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Voluntary tax disclosure from the perspective of tax avoidance and national culture

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VOLUNTARY TAX DISCLOSURE FROM THE PERSPECTIVE OF TAX AVOIDANCE AND NATIONAL CULTURE

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Resumo

À medida que a consciencialização global das Objetivos de Desenvolvimento Sustentável (ODS) aumenta, juntamente com um aumento dos investimentos conscientes do *Environmental, Social and Corporate Governance* (ESG), há uma procura crescente das grandes empresas, especialmente aquelas que operam num contexto internacional, para demonstrar aos investidores e outras partes interessadas a sua posição proativa sobre as ODS. Por outro lado, é provável que as empresas minimizem os seus pagamentos de impostos com base nas suas estratégias fiscais para maximizar os lucros dos acionistas. Como é que as empresas equilibram estes fatores? Nesta tese, com base nos resultados do inquérito ISSP *Role of Government* 2016, seleciono como minha amostra de empresas de países com moral fiscal elevada e baixa. Para as empresas dos países selecionados, desenvolvo um índice de divulgação fiscal (TDI) com base na sua conformidade com o *Global Reporting Initiative* (GRI) 207 nos seus relatórios de sustentabilidade e examino a sua associação com a evasão fiscal e a cultura nacional. Os resultados mostram que quanto maior o nível de evasão fiscal, menor o nível de divulgação fiscal, e que a cultura nacional também tem um impacto direto no nível de divulgação fiscal.

Palavras-chave: Gestão da sustentabilidade, Evasão fiscal, Cultura nacional, Moral fiscal, GRI 207

Abstract

As the global awareness of Sustainable Development Goals (SDGs) increases, coupled with a rise in Environmental, Social and Corporate Governance (ESG) conscious investments, there is an increasing demand for large companies, especially those with global markets, to demonstrate their proactive stance on SDGs to investors and other stakeholders. On the other hand, companies are likely to minimize their tax payments based on their tax strategies to maximize shareholder profits. How do companies balance these factors? In this thesis, based on the results of the ISSP Role of Government 2016 survey, I select companies from countries with high and low tax morale as my sample. For firms in the selected countries, I develop a tax disclosure index (TDI) based on their compliance with Global Reporting Initiative (GRI) 207 in their sustainability reports and examine its association with tax avoidance and national culture. The results show that the higher the level of tax avoidance, the lower the level of tax disclosure, and that national culture also has a direct impact on the level of tax disclosure.

Keywords: Sustainability management, Tax avoidance, National culture, Tax morale, GRI 207

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List of abbreviations

CbCR	Country-by-Country Reporting
CBTP	Code of Best Tax Practices
CSR	Corporate Social Responsibility
ESG	Environment, Social, and Governance
ETR	Effective Tax Rate
GRI	Global Reporting Initiative
IDV	Individualism
IND	Indulgence
ISSP	International Social Survey Programme
LTO	Long-Term Orientation
MAS	Masculinity
OECD	Organisation for Economic Co-operation and Development
PD	Power Distance
SDGs	Sustainable Development Goals
TDI	Tax Disclosure Index
UAI	Uncertainty Avoidance

1. Introduction

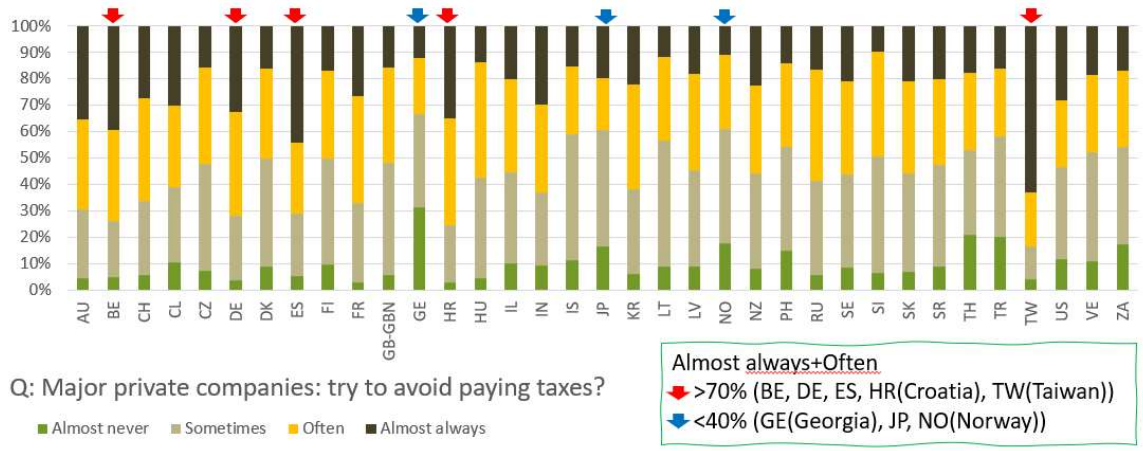
It has been decades since the Sustainable Development Goals (SDGs) (development must balance social, economic, and environmental sustainability) have been called for in corporate management, and in recent years, companies have been enhancing their disclosure with an awareness of the SDGs. As the global awareness of SDGs increases, coupled with a rise in Environment, Social, and Governance (ESG) conscious investments, there is an increasing demand for large companies, especially those with global markets, to demonstrate their proactive stance on SDGs to investors and other stakeholders. The goal is to increase corporate value over the medium to long term by meeting stakeholders' demands.

To maximize shareholders' profits by minimizing costs (Friedman, 1970), companies generally engage in tax avoidance, albeit at different levels. Tax avoidance here refers to "the reduction of explicit taxes" (Hanlon & Heitzman, 2010), which is the act of reducing taxes, including legitimate ones. This tax avoidance is a rational decision for a business corporation according to the corporate purpose mentioned above. In fact, according to the International Social Survey Programme (ISSP) Role of Government 2016 survey[1], more than 70% of major private companies responded "almost always" or "often" "try to avoid paying taxes" in Belgium, Germany, Spain, Croatia, and Taiwan. In contrast, less than 40% in Georgia, Japan, and Norway. In other words, although the level of tax morale varies from country to country, the intention to minimize tax payments and maximize profits is observed.

[1] Obtained data from the link: https://www.gesis.org/en/issp/modules/issp-modules-by-topic/role-of-government/2016

Figure 1. ISSP survey

Source: Prepared by author based on data "ISSP Role of Government 2016"



On the other hand, depending on the level and method of tax avoidance, negative social evaluation may affect business performance, especially in business-to-consumer (B2C) businesses (Hanlon & Slemrod, 2009). If we consider that tax payments have the significance, from a social perspective, of being a fair burden to maintain public goods, then whether a company is fulfilling its tax obligations constitutes a social concern (Sikka, 2010). In such an environment, how do companies, being affected by their own social and cultural influences, cope with tax issues in their sustainability management? Is it the same in different countries with different morale? Is it affected by actual companies' tax avoidance activities?

To answer these questions, the following procedures are implemented. First, among countries with high and low morale, I select companies in countries: Japan (NIKKEI) and Norway (OBX); and Germany (DAX) and Spain (IBEX), respectively, considering market capitalization and cultural variation. Then I examine how these companies integrate tax issues into their SDGs management by measuring the level of disclosure in accordance with the Global Reporting Initiative (GRI), a voluntary disclosure standard. The GRI is widely referenced by large companies as a standard for sustainability reporting. In 2019, tax disclosure standard GRI 207 was issued to be applied to reports on or after January 1, 2021, which enable us to verify how companies in different countries with different levels of tax morale view tax issues in sustainability management. Second, I examine the association between the tax disclosure level and tax avoidance as represented by the four-year average adjusted effective tax rate (ETR) differential of companies (Dyreng et al., 2008). Third, assuming that all organizations exist within a cultural context (Van der Laan Smith et al. 2005),

since corporate voluntary disclosure practices are carried out by individuals mostly influenced by the culture of the corporate home country, it is expected that the corporate disclosures also reflect the cultural aspects that characterize their home country. Therefore, I use Hofstede's cultural dimensions and examine the relationship with the level of tax disclosure. Finally, I examine whether the interaction of these factors influences the level of tax disclosure, since such culture is expected to influence the tax avoidance decisions of the individuals comprising a company.

The contributions of this thesis are as follows. In line with the study of Hardeck and Kirn (2016), who examine the disclosure level of sustainability reports for public companies in the US, the UK, and Germany from the perspective of tax avoidance, this research adds a sample of public companies from other countries such as Japan, Spain, and Norway, which differs from the perspective of tax morale and, to determine the disclosure level, uses the tax disclosure standards GRI 207, which became effective on the reports issued on or after January 1, 2021. Additionally, this study focuses on cultural aspects and attempts to explain corporate tax voluntary disclosure practices.

