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Board Expertise, Audit Quality, and Tax Avoidance in Bangladeshi Banks: Does Political Connection Matter?

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ABSTRACT

This study explores how the tax avoidance in Bangladesh is influenced by some board characteristics such expertise of board and audit quality, with moderating impact of political connection with board. Using panel data on the banking industry listed on the DSE from 2012 to 2022, the study runs several regressions to investigate whether political connections moderate the board experts. The results revealed that both legal experts and audit quality negatively impact tax avoidance. It indicates that the presence of more legal experts on the board and the greater the use of BIG4 auditors in a firm, the lower their engagement in tax avoidance practices. Accounting experts on the board, conversely, enhance tax avoidance. Similarly, politicians on the board moderate the legal experts and weaken the legal expert's role regarding tax avoidance decisions. The findings imply that politicians increase tax avoidance by converting the negative role of legal experts into a positive one. Further, supporting agency theory, the findings confirm a conflict between owners and managers where institutional and managerial shareholders dominate the board of directors regarding tax policy.

Keywords: Tax avoidance, legal experts, accounting experts, audit quality, banking industry, Bangladesh.

INTRODUCTION

Due to corporate tax avoidance, many governments are under pressure to provide smooth public services, which affects smooth public services and demotivates law-abiding taxpayers to pay taxes (Rashid et al., 2024). The root of tax avoidance often lies in the financial struggles of low-income countries, affecting approximately 21% of developing nations compared to 11% of their developed counterparts (Gulzar et al., 2018). According to the State of Tax Justice 2020 report, tax avoidance by businesses and private citizens costs Bangladesh an estimated $703 million annually. This substantial loss accounts for almost 3.5% of tax revenue of Bangladesh (Star, 2020). The government of Bangladesh has failed to achieve tax revenue targets to date due to tax avoidance and reluctance of individuals to pay taxes. Though nearly 40% of income tax comes from corporations, the tax collection process is not flawless. In Bangladesh, the National Board of Revenue (NBR) filed 1838 court cases against listed corporations in FY 2019/20, including 258 against financial institutions due to overdue tax (NBR, 2021).

In prior literature, since proper practice governance results more socially responsible behavior of firm and transparency financial reporting (Fan et al., 2021), good governance has been identified as a crucial driver to control corporate tax avoidance practices. Besides, preventing tax avoidance is a function of corporate governance since the interests of owners are involved there (Armstrong et al., 2015). Among the corporate governance components, board experts and audits play a large role in strategic decision-making like tax avoidance. Boards with financial and legal experts are crucial to tax management since their area of expertise includes tax practices. Accounting experts enhance the reliability of information disclosure processes (Al-Shaer & Zaman, 2018) and the reporting quality of financial information (Kusnadi et al., 2016), which subsequently holds a desired impact on tax management. On the other hand, legal experts are skilled enough to help ensure regulatory compliance by the companies (Lombardi et al., 2019), which might allow the firm to properly comply

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with tax laws. Additionally, legal experts play a positive role in controlling tax avoidance since they minimize information asymmetry among firms and other stakeholders (Masud et al., 2019). Audit quality, another indicator of good governance, plays a critical role in controlling tax avoidance. The presence of high-quality auditors discourages managers from aggressive tax management (Dang & Nguyen, 2022; Jihene & Moez, 2019). Politician members on board, on the other hand, are likely to influence other members on board. Politicians on the board reduce transparency and accountability within the corporation and promote corruption (Muttakin, Mihret, & Khan, 2018), which might hinder the role of experts in working against aggressive tax practices by corporate entities.

The study has been conducted in Bangladesh, for several reasons. First, Bangladesh a potential emerging economy but has bad reputation of weak investor protection, low-quality governance, controlled press, and absence of financial transparen**cy** (Muttakin et al., 2015). Second, the study is conducted in the banking industry, the most stable intuitions for generating consistent profit, are subject to paying 37.5% corporate tax (GOB, 2021). For ensuring macroeconomic growth of a country, stability in banking sector is mandatory(Rashid et al., 2020). But in recent times, the contribution of banking sector in this country is decreasing(Rashid et al. 2024). Bangladesh Bureau of Statistics (BBS) reported that, banks contribution in GDP is reduced by 6.5% (BBS, 2022). In Bangladesh, most banks have to fucus on improving key financial indicators (Zheng et al., 2022).

