



Assessing tax avoidance behavior in firms within Brazil's transportation and logistics sector

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Abstract

The study aimed to explore the influence of corporate mechanisms on the tax avoidance practices of corporations. The primary goal was to assess how corporate governance mechanisms affect tax avoidance behavior among firms. The research specifically targeted the transportation and logistics sector in Brazil. Using a quantitative approach, the study analyzed data from 18 publicly listed companies, covering the years 2012 to 2017. Regression analysis was employed to test the hypotheses. Key corporate governance indicators included independent commissioners, managerial ownership, institutional ownership, board size, audit committee, liquidity, and company size. The results revealed a significant negative relationship between institutional ownership and the audit committee with tax avoidance behavior. These findings suggest the importance of a robust audit committee and institutional ownership to mitigate undesirable financial practices in this sector.

Keywords: Tax Avoidance, Corporate Governance, Audit, Transportation, Logistics, Brazil.

INTRODUCTION

The Brazilian government recently passed new legislation aimed at enhancing the corporate sector by offering tax reductions. Taxes are a crucial issue for businesses, as many engage in tax planning, avoidance, and even evasion. While taxes are an essential source of national income and play a key role in a country's development, companies often view them as a financial burden. This study specifically examines transportation and logistics companies in Brazil, which face significant tax-related challenges, including high taxes, complex procedures, and the aggressive actions of tax authorities and officials. One potential solution to these issues is the adoption of effective corporate governance mechanisms. The study primarily explores the connection between corporate governance practices and tax avoidance behavior in these sectors. The objectives of the study are as follows;

- To analyze the effect of independent commissioners on tax avoidance.
- To investigate the influence of managerial ownership on tax avoidance.
- To assess the impact of institutional ownership on tax avoidance.
- To explore the relationship between the size of directors and tax avoidance.
- To evaluate the role of the audit committee in tax avoidance.
- To examine how liquidity affects tax avoidance.
- To determine the influence of company size on tax avoidance.

Study Significance

The significance of this study lies in its focus on tax avoidance within transportation and logistics companies in Brazil. While similar studies have been conducted in other countries, this research addresses a gap in the literature, as no such study has specifically explored this issue in the Brazilian context. The findings of this study can serve as valuable guidance for companies, helping them avoid negative financial practices like tax avoidance by providing insights and recommendations on how to address these issues effectively.

LITERATURE REVIEW

Corporate Governance

Corporate governance is the system that defines the relationships between a company's board of directors, commissioners, management, and stakeholders (Sastriana, 2013). It encompasses three main elements: ownership structure, independent commissioners, and the audit committee, all aimed at aligning the company's operations with stakeholder interests while ensuring accountability and transparency. Their details are given below;

Ownership Structure

Ownership structure refers to the ratio between managerial ownership (inside) and institutional ownership (outside) (Jusup, 2005). Institutional ownership includes shares held by organizations such as investment companies, insurance firms, and asset management companies (Al-Najjar & Taylor, 2008). It is measured by the proportion of shares held by management relative to the total outstanding shares, while institutional ownership reflects the shareholding of external institutions compared to the total shares in circulation.

Board of Director Size

Board of director size refers to the total number of directors on a corporate board (Destriana & Arifin, 2016). Typically, the board is made up of members from various backgrounds and holds the authority to establish the company's long-term policies and strategic direction.

Board of Commissioners

The board of commissioners consists of members responsible for overseeing the management's performance without being involved in day-to-day managerial tasks (FCGI, 2001). They do not engage in managerial duties or represent the company in transactions with third parties.

Audit Committee

The audit committee is responsible for overseeing the organization's audit function (FCGI, 2001). Its primary role is to advise the board of commissioners on audit-related matters. The committee typically consists of members with backgrounds in accounting, finance, and auditing, though the number of members can vary.

Liquidity

The liquidity ratio is an important measure of a company's financial health, indicating its ability to meet short-term obligations (Endriati, Nur, & Junaidi, 2013). A high liquidity ratio suggests that the company has sufficient short-term assets to quickly settle its liabilities, reducing the risk of being unable to fulfill these obligations. This ratio reflects the company's capacity to meet the demands of short-term creditors, and a strong liquidity ratio ensures the company can manage its short-term obligations without compromising its operations.

Company Size

Company size plays a significant role in tax evasion. Smaller companies often struggle to access creditors due to higher transaction costs. Firm size is commonly measured by the logarithmic value of its total assets, as suggested by Cassar and Holmes (2003). This study also adopts this method, using the logarithm of total assets to measure company size.

Tax Evasion

Tax avoidance or evasion refers to efforts by a company's management to reduce tax liabilities by strategically managing its financial affairs and exploiting loopholes in the tax system (Sopnar, 2008). In simpler terms, tax avoidance involves legal tax planning strategies aimed at minimizing income tax payments. This can be achieved by manipulating financial statements, such as reporting lower sales, reduced income, or higher expenses.

