

Corporate Tax Avoidance in SME: The Effect of Listing

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Abstract

Accounting Standards for Small- and Medium-sized Entities (AS-SMEs) is legislated for small- and medium- sized entities that are not obligated to conduct external audit, to provide better understanding for the accountant and useful information for the users. In the case of small- and medium-sized entities (SMEs), unlike conglomerates, they are qualified to appliance of tax cut provisions and tax subsidy from SMEs aid policy; so they are conjectured to have less motive to avoid tax due to low tax burden when compared to non-SMEs. When going public as a mean to finance, unlisted small- and medium-sized firms are obligated to report financial information to external stakeholders. At the same time, external supervision and check will become inevitable in operating business for these firms. On the other hand, there exists possibility for the SMEs with relatively weak financial structure compared to those unlisted, to avoid tax through IPO process. Therefore, this paper attempts to investigate whether listed SMEs have more tendency to avoid tax than unlisted SMEs.

We summarize our findings as follows: SMEs that went public conduct tax avoidance when compared to unlisted SMEs during the year in which the firm went public, with statistical significance.

This study examines the financial determinants of tax avoidance in SMEs, which hold less tax burden due to various tax reduction and tax deduction clauses in exceptional tax legislation. We also empirically tests whether there is differing degree of motive in tax avoidance between SMEs and non-SMEs. We will make a contribution in providing policy implications by inspecting whether SMEs have motive to avoid tax by comparing tax avoidance in SMEs and non-SMEs.

Keywords: AS-SME, Tax avoidance, SMEs

1. Introduction

Generally, voluntary effort to enhance management transparency in small SMEs is lacking as a result of less number of users of accounting information, as well as low reporting obligations. SMEs lack capability to form accounting themselves and even if they have the capability, their focus is mainly on tax law including corporate tax and value-added-tax, so their financial statements contain low external reliability. Recent K-IFRS takes account of practicality with regards to conglomerates; conversely, SMEs confront difficulty comprehending and applying both previous general corporate accounting (K-GAAP) and IFRS. In order to mitigate this difficulty, for firms that have a relatively small number of information users, lack accounting capability, and do not make use of external audit, Accounting Standards for Small- and Medium-sized Entities (AS-

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SME) was enacted to allow the accountant to easily understand the accounting rules when making financial statements and provide useful information to information users' decision making. Tax avoidance is referred to as the state of a firm to either explicitly or implicitly lower tax burden. Therefore, when the taxing authority concludes tax avoidance as tax evasion rather than tax saving, the firm confronts direct cost burden which encompasses both the original tax before tax avoidance and additional tax. However, aside from the direct tax cost, indirect tax cost including social condemnation, loss of company reputation and image, drop in stock price and decrease in sales can be more burdensome (Anderson and Frankle 1980 ; Richardson and Welker 2001 ; Dhaliwal *et al.* 2010 ; Andrews *et al.*). It is safe to infer that unlike conglomerates, SMEs have relatively less tax burden since they are beneficiaries of tax reduction clause in exceptional tax legislation. Therefore, we expect SMEs are less likely to be engaged in tax avoidance. However, to alleviate financial burden SMEs can go public, which entails various external monitoring policies and restraints that specifically require the firms to report financial information to interested parties. Another reason that expounds fewer motives in SMEs to conduct tax avoidance is that tax avoidance can possibly lead to loss of company reputation and image, and drop in stock price.

Considering the reasons for low motives of SMEs to avoid tax, there still can be a mixed conclusion that strict monitoring and restraints in business can evoke motive to conduct tax avoidance. This study attempts to disentangle this question empirically. First, we compare whether there is a difference in motive to avoid tax in SMEs and non-SMEs. We then test whether going public has some impact on the act of tax avoidance in SMEs. At the same time, we expound the establishment of AS-SME, which is a short and clarified version of K-IFRS and K-GAAP for SMEs.

