**The effect of tax preparers on corporate tax aggressiveness: Evidence form The UK context**

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***Abstract***

This paper studies the role of tax preparers in tax aggressiveness. Based on a sample of 342 UK companies indexed on the Financial Times Stock Exchange (FTSE) 350 from 2006 to 2016, it finds that external tax preparers are more tax aggressive than internal ones. The result is explained by the capability of external preparers to take more aggressive tax positions than internal preparers because of their knowledge in different changes to tax law, and their higher expertise in this field. The findings has implications for managers, policymakers and researchers.

**Keywords:** Tax aggressiveness; tax preparer; auditor; tax fees.

1. **INTRODUCTION**

Corporate tax is a subject of frequent scrutiny by tax authorities as it is considered a current political agenda ([Devereux & Vella, 2014](#_ENREF_15)). Tax is the main source of income for most countries including UK, where, tax revenues accounted for 33.3% of GDP in 2018[[1]](#footnote-1).

Several studies have investigated on the tax practitioners and audit services (([Frankel, Johnson, & Nelson, 2002](#_ENREF_21)); ([DeFond, Raghunandan, & Subramanyam, 2002](#_ENREF_12)); ([Klassen, Lisowsky, & Mescall, 2016](#_ENREF_35))). Tax preparers provide taxpayers tax advice, help them to comply with laws and regulation and may help them to maximize their after-tax income. Because, the complexity and ambiguity of the tax laws, taxpayers frequently engage the services of paid preparers (in contrast to internal tax preparers), who play a key role in the tax environment with to both clients and to the state ([Erard, 1993](#_ENREF_19)). This paper studies the role of tax preparers in tax aggressiveness.

 Nonetheless, most agree that the tax preparer does affect the process, either way.([Vermeer, Spilker, & Curatola, 2019](#_ENREF_50)) find that tax preparers recommend aggressive positions for clients of moderate economic importance than for clients of low or high economic importance.

[Klassen et al. (2016](#_ENREF_35)) provide some evidence that using auditor to provide tax services are negatively correlated with the tax aggressiveness of firms. However, the authors do not examine whether the decrease of tax aggressiveness is a result of the choice of tax preparers by the clients. Internally prepared tax returns claim more aggressive tax positions than auditor-prepared returns because the auditors can use this knowledge to offer advice to taxpayers and can potentially help introduce aggressive tax strategies ([Hogan & Noga, 2015](#_ENREF_29)).

As far as the authors examine the relationship between taxpayers’ compliance behavior and the tax system and they found that no auditor services affect independence of auditor ([Chen, Chen, Cheng, & Shevlin, 2010](#_ENREF_8); [Lanis, Richardson, & Taylor, 2017](#_ENREF_37)). The existents of a gap between the tax systems in UK and tax systems in Europe that needs a level of harmonization. We consider tax system to be directly relevant to the ongoing debate at both national and European level as to issues of competition, liability and regulation in the audit market and the orientation to harmonization tax[[2]](#footnote-2).

The literature is largely silent on the role of a broader set of tax preparers, including tax departments and non-auditors and their impact on corporate tax decisions. The study fills this gap in the literature by examining broadening the scope of the examination into tax prepares to include non-auditors tax preparers. Our research question is : what is the effect of tax preparers types on corporate tax aggressiveness positions?

The study examines the effect of tax preparers on tax aggressiveness in UK context. The sample consisted of 342 UK companies indexed on FTSE 350 of UK firm between 2006 to 2016. It used the GMM technique, which is considered the most appropriate for this research. The analysis shows that external tax preparers are more tax aggressive than internal ones.

The paper contributes to the tax accounting literature. It contributes to the literature by examining the differences in tax aggressiveness between internal and external tax preparers. It also helps the firm to achieve its objectives as well as enhance better industry structure on corporate tax reporting. The paper also contributes to the growing literature on tax management by providing empirical evidence that improves the effect of tax preparers on tax aggressiveness by context-specific factors, including the quality of services. This research would help managers, policy-makers and researchers’ better understand the role ‎of tax preparers as an intermediary between firms and tax administration.‎

The paper proceeds as follows: Section 2 provides a review of the related literature and the theoretical framework. Section 3 develops the hypotheses. Section 4 relates to the research methodology including the research design and how data collection is conducted. Section 5 describes the data analysis, discussion and interpretation of the results. Section 6 concludes.

