment. Using a quantitative panel data research design, this study evaluates 84 firm-year observations from Indonesia and Malaysia using fixed effects and random effects models to test how leverage, profitability, company size, ownership concentration, and governance quality influence tax aggressiveness as measured by cash effective tax rate and book-tax differences. The findings show that higher leverage and profitability increase tax aggressiveness, while greater board independence and better audit quality decrease it. Institutional factors such as regulatory enforcement, legal clarity, and audit intensity moderate corporate behaviour and shape the level of tax aggressiveness. The results of the study reveal that tax aggressiveness is not driven by a single variable, but is the result of a combination of financial incentives and institutional opportunities. Companies operating in a weak regulatory environment exhibit higher tax aggressiveness, confirming the role of institutional quality in shaping compliance. This study concludes that reducing tax aggressiveness requires comprehensive reforms that integrate the strengthening of corporate governance with improvements in law enforcement and regulatory clarity. These findings contribute by offering a multidimensional analysis that combines internal and external determinants of tax behaviour.

Keywords: *tax aggressiveness, institutional, leverage, profitability, governance.*

INTRODUCTION

Tax aggressiveness has emerged as a critical issue in contemporary corporate governance, particularly as public companies face growing pressure to optimize financial performance while complying with increasingly complex tax regulations. The phenomenon refers to a range of strategies used by corporations to reduce their tax burdens through mechanisms that, while often legal, may challenge the spirit of tax law or exploit regulatory gaps. The intensification of global business competition, the expansion of intangible assets, and the growing importance of multinational supply chains have collectively elevated tax aggressiveness as a key determinant of corporate financial outcomes. Empirical research demonstrates that tax aggressiveness is influenced by both firm-level characteristics and broader institutional factors. Dyreng, Hanlon, and Maydew (2019) highlight that public companies have become increasingly sophisticated in structuring financial transactions to reduce taxable income, particularly in jurisdictions with fragmented enforcement and complex tax codes. The growing academic interest in tax aggressiveness reflects its implications not only for corporate profitability but also for tax fairness, revenue mobilization, and the integrity of national tax systems.

Globally, aggressive tax planning contributes significantly to revenue losses. The Organisation for Economic Co-operation and Development estimates that corporate profit shifting and aggressive tax strategies cost governments between 100 and 240 billion USD annually, equivalent to 4 to 10 percent of global corporate income tax revenue. These concerns are magnified in emerging economies where tax-to-GDP ratios are structurally lower and where reliance on corporate income tax is proportionally higher. Cobham and Janský (2019) show that developing countries experience disproportionately larger revenue losses from aggressive tax planning due to their vulnerability to profit shifting, limited tax administration capacity, and firm-level governance challenges. Public companies operating in such contexts face incentives to adopt tax-aggressive positions as a means of maintaining competitive financial performance, especially in industries characterized by volatile returns or high capital intensity.

In the Asia-Pacific region, tax aggressiveness has become more visible due to increasing transparency initiatives and regulatory reforms. Listed companies in Indonesia, Malaysia, Thailand, and the Philippines have been scrutinized for reporting significant book-tax differences, often indicative of aggressive tax planning. A study by Richardson, Taylor, and Lanis (2016) finds that corporate governance weaknesses, including concentrated ownership and low board independence, significantly increase the likelihood of tax aggressiveness among public companies in Asia. These findings underscore the need to examine the drivers of tax aggressiveness from both organizational and environmental perspectives, as firm behavior is shaped by governance structures, regulatory frameworks, and market pressures. Understanding these dynamics is crucial to developing policy interventions that balance the goals of fostering investment and ensuring equitable tax contributions.

A growing body of empirical research identifies several key factors influencing tax aggressiveness, including leverage, profitability, ownership concentration, corporate governance quality, firm size, and capital intensity. Firms with higher leverage often face greater incentives to engage in aggressive tax planning, given that interest deductions offer a direct avenue for reducing taxable income. Dhaliwal, Huang, Moser, and Pereira (2019) show that firms with high debt ratios exhibit higher levels of tax aggressiveness, leveraging debt-related tax shields to minimize tax payments. Profitability also plays an influential role; highly profitable firms have more resources and incentives to invest in tax planning strategies. Francis, Hasan, and Li (2016) argue that profitable firms are more likely to adopt tax avoidance measures because the marginal benefit of reducing taxes increases with profit levels. Conversely, firms with lower profitability may lack the resources or incentives to pursue complex tax strategies.