The remainder of this thesis is organized as follows. Section 2 provides the literature review and Section 3 objective and hypothesis development. Section 4 describes the methodology and section 5 presents the results. Finally, section 6 concludes the thesis by discussing the findings.

2. Literature Review

2.1. Disclosure theories

Most research on sustainability reporting is based on "socio-political theories," and within this framework, legitimacy theory and stakeholder theory are viewed as overlapping (Gray et al. 1995; Deegan, 2002). While both legitimacy and stakeholder theories suggest that companies seek to legitimize and maintain relationships with the broader social and political environment in which they operate, there are differences between the two theories in their approaches to analyzing the role of corporate disclosure in their relationship with society (Gray et al.,1995).

That is, legitimacy theory assumes the existence of an implicit social contract between a company and society, the terms of which consist of the expectations of that social group, and a company cannot survive without fulfilling its contractual responsibilities (Deegan, 2002). In this case, the level of disclosure in sustainability reports would depend on social pressure, and disclosure would be part of a legitimization strategy by organizations whose legitimacy is threatened by the legitimacy gap (Lindblom, 1994 cited by Deegan, 2002; Dowling and Pfeffer, 1975). Therefore, social and environmental disclosure may be used as a tool to deal with society's demands (Freedman & Jaggi, 2005).

On the other hand, stakeholder theory emphasizes the importance of the organization's relationship with its stakeholders, which is defined as "any group or individual who can affect or is affected by the achievement of the firm's objectives", including shareholders, creditors, employees, customers, suppliers, and governments, among others (Freeman 2010). According to this theory, corporate disclosure is to discharge accountability in response to stakeholder demands, i.e., stakeholder demands determine the level of disclosure in sustainability reporting. However, Roberts (1992) notes that stakeholder influence on corporate management differs, and that the more critical the stakeholder resources are to the sustainability of the corporation, the more likely the stakeholder demands will be satisfied (Ullmann, 1985).

In addition, the voluntary disclosure theory states that proprietary cost influences the level of disclosure (in particular, proprietary cost theory). Proprietary costs arise from the disclosure of proprietary information, regardless of whether the information is favorable or unfavorable to the firm, the disclosure of which may cause losses to the firm (Verrecchia, 1983). The usefulness of information varies not only for investors but also for other stakeholders, such as competitors, employees, or tax authorities. If a manager determines

that disclosure is harmful to the firm, he/she withholds information from the public (Verrecchia, 1983; Dye, 1985). That is, the costs and benefits of disclosure are examined before making any decision on whether to disclose. In this regard, Suijs (2005) shows that a firm's propensity to disclose bad news increases if it is found that the proprietary costs[2] are higher than the disclosure costs.

Lanis and Richardson (2013) examine the "illegitimacy" of tax avoidance in the annual reports of Australian companies, assuming that tax payments are associated with social concerns since tax payments have social significance. They find a positive relationship between tax avoidance and CSR disclosures from the perspective of legitimacy theory. Clarkson et al. (2008) show that firms whose legitimacy is threatened make soft[3] claims (legitimacy theory) which cannot be explained based on the economics disclosure theory. Hardeck and Kirn (2016) show that firms with low effective tax rates, negative media coverage on tax issues, and industry-specific stakeholder pressure are generally more likely to disclose tax information, which is in line with legitimacy and stakeholder theories. Hardeck et al. (2020), which find that companies make socially responsible tax disclosures to distract from poor environmental performance and that companies in liberal market economies (U.S., Canada, Australia) make disclosures to greenwash tax avoidance activities, could be seen as in line with the legitimacy theory.

In contrast, Adams et al. (2022) find a positive relationship between high effective tax rates and tax disclosure, indicating that managers of high-tax paying firms want to signal the pro-social "virtue" of the firms to their stakeholders (voluntary disclosure theory).

2.2. Sustainability and tax avoidance

Taxation is an important mechanism to support education, social activities such as social security and welfare, social capital development such as water supply and roads, and public services. Therefore, as tax avoidance has a significant impact on the realization of the SDGs, a global response to tax transparency is underway. In fact, target 10.4, which constitutes Goal 10 "Reduce inequality within and among countries" of the SDGs adopted by the United Nations General Assembly in September 2015, states that "Adopt policies, especially fiscal,

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[2] Proprietary costs consist of the following two types: internal costs which include the costs of preparing and disclosing information; and external costs which result from a consequence of competitors' action to use the information disclosed for their own advantage (Prencipe, 2004).

[3] "Soft" is the opposite of "hard," which means objectively verifiable and not easily imitated by others (Clarkson et al., 2008).

wage and social protection policies, and progressively achieve greater equality". In response, countries are now moving to institutionalize tax transparency.

For example, in the UK, the 2016 tax reform requires multinational enterprises (MNEs) with subsidiaries in the UK which meet the thresholds of the OECD's Country-by-Country Reporting (CbCR) framework (total group turnover in excess of 750 million euros or total turnover in excess of £200 million or total assets in excess of £2 billion in the UK group or subgroup) to disclose its tax strategy in the UK on its website. The tax strategy must be approved by the board of directors of the UK subsidiary and must be consistent with the overall strategy and operating policies of the business[4]. In addition, a legal framework within the EU was formally adopted by the EU Council in September 2021 that guarantees the publication of tax amounts and profits by country/region for multinationals or stand-alone companies with consolidated revenues exceeding 750 million euros for the past two fiscal years in the EU where they have large or medium-sized entities[5].

The United Nations International Financial Accountability, Transparency and Integrity (FACTI), in its final report, made an important recommendation to address tax transparency by requiring "all private multinational entities publish accounting and financial information on a country-by-country basis". And in the voluntary disclosure standards GRI, the tax disclosure standards GRI 207 has been developed which became effective from January 1, 2021. The above trends may reflect the fact that tax transparency is believed to reduce tax avoidance and contribute to the realization of the SDGs.

Affirming this trend, Hoi et al. (2013) focus on active tax avoidance and found that companies that engage in excessively socially irresponsible activities are more likely to avoid taxes, concluding that CSR is part of corporate culture and influences corporate tax avoidance. Lanis and Richardson (2012; 2015) also show that high CSR performance is associated with a lower likelihood of tax avoidance, indicating that socially responsible firms are less likely to avoid taxes. Similarly, Ortas and Gallego-Alvarez (2020) find that CSR performance has a negative impact on corporate tax avoidance. They explain Hofstede's (1980; 2011) national culture dimension as moderator variables of CSR performance and find that the negative relationship is stronger in countries with more individualistic and long-term oriented cultures.

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[4] https://www.gov.uk/guidance/large-businesses-publish-your-tax-strategy

[5] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CONSIL:ST_9547_2021_INIT&from=EN

On the other hand, Davis et al. (2016), using a large sample of U.S. firms and focusing on a broad range of tax avoidance, find that CSR indicators are negatively related to five-year cash ETR (i.e., positively related to tax avoidance) and that socially responsible firms pay less corporate tax on average than other firms. This indicates that companies do not consider paying taxes as part of their social responsibility. In other words, if tax payments have the social significance of being a fair burden to maintain public goods, firms may consider paying taxes as part of their social responsibility. On the other hand, if firms believe that paying taxes inhibits innovation, employment growth, and economic development, and thus impairs social welfare, then the two activities, CSR and tax avoidance, serve as substitutes (Davis et al., 2016). In this regard, for example, companies may be reluctant to pay taxes if they believe that the government is inefficient and unreliable (Svallfors, 2013). Furthermore, given that private firms can use resources more efficiently than the public sector (e.g., DeWenter & Malatesta, 2001), a certain social benefit may be recognized in leaving resources to a private firm. The results obtained by Davis et al. (2016) are consistent with prior qualitative research (Preuss, 2010; Sikka, 2010) that argue that some companies claim to be socially responsible but actively avoid taxes. Lanis and Richardson (2013) and Hardeck and Kirn (2016), who focus on the relationship between CSR/tax disclosure and tax avoidance, also find that companies with aggressive tax strategies have higher levels of disclosure.

Watson (2015) attempts to interpret these two different views of the relationship between CSR and tax avoidance, using corporate profitability as a moderator. He finds both the positive relation (between high CSR and tax avoidance) consistent with Davis et al. (2016) and the negative relation (between low CSR and tax avoidance) consistent with Hoi et al. (2013) depending on the level of earning performance that firms are either experiencing or expecting concluding that attention to the demands of non-shareholder stakeholders is curtailed when firms face scarce resources.

As discussed above, research results on the relationship between sustainability and tax avoidance are mixed.

