ABSTRACT

of the dissertation for the degree of Doctor of Philosophy (PhD) on specialty 6D050800- "Accounting and Audit"

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ANALYSIS OF THE RELATION BETWEEN THE BOOK-TAX DIFFERENCES AND FIRM PERFORMANCE INDICATORS: CONCEPTUAL FOUNDATIONS AND IMPLEMENTATION PROSPECTS

Relevance of the research topic. Studying the impact of firms' tax and financial reporting practices on financial performance indicators is relevant for several reasons. The debate on the connection between tax avoidance and firm value is ongoing. The traditional view suggests that tax savings can outweigh the risks related to tax avoidance. Alternative perspectives consider tax avoidance as a source of information opacity that opens opportunities for managers' self-dealing. Increased agency costs have a detrimental effect on firm value. Studying the relationship between the indicators of tax avoidance, such as book-tax differences, and firm performance indicators is important for firms' developing their tax policies and financial reporting policies. For multinational firms it is crucial to know how this relationship changes in different contexts, especially in those with low investor protection and strict tax administration.

The relevance of the study is determined by the context of the research since it employs the data collected from economies with high share of the shadow economy, specifically Kazakhstan and Russia. Reducing the share of the shadow economy is a priority in the economic reforms of many countries, including these countries. To achieve this goal, it is crucial to understand the economic consequences of tax avoidance by companies, as well as its connection to the quality of financial reporting. Given the limited research on this issue in these countries, the dissertation explores the economics implications of tax avoidance and earnings management in environments with poor investor protection. In this context, examining the relationship between book-tax differences and firm performance indicators is particularly important for developing markets. The growing global interest in tax avoidance, especially following the publications of leaked data like WikiLeaks and Panama Papers, further enhances the relevance of the study beyond the developing markets.

Goals and objectives of the research. The present dissertation is devoted to studying the relationship between book-tax differences (BT differences) and firm performance in Kazakhstan and the Russian Federation. It also explores the factors

influencing this relation. To achieve the research objectives, the following tasks were defined:

- to study the conceptual and theoretical foundations relevant to the relation between BT differences and firm performance;
- to analyze the relation between BT differences and firm performance indicators in the context of public firms in Kazakhstan;
- to develop a model that describes a relation between the components of BT differences and financial indicators of firm value with decomposition of BT differences into the parts related and not related to earnings management, in the context of public firms in Kazakhstan;
- to analyze the relation between BT differences and firm market value in the context of public firms of the Russian Federation;
- to develop the recommendations on how to control the negative effect of BT differences on firms' market value, using dividend policy as an example;
- to assess the role of financial reporting prepared in accordance with the International Financial Reporting Standards (IFRS) in evaluating the relation between BT differences and firm market value.

The object of the research is the public firms in Kazakhstan and Russian Federation. *The subject of the research* is the relationship between BT differences, quality of financial reporting and firm performance.

Theoretical foundation of the research is based on agency theory, information asymmetry, and stakeholder theory. Prior studies indicate that BT differences reflect both tax planning and earnings management, which can exacerbate information asymmetry surrounding a firm. Tax avoidance often justifies opaque financial reporting, as it typically requires concealing financial information from tax authorities. This opacity creates opportunities for managerial self-dealing, which can negatively impact firm performance. As a result, firms with large BT differences are discounted by investors. Signaling theory suggests that firms utilize dividend payout helps firms to counteract the negative implications of tax avoidance on the market value. In this context, the information provided in IFRS-compliant financial statements is more informative and underpins the significance of the observed relations.

Methodological foundation of the research. The research methodology is based on general scientific methods of analysis and synthesis. The study uses a literature review to systematize the theories, identify gaps, develop testable hypotheses and construct formal economic models. Empirical analysis uses archival data on public firms in Russian and Kazakhstan, sourced from LSEG Workspace. The panel data is analyzed using descriptive statistical analysis, correlation matrices analysis, and regression techniques, including the ordinary least squares (OLS) and two-stage least squares (2SLS) regression techniques. Generalized Method of

Moments (GMM) and jackknife resampling procedure are applied in the robustness test. The statistical analysis is conducted using Stata 17.0 software.