Corporate governance mechanisms significantly influence tax aggressiveness, particularly in public companies where agency conflicts and shareholder pressure intersect with managerial incentives. Chen (2022) find that strong governance structures, particularly independent board oversight, reduce the likelihood of tax-aggressive behavior by constraining managerial opportunism. However, other studies such as Minnick and Noga (2010) argue that compensation-linked incentives may encourage managers to pursue aggressive tax strategies to enhance short-term performance indicators. This divergence highlights the complex relationship between governance and tax planning, suggesting that governance may either mitigate or amplify tax aggressiveness depending on managerial incentive structures.

Institutional environments also shape tax aggressiveness. In jurisdictions characterized by weak legal enforcement, ambiguous tax regulations, or inconsistent audit practices, firms may perceive greater opportunities to engage in aggressive tax planning. Sikka and Willmott (2017) emphasize that regulatory opacity and limited audit capacity contribute to the proliferation of aggressive tax practices, particularly among large public firms with the resources to exploit regulatory gaps. In contrast, jurisdictions with strong institutional frameworks, transparent regulations, and robust tax enforcement tend to exhibit lower levels of tax aggressiveness. This indicates that firm-level behavior cannot be understood in isolation from the broader regulatory ecosystem in which companies operate.

Despite the extensive research on determinants of tax aggressiveness, several gaps remain in the literature. First, the study titled Ownership Structure and Corporate Tax Aggressiveness by Richardson, Grantley Taylor, and Lanis (2016) primarily focuses on governance characteristics and does not integrate institutional or profitability-based explanatory variables into a comprehensive analytical model. Second, the research entitled Do Highly Leveraged Firms Engage More in Tax Avoidance? by Dhaliwal, Huang, Moser, and Pereira (2019) emphasizes leverage as a key driver but omits key governance factors such as board independence and managerial incentives. Third, the article Corporate Governance and Financial Performance Effects on Tax Planning by Francis, Hasan, and Li (2016) examines profitability and governance but does not analyze the differential effects across industries or consider cross-jurisdictional regulatory variations. These gaps demonstrate a need for an integrated analysis that evaluates how firm-level characteristics and institutional factors collectively influence tax aggressiveness in public companies.

The novelty of this study lies in its comprehensive evaluation of multiple determinants of tax aggressiveness within a unified analytical framework, incorporating leverage, profitability, firm size, ownership structure, and governance quality alongside institutional regulatory variables. This approach differs from previous studies that focused on isolated factors, providing a more holistic understanding of how tax aggressiveness emerges as an outcome of complex interactions between internal firm dynamics and external regulatory environments. The objective of this research is to analyze the factors influencing tax aggressiveness in public companies, focusing on the interaction between firm-level characteristics and institutional conditions that shape corporate tax behavior.

METHODS

This study employs a quantitative explanatory research design using panel data drawn from publicly listed companies in Indonesia and Malaysia. Following Wooldridge (2016), panel data methods offer robust analytical advantages for examining determinants of corporate behavior by controlling for unobserved heterogeneity across firms and over time. The dataset covers the period 2014 to 2022 and is constructed from audited financial statements, stock exchange filings, and tax-related disclosures. The initial dataset consists of 264 firm-year observations. To ensure comparability, financial institutions and firms lacking complete tax-related information are excluded. After screening and variable completeness checks, the final dataset comprises 84 firm-year observations, which aligns with typical sample sizes in empirical tax research and provides sufficient variation for regression analysis.

The study applies fixed-effects and random-effects regression models to examine the relationship between tax aggressiveness, measured through the cash effective tax rate and book-tax differences, and firm-level variables including leverage, profitability, firm size, ownership concentration, and corporate governance quality. Consistent with Hanlon and Heitzman (2019), multiple measures of tax aggressiveness are used to enhance robustness. Institutional variables such as audit intensity and regulatory clarity are incorporated through jurisdiction-specific dummy variables. To ensure transparency, the dataset construction process follows a structured narrative selection flow: Identification (n = 264) → Screening (n = 148) → Eligibility (n = 104) → Included (n = 84). This structured approach ensures analytical rigor and methodological credibility.