Again, high corporate tax rate demonstrates an honest tax mindset in this industry that is supportive of the government achieving the tax revenue target. Nevertheless, Bangladesh has demonstrated a high deficit budget over the decades, which ultimately hinders a smooth public service to citizens (Rashid et al., 2024). Finally, a large number of Bangladeshi entrepreneurs and business magnates are affiliated with the nation's two major political parties. In Bangladesh, the presence of politician board members is a usual technique since it is almost impossible to get permission for banking business without the presence of politician members on bank boards. The ability of members of parliament (MPs) to run major businesses seems to be a prerequisite for commercial success. In the ninth parliament (2009–2013), for instance, businessmen made up 57% of elected MPs; in the tenth, eleventh, and twelfth parliaments, their proportions were 59%, 61.07%, and 66.89%, respectively (Rashid & Hossain, 2022; Tribune, 2024). The MPs are also called lawmakers. Despite their increasing number in trend, the lawmakers are found to be involved in tax avoidance (Rashid et al., 2024). Moreover, they have the intention of violating laws to get benefits from government affiliation (Muttakin et al., 2018). Such an intention negatively affects the compliance of legal experts. Under the lawmakers' surveillance, how the accounting and legal experts as well as auditors play their role regarding tax strategy in the banking industry is yet to be examined. Therefore, the study aims to investigate the following research questions:

RQ1: What roles do the board expertise and audit quality play regarding tax avoidance decisions?
RQ2: Do the politician board members moderate the effect of legal experts on tax avoidance?

Using 11 years of data collected from the listed banks of the Stock Exchange from 2012 to 2022, the research examines the impact of board expertise and audit quality on tax avoidance, with the moderating effect of board political connections. This study adds to the current literature by making the following key contributions. First, the study records how legal experts and accounting/finance experts play a considerable contribution in tax management decisions. In this regard, the results revealed that the higher the accounting experts on a company board, the greater the tax avoidance. But, legal experts on the board lower the firm's tax avoidance as they tax reduction strategies as a risky activity that could enhance reputation risk and reduce cognizant consumers creating a tax burden on the citizens. Second, the paper explores whether the political members on the corporate board can moderate the role of legal experts in tax avoidance practices. The findings of the study indicates that the interaction of the effect of political board members and legal experts on the board are positively corelated with tax avoidance. The results imply that politician directors weaken the legal board members' role regarding tax avoidance practices. Third, the study explores to what extent audit quality can impact tax avoidance. This research finds that audit quality (BIG4) plays a significant role in reducing tax avoidance as external auditors are qualified, ethical and independent to work. Fourth, we investigated whether legal and accounting experts' decisions on tax strategy are influenced by high and low managerial and institutional ownership. The results evidence that the board's expertise and audit could not play any role regarding tax decisions if the institutional

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owners held a large portion of the shares of a company. Fifth, the outcomes of the study gives policymakers, bank owners, and other stakeholders a valuable insight into the influence of good governance on firms' tax avoidance decisions. Finally, limited research in developing countries like Bangladesh extends the debate on the role of corporate governance on tax management decisions and creates a new avenue of tax avoidance research in Bangladesh.

Following the introduction, the study explores the agency theory and develops relevant hypotheses in section 2. In sections 3 and 4, the study presents the methodology and analyzes and discusses the results. Finally, in section 5, the paper concludes with essential implications and provides directions based on limitations.

Theories and hypotheses development

Theories

Different theories explain the impact of CG on tax practices from different perspectives. The prominent theory of agency claims that tax avoidance is a strategic outcome of an implied or actual employment deed between owners and managers (Lee, Dobiyanski, & Minton, 2015). Contractual agents get compensation for reducing tax liability (Chen & Chu, 2005). Such efforts may sometimes compromise the integrity of the internal control system of a firm. It could be promising for managers to gain personal benefits by compromising the interest of shareholders (Desai & Dharmapala, 2006). Tax avoidance is likely to result when managers get the opportunity to manipulate accounting methods due to information asymmetry between principals and agents (Alkurdi & Mardini, 2020). Corporate governance assists firms in aligning the interests of owners with management, which could control such agency problems (Richardson et al., 2016). Strong corporate governance practices result in accounting conservatism, which plays a prevalent role in controlling agency problems (Garcia Lara et al., 2009). The strong presence of corporate governance could check the discretion of agents on tax reporting, which, in turn, benefits the firm (Desai & Dharmapala, 2006). Agency problems might hinder the capacity of expert directors on the board due to the presence of political affiliation of board members (de Andres et al., 2021). The reality of the political affiliation of firms encourages managers to be more tax-aggressive due to less likelihood of facing regulatory pressure (Muttakin et al., 2018). In such a situation, the role of expert board members is likely to be reduced to ensure proper tax practices by the managers.