2.3. Hofstede's national culture dimension framework

"The influences of culture are pervasive and underlie nations' institutional arrangements. All organizations exist within cultural contexts" (Van der Laan Smith et al. 2005). Therefore, a country's cultural and social values influence the behavioral choices of companies and the perceptions or expectations of its stakeholders belonging to that country, which in turn affect the scope and quality of corporate disclosure. Gray (1988) also argues that cultural values

influence a country's accounting system and disclosure practices. Many other researchers have attempted to examine the influence of national culture on the scope and quality of various types of reports prepared by companies (e.g., Van der Laan Smith et al. 2005; Orij, 2010; García-Sánchez et al. 2013; Gallego-Álvarez & Ortas, 2017; Vitolla et al., 2019). This is an indication that they assume a certain validity in this theory.

Academic studies examining the impact of national culture are often analyzed in terms of the dimensions proposed by Hofstede (1980). Hofstede (1980) identifies four dimensions of national culture (1) Power distance (PD), (2) Individualism versus Collectivism (IDV), (3) Masculinity versus Femininity (MAS), and (4) Uncertainty Avoidance (UAI). Later, two dimensions (5) Long-term versus Short-term Orientation (LTO) and (6) Indulgence versus Restraint (IND) are added for a total of six cultural dimensions (Hofstede, 2011). The specifics are described below.

2.3.1. Power Distance (PD)

PD refers to the degree to which the less powerful members of a country expect and tolerate an unequal distribution of power. In countries with a low PD, individuals are equal, and the exercise of power requires legitimacy. In contrast, when the PD is high, there is inequality and obedience represented by hierarchy, and legitimacy is not necessary for the exercise of rights, and the people accept such situations as they are.

García-Sánchez et al. (2013) find no significant relationship with GRI-based disclosure in integrated reports, but Gallego-Álvarez and Ortas (2017), who examined the relationship with environmental disclosure in sustainability reporting, and Vitolla et al. (2019), who examined the association with non-financial information in integrated reporting, confirm a negative relationship with PD. Orij (2010) also finds a negative relationship between CSR disclosures and PD. Overall, most studies identify a negative association with lower hierarchy levels resulting in more stakeholder-friendly disclosure.

2.3.2. Individualism versus Collectivism (IDV)

IDV is the degree of integration of individuals into primary groups. In countries with a high degree of individualism as a societal, the scope of individual consideration is limited to himself or his immediate family, and individual values are emphasized. In contrast, in countries with a low degree of individualism, i.e, collectivism, individuals are expected to be cooperative and to act in the best interest of the group.

Several studies show a negative relationship between non-financial information and IDV, since in collectivist societies more emphasis is placed on the environmental and social impact

of business and its relationship with stakeholders (García-Sánchez et al., 2013; Vitolla et al., 2019; and Pizzi et al., 2022). In contrast, another study hypothesizes a positive relationship as collectivist societies favor some groups at the expense of others, leading to corruption and ethical problems (Disli et al, 2016). Indeed, Orij (2010) finds a positive relationship between CSR disclosure and IDV. Gallego-Álvarez and Ortas (2017) find no significant association with environmental disclosure.

As discussed above, the prior literature has shown mixed results regarding the association between non-financial information and IDV.

2.3.3. Masculinity versus Femininity (MAS)

MAS focuses on traditional roles as a societal. Culture with a high degree of masculinity is assertive and tends toward material success, whereas feminine culture focuses on relationships and other social aspects.

The dominant issues in the feminine society are related to those issues typically discussed by companies in corporate social disclosure (Van der Laan Smith et al., 2005), and indeed, various literature finds a negative association between non-financial information and MAS (Orij, 2010; García-Sánchez et al. 2013; Gallego-Álvarez & Ortas, 2017; Vitolla et al. 2019).

2.3.4. Uncertainty Avoidance (UAI)

UAI refers to tolerance for ambiguous situations such as uncertainty about the social future and differs from risk aversion. Uncertainty-averse culture seeks to minimize such situations through establishing strict codes of conduct, laws, and regulations, and disallowing deviant opinions. In contrast, the opposite culture is more tolerant of opinions that differ from their norm and tries to use fewer rules.

Vitolla et al. (2019) find a positive relationship between UAI and non-financial information suggesting that norms are established in response to the demand for quality information to reduce uncertainty in countries with a high degree of UAI. Gallego-Álvarez and Ortas (2017) find a positive relationship as well, while some authors fail (Orij, 2010; Pizzi et al., 2022).

2.3.5. Long-Term versus Short-Term Orientation (LTO)

LTO relates to whether the effort is focused on the future or the present/past. Long-term oriented values, often discussed in connection with the Confucian spirit, are perseverance, thrift, ordering relationships by status, having a sense of shame, and striving for a good future. The opposite, short-term oriented values reward social obligation, respect tradition, emphasize personal stability, and expect immediate gratification.

Orij (2010) hypothesizes a positive relationship between LTO and non-financial information as compatible with a long decision horizon, but this is not confirmed. He presumes that LTO's strong and significant correlation with PD and Collectivism may have disturbed the predictive value of the model. More so, there are other literature that fail to find a relationship with LTO (García-Sánchez et al., 2013; Vitolla et al., 2019). On the other hand, Gallego-Álvarez and Ortas (2017) confirm a positive relationship between environmental disclosure and LTO in a sample with a medium-high environmental disclosure index.

2.3.6. Indulgence versus Restraint (IND)

IND refers to a society in which the fulfillment of human desires is relatively free, while restraint refers to a society in which the fulfillment of such desires is restrained and regulated by strict social norms.

Although prior IND studies are fewer in number than the initial four dimensions, there is literature showing a negative relationship between IND and integrated reporting (Vitolla et al., 2019). They argue that individuals in an indulgent culture are more concerned with personal issues and the fulfillment of their desires and less concerned with monitoring corporate financial, environmental, and social issues. Gallego-Álvarez and Ortas (2017) also find a similar association only for firms with the highest commitment to corporate environmental sustainability reporting.

3. Objective and hypothesis development

The objective of this thesis is to examine how each company's tax strategy (level of tax avoidance) and the culture of its country of origin affect the level of tax disclosure in its sustainability report, either individually or in interactive combination, for each group (country) with different levels of tax morale. Below, I present the hypotheses to be tested in this thesis for each of the items that may determine the level of tax disclosure.

3.1. Tax avoidance

I examine the impact of the aggressiveness of the tax strategies employed by companies on the level of tax disclosure in their sustainability reports based on disclosure theory. First, according to the voluntary disclosure theory, if a company's tax avoidance determines that disclosing tax information may cause losses to the company, considering, e.g., the reaction of investors and consumers, it may not disclose the information. Thus, the level of tax information disclosure may be low. However, in a critical situation where illegality in tax avoidance is suspected, if it is determined that the losses to the company, such as litigation and reputational costs, may exceed the benefits of non-disclosure of information, then "bad news" (Suijs, 2005) may be disclosed.

Second, according to legitimacy theory, firms engaging in tax avoidance fail to meet society's implicit expectations. Therefore, disclosure of tax information may function as part of a legitimization strategy for companies whose legitimacy is threatened to maintain or regain legitimacy (Lindblom, 1994 cited by Deegan, 2002; Dowling & Pfeffer, 1975). Based on stakeholder theory, it is expected that corporate stakeholders demand disclosure of information that allows them to assess risk, even if it depends on the importance of the stakeholder to the company, and even more so if tax activities are aggressive. Thus, in all cases, a higher level of disclosure of tax information is expected. This is also the case for firms that interpret tax payments as substitutes for social welfare (Davis et al., 2016). Similarly, when companies engaged in proactive disclosure strategically to create a more favorable reputation among various stakeholders and reduce the possibility of negative attention and regulatory action for aggressive tax practices (e.g., Godfrey et al., 2009), the level of disclosure could be higher.

Since, as discussed above, the level of tax disclosure by firms engaged in tax avoidance activities can be high or low, I hypothesize the following.

H1: The level of tax disclosure in sustainability reporting is significantly associated with the level of tax avoidance.

Furthermore, I choose these four countries as my sample because I assume that differences in tax morale may lead to different levels of tax disclosure. Therefore, I add the following hypothesis:

H1a: The level of tax disclosure differs between countries with high and low tax morale.

3.2. National culture

As discussed above, prior literature finds a relationship between voluntary disclosure and national culture (e.g., Van der Laan Smith et al. 2005; Orij, 2010; García-Sánchez et al. 2013; Gallego-Álvarez & Ortas, 2017; Vitolla et al., 2019), but the results are mixed. In this thesis, I focus on how the culture of four different countries influence the tax disclosure decisions of firms with roots in those cultures. Specifically, I assess whether and to what extent culture influences tax disclosure among the four countries in our sample. Thus, I hypothesize the following.

