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# EXAMINING THE INFLUENCE OF TAX AVOIDANCE ON FIRM VALUE: MODERATING ROLE OF INSTITUTIONAL OWNERSHIP IN THE CONTEXT OF PAKISTAN

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## ABSTRACT

This study aims to uncover the influential role of tax avoidance on firm value with the moderating role of institutional ownership. Institutional ownership enhances monitoring, which further aligns the interests of management and shareholders for maximizing firm value. The current study treats firm value as a dependent variable, tax avoidance as an independent variable, and institutional ownership as a moderating variable. This study relies on quantitative secondary data, which is collected for 100 non-financial listed firms during the period from 2013 to 2022. Diagnostics tests are used to confirm that data is free from any error and obeys all basic assumptions of the classical linear regression model. The study's findings present that tax avoidance relates negatively to the firm's value in non-financial firms. Moreover, the result also unveils that institutional ownership acting as a moderating variable has the least positive influence on a firm's value. This means institutional investors increase checks and balances, compelling management to make wise and nice decisions to maximize firm value.

**Keywords:** Firm Value, Tax Avoidance, Institutional Investor, Non-Financial Firms.

## INTRODUCTION

The hardest thing in the world is to understand the income tax (Albert Einstien). Tax is one of the main sources of Government Revenue. It serves as a potent instrument for the government to regulate the economy and safeguard citizens' health and social well-being. Tax is the financial charge imposed upon taxpayers which may be an individual or legal entity by state or functional equivalent of the state to finance various projects of the government for its citizens. Tax is the shifting of resources from the private sector to the public sector for the accomplishment of some governmental project for the betterment of society (Khurana & Moser, 2009). It is therefore a machinery in which a profit earner will pay some of his/her/its profits to the government (Marselawati & Masitoh, 2018). An individual or legal entity who fails to pay tax or evasion or shows resistance to taxation to the state is punishable by the law. There are various methods through which taxes can be reduced *Tax evasion* is an illegal practice where a person or corporation intentionally avoids paying his true *tax* liability. Those caught *evading* taxes are generally subject to criminal charges and substantial penalties.

The second most important way is tax avoidance which is the reduction of tax burden legally. There is no doubt nationally and internationally about the well-known fact that wealthy individuals and larger corporations are continuously involved in the practice of "offshore" quest to decrease the obligation of income tax. The practice of reducing tax obligation is confirmed internationally by the two big financial scandals that are "Lux Leaks" and "Panama Paper" which present that wealthy individual and larger corporation hide their assets and avoid tax payments (ICIJ 3, Apr 2016; Simon Bower Lux leaks the Gaudian Nov, 5. 2014). These reports show that 340 companies are involved in tax

avoidance presented by Lux leaks while the Panama papers present 214000 offshore companies around the world involved in tax avoidance. The European Union parliament disclosed that every year EU countries lose 50 to 70 billion euros through tax avoidance by companies. Tax avoidance has also a diverse influence on the country's currency because tax avoidance declines government revenue which compels the country to manage funds from some other sources, this devalues the country's currency due to its low demand or excess demand of other currencies (Salawu & Adedeji, 2017).

Along with the country's losses, tax avoidance also affects the performance and stock price of the firm. Tax avoidance creates a conflict of interest which discourages investors because tax avoidance provides a signal to the market that top management does this for personal benefits only. Such signals influence the stock price of the company and result in stock price crashes like in US firms (Kim et al., 2011). The study further states that such activities as tax avoidance facilitate managerial rent extraction and bad news for a long period which results in stock price crashes. Tax avoidance is also considered the main source/way of tunneling in concentrated firms. Because within the concentrated firms controlling shareholders are more involved in tax avoidance for tunneling practices (Annuar et al. 2014, Alim et al., 2020; Tang 2016). In addition, tax avoidance also influences a firm's reputation negatively which leads to reputational costs and a decline in stock price. Tax avoidance is a double-edged sword, on one direction tax avoidance influences a company's performance negatively but on the other hand tax avoidance increases cash surplus within the company which can be utilized for investment (Cahyono et al., 2016). Such investment provides a good signal to the market and hence increases the firm's value.

