

Analyzing the Relationship Between Tax Avoidance Practices and the Persistence of Accounting Earnings: The Mediating Role of Institutional Ownership – An Empirical Study on Egyptian Listed Companies

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Abstract

This research investigated the complex relationship between corporate tax avoidance and the sustainability of accounting earnings, specifically exploring the mediating influence of institutional ownership. The study employed content analysis on a sample of 73 Egyptian listed companies, utilizing seven years of data (2017-2023), which yielded a total of 511 observations. Multivariate linear regression, specifically the Pooled Regression Model, was used for statistical analysis with SPSS and E-Views.

Findings indicate that while tax avoidance offers short-term advantages, such as increased profit margins and meeting analyst expectations, it poses significant long-term legal risks due to heightened scrutiny. Furthermore, an overemphasis on tax avoidance can mislead stakeholders about a company's true financial health. Crucially, institutional investors were found to play a vital role in stabilizing accounting earnings and promoting responsible tax practices. The study established a significant negative correlation between tax avoidance and earnings sustainability (adjusted $R^2=0.5427$), and a strong correlation between institutional ownership and tax avoidance (adjusted $R^2=0.7780$). Institutional ownership effectively mediated the relationship between tax avoidance and earnings sustainability (adjusted $R^2=0.8824$).

The researchers recommend future studies to develop strategies for enhancing tax compliance and redirecting accounting thought towards understanding the broader economic impacts of tax avoidance. This research uniquely contributes to the accounting and economic literature by empirically exploring these interrelationships within the Arab context.

Keywords: Tax avoidance - Accounting earnings sustainability - Institutional ownership - Corporate governance.

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