H2: The level of tax disclosure in sustainability reporting is significantly associated with national culture

3.3. Interaction between tax avoidance and national culture

As discussed above, when a company engages in tax avoidance, how it discloses is likely to be influenced by the culture of the country where the company has its roots, in addition to the measures discussed based on the disclosure theory. In addition to their separate effects, the cognition of tax avoidance and the prediction of its effects are culturally influenced when companies make decisions regarding tax disclosure, and as a result, it is assumed that they interact with each other to influence the level of corporate tax disclosure. Therefore, I hypothesize the following.

H3: The level of corporate tax disclosure is interactively influenced by the level of tax avoidance and national culture.

4. Methodology

4.1. Sample selection

Among the countries where more than 70% of the companies indicated that they "always" or "frequently" avoid taxes in the ISSP Morale Survey (Figure 1), I include companies from Germany (DAX-40 companies) and Spain (IBEX-35 companies) in my sample (sample with low tax morale). Further, among the countries where the result of the same survey was less than 40%, Japan (the top 50 companies by market capitalization of NIKKEI) and Norway (OBX 25 companies) are also included in my sample (sample with high tax morale). Some companies in the sample do not adopt GRI. In addition, the GRI requires disclosure of items that companies have identified as material, thus if the tax is not identified as a material item, the company may not disclose tax information. In either case, following Clarkson et al. (2008) and Hardeck and Kirn (2016), those companies are remained in the sample and are evaluated as no tax information disclosed.

Financial data is extracted from EIKON/DATASTREAM for the sample period 2020 (or 2021[6]) except for the data used for adjusted ETR differential, a proxy of tax avoidance, which is extracted for the period 2016-2019 (or 2017-2020) as discussed in section 4.3.

Table 1 presents the sector classification of the firms in my sample.

Table 1. Sector classification of sampled firms

Country	Germany (DAX)		Spain (IBEX)		Japan (NIKKEI)		Norway (OBX)	
Sector	Number	%	Number	%	Number	%	Number	%
Communication Service	1	2.5	2	5.7	6	12.0	3	12.0
Consumer Discretionary	9	22.5	3	8.6	7	14.0	0	0.0
Consumer Staples	3	7.5	0	0.0	2	4.0	3	12.0
Energy	0	0.0	1	2.9	0	0.0	4	16.0
Financials	4	10.0	6	17.1	6	12.0	3	12.0
Health Care	7	17.5	4	11.4	8	16.0	0	0.0
Industrials	6	15.0	6	17.1	12	24.0	7	28.0
Information Technology	2	5.0	2	5.7	7	14.0	2	8.0
Materials	5	12.5	2	5.7	2	4.0	2	8.0
Utilities	2	5.0	7	20.0	0	0.0	1	4.0
Real Estate	1	2.5	2	5.7	0	0.0	0	0.0
	40	100.0	35	100.0	50	100.0	25	100.0

4.2. Tax Disclosure Index (TDI)

[6] The sample period depends on a firm's reporting period. For example, financial data for 2020 is used for a firm with a fiscal year ending in December, while that for 2021 is used for a company with a fiscal year ending in March.

For the sample selected, I examine whether tax disclosures in sustainability reports (or web site) issued on or after January 1, 2021, the effective date of GRI 207, are subject to third-party assurance and whether tax disclosures are made in accordance with GRI 207 standards. Therefore, considering the company's fiscal year, I examine sustainability reports subject to the first application of GRI 207. For example, since most Japanese companies close their books at the end of March, the reports for the fiscal year ending March 31, 2021, are subject to my verification. For other European countries where most companies close their books at the end of December, I examine the reports for the fiscal year ending December 31, 2020. I score whether these verified sustainability reports are disclosed in accordance with GRI 207, and the sum of the scores represents the TDI. The Global Reporting Initiative (GRI) is a non-profit organization (an independent institution) that sets international standards for sustainability reporting. It was established in 1997 as an accredited organization of UNEP (United Nations Environment Program) to increase transparency in corporate actions related to the environment (later expanded to include social and economic issues). The GRI Standards aim to promote sustainable development by disclosing information on economic, environmental, and social impacts (i.e., contributions to sustainable development) not only to investors but also to a wider range of stakeholders. It serves as soft law to rely on for companies preparing a sustainability report.

In addition to these standards, there are other standards for corporate non-financial information disclosure, such as the International Integrated Reporting Council (IIRC), which aims to communicate to investors through "integrated reports" how companies conduct their business activities using various types of capital and how they create sustainable value. This thesis focuses on GRI, which introduced a tax disclosure standard starting in 2021, rather than IIRC, which does not have a tax disclosure standard.

In this study, I develop my own tax disclosure index (TDI) on the level of compliance with the GRI 207 and measure it based on this index (Clarkson et al., 2008, Hardeck & Kirn, 2016, Plumlee et al., 2015).

First, for those sustainability reports issued on or after January 1, 2021, the effective date of GRI 207 of those companies selected (i.e., sustainability reports for the fiscal year 2020), I score it by verifying whether the tax disclosures are made in accordance with GRI 207 and obtain the TDI as the sum of the scores. To eliminate discretion, each item is converted to 1 if it is disclosed (and 0 otherwise). As to country-by-country reporting (CbCR stipulated by GRI207-4), it is scored as 1 if one of the tax information required by GRI 207-4 is

disclosed, 2 if two are disclosed, 3 if three or more are disclosed, and 0 if none is disclosed. The total number of items is 14 and the index ranges from 0 to 16. The items to be verified in accordance with GRI 207 are shown in Table 2.

Table 2. Tax disclosure index (TDI)

GRI207 Items	Score	Average Score				
		Total	Germany DAX N=40	Spain IBEX N=35	Japan NIKKEI N=50	Norway OBX N=25
207-1 Approach to tax						
If the reporting organization reports the following information:						
a. A description of the approach to tax, including:						
i. whether the organization has a tax strategy and, if so, a link to this strategy if publicly available;	0-1	0.593	0.625	0.886	0.580	0.280
ii. the governance body or executive-level position within the organization that formally reviews and approves the tax strategy, and the frequency of this review;	0-1	0.357	0.300	0.829	0.060	0.240
iii. the approach to regulatory compliance;	0-1	0.621	0.650	0.914	0.640	0.280
iv. how the approach to tax is linked to the business and sustainable development strategies of the organization.	0-1	0.498	0.550	0.743	0.460	0.240
207-2 Tax governance, control, and risk management						
If the reporting organization reports the following information:						
a. A description of the tax governance and control framework, including:						
i. the governance body or executive-level position within the organization accountable for compliance with the tax strategy;	0-1	0.329	0.300	0.657	0.200	0.160
ii. how the approach to tax is embedded within the organization;	0-1	0.338	0.425	0.629	0.220	0.080
iii. the approach to tax risks, including how risks are identified, managed, and monitored;	0-1	0.326	0.400	0.543	0.160	0.200
iv. how compliance with the tax governance and control framework is evaluated.	0-1	0.368	0.350	0.743	0.180	0.200
b. A description of the mechanisms for reporting concerns about unethical or unlawful behavior and the organization's integrity in relation to tax.	0-1	0.929	0.975	1.000	0.900	0.840
c. A description of the assurance process for disclosures on tax and, if applicable, a reference to the assurance report, statement, or opinion.	0-1	0.226	0.225	0.600	0	0.080
207-3 Stakeholder engagement and management of concerns related to tax						
If the reporting organization reports the following information:						
a. A description of the approach to stakeholder engagement and management of stakeholder concerns related to tax, including:						
i. the approach to engagement with tax authorities;	0-1	0.554	0.500	0.857	0.540	0.320
ii. the approach to public policy advocacy on tax;	0-1	0.141	0.175	0.229	0	0.160
iii. the processes for collecting and considering the views and concerns of stakeholders, including external stakeholders.	0-1	0.782	0.900	0.829	0.840	0.560
207-4 Country-by-country reporting						
If the reporting organization reports the following information:						
a. All tax jurisdictions where the entities included in the organization's audited consolidated financial statements, or in the financial information filed on public record, are resident for tax purposes.						
b. For each tax jurisdiction reported in Disclosure 207-4-a:						
i. Names of the resident entities;						
ii. Primary activities of the organization;						
iii. Number of employees, and the basis of calculation of this number;						
iv. Revenues from third-party sales;						
v. Revenues from intra-group transactions with other tax jurisdictions;	0-3	0.802	0.200	2.029	0.260	0.720
vi. Profit/loss before tax;						
vii. Tangible assets other than cash and cash equivalents;						
viii. Corporate income tax paid on a cash basis;						
ix. Corporate income tax accrued on profit/loss;						
x. Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax.						
c. The time period covered by the information reported in Disclosure 207-4.						
Total	0-16	6.865	6.575	11.486	5.040	4.360

The tax disclosure index was constructed using the following procedure. First, I access the reports or websites containing sustainability information of the sampled firms to confirm whether they have adopted GRI. If the firm has not adopted the GRI or has not prepared a GRI index (required by GRI 102-55[7]), I search for the word "tax" in the report containing sustainability information, and if the information specified in GRI 207 is included, it is included in the scoring. In addition, if the report or website disclosing sustainability

[7] The current standards. The revised version of the GRI, the GRI Universal Standards, is scheduled to enter into force in January 2023. The same applies hereafter.

information contains references to information such as tax policies/strategies disclosed separately, this information is also included in the valuation. Furthermore, a description of the mechanisms for reporting unethical or illegal tax-related behavior or organizational integrity concerns required by GRI 207-2b is not mentioned in the tax information part of the report but in its other part based on, e.g., GRI 102-17 which provides for similar information requirements, it is also eligible for scoring. Similarly, if the process for collecting and considering stakeholder opinions and concerns required by GRI 207-3a iii is mentioned in the same report as part of stakeholder engagement, e.g., GRI 102-43, it is included in the valuation.