1. **LITERATURE REVIEW**
	1. **Underlying theoretical framework**

Due to the interdisciplinary nature of taxation and diverse backgrounds of academics, the investigated research questions are manifold and the approaches on how to implement taxation are heterogeneous.

Most of researchers in the area of tax services have applied agency theory to define the substance of their concept ([Desai & Dharmapala, 2006](#_ENREF_14)) ([Chen et al., 2010](#_ENREF_8)) .This theory is the cornerstone of management, explained the separation between ownership and control([Shleifer & Vishny, 1997](#_ENREF_49)). This theory can explain the relation between the taxpayer (principal), and the tax admiration (agent). The idea is that these two parties have conflicts of interest ([Jensen & Meckling, 1976](#_ENREF_30)). Increasing complexity, tax requirements necessity of the tax preparer; he play the role of intermediary between taxpayers and tax administration by preparing tax income.([Devos, 2012](#_ENREF_16))p.5 suggests that the tax preparer“…*covers a diverse group of individuals, business structures and professional groups who provide a range of tax services for their clients. Self-employed and in-house accountants, tax advisers and registered tax agents, tax agent franchises and legal practitioners in the tax area are all embraced by the term ‘tax preparer’* ”.

Many taxpayers, in front of huge volumes and secretive jargons in the tax laws, the taxpayers have recourse to the tax preparers for assistance who is well informed in the tax rules. ([Kahneman & Tversky, 2013](#_ENREF_31)) predict that the decision-makers anticipate gains or losses, and behave differently. The different behavior between the preparers of the tax and the taxpayer can be explained by the fact that it is finally the taxpayer who must pay not the tax preparers so he must react on their behalf to minimize the tax burden. Firstly, they will be risk-seeking and, therefore, more willing to take aggressive tax positions (in loss position). Secondly, taxpayers expect to receive tax refund at the end of the year. Hence, they will be more aggressive in tax to reduce the amount of tax due. They require advice from tax preparers to minimize tax burden. The tax risk will be borne by the taxpayer if the tax preparers do not exploit tax advantages or misinterpret tax law([Assidi, 2015](#_ENREF_3)).

Tax preparer receives all information from taxpayers to complete accurate returns to be submitted to HMRC[[3]](#footnote-3). Hence, this mission requires following detailed laws and high level of trust to their clients.‎ This link involves negotiation between the parties that must be satisfied. The adopted strategy is more aggressive or less aggressive when taxpayer was overpaid or underpaid respectively. ([OECD, 2008](#_ENREF_45)) studies the relationship between tax preparers and their role in tax compliance and find that tax preparers play a vital role in all tax systems.

* 1. **Tax preparers**

To achieve their objectives and improve their situations, companies must introduce four important services ([Scholes, 2014)](#_ENREF_48) . These services can be accomplished internally by a specific department (tax department) or externally by experts. The first service is tax compliance. It is the capacity of interpreting and applying tax-law in preparing tax returns. The second service is the tax advisory. This service involves planning and developing transactions to enhance firm value ([Scholes, 2014](#_ENREF_48) ).The third service is creating the financial report of income tax. This service gives support for tax disclosure. The fourth needed service is tax dispute that aids the company when tax authorities challenge the tax positions of the firm. To fulfill this mission and effect tax aggressiveness tax preparers need a Certified Public Accountants (CPA) ([Ayres & Gertner, 1989](#_ENREF_5))

The firm chooses the tax preparer to match their needs. Tax practices are highly pertinent to determine taxpayer compliance. Tax preparers can exert substantial influence on taxpayers in the tax compliance process by either helping them to enforce or exploit the tax law([Kaplan, Reckers, West, & Boyd, 1988](#_ENREF_33)). In the same line, taxpayers’ motivation to hire tax preparers help to save time and effort required to achieve this mission. Companies may use internal tax preparers or call external parties to complete tax returns and assess compliance responsibilities and their implications.

 ([Cook & Omer, 2013](#_ENREF_10)) highlighted the problem of auditor independence exercising tax services. However, the SEC responded to the debate by re-iterating its position that an audit firm can provide tax services without impairing its independence. (SEC, 2002).

