Foreign investors' interests and corporate tax avoidance: Evidence from an emerging economy

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Abstract

Foreign investment inflows into developing countries has become a cause for concern, as the opportunity for profit shifting across their various operating outlets has made multinational companies tax avoidant in host countries. Thus, this study examines the tax impact of foreign investors' interests within a host developing economy. The sample data were extracted from annual reports of the FTSE Bursa Malaysia Top 100 firms for the financial periods of 2009, 2010 and 2011. Using four similar measures of tax avoidance and three related measures of foreign investors' interest, our analysis of the dynamic panel data with a system GMM estimator shows significant positive relationships between foreign investors' interests and the measures of corporate tax avoidance among large Malaysian companies. This result suggests the possibility of multinational companies exploiting their international scales of operations to avoid taxes in both host and parent countries. Thus, emerging economies need to consider the residual benefits of foreign direct investment in the presence of such tax avoidance in their pursuit of economic development. © 2015 Elsevier Ltd.

Author keywords

Developing economies, Foreign direct investments, System GMM estimator, Tax avoidance

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