For 207-2c, since the process required assures tax disclosure information, only cases where tax information is disclosed are considered for evaluation. For example, there may be cases where tax information is not disclosed, but the third-party assurance itself is provided, in which case it is scored as 0 in my study. Furthermore, if the disclosed information sources not covered by the assurance (e.g., tax strategy) reinforce the disclosure in the main body of the reports, this is also scored as 0.

4.3. Independent variables and control variables

To test Hypothesis 1, I use adjusted ETR differential as a proxy for tax avoidance (TAXAVOIDANCE). Specifically, I follow Atwood et al. (2012) and Kanagaretnam et al. (2018) and measure it as the difference between pre-tax income less special items multiplied by the home-country's statutory corporate tax rate[8] and the taxes actually paid, expressed as a percentage of pre-tax income less special items. While there are various types of tax avoidance proxies, each with its advantages and disadvantages (Hanlon & Heitzman, 2010), as this study covers four different countries, adjusted ETR differential is selected considering the tax rates in place in the different jurisdictions. To avoid year-to-year volatility in effective tax rates, four-year average ETR differentials are used (Dyreng et al., 2008). Note that, since corporate performance for the fiscal year ended December 31, 2020 (or March 31, 2021) is highly affected by COVID-19, the average value for the most recent four years before the fiscal year 2020 (or 2021) is used. Following Atwood et al. (2012) and Kanagaretnam et al. (2018), my sample includes only firms that have a cumulative profit in the four-year window. Also, those calculated value more than 1 or less than -1 is excluded from my sample as an

[8] OECD stat, Statutory Corporate Income Tax Rates: https://stats.oecd.org/Index.aspx?DataSetCode=CTS_CIT

outlier. As a result, my final sample subject to the test is 147.

In addition, to examine the impact of national culture on corporate tax disclosure behavior in Hypothesis 2, I use Hofstede's national culture dimensions[9]. The dimensions included in this thesis are the following: power distance (PD); individualism versus collectivism (IDV); masculinity versus femininity (MAS); uncertainty avoidance (UAI); long-term versus short-term orientation (LTO); and indulgence versus restraint (IND).

As a country-level control variable, I set a dummy variable (LOW_MORALE) that takes 1 when corporate tax morale is low (i.e., German and Spanish firms) and 0 otherwise.

Regarding report-level control variables, I use a dummy variable (ASSURANCE) set to 1 if the report is externally assured and 0 otherwise (Adnan et al., 2018; Hardeck et al., 2020), as sustainability reports are generally considered to be more reliable when they are externally assured (Simnett et al., 2009). The scope of assurance varies from company to company, but in this context, assurance is considered to exist as far as it relates to the information in the sustainability report. As another report-level control variable, I use a dummy variable (GRI) set to 1 if a firm adopts the GRI that stipulates proactive tax information disclosure (GRI 207) and 0 otherwise (Hardeck et al., 2020; Adams et al., 2022).

Next, as a firm-level control variable, I use a dummy variable CSR_COM that takes 1 if the firm has a CSR Committee and 0 otherwise, because when a firm has a CSR Committee, it is expected to effectively address the firm's social obligations and increase its reporting capacity (Fuente et al., 2017). I also use a firm-level control variables, SIZE calculated as the natural logarithm of total assets, because large firms are generally considered to have stakeholders who demand holistic disclosure (Cowen et al., 1987) and the cost of resources required to disclose relevant information is expected to be smaller (economies of scale) than for smaller firms (Ho & Taylor, 2007). Financial data, including total assets, are translated into euros at the end of the fiscal year[10]. In addition, since highly leveraged firms are likely to seek to lower agency costs to creditors by disclosing aggressively (Ho & Taylor, 2007), following the various other literature (e.g., Hardeck & Kirn, 2016; Gallogo-Álvarez & Ortas 2017; Hardeck et al., 2020; Adams et al., 2022), LEV (leverage) is calculated as long-term

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[9] Hofstede (2020). Compare countries - Hofstede Insights. Cultures and Organizations, Software of the Mind. https://www.hofstede-insights.com/product/compare-countries/

[10] Spot rate provided by the IMF is used for currency conversion (https://www.imf.org/external/np/fin/ert/GUI/Pages/CountryDataBase.aspx).

debt divided by lagged total assets. I also include ROA calculated as pre-tax income divided by lagged total assets, which represents the profitability of a company (Hardeck & Kirn, 2016; Gallogo-Álvarez & Ortas 2017; Hardeck et al., 2020; Adams et al., 2022). This is because positive information is likely to increase the level of disclosure (signaling effect), and the same effect is likely to occur with negative information to minimize the cost such as litigation, etc., i.e., any case affects the level of disclosure (Lang & Lundholm, 1993). Finally, a high level of disclosure by dominant firms in an industry may have a bandwagon effect on disclosure practices adopted by other firms in the same industry (Cooke, 1991 cited by Wallace & Naser, 1995), and similar disclosure may occur among peers, thus I include Sector, which represents 10 dummy variables set to 1 if a firm belongs to any of the 10 sectors and 0 otherwise (Álvarez & Ortas 2017).

As to financial data to calculate the variables, data for the accounting period corresponding to the reporting period of the sustainability report prepared on or after January 1, 2021, is used except for TAXAVOIDANCE mentioned above.

4.4. Research model

The following model is used, assuming firm i,

$$TDI_i = \beta_0 + \sum_{6}^{1} \beta_i \, National\ Culture_i + \beta_7 TAXAVOIDANCE_i + \sum_{13}^{8} \beta_i \, National\ Culture_i * TAXAVOIDANCE_i + \sum Controls_{it} + \varepsilon_i$$

Where TDI represents tax disclosure index; National Culture represents six culture dimensions including PD, IDV, MAS, UAI, LTO, IND; Controls represent control variables consisting of SIZE, ROA, LEV, ASSURANCE, GRI, CSR_COM, LOW_MORALE, and Sector.

5. Empirical results

5.1. Analysis of the items in TDI

The GRI standards do not require disclosure unless it is determined as the "material topic" (GRI 101) for both the reporting entity and stakeholders. Therefore, if income taxes do not fall under this category, it is highly likely that companies do not disclose them. However, some voluntary disclosure can be found with a comment, for example, that even if taxes are not considered a "material topic" because stakeholders do not consider them material, the entity itself considers them material and voluntarily discloses them (e.g., Deutsche Boerse AG).

The scoring results for TDI by country[11] are presented in Table 2, and its descriptive statistics are in Table 3.

Table 3. Descriptive statistics of TDI by country

	Low morale		High morale	
	Germany	Spain	Japan	Norway
Mean	6.868	11.471	5.040	4.360
Median	6.5	13	5	2
Maximum	14	16	11	14
Minimum	1	1	0	0
Std. Dev.	4.338	3.987	3.181	4.923
Skewness	0.078	-1.143	0.082	1.040
Kurtosis	1.496	3.549	1.899	2.479
Observations	38	34	50	25

It is noticeable that the level of tax information disclosure in Spain is significantly higher than in other countries, with an average value of 11.471. One reason for this is that Spain is legally required to disclose profit and tax payments by country (LAW 11/2018 of 28 December), which results in higher GRI 207-4 scores (cf. Table 2). In fact, there are several examples of statutory non-financial information statements where a GRI content index combined with this law rather than a pure GRI content index is presented (e.g., Banco de Sabadell, S.A.; Siemens Gamesa Renewable Energy, S.A; Telefónica, S.A). Some other companies present both GRI-compliant and LAW 11/2018-compliant reports, each with third-party assurance (e.g., Amadeus IT Group, S.A.).