RESEARCH DESIGN

This study employs a quantitative research method with a cross-sectional design, examining the effects of independent variables such as corporate governance, liquidity, and company size on tax avoidance. The data used is secondary, collected from the Stock Exchange over a five-year period.

Population & Sampling

The population for this study includes all transportation and logistics companies listed on the Brazilian Stock Exchange. A non-random sampling method was used to select 18 companies from this sector. The data collection period spans from 2012 to 2017.

Method of Analysis

Once the data was collected, it was checked for errors and entered into an Excel spreadsheet. SPSS version 21 was used as the analysis tool, with descriptive statistics and regression analysis employed to examine the data.

RESEARCH RESULTS

Research results are provided below.

Table 1
Descriptive Statistics

	Min	Max	Mean	S.D.
Independent Commissioner	14	77.76	51.32	9.74
Managerial Ownership	0.00	0.10	0.011	0.0527
Institutional Ownership	13	88	1.22	0.251
Size of Directors	1.0	8.0	5.122	0.853
Audit Committee	3.0	4.0	4.430	0.277
Liquidity	0.00	7.0	0.7715	0.523
Company Size	9.10	17.76	14.0317	1.001
Tax Avoidance	-0.57	0.54	0.542	0.204

The mean value for independent commissioners is 51.32. Managerial ownership is moderate, with a mean of 0.011. Institutional ownership also shows a moderate mean value of 1.22. The average board size is 5.122, while the audit committee has an average size of 4.432. The average liquidity is 0.7715. The mean value for tax avoidance is 0.542, indicating a moderate level of tax avoidance reported.

Table 2
Regression Results

Variable	Beta	t-stat	Sig.
Constant	-0996		
Independent Commissioner	.005	1.545	0.126
Managerial Ownership	.614	1.232	.221
Institutional Ownership	-.310	-1.907	.048
Size of Directors	.036	1.837	.070
Audit Committee	-.610	-3.056	.002
Liquidity	-.010	-.698	.486
Company Size	-.010	-1.188	.238

The results indicate that the independent commissioner has an insignificant effect on tax avoidance, with a beta value of 0.005 and a significance value of 0.126. Managerial ownership also shows an insignificant effect on tax avoidance, with a beta value of 0.614 and a significance value of 0.221. Institutional ownership, however, has a negative and significant effect on tax avoidance, with a beta value of -0.310 and a significance value of 0.048. The audit committee demonstrates a positive and significant effect on tax avoidance, with a beta value of 0.610 and a significance value of 0.002. Liquidity has a negative but insignificant effect on tax avoidance, with a beta value of -0.010 and a significance value of 0.486. Company size shows an insignificant negative effect on tax avoidance, with a beta value of -0.010 and a significance value of 0.238. Overall, the audit committee is identified as the most influential factor in reducing tax avoidance within the company.

Discussion

The objective of this study is to assess the impact of various corporate governance mechanisms on tax avoidance, which can be detrimental to both the organization and the country. Tax avoidance is harmful to a company as it can damage its reputation and cause long-term issues. For the country, it reduces tax revenue, limiting funds available for development. This study focuses on the effects of corporate governance mechanisms on tax avoidance in the transportation and logistics sector in Brazil. The governance factors examined include independent commissioners, managerial ownership, institutional ownership, board size, audit committees, liquidity, and company size. The results revealed that most governance mechanisms had an insignificant impact on corporate tax avoidance. However, institutional ownership and the audit committee were significant factors. The presence of a strong audit committee is logically linked to reduced tax avoidance, as audits can help mitigate such practices. Institutional ownership, where other companies hold substantial shares in a company, improves governance and positively influences governance processes.

CONCLUSION

The study focused on examining the influence of various corporate governance indicators on a company's tax avoidance, with a specific focus on transportation and logistics companies in Brazil. Secondary data was collected from selected companies listed on the Stock Exchange. Regression analysis was used for data analysis. The results showed that independent commissioners, managerial ownership, board size, liquidity, and company size were insignificantly related to tax avoidance. However, institutional ownership and the audit committee had negative and significant effects on tax avoidance. In other words, strong

institutional ownership and an effective audit committee can help reduce tax avoidance within a company.

Recommendations

The first main recommendation is that companies should avoid engaging in tax avoidance practices, as such actions can lead to long-term reputational damage and expose the company to potential legal risks and fines from tax authorities.

The second recommendation is for transportation and logistics companies in Brazil to establish a strong audit committee. A well-functioning audit committee can play a crucial role in reducing negative financial practices and ensuring better financial oversight within the organization.

Limitations

A limitation of this study is the small sample size, which focuses on a single sector. Due to time and financial constraints, the study was unable to include a larger sample or explore other sectors, limiting the generalizability of the findings.

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Declaration of Conflict of Interest

The author declares no conflict of interest.

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