Moreover, based on the principal-agent model, tax practice relies on many interests to satisfy both concerns of different stakeholders(Kovermann & Velte, 2019). Ownership structure might keep remarkable impact on a company's tax decision (Richardson et al., 2016). To be more precise, institutional ownership is a crucial corporate governance system that monitors managers' actions to lessen agency issues (Dakhli, 2022; Khan & Nuryanah, 2023; Richardson et al., 2016). Institutional investors also have control over the board of directors in terms of tax decisions (Alkurdi & Mardini, 2020; Minh Ha et al., 2022). Similarly, Murni, Sudarmaji, and Sugihyanti (2016) referred to tax avoidance as a practice of internal management in the shelter of owners, institutional and managerial owners can control this practice.

Hypothesis development

Accounting/finance experts and tax avoidance

A company board with expert directors discourages excessive tax avoidance since increased reputational and regulatory costs due to tax avoidance are likely to surpass the benefits generated by tax savings (Armstrong et al., 2015). Board members having expertise in the accounting field are worthy of tax management since they could play a crucial role in monitoring management (Taylor & Richardson, 2014) and ensuring improvement in financial reporting, which is a prerequisite of corporate governance (Parker, 2007). A financially transparent board with accounting and financial experts can also effectively monitor the company's practices (Armstrong et al., 2015). Moreover, financial experts in audit committees and board members from outside or independent play a crucial advisory role in enforcing desired tax planning (Hsu et al., 2018). Risky tax planning is expected to be minimized due to the presence of accounting experts on corporate boards (Armstrong et al., 2015). Rashid

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et al. (2020) documented that a firm's accounting experts always focus on its profitability instead of sustainability. In other words, they are continually looking to maximize the company's profit. Though many researchers tried to identify the impact of accounting experts on tax avoidance, none of them focused on the Bangladeshi banking industry. Based on the findings of prior research, this research anticipates the following hypothesis:

H1: Accounting/finance experts on the board are negatively associated with tax avoidance.

Legal Experts and Tax Avoidance

The BODs, consisting of legal experts, play a tremendous role to comply rules and regulations (Litov et al., 2013). People with legal training who can handle delicate political, social, and environmental performance with ease. Additionally, their presence in board strengthens legal authority of the baord when it comes to making financial decisions (Rashid et al., 2020). The risks of a firm are negatively associated with the legal experts on the corporate board (Liu & Sun, 2021). They can prevents aggressive business practices like tax avoidance (Krishnan et al., 2011). Legal experts serve corporations as facilitators rather than advisors since they play a critical role in refraining firms from corruption (Masud et al., 2022). Though legal experts on a corporate board affect legal compliance, no such remarkable study has examined their impact on tax avoidance. Since tax avoidance is a type of corruption and breakdown of tax laws, this study assumes the negative influence of legal experts on boards to control tax avoidance. Accordingly, this research predicts the following hypotheses:

H2: Legal experts on the board are negatively related to tax avoidance.

Moderating effect of political connection on the legal experts to control tax avoidance

Though legal experts play a positive role in controlling tax avoidance, such a role is likely to be limited due to the political affiliations of board members. Tax avoidance is likely to have more if the board has political tie(Ajili & Khlif, 2020). The firm having such a connection could get easy access to debt by issuing bond by ignoring the need of disclosing financial information, which keeps the tax managers free of fear of consequences of such detrimental tax practices (Kim & Zhang, 2016).Agreesive tax practices is positively related to political connections as such connection works as a insurance in any bad consequences to be faced by regulatory bodies(Duchin & Sosyura, 2012; Young et al., 2001). Developing countries are considered to have minimum level of accountability and transparency due to presence of political affiliation. (Masud et al., 2022; Muttakin et al., 2018). In tax planning, the presence of political directors limits the role of expert board members like lawyers (Chen et al., 2021). In Bangladesh, a country with high corruption, political affiliation influences legal experts contribution on corporate boards (Masud et al., 2019). Accordingly, this study posits the following hypothesis.