In addition, in Spain, under the CBTP (Code of Best Tax Practices) approved on July 20, 2010, by the meeting of the Forum of Large Companies (Foro de Grandes Empresas), established by large companies and the Spanish National Tax Agency, the recommendations

[11] Table 2 represents the results for the 150 companies before the removal of the outliner.

of the tax authorities included in this code have been voluntarily adopted, and many companies have stated in their sustainability reports that they have voluntarily adopted the recommendations of the tax authorities contained in the CBTP. This code of conduct, although open-ended, is a mechanism for sharing knowledge on the application of the tax system and the issues that may arise, thereby increasing legal certainty for companies, avoiding disputes in tax audits, and reducing the costs associated with tax payments. This country-wide effort to ensure tax transparency appears to have an impact on the level of reporting. As for the quantity of information in the reports, Spanish companies have a substantial quantity of information (e.g., Telefónica devotes about 6 pages to tax information), while Japanese companies have very little (e.g., Sony Corporation summarizes tax information on one page) and hardly include the CbCR required by GRI 207-4 (i.e., only 7 out of 50 companies report some information). The same is true for German companies (only 4 out of 40 companies report some CbCR information), and even if taxes are identified as a "material topic", the CbCR is omitted in some cases (e.g., Adidas AG). Norwegian companies have a large difference between those that disclose and those that do not (Std. Dev: 4.923), and in those cases where they disclose, they prepare a separate file for the CbCR with comprehensive information (e.g., Norsk Hydro).

As for external assurance of sustainability information (GRI 207-2c, GRI 102-56), most of the sampled Japanese companies present assurance reports only for some environmental and social indicators in their sustainability reports, and none of them present a more comprehensive assurance report in terms of GRI compliance. Of those, only 10 out of 50 companies (20%) present Big4 assurance (57.8% of the total sample), which is significantly lower than the European companies in my sample. Some German and Spanish companies present a limited assurance report in accordance with GRI of their sustainability reports, while others state that they receive external assurance only for the portion of their management reports, including non-financial reports, that are subject to statutory audit. In other companies, a separate limited assurance report is obtained for non-financial reports in addition to the statutory audit report. Thus, how the requirements of the GRI standards are satisfied varies widely from company to company.

Regarding sustainability reporting, since it is not mandatory but voluntary, each company selects its strategy balancing its resources and stakeholders' demands, which reflects the fact that the level of tax information disclosure varies. Some companies only reference their tax policies to the GRI content index, while others even prepare tax-related files (e.g.,

Tax Transparency Report) separately from their sustainability reports. Furthermore, there are examples of companies that continue to make improvements during the period, e.g., Toyota Motor Corporation and Mitsubishi Corporation last updated their sustainability reports for the fiscal year ended March 31, 2021, in January 2022 and February 2022, respectively. In addition, many Japanese companies provide their GRI content index online, which enables them to update sustainability information as needed during the period.

5.2. Descriptive results

Table 4. presents the descriptive statistics.

Table 4. Descriptive statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Observations
TDI	6.884	6	16	0	4.785	0.221	1.740	147
TAXAVOIDANCE	0.032	0.031	0.301	-0.434	0.104	-0.701	6.285	147
PD	45.871	54	57	31	10.959	-0.299	1.192	147
IDV	56.497	51	69	46	10.013	0.201	1.174	147
MAS	60.449	66	95	8	31.099	-0.400	1.949	147
UAI	76.490	86	92	50	16.061	-0.508	1.673	147
LTO	68.442	83	88	35	21.794	-0.487	1.413	147
IND	44.156	42	55	40	5.121	1.466	3.589	147
SIZE	17.046	17.023	21.742	12.453	1.981	-0.079	3.154	147
ROA	0.051	0.038	1.739	-0.534	0.174	6.064	62.298	147
LEV	0.233	0.223	1.115	0	0.182	1.251	6.033	147
ASSURANCE	0.714	1	1	0	0.453	-0.949	1.900	147
GRI	0.864	1	1	0	0.344	-2.123	5.507	147
CSR_COM	0.864	1	1	0	0.344	-2.123	5.507	147
LOW_MORALE	0.490	0	1	0	0.502	0.041	1.002	147

Table 5 presents the descriptive statistics of TAXAVOIDANCE, which measures the level of tax avoidance, by country. Spanish firms show the lowest mean (low tax avoidance) while German firms have the highest. Thus, it can be seen that at least tax morale alone cannot explain the level of tax avoidance. This is also consistent with the results of the correlation in Table 7. Japanese and Norwegian firms with high tax morale have similar mean values, but there is a difference in standard deviation, indicating that Japanese firms are concentrated around the mean value.

Table 5. TAXAVOIDANCE per country

	Low morale		High morale	
	Germany	Spain	Japan	Norway
Mean	0.070	-0.001	0.029	0.028
Median	0.054	0.019	0.028	0.019
Maximum	0.301	0.149	0.129	0.280
Minimum	-0.093	-0.318	-0.208	-0.434
Std. Dev.	0.081	0.097	0.060	0.175
Skewness	0.835	-1.188	-1.235	-0.521
Kurtosis	3.688	4.961	6.609	3.109
Observations	38	34	50	25

As for cultural indicators, MAS (31.099) and LTO (21.794) show a large variation, while

IND (5.121) shows a small variation. In particular, it can be identified in Table 8, which shows the cultural dimensions by country, that IND is located at the same level for all countries except Norway, and that the differences with Norway are insignificant.

Although the sample for this study consists of large listed firms in each country, there are differences in firm size among countries, with Japan having the highest average (SIZE: 17.76, total assets: €268 million) and Norway having the lowest (SIZE: 15.03, total assets: €22 million).

Around 86% of the companies in the sample have a CSR Committee, indicating that its establishment is widespread overall.

The correlation results (Table 6) show a significant negative correlation between TAXAVOIDANCE and TDI, suggesting that tax aggressive firms have lower levels of tax disclosure. In addition, significant positive correlations with PD and UAI and significant negative correlations with IND and LTO are identified concerning cultural indicators. Furthermore, there is a significant positive correlation with LOW_MORALE, suggesting that firms with low tax morale have a high level of tax disclosure.

Table 6. Correlation

	TDI	TAXAVOIDANCE	PD	IDV	MAS	UAI	LTO	IND	SIZE	ROA	LEV	ASSURANCE	GRI	CSR_COM	LOW_MORALE
TDI	1														
TAXAVOIDANCE	-0.225 ***	1													
PD	0.252 ***	-0.170 **	1												
IDV	-0.098	0.144 *	-0.957 ***	1											
MAS	-0.127	0.060	0.488 ***	-0.635 ***	1										
UAI	0.154 *	-0.112	0.953 ***	-0.970 ***	0.729 ***	1									
LTO	-0.190 **	0.134	0.190 **	-0.348 ***	0.945 ***	0.476 ***	1								
IND	-0.142 *	-0.084	-0.397 ***	0.386 ***	-0.805 ***	-0.590 ***	-0.820 ***	1							
SIZE	0.346 ***	-0.022	0.213 ***	-0.242 ***	0.465 ***	0.328 ***	0.464 ***	-0.488 ***	1						
ROA	-0.117	0.039	0.147 *	-0.152 *	0.137 *	0.162 **	0.102	-0.117	-0.156 *	1					
LEV	0.097	0.003	-0.079	0.162 **	-0.291 ***	-0.163 **	-0.283 ***	0.150 *	-0.249 ***	-0.008	1				
ASSURANCE	0.503 ***	-0.074	0.042	0.080	-0.073	0.008	-0.050	-0.214 ***	0.261 ***	0.014	0.074	1			
GRI	0.440 ***	-0.056	0.073	0.010	0.022	0.065	0.035	-0.229 ***	0.366 ***	0.039	0.157 *	0.627 ***	1		
CSR_COM	0.132	-0.183 **	0.093	-0.076	0.213 ***	0.147 *	0.229 ***	-0.311 ***	0.299 ***	-0.058	-0.124	0.232 ***	0.363 ***	1	
LOW_MORALE	0.443 ***	0.037	-0.043	0.289 ***	-0.183 **	-0.096	-0.089	-0.435 ***	0.102	-0.009	0.196 **	0.469 ***	0.349 ***	0.190 **	1

Notes: ***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively.

As previous literature using Hofstede's cultural dimensions points out (e.g., Orji, 2010; Adnan et al., 2018), there are significant correlations exceeding 0.7 between cultural indicators: PD/IDV/UAI, MAS/LTO/IND, and MAS/UAI. Because of the multicollinearity problems associated with this, in the regression analysis, all cultural dimensions are not included at once but are replaced one by one to verify direction and significance in relation to TDI. Other than those aforementioned, no correlation coefficient exceeding 0.7 between the independent variables is identified.

5.3. Tests for the impact of tax avoidance on tax disclosure

The results of the regression analysis are presented in Table 7. Two types of regressions are run, one with the country dummy (1) and another with LOW_MORALE (2).