Auditors are common tax service providers(([Lassila, Omer, Shelley, & Smith, 2010](#_ENREF_38)); ([Cook & Omer, 2013](#_ENREF_10)); ([McGuire, Omer, & Wang, 2012](#_ENREF_42))).The conflict between the internal and the external preparers can be explained by the competence and the obtained information. ([Maydew & Shackelford, 2007](#_ENREF_41)) suggest that some firms change the auditor that provides tax services to separate functions and assure investors. Since restatement and/or accounting irregularities may result in a bad image for a firm to maintain the relationship with its auditor, it should switch to non-auditor provider tax services. Firms with consecutive unqualified audit opinions have greater incentives to assure investors that the auditor and the related “clean” audit opinion are not compromised by the provision of tax services.

Investor perception of diminished auditor independence is stronger with a higher percentage of non-audit services compared to audit services. The audit committees of firms with high tax fees to audit fees are less likely to approve auditor provided tax services.

Few studies have investigated on the effect of regulation on auditor tax services.([Omer, Bedard, & Falsetta, 2006](#_ENREF_46)) investigate firms' decision to voluntary disclose tax fees paid to auditors, prior to SEC regulation requiring such disclosure. They find that disclosure is positively related to firm complexity, auditor tenure and auditor charge and negatively associated with the proportion of NAS fees to audit fees. ([Omer et al., 2006](#_ENREF_46)) find that firms with longer tenure auditors are less likely to switch from auditor provided tax services.([Maydew & Shackelford, 2007](#_ENREF_41)) similarly document the decline in auditor provided tax services and an increase in non-auditor provide tax services post SOX. They estimate that ratio of tax fees for a typical company went from 1 in 2001 to 0.25 in 2004. The possibility of higher production costs may be further enhanced by the decoupling of the long-standing link between audit and tax services in light of SOX and other regulations([Maydew & Shackelford, 2007](#_ENREF_41); [Omer et al., 2006](#_ENREF_46)).

Auditors must also understand tax positions before evaluating the client’s measurement of unrecognized tax benefits (tax reserve). Aggressive tax positions are often intricate and difficult to comprehend (([Donohoe & Robert Knechel, 2014](#_ENREF_17)); ([Lisowsky, 2010](#_ENREF_40));([Frischmann, Shevlin, & Wilson, 2008](#_ENREF_22); [Wilson et al., 2009](#_ENREF_51))),additional effort will be necessary for these audit engagements. ([Gleason & Mills, 2011](#_ENREF_23)) find that tax reserves are more accurate when auditors also provide tax services to their clients.

([Reinganum & Wilde, 1991](#_ENREF_47)) provide further evidence of the potential for preparer aggressiveness. They assert that the tax agency prefers taxpayers to prepare their own returns when preparer penalties are low because tax practitioner use is associated with lower compliance and higher audit rates under this condition.

Tax return required

Choose external tax preparers

Choose to self-prepared

Figure 1: Taxpayer’s choice

* 1. **Tax aggressiveness**

Tax aggressiveness has been defined by a number of researchers. A company aggressive in tax reporting if it takes steps to reduce the reported taxable income, with the management of the unchanged accounting revenue([Hanlon & Heitzman, 2010](#_ENREF_27)). ([Frank, Lynch, & Rego, 2009](#_ENREF_20)) define tax aggressiveness as downward management of taxable income through tax planning activities. ([Chen et al., 2010](#_ENREF_8)) define tax aggressiveness as the use of tax planning actions for downward management of taxable income. Thus, it constitutes a manipulation of the tax return that can be considered tax management ([Frank et al., 2009](#_ENREF_20)).The position of tax aggressiveness is found between tax evasion and tax planning for which there is a respect the legal and ethical provisions established by the tax authorities. The extreme level of tax aggression is tax evasion which is illegal (([Khurana & Moser, 2012](#_ENREF_34));([Assidi, Aliani, & Omri, 2016](#_ENREF_4))). The area is very interested is not restricted to tax authorities but focus attention a group of parties overlapping each other, such as managers, investors, tax preparers and other regulators ([Goh, Lee, Lim, & Shevlin, 2016](#_ENREF_24)).