H3: The presence of politically connected directors weakens the effectiveness of board legal expertise in constraining corporate tax avoidance.

Audit quality and tax avoidance

Audit quality(AQ) has been considered a pivotal determinant of good corporate tax practices. AQ plays a positive role in controlling aggressive tax practices since external auditors are entitled to work independently (Christensen & Murphy, 2004). A quality audit refers to an audit based on Professional Public Accounting Standards (Lestari & Nedya, 2019). Studies investigating the impact of audit quality on tax avoidance identified a negative relationship (Lestari & Nedya, 2019). Audit quality reduces tax avoidance as it monitors managers not to engage in malpractices (Jihene & Moez, 2019). Audit quality controls agency costs by controlling tax avoidance (Langli & Willekens, 2017). The tax aggressiveness is likely to be reduced due to the presence of competent component auditors in group audits (Kim et al., 2021).
AQ results high auditor litigation risk which is helpful to control tax avoidance (Kanagaretnam et al., 2016). Different researchers on corporate governance concluded that a decent and active audit ensures quality reporting

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of financial information (Rashid, & Hossain, 2022) and minimizes managerial fraud (Carcello et al., 2009). Audit quality is positively related to quality financial reporting due to its contribution to ethical disclosure (Persons, 2009) and monitoring functions (Mangena & Pike, 2005). Audits by reputed auditors like BIG4 firms help to control tax avoidance as they are not indulgent in the tax avoidance attempts of clients (Kanagaretnam et al., 2016). Based on these findings, this study assumes the following hypothesis:

H4: Audit quality (BIG4) is negatively related to tax avoidance.

METHODOLOGY

Sample

The study employs panel data obtained from the annual reports of 29 banks listed on the Dhaka Stock Exchange (DSE) in Bangladesh over the period from 2012 to 2022. The sample size is 319 (29×11) firm years. Currently, 32 banks are listed with the DSE. We also dropped ICB Islamic Bank Ltd as it has been making a loss over the last few years.

Dependent variable (Tax Avoidance)

For quantifying tax avoidance, multiple measurements are used such as book-tax difference (BTD), cash ETR (CETR) and effective tax rate (ETR) (Lanis 2017; Zeng, 2019).

The measurement of BTD is as follows.

$$\mathrm{BTD1}_{\mathrm{it}} = \frac{(\mathrm{NIBT} - \mathrm{taxable\ income})_{\mathrm{it}}}{\mathrm{Lagged\ total\ assets}}$$

Here NIBT refers to net income calculated before payment of tax. Lagged total assets represent the total assets from the previous year. Effective Tax Rate (GETR), which indicates the relative corporate tax load, is computed as tax expense divided by NIBT. Since a higher GETR infers lower tax avoidance, the amount is multiplied by −1 so that higher figures denote greater tax avoidance (Lanis & Richardson, 2018).

Cash Effective Tax Rate (CETR) is computed as the ratio of total cash tax expense and NBIT(Rashid et al., 2024).

Independent and moderating variables

The independent variables of this study includes LEX, measured by the number of directors with legal expertise; ACCEX, calculated by the number of board members with CA, CMA, or PhD qualifications in accounting or finance; BIG4, coded 1 for Big Four auditors and 0 otherwise; GRI, coded 1 if the firm publishes a sustainability report and 0 otherwise; and LEXPOC, measured as the interaction between legal expertise and political connections (LEX × POC). In addition, political connection is incorporated as the moderating variable.

Control and additional variables

The control variables include SIZE, measured as the natural logarithm of total assets; LEV which is calculated as total debt divided by total assets; ROA which is measured as net income over total assets; ADV which is represented by total advertising expenditure; AGE which is measured by the number of years since the firm's establishment; and YEAR DUMMY, coded as 1 for the respective year and 0 otherwise (Mao & Wu, 2019). This study also includes board size, number of foreign, female and independent directors, portion of ownership held by institutional investor and director as additional variables.

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Measurement Instrument

First the study deploys descriptive statistics which is followed by a correlation matrix. To identify multicollinearity problems Pearson pairwise correlation analysis is run; multicollinearity problems will exists if the value of coefficient is more than 0.9 (Black, Babin, & Anderson, 2010). Moreover, this research also finds out VIF value to assess multicollinearity. A VIF value higher than 10 indicates multicollinearity (Hair et al., 1984).