In both cases, the regression coefficient of TAXAVOIDANCE is negatively and significantly associated with TDI. In other words, the higher the level of corporate tax avoidance, the lower the level of tax disclosure. Thus, the results support H1. The results also indicate that the level of information disclosure is higher when the size of the firm is larger and when the disclosed information is externally assured.

In (2), CSR_COM shows a negative relation with TDI, contrary to expectations, indicating that it is merely signaling to appeal to stakeholders that a company is CSR conscious by establishing a CSR Committee (Spence, 1973), and if appropriate experts are not assigned, it can only lower sustainability performance revealing its symbolic function (Peters et al., 2019).

Furthermore, LOW_MORALE is positively and significantly associated with TDI ($p < 0.01$), suggesting that tax disclosure levels are higher even when tax morale is low. As such, the results support H1a.

In (3), an additional test is performed to verify the effect of the interaction of TAXAVOIDANCE and LOW_MORALE. The result shows that lower tax morale reinforces the effect of tax avoidance on TDI ($p<0.1$).

Table 7. Regression results

Dependent Variable	TDI		
	(1)	(2)	(3)
TAXAVOIDANCE	-7.071 **	-10.821 ***	-6.197
	(-2.292)	(-3.431)	(-1.531)
TAXAVOIDANCE*LOW_MORALE			-11.415 *
			(-1.798)
SIZE	0.737 ***	0.416 *	0.513 **
	(2.780)	(1.949)	(2.350)
ROA	-2.256	-2.027	-1.500
	(-1.259)	(-1.092)	(-0.804)
LEV	-0.253	0.335	0.732
	(-0.132)	(0.168)	(0.368)
ASSURANCE	2.066 **	2.591 ***	2.447 **
	(2.243)	(2.704)	(2.567)
GRI	1.802	1.926	1.690
	(1.477)	(1.484)	(1.306)
CSR_COM	-1.405	-1.817 *	-1.673
	(-0.559)	(-0.951)	(-0.992)
LOW_MORALE		2.449 ***	2.832 ***
		(3.294)	(3.691)
Constant	-7.304	-2.359	-4.002
	(-1.505)	(-0.624)	(-1.038)
Country	✓		
Sector	✓	✓	✓
Observations	147	147	147
Adjusted R-squared	0.488	0.420	0.430
F-statistic	7.968 ***	6.878 ***	6.800 ***

Notes: ***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively.

No specific sector shows a significant relationship with TDI.

5.4. Tests for the impact of culture on tax disclosure

Due to the strong correlations among the cultural variables, which raise the issue of multicollinearity, I follow the previous literature (Garcia-Sanchez et al., 2013) and set dummy variables taking the value of 1 if the company is located in a country where levels of each culture dimension are higher than the average for the countries analyzed, and 0 otherwise, to perform regression analysis. The countries for which each culture dimension exceeds its average value are shown in Table 8. Thus, I set the following variables: PD_UAI_HIGH; IDV_HIGH; MAS_LTO_HIGH; and IND_HIGH. Since regression analysis using these

dummy variables does not allow to verify the direction of the impact of each culture dimension on TDI individually, following Adnan et al (2018), I compare the average TDI of those countries where each culture dimension is over the average (High) and that of those under the average (Low) and verify the significance of the differences. The results of the Satterthwaite-Welch t-tests and Welch F-test are presented in Table 8. The results show that PD and UAI increase the level of tax disclosure, while IDV, MAS, LTO, and IND conversely decrease it (analysis is provided in Section 6).

Table 8. Tests of difference of TDI between high scored culture countries and low scored culture countries

Dimension	Countries of high score on dimension	Germany	Spain	Japan	Norway	Mean	Mean of TDI for high scoring countries	Mean of TDI for low scoring countries	Satterthwaite-Welch t-test	Welch F-test	Direction
PD	Spain, Japan	35	57	54	31	45.725	7.643	5.873	-2.252 **	5.069 **	+
IDV	Germany, Norway	67	51	46	69	56.638	5.968	7.553	2.010 **	4.040 **	−
MAS	Germany, Japan	66	42	95	8	60.523	5.830	8.458	3.138 ***	9.849 ***	−
UAI	Spain, Japan	65	86	92	50	76.336	7.643	5.873	-2.252 **	5.069 **	+
LTO	Germany, Japan	83	48	88	35	68.638	5.830	8.458	3.138 ***	9.849 ***	−
IND	Norway	40	44	42	55	44.101	4.542	7.341	2.563 **	6.571 **	−

Source: Hofstede, 2020

Table 9 presents the results of regression analysis of the relationship of the culture dimensions stated above with TDI. Among the culture dimensions, PD_UAI_HIGH are positively and significantly associated with TDI, while IDV_HIGH and MAS_LTO_HIGH are negatively and significantly associated with TDI ($p<0.01$). This means that the level of tax disclosure is higher in cultures with high power distance and low uncertainty tolerance and lower in cultures with strong masculinity and long-term orientation or individualism. The direction of these associations is consistent with the results in Table 8. Therefore, except for IND_HIGH, the results show that the cultural dimensions are significantly associated with the tax disclosure level, which support H2.

As to other independent and control variables, TAXAVOIDANCE consistently shows a negative significant association with TDI, and LOW_MORALE also shows a positive significant association with TDI (both $p<0.01$) as well as ASSURANCE.

Table 9. Regression results

Dependent Variable	TDI			
	(4)	(5)	(6)	(7)
TAXAVOIDANCE	-8.415 ***	-8.415 ***	-8.462 ***	-10.699 ***
	(-2.692)	(-2.692)	(-2.733)	(-3.376)
PD_UAI_HIGH	2.203 ***			
	(3.286)			
IDV_HIGH		-2.203 ***		
		(-3.286)		
MAS_LTO_HIGH			-3.086 ***	
			(-3.506)	
IND_HIGH				-0.741
				(-0.573)
SIZE	0.270	0.270	0.955 ***	0.327
	(1.286)	(1.286)	(3.733)	(1.235)
ROA	-3.032 *	-3.032 *	-1.350	-2.277
	(-1.670)	(-1.670)	(-0.754)	(-1.191)
LEV	0.768	0.768	-0.810	0.545
	(0.399)	(0.399)	(-0.418)	(0.269)
ASSURANCE	2.605 ***	2.605 ***	1.925 **	2.673 ***
	(2.820)	(2.820)	(2.052)	(2.752)
GRI	1.850	1.850	1.845	1.923
	(1.478)	(1.478)	(1.482)	(1.477)
CSR_COM	-1.733 *	-1.733 *	-1.384	-1.855 *
	(-1.708)	(-1.708)	(-1.362)	(-1.754)
LOW_MORALE	3.030 ***	3.030 ***	2.143 ***	2.213 **
	(4.105)	(4.105)	(2.984)	(2.599)
Constant	-1.489	0.714	-9.546 **	-0.609
	(-0.408)	(0.190)	(-2.293)	(-0.125)
Sector	✓	✓	✓	✓
Observations	147	147	147	147
Adjusted R-squared	0.461	0.461	0.467	0.417
F-statistic	7.583 ***	7.583 ***	7.738 ***	6.499 ***

Notes: ***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively.

5.5. Tests for interactions

The results of the regression analysis for the interaction of TAXAVOIDANCE and culture dimensions on TDI are shown in Table 10.

The results show that TAXAVOIDANCE and certain cultural dimensions are significantly associated, but their interactions are not significant and H3 is not supported. This suggests that both a home country's culture and tax avoidance level do not influence

interactively a firm's tax disclosure choice, i.e., they do not generate interacted effect on the voluntary tax disclosure level. ASSURANCE and LOW_MORALE continue to be significantly associated with TDI.