Previous literature also unveils and confirms that tax avoidance usually reflects management efficiency upon which investors rely and invest in such companies, which results in to rise in stock price and hence the firm's value (Ratemo 2014; Liem et al., 2020; Houria and Anouar 2017). The company usually pays incentives to the management to reduce the tax burden and increase the cash and profit of the company (Salehi et al.,2019). The diverse association of tax avoidance with the value of the firms is due to the factor that tax avoidance is mostly used by the top management for their benefits which creates severe agency conflict with the firms. This conflict than have a strong influence on the firm's value and affects it negatively presented in the previous literature (Soepriyanto 2018; Yee et al., 2018; Wang and Jui-Chih, 2021; Khan et al., 2020; Butt and Ahmad, 2022). Moreover, tax avoidance results in to decrease in stock price and hence a firm's value (Chen et al., 2014), because tax avoidance declines a firm's reputation (Omesi et al., 2021). Such practices may only be reduced through effective monitoring mechanisms which is possible in the presence of good governance and institutional investors.

Institutional ownership is the most prevalent factor within a firm that has vast influences over the entire firm's operation (Dewi & Widanaputra, 2021). Institutional ownership pays more attention to the firms' ability focuses on monitoring and controlling the management and influences the company's profitability (VO Ongero,2011). On the other hand, it might also lead to private benefit by the controlling shareholder at the expense of the minority shareholders. Managers are less likely to engage in profit-maximizing without strict monitoring by shareholders because no one pays attention to business management. Every stakeholder utilizes its way and tactics for personal benefit. However, institutional investors may enhance monitoring to reduce illegal practices and increase firms' value (Prowse, 1992; Agrawal and Knoeber, 1996; Musa and Onipe, 2023). If owner-controlled firms are more profitable than manager-controlled firms, institutional ownership provides better monitoring, leading to better performance. Usually, the choice and interests of agents and principles within a firm are influenced by shareholder interest because the principal can monitor the manager effectively and protect the shareholder's interest. Such conflict varies across family and non-family firms where the complexity of activities occurs (Demsetz & Lehn, 1985; Hedi et al., 2021).

Within family-controlled firms, minority shareholders have an insufficient incentive compared to controlling shareholders. Institutional ownership and management become more effective in minimizing risk and control over the private benefits of the significant shareholders (Short, 1994; Hossein et al.,2022). In emerging countries, where institutional ownership of firms is high and legal protection of shareholders is weak, the controlling shareholders will actively monitor managers to protect private benefits. It is found that firm value

increases with higher institutional ownership, providing valuable information for investors to make informed investment decisions (Khalil and Shihua, 2023). Moreover, the presence of an institutional investor as a controlling shareholder benefits firm value (Hosam et al., 2022) because such investor encourages managers to focus on the company's performance and reduce illegal practices and other including tax avoidance (Hasanah and Widisauti, 2022). All these become possible due to the active involvement of Institutional investors and having proper checks and balances over the firm's management (Almira et al., 2018; Mohammad et al., 2022). Institutional investors having a share in bulk (Pasaribu et al., 2016) reduce agency conflict and hence any practices that harm firms' value including tax avoidance (W Tang and X Yang, 2023; Iftekhar et al 2022). Institutional ownership allows more authorities to monitor the improvement of their investments in the companies they have invested in (Nguyn and Tran, 2023). This reduces harmful practices including tax avoidance (Putu and Made, 2021), and increases the company's profit, presenting an excellent picture of the company (Nawang et al., 2022).