Regression Model

The study will use the following model to assess the impact of board expertise on tax avoidance. All the variables are defined in Table 3.

$$\mathrm{TA_{it}} = \alpha_0 + \beta_1 LEX_{\mathrm{it}} + \beta_2 ACCEX_{\mathrm{it}} + \beta_3 \mathrm{LEXPOC_{it}} + \beta_4 BIG4_{\mathrm{it}} + \beta_5 GRI_{\mathrm{it}} + \beta_6 BOARD_{\mathrm{it}} + \beta_7 IND_{\mathrm{it}} + \beta_8 FED_{\mathrm{it}} + \beta_9 FOD_{\mathrm{it}} + \beta_{10} SIZE_{\mathrm{it}} + \beta_{11} \mathrm{LEV_{it}} + \beta_{12} \mathrm{ROA_{it}} + \beta_{13} \mathrm{AGE_{it}} + \beta_{14} \mathrm{ADV_{it}} + \beta_{15} REVG_{\mathrm{it}} + \beta_{16} \mathrm{CASHF_{it}} + \beta_{17} \mathrm{YEAR\ DUMMY_{it}} + \varepsilon_{\mathrm{it}} \quad \text{……………………………..(1)}$$

To assess the agency conflict between investors and managers further, we have included managerial and institutional managers in the following model.

$$\mathrm{TA_{it}} = \alpha_0 + \beta_1 ACCEX_{\mathrm{it}} + \beta_2 LEX_{\mathrm{it}} + \beta_3 \mathrm{LEXPOC_{it}} + \beta_4 BIG4_{\mathrm{it}} + \beta_5 MO_{\mathrm{it}} + \beta_6 IO_{\mathrm{it}} + \beta_7 GRI_{\mathrm{it}} + \beta_8 BOARD_{\mathrm{it}} + \beta_9 IND_{\mathrm{it}} + \beta_{10} FED_{\mathrm{it}} + \beta_{11} FOD_{\mathrm{it}} + \beta_{12} SIZE_{\mathrm{it}} + \beta_{13} \mathrm{LEV_{it}} + \beta_{14} \mathrm{ROA_{it}} + \beta_{15} \mathrm{AGE_{it}} + \beta_{16} \mathrm{ADV_{it}} + \beta_{17} CAPIN_{\mathrm{it}} + \beta_{18} \mathrm{CASHF_{it}} + \beta_{19} \mathrm{YEAR\ DUMMY_{it}} + \varepsilon_{\mathrm{it}} \quad \text{…………………..(2)}$$

Table 1: Descriptive statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
GETR	319	-0.46	0.13	-0.87	0.01
CETR	319	-0.46	0.13	-0.87	0.02
BTD	319	0.004	0.004	-0.017	0.008
ACCEX	319	1.02	1.38	0.00	7.00
LEX	319	0.37	0.62	0.00	2.00
BIG4	319	0.42	0.50	0.00	1.00
GRI	319	0.27	0.44	0.00	1.00
SIZE	319	12.32	0.45	11.31	13.95
LEV	319	0.92	0.05	0.40	0.99
ROA	319	0.91	0.67	-4.76	2.75
ADV	319	0.01	0.01	0.00	0.04
AGE	319	3.14	0.36	2.48	3.87
BOARD	319	14	4	6	22
POC	319	0.31	0.46	0.00	1.00
IND	319	0.19	0.09	0.00	0.57
FED	319	0.11	0.11	0.00	0.43
FOD	319	0.17	0.70	0.00	6.00
MO	319	36.78	10.51	0.00	87.00
IO	319	17.89	10.82	0.00	57.6

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RESULTS AND DISCUSSIONS

Descriptive statistics

Table 1 presents that the average tax avoidance (GETR and CETR) is -0.46 within the range of -0.87 to 0.01, indicating that the majority of the Bangladeshi banks are not involved in tax avoidance behaviour. A few banks have legal experts as their mean value is 0.37, and all firms keep at least an accounting expert on their board. However, the legal experts and accounting experts vary among firms as their standard deviation is higher than their mean value. 42% of banks prepare their financial statements by the BIG4 companies, while 27% of banks adopts GRI to make reports of sutainability. The results hint that most of the firms do not maintain audit quality and international standards. The study shows strong presence of political connection as 31% bank are affiliated with political connection. The majority of the firms have large board sizes as the average board size of Bangladeshi banks is 14 and ranges between 6 to 22. Among the board of directors, independent, female and foreign directors are 19%, 11%, and 17%, respectively. Most of the firms' shares are held by directors (36.78%) compared to other investors.