The activity of tax aggression is very specific and complex because it needs the skills of directors to manage their transactions to minimize tax burdens and maximize net income ([Chen et al., 2010](#_ENREF_8)). Therefore, to achieve this objective the company must implement feasible and consistent strategies. The tax accounting literature provides interesting results. ([Kanagaretnam, Lee, Lim, & Lobo, 2016](#_ENREF_32)) find strong evidence that auditor quality is negatively associated with the likelihood of tax aggressiveness. Because countries where there is investor protection, the risk of litigation of the auditor increases and there pressure on the capital market stronger. ([De Simone, 2016](#_ENREF_11)) study the effects of IFRS tax aggressiveness and find that a unifying accounting standard across jurisdictions at the affiliate level increases the flexibility of firms’ to shift income. ([Klassen et al., 2016](#_ENREF_35)) find the existence of internal tax departments and the hiring of specialized tax advisors are associated with higher tax aggressiveness. This means that tax preparers may justify it is their clients who demand aggressive tax reporting

([Lanis & Richardson, 2011](#_ENREF_36)) examine the effect of the composition of the board of directors and tax aggressiveness and find that the inclusion of a larger number of independent directors reduces the probability of aggressive tax planning.

The relation between the CFO and the shareholders, who is assumed to have private information about the ability to optimize the firm’s tax burden. The authors use modeling to formulate an optimal incentive compensation contract. They conclude that the penalties imposed on the CFO directly are more effective to reduce tax evasion than are those imposed on the stockholders.

According to([Chen et al., 2010](#_ENREF_8)), firms determine their level of tax aggressiveness based on a tradeoff of the marginal benefits and costs of managing taxes. The marginal benefits basically consist of the tax savings while the marginal costs include those for implementation (time and effort, transaction costs), the potential penalties that can be applied by the tax authorities, along with the possible reputation cost and decline in stock price in reaction to news of tax misdeeds.

1. **HYPOTHESIS DEVELOPMENT**

We present our hypothesis about the relation between tax aggressiveness and tax preparers.

* 1. **Tax preparers and tax aggressiveness**

Tax rules are very multifaceted and unclear. The tax action related to a given transaction may be highly doubtful, at the time of its introduction. In practice tax, compliance activities are related to tax aggressiveness. Owing to the intricacy of rules and administrations([Lanis et al., 2017](#_ENREF_37)),conformity is not just incoming data to do tax returns. Compliance activities include collecting tax and business information for systems and individuals assisting with the internal and external report([Deloitte, 2013](#_ENREF_13)). The choice of tax preparers is necessary to help taxpayers to maximize their after-tax income. To ensure their tax compliance responsibilities, firms employ internal tax preparers or external tax preparers (auditor). ([Klassen et al., 2016](#_ENREF_35)) find the existence of internal tax departments and the hiring of specialized tax advisors are associated with higher tax aggressiveness. They show that firms preparing their own tax returns claim more aggressive tax positions.

Tax professionals are more reluctant to advise aggressive tax positions when those positions do not conform to Generally Accepted Accounting Procedures (GAAP). ([Lennox, 2000](#_ENREF_39)) provide that cost of external tax preparers are higher that internal tax preparers. Therefore, the auditor is the tax preparer; they defend their client in front of tax authority challenges. These opinions propose a positive link between tax aggressiveness and auditor preparers. Nevertheless, it is likely that a firm's wish for tax aggressiveness may reduce the probability that an auditor preparer will agree to sign the firm's tax return in the first place. ([Cloyd, Pratt, & Stock, 1996](#_ENREF_9)) demonstrate that tax preparers and firm managers believe that the book-tax income difference acts as a red flag to the tax authority or weakens taxpayers’ position in the tax audit. We, therefore, hypothesize that:

**H1.** Theeffect ofExternal tax preparers’ returns on tax aggressiveness is positive and greater than the effect of internal tax preparers.

* 1. **Tax fees and tax aggressiveness**

In the framework of tax compliance in companies and their cost, ([Balakrishnan, Blouin, & Guay, 2018](#_ENREF_6)) show that tax aggressiveness may make it more difficult for investors to ascertain or predict a firm’s tax costs. Fees for tax services are the most significant source of fee income for UK accounting firms after audit fees ([Accountancy, 2007](#_ENREF_1)). Tax fees is not examines with tax aggressiveness. ([Omer et al., 2006](#_ENREF_46)) examine voluntary disclosure and tax fees and recommend that the potential political costs exposing tax fee payments may have played a role in the decision of disclosure.