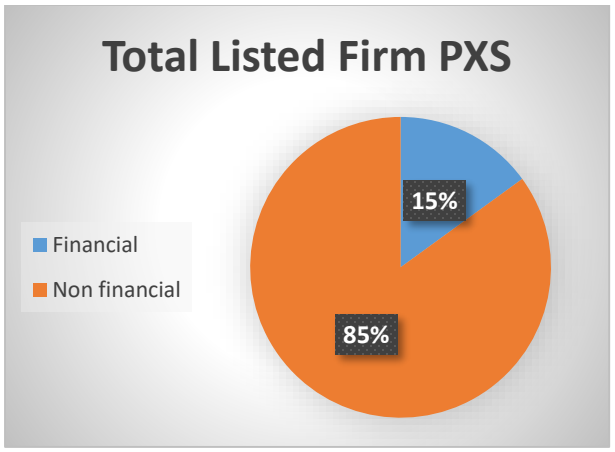
In sum, tax is the largest source of state revenue for expenditure upon human capital. However, individuals and companies practice various tactics to reduce tax burden either in legal or illegal ways. Tax avoidance is one of them which are common in most companies to minimize tax burden (Dyreng et al., 2010; Lee et al., 2015). Tax avoidance is a double edge sword, on one side tax avoidance, reduces the tax burden on the company, but on the other side, these practices create agency conflict because most of the top management in concentrated firms reduce the tax burden and deviate saved funds for their benefits instead of contributing to the firm's value (Ref). Moreover, tax avoidance is a lawful activity but most companies use illegal ways for such practices (Jamei et al. 2017). So, all these firms that privately benefit from tax avoidance practices did not perform according to investor desire, therefore investors deviate from the firms which results in declining the firm's value. Tax avoidance benefits firms by reducing tax load on one side but on the other side same activities help the top management to bring these activities for their benefit. This ambiguous situation compels the current study to examine the role of avoidance of the tax practice on the firm's value in Pakistan through the appropriate methodology to unveil the accurate association.

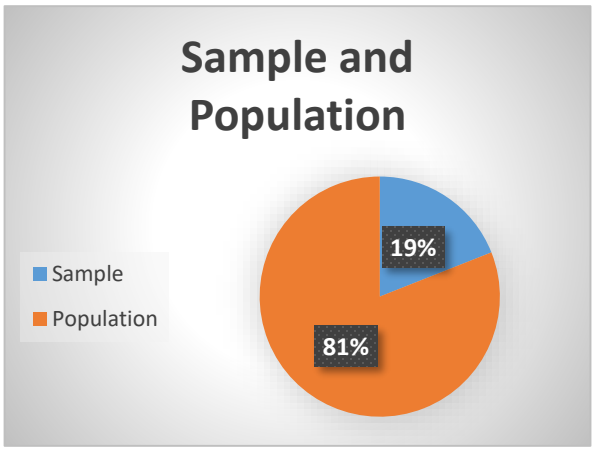
**Methodology**

This study gets theoretical support from the Agency (Jensen and Meckling in 1976) which offers a framework to understand the dynamics between principals and agents and how these dynamics can impact firm value and decisions related to tax avoidance. Tax avoidance is connected with corporate governance because directors continually encourage to shrink tax expenses and increase firm value. Tax avoidance actions become more and more progressive and complex (Mascagni et al., 2014). Based on agency theory, reducing tax avoidance can affect the compensation received.

**The Data:**

The current study is quantitative and relies on secondary panel data during the period 2013-2022. A sample of 100 non-financial listed companies is used from 443 non-financial listed firms in the Pakistan stock exchange. The study sample contributes 19% to the total population, which is enough to unveil such a relationship. The study uses various sources like annual reports of the firm, balance sheet analysis, and the firm's website to collect data to achieve the study's main objectives.




**The Variables**

The current study treated firm value as a dependent variable measured by Tobin's Q. Tobin's Q provides a comprehensive view of the company's growth (Lastanti, 2014; Kenny et al., 2022). Tax avoidance is an independent variable measured by the Effective tax rate (ETR). Effective tax rates can be calculated through the total income tax divided by net income before tax, used in previous studies (Halnlon & Heitzman, 2010; Dyreng et al., 2017). Institutional ownership is treated as a moderating variable measured by shares owned by the institution divided by the company's total outstanding shares followed by (Yuwono & Aurelia, 2021; Kushariani et al., 2019; Murtina et al., 2020).

