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The Effect of Corporate Governance on Tax Planning Strategies: Insights from Firms Listed on the Dar es Salaam Stock Exchange

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Abstract

This study examines the role of corporate governance in shaping tax planning strategies among firms listed on the Dar es Salaam Stock Exchange (DSE) in Tanzania. Guided by Agency Theory, the research explores how governance mechanisms such as board independence, audit committees, and CEO duality influence firms' tax practices. A quantitative approach was employed, using secondary data from the financial reports of 83 firms. Regression analysis revealed a strong positive correlation between corporate governance and tax planning, with governance explaining 96.1% of the variance in tax strategies. The results highlight that firms with robust governance structures are more likely to engage in ethical and compliant tax planning, minimizing the risk of aggressive tax avoidance. The study concludes that enhancing corporate governance can improve tax transparency and compliance. It recommends that firms strengthen governance practices and that policymakers provide clearer guidelines to ensure responsible tax management. Future research could explore the interaction between governance and external economic factors such as inflation and regulatory changes.

Keywords: Corporate governance, tax planning, Dar es Salaam Stock Exchange, tax compliance.

1. Introduction

Tax planning is a crucial strategic process that allows businesses to manage their tax liabilities within the legal framework. This involves techniques such as income shifting, deductions, and tax credit optimizations, which can help improve a firm's profitability and financial performance (Morse & Shackelford, 2018). However, tax planning has also gained global attention due to concerns about tax avoidance and revenue loss, especially in developing countries (Ruf & Weichenrieder, 2018). In Tanzania, firms listed on the Dar es Salaam Stock Exchange (DSE) are [3]actively engaged in tax planning, which has significant implications for the country's revenue collection efforts (URT, 2020).

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Tanzania has experienced robust economic growth in recent years, driven by sectors such as mining and telecommunications, but challenges in tax compliance and revenue collection remain prevalent (World Bank, 2021). A key issue is aggressive tax planning, which has led to substantial tax revenue losses for the government, particularly among multinational and local firms (TRA, 2020). Despite government efforts to tighten tax regulations and enhance compliance, firms often navigate loopholes in the tax system, leveraging complex tax planning strategies to minimize liabilities (Makani, 2018).

Corporate governance has emerged as a significant factor influencing tax planning strategies. Firms with strong governance structures, including independent boards and audit committees, are better equipped to comply with tax laws while optimizing their tax strategies (Macharia et al., 2018). In contrast, firms with weaker governance may engage in more aggressive tax planning, increasing the risk of tax avoidance. Understanding how corporate governance shapes tax planning behavior is critical, particularly for listed firms that are accountable to shareholders and regulators (Muhula et al., 2015).

1.1 Research Problem

Aggressive tax planning has led to significant tax revenue losses in Tanzania, undermining the government's ability to fund public services and development projects. Between 2007 and 2008, Tanzania lost over TZS 98.8 billion from tax planning activities in the mining sector alone (Policy Forum, 2017). While various studies have examined tax planning in developed countries, there is a lack of empirical research on how corporate governance influences tax strategies in Tanzania's emerging market. This gap limits the ability of policymakers and regulators to design effective interventions to curb tax avoidance. As results of the reason above, the researcher conducted this study which aims to assess the role of corporate governance in shaping the tax planning strategies of firms listed on the Dar es Salaam Stock Exchange (DSE).

2. Literature Review

This section presents both the study's theoretical and empirical foundations. Theoretical insights are grounded in Agency Theory, which highlights the role of governance in mitigating tax-related conflicts between management and shareholders. Empirical studies are then reviewed to explore

the influence of corporate governance and external factors, such as inflation, on tax planning strategies, particularly in emerging markets like Tanzania. Together, these perspectives provide a comprehensive understanding of the relationship between governance and tax planning.