Typically, such fees amount to 24 per cent of total fee income received by the UK’s 60 largest accounting firms ([Accountancy, 2007](#_ENREF_1)). Although some of the advice narrates to dull compliance matters it is sensible to gamble that advice on tax aggressiveness comprises a significant component of the fee income. We, therefore, hypothesize that:

**H2.** Tax fees negatively affect tax aggressiveness.

* 1. **Audit fees and tax aggressiveness**

Auditor is an important financial intermediary that helps shareholders and creditors trust and use financial information. The relation between audit fees a proxy for auditor risk assessments and auditor effort and tax aggressiveness is very important. ([Donohoe & Robert Knechel, 2014](#_ENREF_17)) find that provision auditor-provided tax services has no effect on the audit fee for tax aggressive firm. However, corporate tax aggressiveness influences audit fees because of the effort exerted by the auditor during this service. Accounting of income taxes can increase both client risk and complexity for at least two reasons: First, management can exploit the intricacy of tax expenses computations and use discretion in estimating tax accruals to manage earnings ([Graham, Hanlon, Shevlin, & Shroff, 2013](#_ENREF_25)). Second, management’s pursuit of aggressive tax avoidance strategies potentially increases other elements of audit risk. According to ([McGuire et al., 2012](#_ENREF_42)), firms are more possible to choose an external non-auditor than auditor to do the tax return despite the cost of audit fees. We, therefore, hypothesize that:

**H3.** Audit fees positively affect tax aggressiveness.

* 1. **Board size and tax aggressiveness**

Several authors examine corporate governance and its relationship with tax aggressiveness (([Hanlon & Slemrod, 2009](#_ENREF_28));([Chen et al., 2010](#_ENREF_8))). Since tax strategy is fulfilled by the board of directors. It should be aligned with the global approach of the company. The characteristics of the board firm’s (composition, size age, etc.) are important and influences the level of tax aggressiveness ([Lanis & Richardson, 2011](#_ENREF_36)). ([Minnick & Noga, 2010](#_ENREF_43)) confirm that the boards of directors of small size reinforce good tax management. ([Lanis & Richardson, 2011](#_ENREF_36)) find that higher percentage of outside members on the board of directors reduces the probability of tax aggressiveness. ([Lanis et al., 2017](#_ENREF_37)) have involved this variable in their study on the effect of the board of directors on aggressive tax planning. Their results confirm that the board size has a significant impact on the possibilities of tax planning. The size of the Board is measured by the log of the number of administrators who make up the board of directors. It can measure the control exercised by the members of the council on the officer. We, therefore, hypothesize that:

**H4.** The board size positively affect tax aggressiveness.

**4. Research methodology**

To examine the study hypotheses, we use two dynamic panel estimates: the method of generalized moments in first differences (GMM in differences, ([Arellano & Bond, 1991](#_ENREF_2)) and the method of generalized moments in systems (System GMM, ([Blundell & Bond, 1998](#_ENREF_7))).

To estimate the effect of tax preparer on tax aggressiveness, GMM system estimation takes in consideration the finite sample correction suggested by ([Windmeijer, 2005](#_ENREF_52)). This system provides the panel data with more efficient estimators comparing with other GMM methods because it controls for possible endogeneity and unobservable heterogeneity between estimated variables by allowing some explanatory variables to be jointly determined with the dependent variable.

The GMM system estimator by ([Blundell & Bond, 1998](#_ENREF_7)) combines the first difference equations with the level equations. The instruments in the equation in first differences are expressed in level, and vice versa.

With 

With$ERT\_{it}$ the effective tax rate that measure the tax aggressiveness for firm$X\_{it}$ is a vector of the explanatory variables ($Tax preparers \_{it} ,TFEES\_{it}$, $AFEES\_{it}, BSIZE\_{it},ROA\_{it}, LEVERAGE\_{it}, FSIZE\_{it}$);β and α are vectors of parameter to be estimated. , and indicate, respectively, firm-specific effects, specific temporal effects and an error term.

**5. Data and empirical results**

We first present and discuss the statistical results on the variables of our study before focusing on the econometric results that highlight the role of tax return preparer on corporate tax aggressiveness in the UK firms.