The remainder of our paper is organized as follows. Section II provides an overview of the previous literature on tax avoidance and establishment of AS-SME. Section III presents hypotheses and model. In Section IV, we present empirical findings related to tax avoidance of SMEs and their transition in act before and after going public. Section V summarizes the overall results and illustrates limitations.

2. Literature Review

2.1. Tax Avoidance

The definition of tax avoidance is disparately explained by researchers (Hanlon and Heitzman, 2010). Previous research referred to tax avoidance in a broad definition that encompasses all the actions that the firms do to reduce the tax burden, which do not take illegality into account. In other words, tax saving, a broad concept of tax avoidance, indicates legal and rational acts that reduce the tax burden, while tax evasion refers to illegal tax reducing acts including false reports, earnings omission, overstating expenses. On the other hand, tax avoidance is associated with legal tax reducing acts that refer to somewhere in between tax saving and tax evasion, that does not technically mean tax evasion but does not follow the legislation purpose. Thus, in the tax law, definition of tax avoidance is regarded as a customary transaction that both does not take the form of what the tax law expected and reduces tax burden. Difference in between the definition of tax avoidance with tax saving and tax evasion is demonstrated in Table 1.

Table 1. Definition of Tax Avoidance

Classification	Tax saving	Tax avoidance	Tax evasion
Characteristics	Broad concept of Tax avoidance		
	broad concept	Narrow concept of Tax avoidance	
Objective	Reduction of Tax		
Means	Legal, rational	Violates Tax law	Violate Tax law
Form	Apt, Inapt	Abnormal, Unjustified	Fraud, Illegal transactions

Note) Lee (1998), p.8.

We adopt BTM, which is the difference between accounting profit and taxable income, to measure tax avoidance. BTM may result from increase in financial reporting earnings (earnings manipulation) or decrease in taxable income (tax avoidance); in some cases firms use both strategies to maximize firm value. From this act, we can safely adopt BTM, which captures the difference between financially reported earnings and taxable income to proxy for tax avoidance. On the other hand, Desai and Dharmapala (2006), identifying disparity between accounting profit and taxable income as comprising earnings manipulations and tax avoidance, introduce a new measurement for tax avoidance. They run regression of BTM on total accruals to separate abnormal BTM (discretionary part) from normal BTM (indiscretionary part), and use BTM to control for earnings manipulation in total accruals to calculate TS, which is the proxy for tax avoidance. Extant studies in tax avoidance implement measurement from Desai and Dharmapala (2006) aside from BTM. Present studies, following the methodology adopted by previous studies, implement both BTM and TS from Desai and Dharmapala (2006) to proxy for tax avoidance.

2.2. Literature Review on SME

2.2.1. Literature Review on Accounting Practices of SME: There have been ample studies that delve into corporate accounting standards; however research about legislation of accounting standard of unlisted firms or SMEs is lacking. Han and Lee (2004) conducted a survey on accounting managers in firms and certified public accountants about usage of SME exceptional provisions with regards to unlisted firms, if lacking such provision, the complexity of accounting procedures in SMEs, and mitigation of burden in accounting procedures in SMEs after adopting exceptional provisions. The result demonstrates that except for provision about corporate tax, the rate of implementation of provision is low. As to provision related to EPS (earning per share), complexity of accounting procedure and mitigation of burden are assessed to be the lowest from both two groups of experts. Unlike certified public accountants, accounting managers respond that corporate accounting standards and SME accounting procedure provisions are insufficient to alleviate complexity, not to mention the burden in preparing financial statements.