| Name | Variable | Measurement | References |
|---|---|---|---|
| **Firm Value** | Dependent variable | Q = (EMV + D)/ (EBV + D) | Yenni et al. (2020) |
| **Tax Avoidance** | Independent variable | ETR = (total tax expense)/(income before tax) | Yenni et al. (2020) |
| **Institutional Ownership** | Moderating | % total shares ownership by institutional investor | Agoestina (2019) |
| **Firm Size** | Control Variable | Natural log of total assets | Cahyono et al. (2016) |
| **Financial Leverage** | Control Variable | Total Debt/ Total Assets. | Jihwan & Hyungju (2022) |
| **Profitability** | Control Variable | Return on Assets = Net Income/ Total Asset | Putu & Made (2021) |

**Statistical Techniques:**

**Testing for Multicollinearity**

One of the basic assumptions of the classical linear regression model is the absence of perfect correlation (multicollinearity). Multicollinearity results in a high R square with a low t-statistics value, provides a wrong sign of coefficient with larger variance and standard error. Correlation matrix and variance inflation factors are the prevalent tools used for the detection of multicollinearity. Correlation coefficients present the strength and direction of a linear relationship between two variables. The correlation coefficient ranges from -1 to +1, with -1 being a perfect negative correlation, +1 representing a perfect positive correlation, and 0 reflecting no correlation between the two variables. Similarly, according to the rule of thumb, if the value of VIF ranges between 1 and 5, then the variable is not perfectly correlated.

**Testing for Heteroskedasticity**

Heteroskedasticity, the unequal variance of errors in a regression model, violates the assumption of homoskedasticity, leading to biased parameter estimates, inefficient estimators, and unreliable statistical inference. According to the assumption of the classical linear regression model (CLRM), the error term between the dependent and independent

variable is constant across all the values, through equation it can be represented as.

$$Var(\varepsilon t) = \sigma^2$$

**Model Specification test (Hausman's test)**

Hausman presents two estimators' $\beta_0$ and $\beta_1$ of the statistical model parameter vector β. The null hypothesis is tested for the selection of fixed and random effect models which presents that both estimators are consistent but the estimator $\beta_0$ is inefficient while the alternative hypothesis states that $\beta_0$ is consistent and efficient but the estimator $\beta_1$ is inconsistent. The null hypothesis is checked for proper rejection.

$$H = (\beta^{FE} - \beta^{RE})\,[Var(\beta^{FE}) - Var(\beta^{RE})]^{-1}(\beta^{FE} - \beta^{RE}) \sim x^2$$

**Random Effect Model**

A random effects model incorporates random variation between groups or subjects into regression analysis, allowing for more accurate estimation of coefficients and capturing unobserved heterogeneity within the data. The appropriate hypothesis test for the random effect model is

$$H0: \sigma t^2 = 0$$
$$H1: \sigma t^2 > 0$$

The current study is going to test the following model to achieve the main objectives of the study.

$$FVit = \beta + \beta 1 TAit + \beta 2\, IOit + \beta 3\, TA * IOit + \beta 4 FLit + \beta 5 FSit + \beta 6 PROit + \beta 7 Lit + \beta 8 CIi + \varepsilon it$$

The above equation presents an econometric model of the current study. Firm Value (FV) is treated as the dependent variable, tax avoidance (TA) is an independent variable, and institutional ownership (IO) is the moderating variable used in the study. The current study also use financial leverage (FL), firm size (FS), profitability (PRO), Liquidity (LIQ), and capital intensity (CI) as control variables.

**Results**

**Table 1: Descriptive Statistics**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| **FV** | 1000 | 1.3087 | 0.9411 | 0.03137 | 12.436 |
| **TA** | 1000 | 0.4392 | 6.3927 | -86.458 | 162.00 |
| **TAIO** | 1000 | 6.4706 | 95.649 | -1411.4 | 2359.9 |
| **IO** | 1000 | 14.345 | 2.7792 | 5.9107 | 20.766 |
| **FS** | 1000 | 15.242 | 1.9445 | 6.3969 | 18.919 |
| **FL** | 1000 | 0.6625 | 0.5224 | 0.00721 | 4.3818 |
| **PRO** | 1000 | 0.0670 | 0.1834 | -1.094 | 1.2278 |