**5.1. Data**

 We select British firms listed on FTSE 350 Index. After eliminating firms with negative and zero tax and firms with missing data, we get a final sample of 342 firms spanning the period 2006-2016. The sample is restricted to post-2005 data because of the Income Tax (Trading and Other Income) Act 2005 enacted by the UK’s legislation. All necessary data are collected from DataStream and from Audit Analytics.

**5.2. Variables measurement**

To measure the tax aggressiveness, effective tax rate (ETR) is used; which represents the most appropriate measure ([Wilson et al., 2009](#_ENREF_51));([Assidi et al., 2016](#_ENREF_4)). ETR is the corporate income tax divided by pre- tax accounting income.

The independent variables are (i) tax preparers which represent who prepare tax return of the firm(Internal department or external department). (ii) Tax fees is the amount paid to the tax preparers for his/her provided tax services .(iv) Audit fees represent the amount of fees paid to the external auditor. (v) Board size represented by the number of board members.

Three control variables are included. First, companies are interested in tax aggressiveness to improve their performance. Hence, the model controls for firm performance to highlight the specific effect of the tax aggressiveness. Following ([Dyreng, Hanlon, & Maydew, 2010](#_ENREF_18)) and ([Minnick & Noga, 2010](#_ENREF_43)), the Return on Assets (ROA) is used. Second, ([Modigliani & Miller, 1958](#_ENREF_44)) and ([Guenther, 2014](#_ENREF_26)) have shown that the value of the firm increases proportionally with the debt due to the tax saving coming from the interest expense deduction. So, debt is controlled for using the leverage ratio (LEVERAGE) measured as long-term debt divided by total assets. Finally, ([Hanlon & Heitzman, 2010](#_ENREF_27)) find a positive relationship between the firm size and tax aggressiveness. Thus, the firm size (FSIZE) is controlled for using the natural log of total assets because the size of firm represents an incentive policy (all variables are defined in Table 1).

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| --- |
| Table1: Variables definition  |
| ***Variable***  | ***Symbol*** | ***Measurement***  | ***Source***  |
| Tax aggressiveness | ETR | Income Tax divided by income before taxes. The income tax include both current and deferred income taxes  | DataStream  |
| Tax preparers  | Tax preparers  | Indicator variable equals 1 if the tax return is signed by an external preparer and 0 otherwise. | Audit Analytics |
| Tax fees  | TFEES | The Log amount paid to tax prepares for his/her provided tax services  | DataStream |
| Audit fees  | AFEES | The Log of the amount of total audit fees paid to the auditor. | DataStream |
| Board size | BSIZE | The number of the board members. | DataStream |
| Firm performance | ROA | The income before extraordinary items divided by total assets. | DataStream |
| Leverage ratio | LEVERAGE | The long-term debt to total assets.  | DataStream |
| Firm size  | FSIZE | The Log of total assets. | DataStream |

1. **Empirical findings**
	1. **Descriptive statistics**

The table of frequency shows that approximately 71% of our sample are external tax preparers of about 2,725 observations. This shows the importance of external preparers in the UK. The proportions of externally and internally prepared returns are consistent with the sample, and suggest that more than two-thirds of tax return preparation is completed externally. The descriptive statistics put forward that our sample companies externally making their tax returns are very well- wealth for the external preparers and show the weakness of internal preparers and the orientation of UK firms to the external experts to do this mission

|  |
| --- |
| Table2: Frequency table |
| ***Tax preparers*** | ***Freq.*** | ***Percent*** | ***Cum.*** |
| 0 | 1,092 | 28.60 | 28.60 |
| 1 | 2,725 | 71.40 | 100.00 |
| Total | 3,817 | 100.00 |  |

Table 3 presents descriptive statistics of the tax preparer types. In our sample, the mean of ETR is about 25% this is confirmed with the decrease of the corporate tax rate between 2006 and 2016 (30% to 20%). In addition, the mean of tax fees and audit fees services are respectively 6.65 and 13.59 that explains that tax fees represent thereabouts 50% of audit services fees.

|  |
| --- |
| Tables 3: Descriptive statistics |
| ***Variable*** | ***Obs*** | ***Mean*** | ***Std. Dev.*** | ***Min*** | ***Max*** |
| ETR | 3,426 | .25832 | .37246 | 0 | .4424 |
| TFEES | 3,817 | 6.592 | 6.6512 | 0 | 8.3993 |
| AFEES  | 2,642 | 13.598 | 1.6238 | 4.7535 | 19.2137 |
| BSIZE | 2,547 | 9.5928 | 2.6195 | 3 | 21 |
| ROA | 3,424 | .4307 | .1208 | 0 | .9689 |
| LEVERAGE  | 3,678 | .4498 | 1.5755 | 0 | .7572 |
| FSIZE  | 3,419 | 2.6665 | .12287 | 2.2343 | 3.0725 |

Table 4 shows the correlation matrix of the explanatory variables. This shows that there is a moderate correlation of the variables.