Hwang *et al.* (2009) investigated fundamental factors relevant to establishment of accounting standards for unlisted firms in three-folds. First, they acknowledge the introduction background of accounting standards for unlisted firms and the trajectory in establishing the standards. Secondly, they scrutinize the effectiveness of current standards by sampling the implementation of SME accounting provisions, the 14th issue of corporate accounting standards. Lastly, they expound the enactment process of AS for SME and the important details from released draft. They propose options for an accounting standard in Table 3 by organizing accounting standards in Korea. The first option suggests stock

listed corporations implement IFRS exclusively, and those otherwise to adopt the standards for unlisted firms. The second option proposes both listed stock corporations and KODSDAQ listed corporations implement IFRS and otherwise the standards for unlisted firms. The third option proposes stock listed corporations and KOSDAQ listed corporations implement IRFS and otherwise the standards for unlisted firms, applying SME provisions for SME. The fourth alternative suggests stock listed corporations and KOSDAQ listed corporations and conglomerates adopt IFRS and those otherwise adopt the standards for unlisted firms.

Yoo *et al.* (2010) practiced a survey about the optimal direction for legislation of the accounting standards for unlisted firms. Out of total subjects, 59.8% answer that binary accounting standard structure, which apply different standards on listed firms and unlisted firms, is of necessity. Among those who report that there should be disparate standards, subjects that comment that AS for SME established by International Accounting Standard Board should be translated in Korean, with additional revision that considers practicality in Korea account for 52.5%. The authors also enumerate several factors that should be considered as top priorities, including ease in preparing for financial statement from the perspective of the accountant, low-cost expenses following accounting procedure and financial reporting, and reliability in assisting decision making from users' stance.

2.2.2. Literature Review on Tax Avoidance: Numerous studies have been conducted on tax avoidance; however, studies that specifically delve into tax avoidance of SMEs is in dearth. We summarize here some of the studies that deal with tax avoidance in SMEs.

Yoon and Bae (2001) analyzed the determinants that influence tax avoidance by running a survey on incumbent accounting managers in SME. The results show positive relations for both tax burden factor and tax administrative factor with tax avoidance respectively. They also report that there is a negative correlation of tax ethical factors and sanction against tax avoidance with tax avoidance.

Lee and Yoon (2011) empirically tested the factors that influence tendency to avoid tax in firms in Korea and Indonesia. They found that the higher the tax rate, the higher the predilection for tax avoidance in both countries. It is also reported that complexity of taxation law and restraint against tax avoidance mitigate this tendency to avoid tax. Furthermore, a high prevalence of tax avoidance and inequity in tax lead to higher tendency in tax avoidance. The result regarding characteristics of SMEs show larger firm size, higher capital intensity, lower profitability, and less experience in tax audit are all associated with stronger propensity toward tax avoidance.

Cho, Park and Lee (2011) empirically resolved the characteristics of firms that affect tax avoidance using the sample from firms listed in KOSDAQ from 2005 to 2009. There are significant and positive relations with regards to tendency to avoid tax in degree of tax burden and firm size. Tax favor and capital intensity all have statistically significant and negative relation with the tendency. Na, Park, and Song (2013) contrast the difference in degree of tax avoidance acts between SMEs and non-SMEs. The results demonstrate SMEs have a lower degree of tax avoidance compared to non-SMEs and non-SMEs, after going public, show relatively low degree of tax avoidance

3. Modelling Research

3.1. Establishment of Hypotheses

3.1.1. Tax Avoidance in SME and Non-SME: We conjecture SMEs to have relatively low tax burden with regards to tax avoidance since they are beneficiaries of various taxation subsidies and tax deduction or exemption. Therefore, their tendency to avoid tax is expected to be lower than that of non-SMEs. In the case of unlisted SMEs going public

for external financing, they should disclose financial information to the external stakeholders and cannot evade various external auditing legislations in running business. For fear of debasing the firm's image or reputation, and a subsequent drop in stock price and sales, they are expected to obviate from tax avoidance. We empirically tested our expectations that can be arranged as whether there exists motive for SMEs to avoid tax compared to non-SMEs, and whether SMEs going public have more tendency to avoid tax than non-SMEs. Thus hypotheses are established as follows:

H1 : SME will Have Lower Level of Tax Avoidance Compared to Non-SME.