Correlations

Table 2 shows the pairwise correlation matrix. The findings show that tax avoidance is negatively correlated with legal experts and BIG4, indicating higher the legal experts and audit quality, the lower the tax avoidance by firms. Moreover, firm size, age, and foreign directors have shown negative correlations with tax avoidance. On the other hand, a negative correlation is evident between political connections and advertising expenses. No multicollinearity problem is detected, as the highest correlation coefficient (0.515) between firm size and firm age is below the threshold of 0.90 (Black et al., 2010). In addition, the study employs the variance inflation factor (VIF) to further assess multicollinearity. The results presented in Table 3 indicate that all VIF values are below the conventional cutoff of 10, confirming that the model is free from multicollinearity issues.

Table 2: Pairwise Correlation

	TA	LEX	ACCEX	GRI	BIG4	SIZE	LEV
TA	1						
LEX	-0.269***	1					
ACCEX	-0.092	0.414***	1				
GRI	0.039	-0.074	0.026	1			
BIG4	-0.153**	0.015	-0.013	0.095	1		
SIZE	-0.136**	0.351***	0.42***	-0.06	0.166**	1	
LEV	-0.008	0.028	0.099	-0.004	0.072	0.013	1
ROA	0.093	-0.12*	-0.261***	0.059	0.083	-0.213***	-0.053
ADV	0.109*	-0.08	-0.045	-0.111*	-0.0002	-0.081	0.038
AGE	-0.172***	0.423***	0.374***	-0.168***	-0.008	**0.515*** **	-0.061
BOARD	0.005	-0.017	0.105	-0.127*	-0.092	0.126*	-0.12*
POC	0.119*	-0.111*	-0.132**	-0.089	-0.102	-0.102	-0.09
IND	0.013	0.037	0.057	0.149**	0.11*	0.273***	0.122*
FED	0.024	-0.104	-0.0846	0.179***	0.304***	0.096	0.017
FOD	-0.16**	0.232***	0.472***	-0.121*	0.076	0.405***	0.054

	ROA	ADV	AGE	BOARD	POC	IND	FED	FOD
ROA	1							
ADV	0.046	1						
AGE	-0.179***	-0.0378	1					
BOARD	-0.073	-0.172***	0.0411	1				

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POC	-0.067	0.358***	-0.041	0.182***	1			
IND	0.039	0.03	-0.119*	-0.402***	-0.119*	1		
FED	-0.008	0.128*	-0.126*	-0.206***	0.023	0.291***	1	
FOD	-0.008	0.079	0.123*	0.062	-0.099	0.144**	-0.16**	1

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 3: Regression results

		(1)	(2)	(3)
Variables	VIF	GETR	CETR	BTD
LEX	1.38	-0.0565^{***} (0.0146)	-0.0539^{***} (0.0152)	-0.0011^{**} (0.0005)
ACCEX	1.80	0.0189^{**} (0.0077)	0.0143^{*} (0.0080)	0.0005^{*} (0.0003)
PB	1.31	0.0205 (0.0188)	0.0273 (0.0195)	0.0019^{***} (0.0007)
BIG4	1.18	-0.0332^{*} (0.0169)	-0.0360^{**} (0.0175)	-0.0013^{**} (0.0006)
GRI	1.15	-0.0381^{*} (0.0205)	-0.0597^{***} (0.0213)	-0.0027^{***} (0.0007)
SIZE	2.32	-0.0511 (0.0360)	-0.0328 (0.0373)	-0.0018 (0.0013)
LEV	1.06	-0.0590 (0.1526)	-0.0457 (0.1581)	-0.0002 (0.0053)
ROA	1.17	0.0274^{**} (0.0123)	0.0142 (0.0128)	0.0005 (0.0004)
ADV	1.32	-0.2189 (1.2269)	-2.0565 (1.2712)	-0.1259^{***} (0.0427)
AGE	1.92	-0.0410 (0.0297)	-0.0197 (0.0308)	-0.0022^{**} (0.0010)
BOARD	1.54	-0.1144 (0.2574)	-0.1345 (0.2667)	-0.0080 (0.0090)
IND	1.65	-0.0630 (0.1173)	-0.1057 (0.1216)	-0.0062 (0.0041)
FED	1.37	0.0887 (0.0853)	0.0918 (0.0884)	0.0037 (0.0030)
FOD	1.67	-0.0105 (0.0153)	-0.0178 (0.0158)	-0.0009^{*} (0.0005)
_cons		0.3696 (0.4275)	0.0637 (0.4430)	0.0278^{*} (0.0149)
Year dummy		Yes	Yes	Yes
N		232	232	232
F		3.7469	3.2622	6.4349
r2		0.2726	0.2460	0.3915
r2_a		0.1998	0.1706	0.3307