Homogeneity tests were performed to show that the probability associated with Fisher test is significant at the threshold of 5 percent (P = 0.015), attesting the presence of specific effect, hence the needs to introduce individual effects. The Hausman test allows you to choose between the fixed effects model and the random effects model. The probability of the Hausman test is significant (Prob> chi2 = 0.000) at the threshold of 1percent. The fixed effect model was used.

Table 4: Correlation matrix

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Tax preparers | TFEES | AFEES | BSIZE | ROA | LEVERAGE | FSIZE |
| Tax preparers  | 1.0000 |  |  |  |  |  |  |
| TFEES | 0.1045 | 1.0000 |  |  |  |  |  |
| AFEES | -0.1970 | -0.1375 | 1.0000 |  |  |  |  |
| BSIZE | 0.2569 | 0.1294 | 0.515 | 1.0000 |  |  |  |
| ROA | 0.0234 | 0.0012 | -0.017 | -0.003 | 1.0000 |  |  |
| LEVERAGE | -0.0282 | -0.0424 | 0.224 | 0.185 | -0.041 | 1.0000 |  |
| FSIZE | 0.2950 | 0.1197 | 0.695 | 0.614 | -0.022 | 0.264 | 1.0000 |

**5.2. Empirical results**

Since the tax will be paid after the end of the year, that is to say the income of the last year will be a base to pay the tax in this year so the use of the method GMM is the most suitable method for our research.

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| --- |
| Table 5: GMM estimation for the economic model |
| ***Variable*** | ***Tax preparers******Coefficient******(p-value)*** |
| ETR L1. | .0306\*\*\*(0.001) |
| Tax preparers | .4398\*(0.065) |
| BSIZE | .0091\*\*(0.026) |
| TFEES | -.0032\*\*(0.034) |
| AFEES | .0435\*\*\*(0.002) |
| ROA | -.0620\*(0.057) |
| LEVERAGE | -.0055(0.877) |
| FSIZE | -1.1600\*\*\*0.000 |
| Constant | 2.674\*\*\*(0.000) |
| Diagnostic checking |
| Hansen Test for over-identifying restriction*: p-* value (0.133) |
| Arellano–Bond Test for 2nd order Autocorrelation: *p*-value (0.572)  |
| \*\*\*, \*\*, \* Denote significance at the p, 0.01, p, 0.05 and p,0.10 levels, respectively. System GMM: The difference equation is instrumented |

Table (5) presents the results obtained by the GMM-system regression. To our knowledge, this method is the first to examine the role of corporate tax preparer’s and tax aggressiveness.

The estimation shows a positive and significant relationship between tax preparer and tax aggressiveness at the threshold of 10%.This result confirms our theoretical hypothesis, and can be explained by the capacity of the tax preparer to optimize ETR which supports the result found by ([Chen et al., 2010](#_ENREF_8)).In the same order idea, the external tax preparers has the capability to more aggressive tax positions than internal preparers because the knowledge in different changes to tax law, and the expertise of the external preparers. This result corroborates with the research of ([Klassen et al., 2016](#_ENREF_35)), the external preparers are very costly, but it decreases the total tax burden and confirms our theoretical hypothesis. The finding supports the first hypothesis which state that the effect of External tax preparers’ returns on tax aggressiveness is positive and greater than the effect of internal tax preparers.

The tax aggressiveness and tax fees have a negative and significant coefficient. This result is in line with the study of ([Cook & Omer, 2013](#_ENREF_10)) who find that Tax fees increase knowledge for businesses and reduces tax aggressiveness and increase the tax planning strategy. This result supports the second hypothesis which state that tax fees negatively affect tax aggressiveness.