3.2. Measuring Variables and Establishment of Model

3.2.1. Measurement of Tax Avoidance: This paper attempts to use *BTD*, which captures the difference between accounting profit before eliminating the effect of earnings manipulation and taxable income, to proxy for tax avoidance for all listed firms. We also adopt the proxy proposed in Desai & Dharmapala (2006) that removes the effect of earnings manipulation in *BTD* and allows for more accurate measurement of tax avoidance. Notwithstanding the fact that it may not be suitable in Korean tax structure where corporate tax shelter does not exist, the proposed methodology renders rigorous measurement of tax avoidance act with intent to report tax, severing earnings manipulation effect. Thus, this paper implements both methodologies.

BTD is captured by the difference between accounting profit and taxable income and denominating it by total asset as shown in (1). Estimated amount tax avoidance proposed by Desai & Dharmapala (2006) is derived from *BTD*, which is the difference between earnings before tax unexplained by total accruals and taxable income, written as (2). The residual term is the *TS*, the estimated amount tax avoidance.

$$BTD_{i,t} = \frac{(\text{accounting profit} - \text{taxable income})}{\text{total asset}} \quad (1)$$

$$BTD_{i,t} = \beta_1 TA_{i,t} + \epsilon_{it}$$

$$TS_{i,t} = \epsilon_{it} \quad (2)$$

BTD_{i,t} = firm *i*'s (earnings before tax – taxable income)/total asset in period *t*

TA_{i,t} = firm *i*'s (net income – operating cash flow)/total asset in period *t*

TS_{i,t} = firm *i*'s estimated amount of tax avoidance in period *t*

In (2), dependent variable is *BTD*, and independent variables is total accruals, which is the difference between accounting profit estimated by adopting revised Jones model and cash earnings. *TS* has a virtue of decreasing estimation error by separating earnings manipulation for the purpose of financial reporting from *BTD*. This paper uses total accruals as a proxy for earnings manipulation with intention of financial reporting.

3.2.2. Establishment of Model: The present paper attempts to identify the difference between SMEs and non-SMEs with regards to tax avoidance. We implement (3) to analyze this difference using two proxies for tax avoidance, *BTD* and *TS* introduced above.

$$BTD_{i,t} (TS_{i,t}) = \alpha_0 + \alpha_1 SME_{i,t} + \alpha_2 SIZE_{i,t} + \alpha_3 ROA_{i,t} + \alpha_4 LEV_{i,t} + \alpha_5 CFO_{i,t} + \alpha_6 PPE_{i,t} + \alpha_7 RNDS_{i,t} + \alpha_8 GS_{i,t} + \alpha_9 ES_{i,t} + \sum YD + \sum IND + e_{i,t} \quad (3)$$

BTD_{i,t} = (accounting profit-taxable income)/total asset

TS_{it} = estimated amount of tax avoidance proposed in Desai & Dharmapala (2006)

SME = dummy variable assigning 1 if SME, 0 otherwise.

$SIZE_{i,t}$ = logarithm of total asset

$ROA_{i,t}$ = net income/total asset

$LEV_{i,t}$ = total liabilities/total asset

$CFO_{i,t}$ = operating cash flow/total asset

$PPE_{i,t}$ = (tangible asset –land –asset under construction)/total asset

$RNDS_{i,t}$ = R&D/total sales

$GS_{i,t}$ = (sales during current term-sales during previous term)/sales during previous term