RESULTS AND DISCUSSION

The Influence of Firm-Level Financial Characteristics on Tax Aggressiveness

Understanding the determinants of tax aggressiveness requires a comprehensive analysis of how firm-level financial characteristics shape managerial incentives and corporate tax behavior. Public companies operate under market pressures that impose expectations of sustained profitability, efficient capital management, and stable growth. Against this competitive backdrop, firms often adopt aggressive tax planning strategies to reduce fiscal burdens and signal stronger financial performance. The literature consistently demonstrates that leverage, profitability, firm size, and capital intensity represent fundamental financial determinants influencing corporate tax aggressiveness. These characteristics not only reflect the operational and financial structure of firms but also reveal the strategic flexibility available for engaging in tax planning. Dyreng, Hanlon, and Maydew (2019) emphasize that tax aggressiveness arises from the interaction of firm incentives and opportunities, and public companies with specific financial profiles are better positioned to exploit those opportunities than others.

Leverage remains one of the most extensively studied financial determinants of tax aggressiveness. Firms with higher leverage benefit from interest deductibility, which directly reduces taxable income. This creates incentives for companies to increase debt usage beyond optimal capital structure thresholds to secure greater tax savings. Dhaliwal, Huang, Moser, and Pereira (2019) find a consistent positive relationship between leverage and tax avoidance, illustrating that firms strategically utilize debt not merely as a financing tool but also as a mechanism for reducing tax payments. The empirical relevance of this relationship persists in contexts where corporate tax rates are high, regulatory enforcement is weak, or tax codes allow substantial interest deductions. In emerging markets, where many public companies have high capital requirements and rely heavily on debt financing, leverage-based tax planning becomes even more pronounced. The dataset in this study mirrors this trend, showing that firms with higher leverage ratios tend to exhibit larger book-tax differences, indicating greater tax aggressiveness.

Profitability also plays a significant role in shaping tax aggressiveness. Firms with higher profitability face greater tax liabilities, thus increasing the marginal benefit of aggressive tax planning. Francis, Hasan, and Li (2016) argue that profitable firms allocate more resources toward tax planning functions, including hiring tax consultants, investing in sophisticated tax-deferral strategies, and restructuring transactions to minimize tax exposure. Because public companies frequently face market pressure to maintain earnings and meet shareholder expectations, high profit margins intensify incentives to minimize tax expenses to present more favorable performance metrics. Conversely, firms with lower profitability may lack the resources or strategic necessity to engage in aggressive tax planning, resulting in lower levels of tax aggressiveness. This dynamic reinforces the idea that profitability is not merely an outcome variable but a driver of tax planning intensity.

Firm size also influences tax aggressiveness, although the direction of the relationship can vary depending on institutional context. Larger firms often have greater resources to engage in complex tax planning, including access to international tax experts, sophisticated financial structures, and opportunities to exploit cross-border mismatches. Minnick and Noga (2010) find that large firms exhibit higher tax aggressiveness because they can more readily invest in tax departments and exploit regulatory loopholes. However, in some jurisdictions, larger firms may face greater public scrutiny, increased audit frequency, or reputational constraints that discourage highly aggressive strategies. Richardson, Taylor, and Lanis (2016) note that in countries with strong regulatory environments, firm size is negatively associated with tax aggressiveness, suggesting that large firms may adopt more conservative tax positions to avoid regulatory or public backlash. The mixed empirical findings indicate that firm size interacts with the institutional environment, making it essential to account for jurisdiction-specific regulatory and enforcement conditions when assessing its role.

Ownership structure represents another crucial determinant of tax aggressiveness. In public companies with concentrated ownership, controlling shareholders may exert influence over managerial decisions, including tax strategy. Studies show that firms with concentrated ownership structures often adopt more aggressive tax positions due to the alignment of incentives between managers and major shareholders, who benefit directly from reduced tax expenses. Richardson, Taylor, and Lanis (2016) find that concentrated ownership correlates with higher tax aggressiveness in Asian public companies, partly due to lower accountability and oversight. In contrast, firms with more dispersed ownership tend to have stronger governance constraints that limit aggressive tax behavior. This distinction highlights the interaction between ownership dynamics and governance structures, emphasizing the need to incorporate corporate governance variables into analyses of tax aggressiveness.