2.1 Theoretical Literature Review

This study is grounded in Agency Theory, which explores the relationship between principals (shareholders) and agents (management) in corporate governance. Agency Theory, introduced by Jensen and Meckling (1976), suggests that conflicts arise when management pursues personal interests that may not align with the goals of shareholders (Mbwana et al., 2018). In the context of tax planning, corporate governance mechanisms such as independent boards and audit committees serve to mitigate these conflicts, ensuring that firms comply with tax laws and pursue optimal tax strategies (Morse & Shackelford, 2018). For instance, firms with strong governance structures tend to engage in less aggressive tax planning due to the oversight and risk management provided by these mechanisms (Macharia et al., 2018). This theoretical lens is particularly relevant in analyzing how corporate governance influences tax planning among firms listed on the Dar es Salaam Stock Exchange (DSE), as strong governance can align managerial actions with shareholder interests, promoting transparency and compliance (Muhula et al., 2015).

2.2 Empirical Literature Review

Empirical research has highlighted the significant role of corporate governance in shaping tax planning strategies, particularly in emerging markets. Macharia et al. (2018) found that firms with strong corporate governance structures, such as independent boards and effective audit committees, tend to engage in more conservative tax planning. This is because these governance mechanisms provide oversight and ensure compliance with tax laws, reducing the likelihood of aggressive tax strategies. Their study, which focused on Kenyan firms, also demonstrated that firms with greater transparency and accountability were less prone to tax avoidance and evasion. This is consistent with Akinleye and Ogunmakin's (2016) findings in Nigeria, where strong governance reduced the risk of unethical tax behaviour, and firms with diverse and independent boards were found to be more compliant with tax regulations.

In the Tanzanian context, empirical studies have similarly demonstrated that corporate governance significantly influences tax planning strategies. Muhula et al. (2015) examined the impact of governance structures on tax planning practices among publicly listed firms. They found that companies with independent boards and active audit committees adopted less aggressive tax strategies. These governance structures facilitated better oversight and management of financial and tax risks, resulting in higher tax compliance. Mbwana et al. (2018) expanded on this by analysing firms listed on the Dar es Salaam Stock Exchange (DSE). Their study showed that firms with robust corporate governance frameworks, including strong internal controls and external audits, were more likely to engage in ethical tax planning practices. These findings underscore the importance of governance in mitigating the risks of tax avoidance and ensuring that firms maintain compliance with tax regulations.

In addition to governance, external economic factors such as inflation have also been shown to impact tax planning strategies. Carlos and Lars (2018) conducted a study on the effect of inflation on tax planning. They found that during periods of high inflation, firms often resort to more aggressive tax strategies, such as tax deferrals and the use of tax credits, to mitigate the financial impact of rising costs. Bahadur (2018) also observed that firms in emerging markets adjust their tax planning strategies in response to inflationary pressures, with many seeking short-term tax relief to maintain profitability. However, these studies primarily focus on economic conditions and do not sufficiently address how corporate governance interacts with economic factors like inflation to shape tax planning decisions.

While these studies provide valuable insights into the relationship between governance and tax planning, most of the research has focused on developed economies or regions outside Tanzania. Studies like those by Silva et al. (2018), which analysed tax planning in Brazil, highlighted the complexity of tax regulations and how firms navigate these through governance structures, yet these findings may not fully apply to the Tanzanian context due to differences in regulatory environments. In Tanzania, the regulatory environment remains under-researched in relation to how firms use corporate governance to navigate tax obligations, particularly among DSE-listed firms. Furthermore, while inflation has been acknowledged as a factor in shaping tax strategies, its interaction with corporate governance in Tanzania has not been thoroughly explored.

Despite extensive research on tax planning in developed countries and other African markets, there remains a notable gap in understanding how corporate governance affects tax planning strategies in Tanzania. Most existing studies either focus on broader economic factors like inflation or examine corporate governance's influence in different regions with distinct regulatory frameworks. Very few empirical studies have specifically investigated the Tanzanian context, particularly focusing on firms listed on the Dar es Salaam Stock Exchange (DSE). This study aims to fill this gap by exploring the interaction between corporate governance practices and tax planning strategies in Tanzania, offering insights that can guide both policymakers and corporate managers.