$ES_{i,t}$ = sales from export/total sales

YD = dummy variable for year

IND = dummy variable for indicting industry

ε = residual

The dependent variables in (3) follow the definition explicated in the previous section. To gauge the difference between SMEs and non-SMEs, we assign a dummy variable for being an SME. We implement a number of control variables that expound financial characteristics of firms. It is expected that firms with high ROA are more proactive in avoiding tax in order to decrease cash outflow. Conversely, we conjecture firms with high leverage (LEV) are passive due to tax shield from interest expense. The influence of firm size (SIZE) is contradictory as larger firms have capability to establish predominant taxation strategies, as well as are likely to be passive according to political cost hypothesis. Firms with high capital intensity (PPE) are apt to reduce tax burden using various means, thus are expected to have less tendency in tax avoidance. On the other hand, firms with high operating cash flow (CFO) are more likely to be involved in tax avoidance, for they hold more motives to conduct tax avoidance. (Ko *et al.*, 2007; Ko and Park, 2011). R&D intensity (RNDS) is the measure that denominates R&D expense by total asset and is conjectured to show negative relation with tax avoidance, for R&D entails benefits from various tax deduction and exemption policies. Sales growth rate, if positive, is expected to induce proactive tax avoidance activities to minimize cash outflows. Export ratio (ES) is captured by ratio of export amount to total sales. Since sales from export entails value added tax (VAT) which is nontaxable, the firms are likely to be passive in tax avoidance. We adopt YD to control for differences caused by year.

3.3. Composition of Sample

This paper selected a sample of 9,834 firms among listed firms on Korea Exchange from 2008 to 2013, excluding firms that meet the following criteria:

- Firms in financial industry or closing dates of those are December.
- Firms with capital encroachment or under supervision.
- Firms of which taxable income is unknown from footnotes of audited statement.
- Firms with unstructured KEJI index or those with uncollectable data.

The procedure of sample selection is as follows: firstly, this study extracts the sample from listed securities and Konex (Korea New Exchange) from Kis-value with the duration of 2008 to 2013. Secondly, we exclude the firms in financial industry for their financial statements show discrepancies from those of manufacturing firms in the aspects of components and contents, which leads to inconsistency in estimating independent variables. We limit the sample to firms with December closing dates, since more than 95% of domestic listed firms are following this custom, and more importantly to control for bias in result that stems from difference in closing dates. Thirdly, we exclude those firms with capital encroachment or firms under supervision, since these firms are categorized as

being in an abnormal state. The financial information can demonstrate considerable discrepancies from normal states. Furthermore, we extract financial information from Kis-value and rule out the firms whose data are inaccessible. Regarding observations that exceed 1% from the upper and lower values as outliers, we conducted winsorization at 1% level and compose the total sample with 9,834 firms.

4. Empirical Results

4.1. Descriptive Statistics and Correlation Analysis

Table 2. summarizes descriptive statistics from the sample. In the case of SMEs, BTD, which we adopt as a proxy for tax avoidance, has a mean value of 0.0484 and median of 0.0518. Conversely, TS has the average of 0.0107 and the median of 0.0136, indicating normal distribution that is skewed to the right. With regards to non-SMEs, the mean value of BTD is 0.0228 and median is 0.0331. The average of TS is -0.0005 and median 0.0033. Overall, the standard deviation for BTD and TS is 0.1299 and 0.1301 for SMEs, respectively whereas those of non-SMEs is 0.1135 and 0.998, respectively. The result delineates substantial distinction between SMEs and non-SMEs regarding tax avoidance.

Table 2. Descriptive Statistics (n=9,834)

<Panel A: SME>

<i>Variable</i>	<i>Mean</i>	<i>SD</i>	<i>Min.</i>	<i>25%</i>	<i>Median</i>	<i>75%</i>	<i>Max.</i>
<i>SIZE</i>	23.3767	0.7871	20.8339	22.9377	23.3884	23.9282	25.2559
<i>LEV</i>	0.1395	0.1138	0.0000	0.0530	0.1081	0.2058	0.7168
<i>PPE</i>	0.1632	0.1305	0.0005	0.04498	0.1305	0.2535	0.7678
<i>RNDS</i>	0.0715	0.0821	0.0000	0.0053	0.0453	0.1094	0.4542
<i>CFO</i>	0.0565	0.1446	-0.5833	0.0000	0.0518	0.1455	0.5504
<i>ROA</i>	0.0775	0.1597	-0.8582	0.0199	0.0617	0.1133	0.9408
<i>GS</i>	0.0537	0.7550	-2.2918	-0.0112	0.1481	0.2727	0.9548
<i>ES</i>	0.0940	0.2131	0.0000	0.0000	0.0000	0.01656	0.9990
<i>BTD</i>	0.0484	0.1299	-0.9992	0.01694	0.0518	0.0986	0.3630
<i>TS</i>	0.0107	0.1301	-0.8770	-0.0356	0.0136	0.0727	0.4317