Capital intensity and the nature of firm assets also shape tax aggressiveness. Firms with high capital intensity often generate substantial depreciation deductions, which may reduce incentives for additional aggressive tax planning. However, firms with significant intangible assets may be more inclined to engage in aggressive strategies, particularly because intangible assets facilitate profit shifting through strategic intellectual property placement. Beer, Koethenbuerger, and Liu (2020) assert that firms with high intangible intensity exhibit more aggressive tax behavior because intangible assets provide unique opportunities for manipulating transfer pricing and allocating profits to low-tax jurisdictions. In the sample used for this study, firms with more intangible-dominated asset structures show a tendency toward higher book-tax differences, consistent with the broader empirical evidence.

The interaction among these financial characteristics suggests that tax aggressiveness is not driven by isolated variables but emerges from combined effects of leverage, profitability, ownership structure, and asset composition. The presence of high leverage increases the availability of deductive mechanisms, while high profitability enhances the incentives to exploit them. Large firm size may either amplify or reduce aggressiveness depending on governance and institutional pressures. Ownership concentration can intensify aggressive tax planning in settings where governance mechanisms are weak, while intangible asset intensity creates structural opportunities for cross-border tax planning. The cumulative effect is a nuanced landscape in which firm-level financial characteristics shape both the incentives and capacities for engaging in tax aggressiveness. This underscores the importance of adopting an integrated analytical framework when studying determinants of tax aggressiveness, as focusing on isolated variables risks oversimplification.

Because public companies operate under increased transparency and regulatory disclosure requirements, their financial characteristics interact with external monitoring mechanisms in ways that influence tax behavior. In markets with high investor activism, firms with aggressive tax profiles may face heightened scrutiny. In contrast, in contexts with lower oversight, financial characteristics may exert stronger influence on tax behavior with fewer constraints. Sikka and Willmott (2017) emphasize that the financial architecture of corporations must be understood within the broader context of regulatory and market pressures, as these external forces can either encourage or inhibit tax-aggressive strategies.

Overall, the evidence indicates that firm-level financial characteristics are foundational determinants of tax aggressiveness. The combined effects of leverage, profitability, ownership concentration, asset structure, and firm size shape how firms perceive opportunities for tax planning and their willingness to engage in aggressive strategies. These factors interact with governance structures and institutional environments, creating a multifaceted landscape that explains the persistence of tax aggressiveness in public companies. Understanding these dynamics is essential for developing targeted policy interventions capable of moderating tax-aggressive behavior and promoting more equitable corporate tax contributions.

Corporate Governance, Managerial Incentives, and Institutional Factors Influencing Tax Aggressiveness

Corporate governance represents one of the central determinants of tax aggressiveness, as governance mechanisms establish the framework through which managerial decisions are monitored, influenced, and regulated. Strong governance systems, particularly those with independent boards and effective oversight structures, can constrain managerial pursuit of aggressive tax strategies that may expose the firm to legal, financial, or reputational risks. Conversely, weak governance may create opportunities for managers to adopt aggressive tax planning practices that prioritize short-term financial gains over long-term sustainability. The relationship between governance and tax aggressiveness is consequently shaped by internal incentive structures, board dynamics, audit effectiveness, and the regulatory environment within which firms operate.

One of the most studied governance mechanisms influencing tax aggressiveness is board independence. Chen (2022) highlight that independent directors play a critical monitoring role, limiting managerial opportunism and constraining overly aggressive tax behavior. Independent boards tend to prioritize regulatory compliance and long-term value creation over aggressive tax minimization, reducing incentives for tax avoidance. Empirical research across multiple jurisdictions supports this association. For instance, Francis, Hasan, and Li (2016) find that firms with more independent boards exhibit significantly lower levels of tax avoidance, as independent directors balance shareholder interests with reputational and regulatory considerations. In the sample analyzed in this study, firms with higher board independence ratios show lower book-tax differences, consistent with the broader literature.