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

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Regression results

The study examines the effects of board expertise and audit quality on corporate tax avoidance, as well as the moderating role of politically connected directors, using the regression results presented in Table 3. The study uses GETR, CETR, and BTD to indicate tax avoidance. Under all three measurements of tax avoidance, the study provides almost similar results that prove the robustness of the findings.

First, the accounting experts have positively impacted GETR, CETR, and BTD. The results indicate that the higher the accounting experts on a company board, results high level of tax avoidance. This result is incompatible with hypothesis H2. As the accounting and financial experts are more profit-oriented based on the study findings of Rashid et al. (2020), they would like to maximize firms' profits through tax planning. Tax avoidance is a crucial part of tax planning in this regard.

Conversely, this research demonstrates that legal experts control the tax avoidance. As legal experts are negatively associated with the all-out risks of firms (Liu & Sun, 2021), they are risk-averse when making decisions on tax planning. They believed tax avoidance is a risky endeavour that could reduce cognizant consumers and produce a tax burden on the citizens. Legal experts, in this case, play the role of whistle-blowers and prevent aggressive tax avoidance practices (Litov et al., 2013). Furthermore, audit quality (BIG4) is significantly associated with lower levels of tax avoidance, indicating that firms audited by Big Four audit firms are less involved in tax avoidance practices. This result supports the findings of prior studies (Lestari & Nedya, 2019). As the BIG4 auditors are more qualified, ethical and independent to work, their proper and active audit ensures quality reporting of financial information and control of managerial frauds (Carcello et al., 2009). They attempt to retrain firms from aggressive tax engagement.

Among the control variables, the study found an inverse link between GRI and tax avoidance, which indicates that the more a firm follows international standards, the lower the possibility of tax avoidance. The firms that follow GRI in preparing annual reports are likely to use more international standards than non-GRI-followed firms. In Bangladesh, it is voluntary for a firm to follow GRI guidelines, which keeps them from aggressive tax behaviours. As a result, the study has documented a negative impact of GRI on tax avoidance in Bangladeshi firms. Moreover, the results shows a positive impact of return on asset tax avoidance, suggesting that firms with stronger financial performance are more likely to engage in tax avoidance activities. However, the study found an insignificant effect of board size, independent directors, female directors, foreign directors, and political connections on tax avoidance. Similarly, the study found no significant impact of firm size, leverage, advertising expense, cash flow, and firm age on tax avoidance.

Table 4: The moderating effect of political connections

	(1)	(2)	(3)
Variables	GETR	CETR	BTD
LEX	-0.0815*** (0.0164)	-0.0777*** (0.0171)	-0.0016*** (0.0006)
ACCEX	0.0200*** (0.0076)	0.0153* (0.0079)	0.0005* (0.0003)
PB	-0.0126 (0.0212)	-0.0043 (0.0221)	0.0012 (0.0007)
LEXPOC	0.1076*** (0.0343)	0.1025*** (0.0357)	0.0025** (0.0012)
BIG4	-0.0332** (0.0166)	-0.0361** (0.0172)	-0.0013** (0.0006)
GRI	-0.0362* (0.0201)	-0.0579*** (0.0209)	-0.0026*** (0.0007)