Descriptive statistics provide detailed information regarding the number of observations, mean, standard deviation, and minimum and maximum value of all the data used in the study. Mean is the average value, while standard deviation reflects how much data deviates from the mean position. Moreover, the minimum and maximum values highlight the highest and lowest values within the data set used in the study. Table (1) indicates that the mean value of Firm value (FV), is (1.3087) with a standard deviation of (0.9411), minimum value (0.0313), and maximum value (12.436). Similarly, the mean value of Tax Avoidance (TA) treated as an independent variable is (0.4392) with a standard deviation of (6.3927), minimum value (-86.455), and maximum value (162.00). The mean value of institutional ownership (IO), which is treated as a moderating variable in the current study is (14.345) with a standard deviation of (2.7792), minimum value (5.9107) and maximum value (20.766).

**Table 2: Correlation Matrix**

| | TQ | TA | TAIO | FS | IO | FL | PRO |
|---|---|---|---|---|---|---|---|
| **FV** | 1.0000 | | | | | | |
| **TA** | -0.2130 | 1.0000 | | | | | |
| **TAIO** | -0.2091 | 0.7977 | 1.0000 | | | | |
| **FS** | -0.051 | 0.0050 | 0.0076 | 1.0000 | | | |
| **IO** | -0.0670 | 0.0095 | 0.0179 | 0.1812 | 1.0000 | | |
| **FL** | 0.041 | 0.0253 | 0.0239 | -0.2672 | 0.0376 | 1.0000 | |
| **PRO** | 0.1216 | -0.0164 | -0.0178 | -0.0349 | -0.0540 | 0.0001 | 1.0000 |

Table 2, highlights findings of the correlation matrix for the detection of multicollinearity. From the table, it is clear that none of the relationships between the two variables are close to -1 or 1 which is an indication of perfect correlation or multicollinearity. Hence, the data is free from the multicollinearity problem and obeys the basic assumption.

**Table 3: Variance Inflation Factor (VIF)**

| VARIABLE | VIF | 1/VIF |
|---|---|---|
| **TAIO** | 2.07 | 0.454423 |
| **TA** | 2.03 | 0.454543 |
| **FS** | 1.22 | 0.819905 |
| **FL** | 1.12 | 0.893452 |
| **IO** | 1.06 | 0.943112 |
| **PRO** | 1.00 | 0.995530 |

The current study also uses the variance inflation factor (VIF) for the detection of multicollinearity. According to the rule of thumb, VIF ranges from 1 to 5 reflecting no multicollinearity in the data set. Findings unveil that none of the VIF values are greater than 5 which confirms that data is from the multicollinearity issue.

**Table 4: Heteroskedasticity**

| | |
|---|---|
| **CHI$^2$(1)** | 26.60 |
| **PROB> CHI$^2$** | 0.1030 |

The study uses the Breusch-Pagan test for the detection of heteroskedasticity. Findings prevail that the p-value is more than the significance level 0.05 implying the absence of heteroskedasticity within the data set. This suggests that the variability of the errors remains relatively constant across the different levels of the independent variables, adhering to the assumption of homoscedasticity. With this confirmation, the standard errors of the regression coefficients can be considered reliable, enabling the interpretation of the coefficients with greater confidence. Consequently, the validity and robustness of the regression analysis are upheld, underscoring the stability and consistency of the model's estimations.

**Table 5: Simple Regression**

| FV | Coef. | Std. Err | T-statistics | P>\|t\| |
|---|---|---|---|---|
| **TA** | -0.0573 | 0.0847 | -0.68 | 0.049** |
| **IO** | 0.02046 | 0.0106 | 1.92 | 0.055** |
| **PRO** | 0.60548 | 0.1612 | 3.76 | 0.000*** |
| **FS** | 0.00614 | 0.0162 | 0.38 | 0.706 |
| **FL** | 0.00272 | 0.0594 | 0.05 | 0.963 |
| **TAIO** | 0.00349 | 0.0054 | 0.094 | 0.524 |
| **-CONS** | 1.56296 | 0.1564 | 9.99 | 0.000 |