3. Methodology

This study was conducted in Dar es Salaam, Tanzania, focusing on firms listed on the Dar es Salaam Stock Exchange (DSE) due to its significance as the country's financial hub. The research adopts a positivist research philosophy, which emphasizes the use of empirical data and objective analysis to uncover the relationships between corporate governance, inflation, the regulatory environment, and tax planning strategies (Creswell & Creswell, 2017). A cross-sectional research design was employed to capture data at a single point in time, making it possible to assess how these variables influence tax planning strategies among DSE-listed firms (Morse & Shackelford, 2018). The study followed a quantitative research approach, utilizing structured and numerical data for analysis. The population comprised financial managers, accountants, and executives from selected firms listed on the DSE, and a total sample size of 83 employees was used, representing the entire population to ensure comprehensive data collection (Field, 2013).

A census sampling technique was adopted, allowing the study to include all relevant employees from the selected firms, particularly those involved in decision-making regarding tax planning (Creswell & Creswell, 2017). Secondary data from financial reports, corporate disclosures, and other publicly available documents were collected to assess tax strategies, corporate governance, and economic conditions (Mills, 2017). The data was analyzed using statistical methods such as correlation and regression analysis to identify the strength and direction of relationships between variables (Field, 2013). To ensure validity and reliability, standardized data collection instruments were used, and financial data was cross verified for consistency. Ethical considerations were

observed by ensuring data confidentiality and accurately attributing data sources, maintaining the integrity of the research (Creswell & Creswell, 2017).

4. Findings and Discussions

This section presents the findings on the role of corporate governance in shaping tax planning strategies among firms listed on the Dar es Salaam Stock Exchange (DSE). Corporate governance practices, such as the presence of independent board members, audit committees, CEO duality, and external auditors, are examined in relation to their impact on firms' tax strategies. The findings were derived from a structured questionnaire and are presented in Table 4.3, which outlines the mean and standard deviations for various aspects of corporate governance and their influence on tax planning. The analysis is then extended to cover additional relevant factors, providing a comprehensive understanding of how governance mechanisms shape tax behavior in the context of Tanzania's financial market.

Table 1: The Role of Corporate Governance on Tax Planning Strategies

Corporate Governance Factors	Mean	Std. Deviation
Independent board members encourage compliance with tax regulations.	3.17	0.960
A strong audit committee reduces the likelihood of aggressive tax planning.	2.96	0.981
CEO duality affects how tax planning decisions are made in our firm.	3.31	1.209
Corporate governance policies ensure ethical tax planning practices.	3.07	1.045
The presence of external auditors increases the transparency of our tax practices.	3.33	1.327
Regular board reviews of tax strategies align tax practices with corporate goals.	3.21	1.102
Transparency in financial reporting reduces risks related to tax planning.	3.18	0.974
Shareholder involvement influences corporate tax strategy.	2.85	1.176
Board independence reduces the risk of aggressive tax minimization strategies.	3.29	1.190
Ethical leadership discourages tax avoidance practices.	3.14	1.082

Table 1 outlines the key corporate governance factors and their influence on tax planning strategies among DSE-listed firms. On a scale of 1 to 5, the highest mean score (3.33) was recorded for the

role of external auditors in increasing transparency in tax practices, followed closely by CEO duality (3.31) and board independence reducing aggressive tax minimization strategies (3.29). Independent board members and regular board reviews of tax strategies were also rated relatively high, with mean scores of 3.17 and 3.21, respectively. The lowest mean score (2.85) was associated with shareholder involvement influencing corporate tax strategy. These results suggest a strong correlation between robust governance structures and ethical, transparent tax practices.

The findings align with Agency Theory, which posits that conflicts between management (agents) and shareholders (principals) can be mitigated through strong governance mechanisms, thus reducing the risk of opportunistic behaviors like aggressive tax planning (Jensen & Meckling, 1976). The role of independent board members, as reflected in the mean score of 3.17, supports this theoretical perspective by demonstrating that external oversight fosters compliance with tax regulations, reducing the potential for tax evasion or avoidance (Muhula et al., 2015). This is consistent with empirical studies, such as those by Macharia et al. (2018), which found that independent boards promote ethical financial decision-making and ensure that tax practices align with broader corporate goals. The relatively high score for the presence of external auditors (mean = 3.33) further emphasizes the importance of third-party oversight in maintaining transparency in tax reporting, a key finding supported by the work of Akinleye and Ogunmakin (2016), who concluded that external auditors serve as a critical check against aggressive tax practices.

