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**The effectiveness of the regulatory response to corporate tax  
aggressiveness in Australia**

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Thesis submitted in partial fulfilment of the requirements for the degree of  
**Doctor of Philosophy**

April 2018

Accounting Discipline Group  
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## **Certificate of Original Authorship**

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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Ross McClure

2 April 2018

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## **Acknowledgements**

I gratefully acknowledge the contribution of my supervisors, Professor Peter Wells, Associate Professor Roman Lanis and Dr Brett Govendir. Their assistance, encouragement, guidance and support were crucial to the successful completion of this thesis, and their patience and tolerance was generous and greatly appreciated. They gave me the freedom to develop my research and challenged me to improve and recognise my level of expertise.

The suggestions, feedback and assistance from all members of the Accounting Discipline Group provided a supportive and creative environment that greatly assisted the research process. The critical analysis and critique provided during presentations greatly improved my understanding of my thesis topic and pushed me to explore deeper into the extant literature and look at problems in a different light.

Finally, I must acknowledge the support and encouragement from my long-suffering wife, Grania. From her patience and understanding when I was experiencing difficulties, her tolerance of my long absences and lack of housework, through to her exuberance and celebrations of my successes is extraordinary, and I thank her most sincerely.

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## **Abstract**

The objective of this thesis is to assess the effectiveness of dividend imputation in reducing corporate tax aggressiveness in Australia. An evaluation of the impact of divergent incentives for tax avoidance across a pooled, cross-section of firms reveals significant differences between firms that pay dividends with tax credits attached, as opposed to those that do not pay dividends or pay dividends without tax credits. Results suggest that firms paying dividends with tax credits are less likely to engage in tax avoidance, having an average cash effective tax rate up to 16.9 percentage points higher than firms that pay dividends without tax credits, and up to 14.7 percentage points higher than firms that do not pay dividends at all. Despite these results, there is still wide variation in the level tax avoidance amongst those firms paying dividends with tax credits, even though they face similar incentives that theoretically, should discourage corporate tax avoidance. This thesis finds economically and statistically significant evidence that firms in this group set target tax rates, based on their planned dividend payouts, in order to maximize tax credits available to shareholders. Further, a positive association exists between outside directors and corporate tax avoidance, even in instances where firms are utilising dividend imputation which is expected to mitigate such an association. In combination, these results suggest there is heterogeneity of the costs and benefits of tax avoidance which creates a challenge in evaluating corporate tax aggressiveness generally, and the impact of corporate governance on corporate tax avoidance in particular. Overall, these results provide insights into the effectiveness of dividend imputation in mitigating corporate tax avoidance, as well as providing theoretical and empirical support for the continuance of dividend imputation in Australia.

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This appendix contains a detailed description of dividend imputation as it operates in Australia. It includes a worked example of the differences that dividend imputation and “classical” dividend taxation have on after-tax dividend income in the hands of shareholders, as well as the implications for tax avoidance.