The estimation in table 5 shows a positive and significant relationship between audit fees and tax aggressiveness at the level of 1 percent. Corporate tax aggressiveness influences audit fees because of the effort exerted by the auditor during this service. Accounting of income taxes they can increase both client risk and complexity for at least two reasons: First, management can exploit the intricacy of tax expenses computations and use discretion in estimating tax accruals to manage earnings ([Graham et al., 2013](#_ENREF_25)). Second, management’s pursuit of aggressive tax avoidance strategies potentially increases other elements of audit risk. According to ([McGuire et al., 2012](#_ENREF_42)), firms are more possible to choose an external non-auditor than auditor to do the tax return despite the cost of audit fees. The result supports the third hypothesis which state that audit fees positively affect tax aggressiveness.

The board size has a positive and significant relation with tax aggressiveness at the threshold of 10%. This result confirms the findings of ([Lanis & Richardson, 2011](#_ENREF_36)) who examine the effect of board of director composition on corporate tax aggressiveness and show that the inclusion of a higher proportion of outside members on the board of directors reduces the likelihood of tax aggressiveness.  In the same meaning, this result is explained by the role of external board size corporate tax firm in the UK. The finding supports the fourth hypothesis which state that board size positively affect tax aggressiveness.

This term of control variable, firstly ROA is negatively related to tax aggressiveness and significant at the 5 percent level which supports the researchers([Lanis et al., 2017](#_ENREF_37)); ([Dyreng et al., 2010](#_ENREF_18)). Furthermore, this result shows that the minimization of the tax rate which has a direct impact on the firm's profitability (decrease of corporate tax rate in UK).

Secondly, the firm size and the tax aggressiveness are negatively and significantly associated at the level of 1 percent. This result conforms with ([Dyreng et al., 2010](#_ENREF_18)) and ([Lanis & Richardson, 2011](#_ENREF_36)). This can be explained by the political cost incentive. In fact, to avoid visibility and political pressures, large firms will reduce the tax aggressiveness activity. This result is on line with the finding of ([Hanlon & Slemrod, 2009](#_ENREF_28)). They pointed out that the large firms used their resources better to develop good tax planning than small firms. Companies that invest heavily in physical assets, for example, tend to use a higher depreciation value to reduce their taxable income and thus pay a lower tax charge. Capital deduction and capital cost allowance.

 Finally, the constant of our model is significant at the 1 percent level. That can be explained by the lack of other variable can be added in this model.

**6. Conclusions**

The main interest of this research paper is to examine the effect of tax preparers on tax aggressiveness in UK context. The sample consisted of 342 UK companies indexed on FTSE 350 of UK firm between 2006 to 2016.To meet our problematic we used the technique, which is considered the most, appropriate for your research. Because the amount of payable tax will be calculated based on the income tax of the last year. The studies investigate the theoretical and empirical aspects in the role of tax preparers, tax fees, audit fees and board size in tax aggressiveness. The party primarily responsible for the tax compliance function of the firm tax preparers (Internal and external) is related to the corporation’s tax aggressiveness. Factors which could be related to tax preparers and that have influence in corporate tax aggressiveness were identified as external and internal tax preparers, governance variables (tax fees, audit fees and board size) and a control variable (ROA, Leverage and size).

In context, the empirical results revealed that there is a significant and positive relationship between both tax preparers and tax aggressiveness. Based on that, the external tax preparers are more tax aggressive than internal tax preparers and this is explained by the fact that experts and have more knowledge of profession than employees. Accordingly, the manager must choose the external tax preparers for minimize tax burden and avoids the penalty, which will increase tax compliance.

The results could encourage the interested parties to support the choice of manager to rely on external tax preparers to decrease tax burden. The author examined the UK companies, the question of whether our results are relevant to other countries with good tax compliance and clear understanding of tax aggressiveness.

Finally, some limitations need to be considered. First, the results may not be generalized to the developing countries because each country has its own specificity in institutional tax settings. Second, following recent literature, the use of other measures of tax aggressiveness will be possible.

 The future research may examine the relationships between audit fees, earnings management, corporate governance and tax aggressiveness and study this problematic aspect in different countries using large samples and other variables such as skills, age and gender.

Our findings help managers, policy-makers and researchers to better understand the role of tax preparers as an intermediary between firms and tax administration.

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