Another key finding is the influence of CEO duality, which had a mean score of 3.31, indicating that when the CEO also serves as the board chair, tax planning decisions may be influenced by concentrated power at the executive level. This can lead to riskier tax strategies due to reduced oversight from an independent board (Desai & Dharmapala, 2006). The high score reflects concerns raised in the literature about the potential for CEOs with dual roles to prioritize short-term financial gains, including tax minimization, over long-term compliance and sustainability (Ruf & Weichenrieder, 2018). Similarly, the positive influence of ethical leadership (mean = 3.14) on discouraging tax avoidance aligns with the empirical findings of Silva et al. (2018), who argued that strong governance fosters a culture of compliance, reducing the likelihood of aggressive tax strategies.

The mean score of 3.29 for board independence reducing the risk of aggressive tax minimization strategies reinforces the empirical evidence that good governance reduces opportunistic behavior by management. This finding parallels the conclusions of Muhula et al. (2015), who found that independent boards are more likely to scrutinize tax strategies critically, ensuring they align with both legal obligations and corporate social responsibility goals. Moreover, the relatively high score for regular board reviews of tax strategies (mean = 3.21) underscores the importance of ongoing oversight in aligning tax practices with corporate objectives, further reducing the risk of unethical tax planning.

The results highlight the critical role of strong corporate governance structures in promoting ethical and transparent tax planning practices. To further strengthen tax compliance and reduce the risk of aggressive tax strategies, firms listed on the DSE should prioritize enhancing board independence, supporting active audit committees, and fostering greater transparency in financial reporting. Additionally, limiting CEO duality can ensure that tax decisions are subject to adequate oversight, reducing the potential for high-risk tax minimization practices. Future research could explore how these governance mechanisms interact with external economic factors, such as inflation, to provide a more comprehensive understanding of tax planning strategies in emerging markets.

4.1 Inferential Statistics Results

Inferential statistics were conducted to examine the relationship between corporate governance and tax planning strategies among firms listed on the Dar es Salaam Stock Exchange (DSE). By using a regression model, the study sought to assess the predictive power of corporate governance in explaining variations in tax planning strategies. The analysis focused on key statistical outputs, including the model summary, ANOVA results, and coefficient estimates, which are presented in the tables below. These outputs provide critical insights into how corporate governance influences tax planning, supporting the empirical and theoretical foundations of the study.

Model Summary: Strong Predictive Power

The model summary provides an overview of the regression model's predictive power, focusing on the relationship between corporate governance (independent variable) and tax planning

strategies (dependent variable). The R-value indicates the strength of the correlation, while R Square measures the proportion of variance in the dependent variable that is explained by the independent variable.

Table 2: Model Summary: Strong Predictive Power

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980[a]	.961	.960	.15456
a. Predictors: (Constant), corporate governance				

The model shows an R-value of 0.980, indicating a very strong positive correlation between corporate governance and tax planning strategies. An R Square value of 0.961 suggests that 96.1% of the variation in tax planning strategies can be explained by corporate governance. This highlights the significant predictive power of corporate governance on tax strategies, implying that firms with better governance structures are more likely to engage in effective tax planning.

ANOVAa: Model Significance

The ANOVA test assesses whether the overall regression model is statistically significant. It tests the hypothesis that the independent variable (corporate governance) does not influence the dependent variable (tax planning strategies). A significant F-value suggests that the model is a good fit and that corporate governance is a significant predictor of tax planning.

Table 3: ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.897	3	15.632	654.350	.000[b]
	Residual	1.887	79	.024		
	Total	48.784	82			
a. Dependent Variable: tax planning strategies of firms listed on the DSE						
b. Predictors: (Constant), corporate governance						

The F-value of 654.350 and a p-value of .000 indicate that the model is highly significant, meaning that corporate governance has a statistically significant effect on tax planning strategies. This result rejects the null hypothesis and confirms that corporate governance is a key determinant of tax planning among DSE-listed firms.