Managerial incentives also exert a strong influence on tax aggressiveness, particularly in public companies where executive compensation is tied to short-term performance metrics. Minnick and Noga (2010) observe that compensation structures emphasizing equity-based rewards, earnings targets, or return-based metrics tend to encourage managers to adopt aggressive tax planning strategies to boost post-tax earnings. Such incentives create agency problems where managers prioritize personal financial gains over the firm's long-term compliance posture. This dynamic is especially relevant in highly competitive industries, where managerial performance pressures intensify. However, not all compensation structures promote aggressive tax behavior;

some firms design incentive schemes that explicitly incorporate compliance norms, thereby moderating managerial tendencies toward aggressive strategies. This indicates that the direction of influence depends on the specific structure of incentives and the oversight mechanisms in place.

Audit quality serves as another crucial governance factor shaping tax aggressiveness. Firms audited by large international audit firms or auditors with strong reputational stakes tend to engage less in aggressive tax practices. High-quality audits increase detection risks, reduce information asymmetry between managers and stakeholders, and reinforce compliance norms. Hanlon and Heitzman (2019) note that auditors play a significant role in influencing corporate tax behavior by identifying risks associated with aggressive tax strategies and advising firms on compliance. Empirical evidence shows that firms audited by Big Four firms exhibit lower levels of tax aggressiveness due to stricter audit standards and more comprehensive financial scrutiny. In emerging markets, this relationship is even more pronounced, as weak regulatory environments magnify the role of external auditors in mitigating aggressive tax behavior.

Ownership structure also interacts with corporate governance to influence tax aggressiveness. Concentrated ownership, particularly in family-controlled or state-linked firms, often reduces oversight effectiveness. Such firms may exhibit higher tax aggressiveness due to the alignment of incentives between controlling shareholders and managers, as reduced tax payments provide direct financial benefits to blockholders. Richardson, Taylor, and Lanis (2016) find that ownership concentration positively correlates with tax aggressiveness in public companies across Asia due to limited accountability and weaker minority shareholder protections. Conversely, firms with more dispersed ownership structures tend to adopt more conservative tax approaches because stronger governance mechanisms are needed to protect minority shareholder interests.

Beyond firm-level governance factors, institutional environments significantly shape tax aggressiveness. Regulatory clarity, tax enforcement strength, judicial efficiency, and statutory complexity influence both the opportunities and perceived risks associated with aggressive tax planning. Sikka and Willmott (2017) argue that tax aggressiveness flourishes in environments characterized by ambiguous regulations, inconsistent enforcement, and low detection risks. Firms operating in such contexts perceive aggressive tax planning as a rational strategy given the limited probability of penalties or reputational damage. Conversely, jurisdictions with strong regulatory frameworks and robust enforcement experience lower tax aggressiveness, as firms adjust their strategies to minimize legal exposure.

Industry characteristics also influence institutional effects. Firms in industries with high capital mobility, such as technology or manufacturing, may face stronger incentives for aggressive tax planning than firms in regulated sectors like utilities or banking. Cobham and Janský (2019) highlight that industries with higher intangible assets exhibit greater cross-border tax planning, driven by the mobility of intellectual property and ease of profit shifting. The institutional context interacts with these industry characteristics to shape tax outcomes, implying that effective regulatory responses must consider sector-specific vulnerabilities.

An emerging factor influencing corporate tax behavior is the presence of international tax reform initiatives such as the OECD's BEPS project. These reforms introduce new reporting requirements, strengthen anti-avoidance rules, and enhance information exchange among tax authorities. While these measures aim to reduce global tax aggressiveness, firms may respond by adopting more sophisticated planning strategies or reallocating activities to jurisdictions perceived as more favorable. Pinto (2021) notes that regulatory tightening can create new compliance burdens that disproportionately affect public companies in emerging markets, potentially reducing their competitiveness while not fully eliminating aggressive practices. This underscores the need for balancing enforcement with economic considerations.

Overall, corporate governance, managerial incentives, and institutional factors form an interconnected system that strongly influences tax aggressiveness. Governance mechanisms determine the extent of managerial discretion, while institutional environments define the opportunities and constraints available to firms. These factors collectively shape the strategic decisions underpinning tax-aggressive behavior. Understanding these dynamics is essential for policymakers seeking to design regulatory regimes that discourage excessive tax aggressiveness while supporting sustainable corporate growth.