Scientific novelty of the study lies in the following key findings summarized below.

- The study identifies the key conceptual and theoretical foundations defining the relation between BT differences and firm performance.
- For the first time, the relation between BT differences and firm performance indicators is analyzed in the context of public firms in Kazakhstan.
- A model is developed to describe a relation between the components of BT differences and financial indicators of firm value, incorporating the decomposition of BT differences into the components related and unrelated to earnings management, in the context of public firms in Kazakhstan.
- The relation between BT differences and firm market value is analyzed in the context of public firms in the Russian Federation.
- Based on the model revealing the role of dividend policy in mitigating the negative effect of BT differences on firms' market value, recommendations on controlling the relation are developed.
- The study concludes on the role of financial reporting prepared in accordance with the International Financial Reporting Standards (IFRS) in examining the relation between BT differences and firm market value.

Major provisions submitted for defense are as follows:

1) The relation between BT differences and firm performance is determined by information asymmetry and agency problems, which impact the interests of multiple stakeholders.
2) Firms with larger BT differences tend to exhibit poorer performance.
3) Inferior firm performance of firms with large BT differences is attributed to aggravation of information asymmetry problem, as BT differences are associated with earnings management practices.
4) Investors consider firms with large BT differences as high risk and incorporate this risk into share prices.
5) Higher dividend payouts mitigate the negative relation between BT differences and firms' market value. Investors positively interpret the information conveyed through dividends, which enhances firms' market value.
6) Financial reporting prepared under International Financial Reporting Standards (IFRS) improves the financial information transfer. In the pre-IFRS period, the evidence on the relation between BT differences and firm value, as well as on the moderating role of dividends in this relation was not observed.

Theoretical contribution of the study lies in the addition to positive accounting theory. First, the study expands the understanding of the role of BT differences as an indicator of earnings quality within the framework of the theories

of information asymmetry, agency theory, and stakeholder theory. Second, the study expands the application of accounting information in the financial analysis of firms and shows the importance of the information contained in tax expenses. Third, the study focuses on the relation between firm-level tax planning and the quality of financial reporting. Fourth, the study adds to the knowledge of the application of accounting data for the valuation of the market value of firms in the context of developing markets. Furthermore, the study is the first one that presents evidence of a moderating role of dividend payout in the relation between BT differences and firm value. Finally, the study presents new evidence on the role of IFRS adoption in the context of developing markets with autocratic regimes. Taking into consideration the importance of accounting information for improving the investment climate of Kazakhstan and its capital market development, studying the above-mentioned questions presents paramount importance for Kazakhstan.

The practical contribution of the study is driven by the application of book-tax difference as an indicator of tax avoidance connected to earnings management, for performance measurement. The results of the study represent the possibilities for practical implications for numerous stakeholders. In particular, the study develops specific recommendations on adjustments to cash flow projections when valuing assets, company divisions, or goodwill. Besides, the results are important for regulatory authorities, government, and non-government organizations when developing economic development programs and reforms.

Personal input of the author. The author participated in selecting the research concept and object of the study, determining the objectives and goals, data collection, choice of methodological approaches, statistical analysis, and formulating the study results.

Publications. The results of the empirical study on firms in Russia were published in a peer-reviewed Scopus and Web of Science-indexed academic journal with the CiteScore exceeding 90% (Q1) as of 2024. The findings of the study on Kazakhstan were reported at international scientific research conferences. Besides, one study was published in an international peer-reviewed academic journal with a CiteScore of 48% (Q3) as of 2024.

Structure of the dissertation. The dissertation is completed in compliance with the principles required for dissertation works, as prescribed by the Rules for Awarding Degrees by the Ministry of Education of the Republic of Kazakhstan. The dissertation includes an introduction, main body, conclusion, list of references, and appendices.