Table 5 shows the results of a simple linear regression analysis. The coefficient value highlights the direction and quantity of variation in the dependent variable due to a change in an independent variable. Tax avoidance, treated as an independent variable, has a coefficient value of (-0.0573) and is statistically found significant (0.049). This means that a 1% increase in tax avoidance practices decreases the firm value by 5%. Similarly, institutional ownership, treated as a moderating variable, has a coefficient value of (0.0204) and is statistically found significant (0.05). This means that a 1% increase in institutional ownership will increase the firm value by 2%. Moreover, tax avoidance with a moderating role of institutional ownership has a coefficient value of (0.0034) and is statistically found insignificant (0.524). In addition, the current study uses five control variables, which are found insignificant except profitability (PRO).

**Table 6: Hausman Test**

| | |
|---|---|
| **$CHI^2$ (8)** | 2.47 |
| **PROB>$CHI^2$** | 0.9633 |

The Hausman test is a statistical test used in econometrics and regression analysis to determine whether the coefficient probable from two different regression models is considerably different from each other. This is used for the selection of the appropriate model to be employed for achieving the study's objectives. The null hypothesis is that the random effect model is more appropriate, while the alternative hypothesis is that the fixed effect model is more suitable for the data. The Result shows that the probability value (0.9633) exceeds the significance value (0.05). The findings of the Hausman test confirm that the study's null hypothesis cannot be rejected; hence, the random effect model is the most appropriate model used in the current study.

**Table 7: Random Effect Model**

| FV | Coef | Std. Err | Z | P>\|z\| |
|---|---|---|---|---|
| **TA** | -0.027598 | 0.046215 | -0.60 | 0.090* |
| **IO** | -0.020467 | 0.0106444 | -1.92 | 0.055** |
| **TAIO** | -0.01744 | 0.3089 | -0.56 | 0.572 |
| **PRO** | 0.6054831 | 0.1612371 | 3.76 | 0.000*** |
| **FL** | 0.0164273 | 0.0596959 | 0.28 | 0.783 |
| **FS** | 0.0053399 | 0.0163676 | 0.33 | 0.744 |
| **-CONS** | 1.562967 | 0.1564697 | 9.99 | 0.000 |

Table 7 shows the findings of the random effect model. The coefficient value of Tax Avoidance is (-0.02759) and is statistically found to be significant (0.090). This represents that a 1% increase in tax avoidance decreases the firm's value by 2%. Similarly, institutional ownership, treated as a moderating variable, has a coefficient value of (0.02046) and is statistically found significant (0.055). This means that a 1% increase in institutional ownership will increase the firm value by 2%. Moreover, tax avoidance with a moderating role of institutional ownership has a coefficient value of (0.01744) and is statistically found insignificant (0.56). In addition, the current study uses control variables, which are found insignificant except profitability (PRO).

**Discussion, Conclusion, and Recommendations**

The current study examines the impact of tax avoidance on firm value, considering the moderating influence of institutional ownership. Consequently, the study finds a significant relationship between tax avoidance and firm value. The findings suggest that most firms employing tax avoidance strategies experience adverse effects on their overall firm value. Notably, existing research on the influence of tax avoidance practices on firm value yields a mix of positive and negative results, underscoring the complex nature of this relationship. The study's findings align with the previous studies (Astrid & Kashan, 2020; Sekar et al., 2022; Muhammad et al., 2021; Shelly & Vita, 2021; Sesilia et al., 2021). Findings also unveil that tax avoidance negatively affects firm value because the investor thinks that the management practicing tax avoidance for their benefit only. This results in creating a conflict of interest within the firms and hence hurting the firm value. Institutional investors, known for their expertise and large-scale investments, often contribute to improved corporate governance practices, enhanced transparency, and more effective company monitoring mechanisms.