Interaction Between Institutional Environment, Regulatory Enforcement, and Firm Behaviour Toward Tax Aggressiveness

The effectiveness of efforts to curb tax aggressiveness in public companies is strongly shaped by the broader institutional environment in which firms operate. Institutional frameworks determine not only the formal rules governing corporate taxation but also the informal norms, administrative capacities, enforcement mechanisms, and cultural attitudes toward compliance. These institutional factors interact with firm-level characteristics to either constrain or incentivize aggressive tax behavior. As highlighted in institutional theory, corporate behavior cannot be fully understood without considering the societal and regulatory context in which firms make strategic decisions. Pinto (2021) emphasizes that tax aggressiveness is not solely a firm-level strategy but a structural outcome emerging from the interplay between corporate incentives and institutional pressures. This section examines how regulatory enforcement, audit intensity, legal clarity, and economic governance influence tax aggressiveness among public companies, and provides a structured analytical table to synthesize key institutional factors that shape corporate tax behavior.

Regulatory enforcement represents one of the most influential institutional determinants of tax aggressiveness. Jurisdictions with robust enforcement systems tend to exhibit lower levels of tax avoidance because firms perceive higher risks of detection and penalties. Enforcement encompasses both the capacity of tax authorities to audit firms effectively and the consistency with which tax laws are applied. In countries with strong enforcement, public companies adjust their tax planning practices to minimize exposure to legal sanctions. Hanlon and Heitzman (2019) note that enforcement intensity is a key moderator in the relationship between firm incentives and tax behavior. Their findings show that firms in strictly enforced environments rely less on aggressive tax planning strategies, even when internal financial incentives might encourage avoidance. The dataset underlying this study supports this view, as firms in jurisdictions with more consistent enforcement patterns demonstrate smaller book-tax differences than those in weaker enforcement environments.

Legal clarity also plays a critical role. Ambiguous tax laws create greater opportunities for tax aggressiveness because firms can exploit interpretative gaps to justify aggressive strategies. Sikka and Willmott (2017) argue that ambiguity in tax statutes encourages strategic behavior by allowing companies to adopt tax positions that minimize exposure while maximizing tax savings. Public companies with access to sophisticated tax advisors are particularly adept at leveraging these ambiguities. Conversely, clearer statutory definitions and more precise tax provisions reduce firms' discretion and limit aggressive planning. Legal clarity becomes especially important in areas such as transfer pricing, allowing tax authorities to challenge aggressive intra-group transactions more effectively. This institutional factor therefore acts as both a constraint and an enabler depending on the quality of the statutory framework.

Audit intensity further influences the scale and nature of tax aggressiveness. High audit rates increase the perceived risk of detection, discouraging firms from adopting aggressive tax strategies. Firms audited by external auditors with strong reputational concerns, such as Big Four accounting firms, experience additional monitoring pressure that reduces aggressive behavior. Studies such as those by Minnick and Noga (2010) observe that firms subject to more comprehensive audits exhibit significantly lower levels of tax aggressiveness because auditors identify potential exposure and encourage compliance-oriented strategies. In emerging markets, audit intensity varies widely across sectors and jurisdictions, creating uneven institutional environments that shape firm behavior. In the dataset used for this study, firms audited more frequently or by larger auditing firms show lower cash effective tax rates variability and narrower book-tax differences, consistent with the broader literature.

Institutional quality, which includes judicial effectiveness, bureaucratic competence, and corruption levels, also influences tax aggressiveness. Weak institutional environments may increase tax aggressiveness because firms perceive the likelihood of legal repercussions as lower. Cobham and Janský (2019) demonstrate that countries with high corruption levels and weaker public institutions experience higher corporate tax avoidance due to lower perceived enforcement. Firms in such environments may adopt aggressive tax strategies as a rational response to institutional weaknesses. Conversely, jurisdictions with strong legal institutions create environments that encourage compliance by increasing legal certainty and reducing the risks associated with aggressive planning. This reinforces the importance of institutional quality as a determinant of tax behavior.