Table 10. Regression results

Dependent Variable	TDI			
	(8)	(9)	(10)	(11)
TAXAVOIDANCE	-7.730 **	-9.782 *	-6.482 *	-15.125 ***
	(-2.037)	(-1.848)	(-1.691)	(-3.481)
PD_UAI_HIGH	2.241 ***			
	(3.280)			
IDV_HIGH		-2.241 ***		
		(-3.280)		
MAS_LTO_HIGH			-2.899 ***	
			(-3.197)	
IND_HIGH				-0.571
				(-0.442)
TAXAVOIDANCE*PD_UAI_HIGH	-2.052			
	(-0.321)			
TAXAVOIDANCE*IDV_HIGH		2.052		
		(0.321)		
TAXAVOIDANCE*MAS_LTO_HIGH			-5.966	
			(-0.879)	
TAXAVOIDANCE*IND_HIGH				9.504
				(1.481)
SIZE	0.276	0.276	0.983 ***	0.455
	(1.305)	(1.305)	(3.809)	(1.643)
ROA	-2.942	-2.942	-1.260	-1.648
	(-1.596)	(-1.596)	(-0.702)	(-0.845)
LEV	0.759	0.759	-0.858	0.53
	(0.393)	(0.393)	(-0.442)	(0.262)
ASSURANCE	2.626 ***	2.626 ***	1.945 **	2.625 ***
	(2.826)	(2.826)	(2.071)	(2.714)
GRI	1.880	1.880	1.782	1.845
	(1.493)	(1.493)	(1.428)	(1.422)
CSR_COM	-1.736 *	-1.736 *	-1.221	-1.646
	(-1.705)	(-1.705)	(-1.180)	(-1.550)
LOW_MORALE	2.970 ***	2.970 ***	2.256 ***	2.339 ***
	(3.886)	(3.886)	(3.090)	(2.745)
Constant	-1.640	0.601	-10.167 **	-2.921
	(-0.444)	(0.159)	(-2.406)	(-0.574)
Sector	✓	✓	✓	✓
Observations	147	147	147	147
Adjusted R-squared	0.458	0.458	0.466	0.423
F-statistic	7.159 ***	7.159 ***	7.377 ***	6.342 ***

Notes: ***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively.

Additionally, I test the interaction effect of LOW_MORALE and cultural dimensions on TDI, since it is presumed that cultural dimensions would have a direct effect on TDI as well as an indirect effect through tax morale. Table 11 presents the regression results except for IND which is not able to be analyzed due to the multicollinearity problem, indicating that the cultural dimensions would rather affect TDI interacting with LOW_MORALE than themselves.

Table 11. Regression results

Dependent Variable	TDI		
	(12)	(13)	(14)
TAXAVOIDANCE	-7.071 **	-7.071 **	-7.071 **
	(-2.292)	(-2.292)	(-2.292)
PD_UAI_HIGH	-0.787		
	(-0.624)		
MAS_LTO_HIGH		0.787	
		(-0.624)	
IDV_HIGH			-0.787
			(-0.624)
LOW_MORALE*PD_UAI_HIGH	4.966 ***		
	(2.772)		
LOW_MORALE*MAS_LTO_HIGH		-3.392 **	
		(-2.499)	
LOW_MORALE*IDV_HIGH			-4.966 ***
			(-2.772)
SIZE	0.737 ***	0.737 ***	0.737 ***
	(2.780)	(2.780)	(2.780)
ROA	-2.256	-2.256	-2.256
	(-1.259)	(-1.259)	(-1.259)
LEV	-0.253	-0.253	-0.253
	(-0.132)	(-0.132)	(-0.132)
ASSURANCE	2.066 **	2.066 **	2.066 **
	(2.243)	(2.243)	(2.243)
GRI	1.802	1.802	1.802
	(1.477)	(1.477)	(1.477)
CSR_COM	-1.405	-1.405	-1.405
	(-1.410)	(-1.410)	(-1.410)
LOW_MORALE	0.167	4.346 ***	5.133 ***
	(0.133)	(3.853)	(4.909)
Constant	-7.471 *	-7.471 *	-8.258 *
Sector	✓	✓	✓
Observations	147	147	147
Adjusted R-squared	0.488	0.488	0.488
F-statistic	7.968 ***	7.968 ***	7.968 ***

Notes: ***, **, and * indicate significance at the 0.01, 0.05, and 0.10 level, respectively.

TAXAVOIDANCE continues to be significantly associated ($p<0.05$), however, cultural dimensions cease to have a significant impact on TDI, while the interactions with LOW_MORALE significantly affect TDI. LOW_MORALE (except PD_UAI_HIGH) and

ASSURANCE continue to be significantly associated with TDI. Also, significant positive associations with SIZE are identified ($p<0.01$).

6. Discussion and conclusions

In this thesis, I show that the higher the level of corporate tax avoidance, the lower the level of tax information disclosure. The results support the voluntary disclosure theory rather than the legitimacy theory presented by Hardeck and Kirn (2016), suggesting that firms engaging in tax avoidance consider that the (proprietary) costs of tax disclosure outweigh the benefits, and thus, they disclose less information. Conversely, the results also suggest that firms "paying more tax" provide more tax disclosure to emphasize their virtue as a supporter of public goods (Adams et al., 2022). Moreover, this study covering four countries also shows that firms in countries with low tax morale generally have higher levels of tax disclosure than those located in high tax morale countries, but when those firms engage in a higher level of tax avoidance, their levels of tax disclosure are lower. This suggests that lower tax morale does not necessarily lead directly to lower tax disclosure levels through tax avoidance (cf. no significant correlation identified in Table 6) and that, even if tax morale is low, the firms "paying more tax" are expected to disclose tax information.

Furthermore, this thesis shows that the cultural dimensions, i.e., the level of power distance and tolerance for uncertainty, masculinity and long-term orientation, and the level of individualism, are determinants of the level of tax disclosure. Cultures with a low tolerance for uncertainty (i.e., high UAI) establish strict disclosure norms to ensure certainty or stability (Hofstede, 2011). On the other hand, if the power distance in that culture is high, such norms are more likely to be accepted as such within the hierarchy (Hofstede, 2011). It is assumed that this culture combination results in a higher level of tax disclosure. This implies that in cultures where power distance is high and tolerance for uncertainty is low, once the government establishes a policy, it is more likely to be reflected. This cultural response to the government's intentions is in line with the example cited by Ho and Taylor (2007) of Japan, a country with high PD and UAI, where many Japanese companies issued environmental reports in the early 2000s based on guidelines issued by the Japanese Ministry of the Environment and Ministry of Economy, Trade and Industry, despite the absence of specific legislation to this effect.

This study also shows that tax disclosure levels are lower in cultures with strong masculinity as opposed to femininity which is considered more compatible with socially oriented stakeholder relationships (Van der Laan Smith et al. 2005), and in long-term oriented cultures, where immediate results are not expected (Hofstede, 2011). Firms with strong masculine cultures that emphasize material success and visible results may focus more on

financial performance and less on the costs of voluntary disclosure. In fact, the average TDI for the firms in the top 10% of ROA in my sample (e.g., Nintendo Co., Ltd. and Keyence Corporation) is 1.25, which is very low considering that the overall average is 6.88 (cf. Table 4). Although long-term orientation may be positively associated with voluntary disclosure when interpreted as a culture of striving now for better future results in the long run (Pizzi et al., 2022), the opposite negative association is found in this study. In this regard, several firms state that no CbCR disclosure is made due to some reason such as competitive disadvantage, and it seems that each firm has different views on whether better future results can be expected from the disclosure of tax information. This would rather implicate that management determines that disclosure is harmful to the firm and withholds information from the public, i.e., voluntary disclosure theory (Verrecchia, 1983; Dye, 1985). Moreover, although companies may not be able to take immediate action in the first year of GRI 207 application, there are some situations observed where continuous updates have been made throughout the year by some Japanese companies (cf. Section 5.1.), which suggest that companies in long-term oriented cultures could gradually increase the level of disclosure from a long-term perspective.

Finally, this thesis shows that tax disclosure information levels are lower in individualistic cultures as the opposite of collectivism, where business is more concerned with environmental and social impacts and stakeholders (Vitolla et al., 2019). The result indicating a negative relationship confirms the results obtained by García-Sánchez et al. (2013), Vitolla et al. (2019), and Pizzi et al. (2022).

As discussed above, this study shows that the level of tax avoidance and certain cultural factors individually affect the level of tax disclosure, but not to the extent that their interaction affects the level of tax disclosure. This suggests that specific cultural factors that characterize a firm's home country and its level of tax avoidance do not interactively affect the firm's decision-making regarding the level of tax disclosure. Instead, it is identified that the interaction of specific cultural factors and low tax morale does affect the level of tax disclosure, and more specifically, the degree of influence of specific cultural factors on tax disclosure level is enhanced when tax morale is low.

The results obtained from my sample suggest that firms operating in countries with similar cultural systems may adopt homogeneous behavior patterns concerning tax information disclosure at the country level. Thus, this research could provide some clues for firms and countries to introduce some measures, not limiting to tax disclosure. Furthermore,

the finding that low tax morale reinforces the impact of the level of tax avoidance and certain cultural factors on the level of tax disclosure may have some implications for future research.

This dissertation has the following limitations. First, although the variables used to measure the level of tax disclosure are scored in a way to eliminate possible discretion, it is impossible to be completely free from the author's subjectivity. Second, since the sample is limited to four countries and only covers sustainability reporting for the first year of GRI 207 application, the results obtained could not be sufficient to generalize.

To overcome these limitations, increasing the scope of the sample, as well as exploring the function of tax morale on voluntary disclosure in depth, would be an interesting and useful area of future research for interested parties such as sustainability reporting responsibilities, as well as external auditors and regulators.

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