<Panel B: Non-SME>

<i>Variable</i>	<i>Mean</i>	<i>SD</i>	<i>Min.</i>	<i>25%</i>	<i>Median</i>	<i>75%</i>	<i>Max.</i>
<i>SIZE</i>	25.6817	1.4504	21.2872	24.7422	25.4157	26.3597	32.6733
<i>LEV</i>	0.1050	0.1021	0.0000	0.02884	0.0746	0.1512	0.8389
<i>PPE</i>	0.1597	0.1317	0.0000	0.0599	0.1304	0.2257	0.8573
<i>RNDS</i>	0.0398	0.0942	0.0000	0.0000	0.0043	0.0346	0.9869
<i>CFO</i>	0.0503	0.0988	-0.5883	-0.0026	0.0470	0.1023	0.5826
<i>ROA</i>	0.0356	0.1240	-0.9568	0.0029	0.0371	0.0877	0.9755
<i>GS</i>	0.0182	0.4719	-3.852	-0.0533	0.0701	0.1890	0.9581
<i>ES</i>	0.2464	0.3019	-0.0026	0.0000	0.0806	0.4613	0.9998
<i>BTD</i>	0.0228	0.1135	-0.9319	-0.0028	0.0331	0.0765	0.5453

<i>TS</i>	-0.0005	0.0998	-0.7613	-0.0406	0.0033	0.0497	0.5292
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<Table 3> demonstrates Pearson correlation between main variables. With regards to variables of SMEs, TS has statistically significant positive relations with ROA, OFO, GS, respectively, and insignificant relations with LEV, SIZE, PPE, ES, RNDS. In other words, SMEs with higher profitability, better operating cash flow, and higher sales growth are more intending to commit tax avoidance. Conversely, correlation among variables of non-SMEs displays statistically significant positive relations between TS and ROA, SIZE, OFO, RNDS, GS, PPE, ES, respectively, whereas LEV has significant negative relation. The result implies the non-SMEs with higher profitability, bigger firm size, better operating cash flow, higher R&D intensity, higher export ratio, and higher sales growth are more likely to conduct tax avoidance while non-SMEs with higher leverage have less intention to avoid tax.

Table 3. Correlation Analysis among Main Variables

<Panel A: SME>

<i>Variable</i>	<i>SIZE</i>	<i>ROA</i>	<i>LEV</i>	<i>CFO</i>	<i>PPE</i>	<i>ES</i>	<i>GS</i>	<i>RNDS</i>
<i>TS</i>	0.084 0.176	0.588 0.000* **	-0.043 0.487	0.834 0.000* **	-0.017 0.790	0.005 0.734	0.239 0.000** *	-0.077 0.216
<i>SIZE</i>	1	-0.039 0.528	0.034 0.581	0.075 0.229	0.180 0.003** *	0.170 0.006** *	-0.041 0.514	0.034 0.581
<i>ROA</i>		1	-0.057 0.358	0.414 0.000* **	-0.139 0.025**	-0.050 0.420	0.330 0.000** *	-0.034 0.580
<i>LEV</i>			1	-0.006 0.820	0.362 0.000** *	0.007 0.810	-0.005 0.836	0.132 0.034* *
<i>CFO</i>				1	0.030 0.628	0.026 0.677	0.035 0.571	-0.092 0.140
<i>PPE</i>					1	-0.090 0.147	-0.019 0.765	-0.015 0.815
<i>ES</i>						1	0.014 0.816	0.136 0.028* *
<i>GS</i>							1	-0.042 0.504