Their active involvement and oversight tend to bolster investor confidence and signal market stability, increasing stock prices and enhancing firm value. Additionally, the long-term strategic approach of institutional investors fosters stability and sustainability, encouraging firms to focus on long-term growth and value creation. Through their engagement with companies, institutional investors also facilitate the implementation of best practices, which can lead to improved operational efficiency, innovative strategies, and better risk management, all contributing to the overall enhancement of firm value and investor returns. Numerous studies have revealed a compelling positive relationship between institutional investors and firm value (Vince et al., 2018; Zati & Rr Sri, 2019; Kenny et al., 2022). Control mechanisms are reinforced through vigilant monitoring, which significantly contributes to the augmentation of a firm's reputation. As firm value escalates, share prices rise steadily, piquing investor interest in pursuing lucrative investments without illicit practices. Consequently, an upsurge in legitimate investment practices translates to the advancement of the country's economy, promoting sustainable economic growth and fostering a stable financial environment (McConnell & Servaes, 1990;

Nesbitt, 1994; Smith, 1996; Del Guercio & Hawkins 1999; Hartzell & Starks 2003; Cornett et al. 2008). Tax avoidance, with the moderating role of institutional ownership, also has a significant effect on firm value. The current study's findings are supported by the previous findings of (Kenny et al., 2022; Wawan Dian, 2017; Ian & Agus, 2021). Firms with strong institutional ownership have more impact on firm value. This shows that the impact of shareholders in tax avoidance depends on the ability of shareholders to control the manager in decision-making. Institutional owners are more afraid for their well-being and increasing future profit; the share of institutional ownership has a tiny impact on tax avoidance. Previous researchers stated that lower tax avoidance could happen because of reasonable government tax control or firm tax planning (Mangoting et al., 2021).

**Conclusion**

The study's main objective is to examine the influence of tax avoidance on firm value in Pakistan with the moderating role of institutional ownership. In this study, firm value is treated as a dependent variable, tax avoidance is an independent variable, and institutional ownership is a moderating variable. The current study is quantitative and relies on secondary panel data. The current study collects data for ten years ranging from 2013 to 2022. Data is checked through various diagnostic tests to confirm the validity and reliability of data and to obey all the basic assumptions of the classical linear regression model. The findings underscore the detrimental impact of tax avoidance practices on firm value, highlighting the importance of transparent and ethical financial practices for sustainable long-term growth. Conversely, the study underscores the positive influence of institutional ownership in mitigating the adverse effects of tax avoidance, emphasizing the significance of strong corporate governance structures and active institutional participation in ensuring financial accountability and value preservation. These insights provide valuable guidance for policymakers, corporate leaders, and institutional investors seeking to foster a conducive environment for robust and sustainable corporate performance and value creation. Moving forward, a collaborative effort among stakeholders to prioritize ethical tax practices and bolster institutional oversight can significantly enhance the resilience and competitiveness of firms in the dynamic global business landscape. This could serve as a deterrent to excessive tax avoidance. Policymakers in Pakistan ought to consider the impact of tax strategies on firm value.

**Recommendations**

Based on the findings of this study, it is recommended that Pakistani firms consider enhancing transparency and disclosure practices related to their tax strategies. Transparency can improve the firm reputation among institutional investors, which is essential to raise institutional ownership. Firms should frequently link their tax policies and behind their tax avoidance strategies to encourage investors and shareholders. Tax avoidance can enhance firm value under assured situations. Firms should avoid tax avoidance performances that might attract monitoring and damage their reputation. Firms should monitor tax regulations and changes in institutional ownership rules. The difficulty of tax regulation and the fluctuating effect of tax avoidance on firm value makes it suitable for Pakistani firms to pursue expert advice and consultation. Engaging with tax experts and financial advisors can help firm policy tax strategies that are obedient to rules and contribute positively to firm value. Policy maker Implement and enforce policies that promote transparency in financial reporting, especially concerning tax-related information. Strengthen tax compliance mechanisms to reduce the scope for tax avoidance practices. Enhance the capacity and independence of regulatory bodies, such as the Securities and Exchange Commission of Pakistan (SECP), to monitor and regulate tax-related disclosures. Encourage collaboration between regulatory bodies, tax authorities, and other relevant institutions to share information and coordinate efforts to curb tax avoidance.

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