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

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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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2 April 2018

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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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