<Panel B: Non-SME>

<i>Variable</i>	<i>SIZE</i>	<i>ROA</i>	<i>LEV</i>	<i>CFO</i>	<i>PPE</i>	<i>ES</i>	<i>GS</i>	<i>RNDS</i>
<i>TS</i>	0.060 0.000** *	0.783 0.000* **	-0.143 0.000* **	0.788 0.000* **	0.088 0.000* **	0.029 0.006* **	0.220 0.000* **	0.042 0.000* **
<i>SIZE</i>	1	0.049 0.000* **	0.260 0.000* **	0.024 0.022* *	0.135 0.000* **	0.065 0.000* **	0.006 0.541	-0.078 0.000* **

ROA			<i>1</i>	-0.157 0.000* **	0.498 0.000* **	0.000 0.974	0.028 0.008* **	0.229 0.000* **	0.044 0.000* **
LEV				<i>1</i>	-0.110 0.000* **	0.367 0.000* **	0.013 0.229	0.019 0.066*	-0.038 0.000* **
CFO					<i>1</i>	0.154 0.000* **	0.036 0.001* **	0.138 0.000* **	0.037 0.001* **
PPE						<i>1</i>	0.103 0.000* **	0.070 0.000* **	-0.011 0.296
ES							<i>1</i>	0.033 0.002* **	0.023 0.029* *
GS								<i>1</i>	0.009 0.402

4.2. Regression Analysis

Table 4. demonstrates the empirical analysis result of whether tax avoidance is associated with being categorized as SME by discerning the year that the firm went public. We found that on the year of going public, the coefficients are 2.976 and 4.101, respectively with different proxies, all of which are statistically significant at 1% level. Therefore, SMEs have more tendency to be involved in tax avoidance on the year of IPO when compared to non-SMEs.

With regards to control variables, the results are as follows: since bigger firms (SIZE) are considered to be scapegoats when levied tax with numerous regulations, firms with higher profitability (ROA) are intended to decrease earnings for income smoothing, firms with higher operating cash flows (CFO) are likely to be more burdened with tax, and SIZE, ROA and CFO all display positive influence on tax avoidance. Sales growth (GS) also holds positive relations with tax avoidance. This is plausible for firms with higher sales growth are motivated to reduce cash outflows, and thus are proactive in avoiding tax. Conversely, firms with high leverage (LEV) enjoy tax reduction from tax shield built from interest, making them less motivated to avoid tax. Firms with high R&D intensity (RNDS) are beneficiaries of tax provision from investment, thus RNDS reports a significantly negative influence on tax avoidance. To clarify, as shown in Table 3, firm size (SIZE), profitability (ROA), operating cash flows (CFO), sales growth (GS) are 3.131(2.245), 54.093(30.277), 14.257 (21.953), 3.285 (2.990), respectively, all of which have statistically significant and positive impact on tax avoidance. Leverage (LEV) and R&D intensity (RNDS) are -6.181(-5.909), -3.674(-3.679), respectively, exhibiting statistically significant and negative effects on tax avoidance.

SMEs not only receive tax subsidy, but also benefit from tax deduction and tax exemption from the government authorities and taxation legislations, and thus are less cumbersome with regards to tax. On the other hand, when going public to quench financial constraints, financial information should be reported to the external interest parties. This entails external monitoring, as well as auditing to managing the business. Conducting tax avoidance has high risk for listed SMEs, because it can result in detrimental influence on firm image, reputation, and fame. Contradictorily, there exists possibility for earnings manipulation in pursuit of getting investment after going public and reporting financial information.

According to <Table 4>, SMEs in the year of listing are more intent on performing tax

avoidance in a more proactive way than non-SMEs. This implies that despite the presence of various tax subsidies and tax deduction and exemption clauses in taxation law, SMEs in the year of listing have more predilection in avoiding tax and manipulating earnings for reporting financial information and external financing.

Among the control variables, firm size (SIZE), profitability (ROA), operating cash flow (CFO), and sales growth (GS) are shown to be significantly and positively influencing tax avoidance. Leverage (LEV) affects tax avoidance negatively with significance.

