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Tax optimization and the firm's value: Evidence from the Tunisian context

Soufiene Assidi [a,*], Khaoula Aliani [b], Mohamed Ali Omri [c]

[a] GEF2A, El Manar University, Tunisia
[b] GEF2A, Business Department, College of Business Administration, PNU, Saudi Arabia
[c] GEF2A, Faculty of Economics and Management, University of El Manar, Tunisia

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Abstract

The paper investigated the relationship between corporate tax optimization and the firm's value in the Tunisian context over an 11 year period. The empirical results revealed that tax optimization, accruals and investment increased the firm's value. After dividing the sample between listed and non-listed firms, we concluded that, compared to non-listed firms, the listed firms were better able to optimize tax through adopting a tax policy. Our findings help decision makers, researchers and practices to better understand the role of tax optimization in the management of firms and, also, in their performance.

JEL classification: H 25

Keywords: Firm value; Tax optimization; Listed and non-listed firms; Tunisia

1. Introduction

The importance of taxation in management of firm is large and growing. Alvarez and Marsal (2012) declare that tax topics are considered by financial executives in up to 92% of global business decisions. Recently, a great deal of effort has focused on the relationship between tax optimization and the firm's value. According to Capiez (1994) "tax optimization consists in minimizing mainly the income tax in order to maximize the result after taxes". In the same way Bryant-Kutcher, Guenther, and Jackson (2012) show that tax optimization interest managers to reduce tax burden and maximize level of profits. In this framework, we identified tax optimization in terms of legal activity such as minimizing the taxable base for investment and financing. The interest granted to the firm's tax situation and the controversies concerning the firm's tax burdens (the tax rate is about 30% in Tunisia) and the firm's growth led us to examine the relationship between tax optimization and the firm's value.

The specific nature of the Tunisian tax system, with the many opportunities granted by the legislator, suggested that this context constituted a favourable ground for conducting this study. In this framework, we identified tax optimization in terms of legal activity such as minimizing the taxable base for investment and financing.

The main objective of tax optimization is the creation of the firm's value and this is linked directly to both the planning and the quality of the firm's managerial organization. Manager look for strategies to reduce their tax burden to generate tax benefits after tax returns or shareholder wealth (Abdul Wahab & Holland, 2012).

There have been many debates about the practice of tax optimization and its impact on the firm's value. Chadefaux and Rossignol (2006) considered that tax optimization was one of the factors which were likely to increase the firm's value either by the minimization of tax burdens or through the disclosure of good information. Abdul Wahab and Holland (2012) reveal

* Corresponding author.
E-mail address: assidisoufiene@yahoo.fr (S. Assidi).
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