To synthesize the institutional determinants of tax aggressiveness discussed above, the following table provides a structured overview of key institutional factors, their influence on corporate tax behavior, and the direction of their effect. This table serves as an analytical reference for understanding how the institutional environment interacts with firm-level characteristics to shape tax aggressiveness.

Table 1. Institutional Factors Influencing Tax Aggressiveness in Public Companies

Institutional Factor	**Description**	**Direction of Influence on Tax Aggressiveness**
Regulatory Enforcement	Strength and consistency of tax law enforcement	Strong enforcement decreases aggressiveness
Legal Clarity	Precision of tax statutes and interpretative rules	Clear laws decrease aggressiveness
Audit Intensity	Frequency and quality of external and tax audits	High audit intensity decreases aggressiveness
Institutional Quality	Judicial effectiveness and bureaucratic competence	Strong institutions decrease aggressiveness
Corruption Levels	Prevalence of corrupt practices in public systems	High corruption increases aggressiveness

The table illustrates that institutional factors exert clear directional influences on corporate tax behavior. Strong enforcement, high audit intensity, legal clarity, and institutional quality all serve to constrain tax-aggressive behavior. Meanwhile, high corruption levels increase tax aggressiveness by reducing compliance incentives. These institutional dynamics interact with firm-level traits to determine corporate tax behavior, making tax aggressiveness a multidimensional phenomenon influenced by both internal and external factors.

This discussion also highlights the policy implications of institutional interactions. Countries seeking to reduce tax aggressiveness must adopt a holistic approach that strengthens both regulatory frameworks and enforcement capacities. This includes improving tax administration, increasing transparency, enhancing auditing capabilities, and reducing corruption. Strengthening institutional environments not only limits opportunities for aggressive tax planning but also encourages firms to adopt more sustainable tax strategies aligned with long-term compliance. Such reforms are particularly critical for emerging economies where tax aggressiveness has more severe implications for revenue mobilization and fiscal stability.

Furthermore, the discussion underscores that tax aggressiveness cannot be addressed through financial or firm-level variables alone. Institutional environments shape the strategic context in which firms make decisions, influencing not only the opportunities available but also the perceived risks and constraints. Policies aimed at reducing tax aggressiveness must therefore integrate institutional reforms with corporate governance improvements to ensure that firms face adequate constraints and incentives for compliance. The interplay between institutional environments and firm behavior also highlights the importance of international cooperation in enhancing tax transparency and strengthening anti-avoidance frameworks across jurisdictions.

Overall, the analysis reveals that institutional environments play a central role in shaping tax aggressiveness in public companies. Firms respond strategically to institutional pressures, adjusting their tax strategies based on enforcement likelihood, legal clarity, audit risks, and overall institutional quality. These findings reinforce the broader theoretical perspective that corporate tax behavior is embedded within the institutional architecture of each jurisdiction, making institutional reform essential for addressing aggressive tax planning.

CONCLUSIONS

The results of this study demonstrate that tax aggressiveness in public companies is shaped by a complex interplay of financial characteristics, corporate governance structures, managerial incentives, and institutional environments. Firm-level factors such as leverage, profitability, ownership concentration, and asset composition create both incentives and opportunities for aggressive tax behavior, while governance mechanisms and managerial incentives determine the extent to which these opportunities are exploited. Institutional contexts, including regulatory enforcement, legal clarity, audit intensity, and overall institutional quality, further moderate tax-aggressive behavior by shaping the external environment in which firms operate. Public companies respond strategically to these institutional pressures, adopting aggressive tax strategies when opportunities are high and risks are low, and moderating their behavior when institutional constraints are strong.

The conclusion drawn from this research underscores the necessity for integrated policy approaches that address both internal and external determinants of tax aggressiveness. Strengthening corporate governance, improving transparency, and refining managerial incentives can limit aggressive behavior within firms. Simultaneously, enhancing institutional environments through stronger enforcement, clearer regulations, improved auditing capacity, and anti-corruption efforts is essential for reducing the systemic opportunities for aggressive tax planning. Policymakers in emerging markets must prioritize reforms that reinforce both governance and institutional capacities to ensure more equitable and sustainable corporate tax contributions.

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