Table 8. Regression of Tax Avoidance on Being SME

$$TA_{i,t} (\text{BTDT}_{i,t}) = \beta_0 + \beta_1 \text{SME}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{ROA}_{i,t} + \beta_4 \text{CFO}_{i,t} + \beta_5 \text{LEV}_{i,t} + \beta_6 \text{PPE}_{i,t} + \beta_7 \text{RNDS}_{i,t} + \beta_8 \text{GS}_{i,t} + \beta_9 \text{ES}_{i,t} + \sum YD + \sum IND + \epsilon_{i,t}$$

Variable	In the year listed				total sample period			
	BTDT		TS		BTDT		TS	
	Coeff.	t(p-value)	Coeff.	t(p-value)	Coeff.	t(p-value)	Coeff.	t(p-value)
Intercept	0.136	-3.419***	0.105	-3.518***	0.184	-1.784*	0.133	-1.404
SME	0.062	2.976***	0.065	4.101***	0.013	1.036	0.002	0.214
SIZE	0.005	3.131***	0.003	2.245**	0.007	1.711*	0.004	1.019
ROA	0.904	54.093***	0.500	30.277***	0.597	24.835***	0.196	8.842***
LEV	0.230	-6.181***	0.166	-5.909***	0.060	-1.807*	0.035	-1.131
CFO	0.587	14.257***	0.682	21.953***	0.156	5.453***	0.658	25.046***
PPE	0.029	-0.976	0.014	-0.639	0.024	0.772	0.005	0.182
RNDS	0.034	-3.674***	0.025	-3.679***	0.041	0.898	0.027	0.643
GS	0.014	3.285***	0.013	2.990***	0.007	6.630***	0.007	7.392***
ES	0.018	1.160	0.013	1.138	0.008	-0.489	0.010	-0.644
YD	Included		Included		Included		Included	
N	1,639		1,639		9,834		9,834	
Adj. R ²	0.198		0.310		0.787		0.791	
F-value	46.963 (0.000)***		84.610 (0.000)***		130.632 (0.000)***		133.756 (0.000)***	

Note) 1. *, **, *** indicates statistical significance at 1%, 5% and 10%, respectively.
 2. Variable explanation

5. Conclusion

SMEs smaller than a certain size lack discretionary effort in enhancing management transparency due to a small number of financial information users and lenient obligation in making and reporting financial statements, compared to conglomerates. SMEs also confront substantial difficulty in both adopting K-IFRS, which follows globalization of

multinational enterprises, making comparison between various firms possible, and comprehending previous general firm accounting standards. To overcome such difficulty, Accounting Standards for Small- and Medium-sized Entities (AS-SME) is legislated for firms to which external auditing is not mandated and have a small number of financial information users. AS-SME is implemented for the accountant to understand and easily apply the standards in forming financial statements and for the users to utilize useful financial information.

We expect that SMEs, since they are the beneficiaries of various tax subsidies and qualified to acquire tax deduction or redemption, are less involved in tax avoidance as they have less tax burden. Our conjecture is that being an SME is negatively related to tax avoidance when compared to non-SMEs. In order for the unlisted SMEs to quench financing burden, they are mandated to provide financial information to external interest parties when going public. Moreover, they cannot evade various external monitoring and check when operating business. Contradictorily, it is also plausible for the SME to conduct tax avoidance to relieve financing burden through listing. Thus, present study seeks to empirically test the financial determinants that affect tax avoidance, whether SMEs have more motive to avoid tax than non-SMEs.

We figure that the present study, which delves into AS-SME and tax avoidance of SMEs, is duly conducted as there has been legislation of AS-SME and aids to facilitate listing of SMEs. This paper offers comprehensive understanding of AS-SME intended to easily and clearly form financial standards for small SMEs. Also, analyses on motivations of SMEs to avoid tax despite less tax burden from tax aids and benefits must be conducted to provide implications for SME supporting policy.

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