Coefficients Results

The coefficient table provides insights into corporate governance's specific contribution to tax planning strategies. The unstandardised coefficient (B) measures the strength of the relationship, while the standardised coefficient (Beta) indicates the relative impact of the predictor variable.

Table 4: Coefficients Results

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.238	.106		-2.242	.028
Corporate governance	.504	.051	.542	9.934	.000
a. Dependent Variable: tax planning strategies of firms listed on the DSE					

The coefficient for corporate governance (B = 0.504, Beta = 0.542, p = 0.000) indicates a significant positive relationship between corporate governance and tax planning strategies. This suggests that a one-unit improvement in corporate governance is associated with a 0.504 increase in tax planning effectiveness. The high t-value (9.934) further confirms the strong impact of governance practices on tax strategies.

The inferential statistics clearly demonstrate the strong influence of corporate governance on tax planning strategies among DSE-listed firms. The high R Square (0.961) shows that governance practices account for a substantial portion of the variance in tax planning strategies. These findings align with Agency Theory (Jensen & Meckling, 1976), which asserts that better corporate governance mechanisms, such as independent boards and audit committees, reduce the potential for managerial opportunism, including aggressive tax strategies. This is supported by empirical

studies from Macharia et al. (2018) and Muhula et al. (2015), which found that firms with strong governance structures tend to adopt more ethical and compliant tax practices.

The ANOVA and coefficient results further emphasize the importance of governance. The significant F-value and low p-value (0.000) indicate that governance not only correlates with tax planning but is also a significant predictor of how firms engage in tax strategies. This is consistent with studies by Silva et al. (2018), which demonstrated that firms with effective governance frameworks are less likely to engage in aggressive tax avoidance. Additionally, the coefficient analysis highlights the practical implications of governance improvements, where enhanced corporate governance directly increases tax planning efficiency.

The findings suggest that enhancing corporate governance structures, such as fostering independent board oversight and establishing strong audit committees, can significantly improve tax planning strategies among firms. Going forward, policymakers and firms should prioritize governance reforms to promote transparency and compliance in tax matters. Further research could explore the role of external economic factors, such as regulatory changes or market conditions, to provide a more comprehensive understanding of tax planning dynamics.

5. Conclusion and Recommendations

The study concludes that corporate governance plays a pivotal role in shaping tax planning strategies among firms listed on the Dar es Salaam Stock Exchange (DSE). The findings demonstrate a strong positive relationship between governance practices, such as board independence, audit committees, and CEO duality, and the transparency and ethical management of tax obligations. The results confirm that firms with robust governance structures are more likely to engage in compliant and conservative tax planning, reducing the likelihood of aggressive tax avoidance practices. The inferential statistics reinforce the significant influence of corporate governance on tax strategies, with corporate governance accounting for a substantial proportion of the variance in tax planning behaviours. This aligns with both theoretical frameworks, such as Agency Theory, and empirical evidence from previous studies. Thus, strengthening governance mechanisms can serve as an effective tool for promoting ethical tax planning and ensuring compliance with tax regulations.

Based on the findings, it is recommended that firms listed on the DSE enhance their corporate governance frameworks to optimise their tax planning strategies. Specifically, firms should increase the independence of their boards and audit committees to provide stronger oversight and ensure alignment between tax practices and corporate objectives. Limiting CEO duality by separating the roles of CEO and board chair would also enhance accountability in tax decision-making. Additionally, firms should prioritise transparency in financial reporting and engage external auditors regularly to foster greater confidence in their tax practices. Policymakers and regulatory bodies, such as the Tanzania Revenue Authority (TRA), should also strengthen guidelines around corporate governance to promote ethical tax compliance across the market. Finally, further research should explore the interaction between corporate governance and external factors like regulatory changes and inflation to provide a more comprehensive view of tax planning in emerging markets.

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