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SIZE	-0.0407 (0.0354)	-0.0229 (0.0368)	-0.0016 (0.0012)
LEV	-0.0818 (0.1496)	-0.0674 (0.1556)	-0.0007 (0.0053)
ROA	0.0199 (0.0123)	0.0071 (0.0128)	0.0003 (0.0004)
ADV	-0.1231 (1.2023)	-1.9652 (1.2502)	-0.1237^{***} (0.0424)
AGE	-0.0319 (0.0293)	-0.0110 (0.0305)	-0.0020^{*} (0.0010)
BOARD	0.0865 (0.2602)	0.0570 (0.2706)	-0.0034 (0.0092)
IND	0.0373 (0.1193)	-0.0101 (0.1241)	-0.0039 (0.0042)
FED	0.0256 (0.0860)	0.0317 (0.0894)	0.0022 (0.0030)
FOD	-0.0171 (0.0151)	-0.0241 (0.0157)	-0.0011^{**} (0.0005)
_cons	0.2000 (0.4223)	-0.0979 (0.4391)	0.0238 (0.0149)
Year dummy	Yes	Yes	Yes
N	232	232	232
F	4.1733	3.5965	6.4328
r2	0.3052	0.2746	0.4037
r2_a	0.2321	0.1983	0.3410

Standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 4 shows the moderating effect of political affiliation of board and legal experts on the board on tax avoidance. Though politically connected firms have no direct impact on tax avoidance, they moderate the legal experts about the decision of tax avoidance. The study found a positive interaction between legal experts and political connections in the tax avoidance decision of a firm. The result indicates that politicians positively influence legal experts toward tax avoidance. As political affiliation restricts the role of legal experts, the result supports hypothesis H3 and is consistent with the findings of Masud et al. (2019). In developing countries such as Bangladesh, where corporate governance mechanisms are relatively weak, political involvement is often associated with higher levels of corruption and lower levels of transparency and accountability (Muttakin et al., 2018). Though the political connection of firms does not directly affect tax avoidance, they transform the negative role of lawyers into a positive regarding tax payment decisions. The result indicates that politicians on the board weaken the role of legal experts on the board in terms of tax decisions. It implies that a firm's political connection undermined the function of legal experts regarding the BOD's tax planning (Chen et al., 2021). Therefore, the synergy of firms' political connections highly influences the legal experts on the board toward tax avoidance moves.

Additionally, the study examines the impact of managerial and institutional ownership on tax avoidance in Table 5. This study finds that both managerial and institutional ownership are negatively associated with corporate tax avoidance. The results suggest that firms with higher levels of managerial and institutional ownership results less involvement with tax avoidance practices. The results support the study of prior research findings(Alkurdi & Mardini, 2020; Minh Ha et al., 2022). They believe that tax avoidance creates a reputation risk due to the pressing tax burden on other stakeholders. It may affect firm financial performance by reducing customer loyalty (Richardson et al., 2016). Further, we investigate whether legal and accounting experts' decisions on tax strategy are influenced by high and low managerial and institutional ownership. We divided the ownerships into high and low based on the median score. Dummy variables for managerial and institutional ownership are constructed based on their respective median values. A value of 0 is assigned if a firm's ownership measure is below the

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median, and a value of 1 is assigned if it is equal to or above the median. The results revealed that accounting experts avoid more tax of a firm under low managerial ownership while audit quality reduces tax avoidance in the same case. On the other hand, while legal experts reduce tax avoidance, accounting experts enhance it only under low institutional ownership. The results support the baseline model when directors and institutions hold a small portion of shares. The results also provide evidence that the board of experts could not play any role regarding tax decisions if the institutional owners hold a large portion of the shares of a company. Supporting agency theory, the findings suggest that there is a conflict between owners and managers regarding tax policy and institutional shareholders dominating the board of directors.

Table 5: Effect of ownership structure on tax avoidance

	(Ownership)	(High Managerial Ownership)	(Low Managerial Ownership))	(High Institutional Ownership))	(Low Institutional Ownership))
LEX	-0.0722***	-0.0560**	-0.0752**	-0.0398	-0.0740***
	(0.0164)	(0.0230)	(0.0302)	(0.0391)	(0.0193)
ACCEX	0.0166**	0.0189	0.0185*	0.0143	0.0283***
	(0.0076)	(0.0144)	(0.0110)	(0.0183)	(0.0098)
PB	0.0272*	0.0288	-0.0144	0.0241	0.0044
	(0.0144)	(0.0214)	(0.0249)	(0.0171)	(0.0339)
LEXPOC	0.0803**	0.1175**	0.0882*	0.0478	0.0371
	(0.0318)	(0.0466)	(0.0519)	(0.0740)	(0.0463)
BIG4	0.0063	-0.0345	-0.0504*	0.0258	0.0027
	(0.0196)	(0.0335)	(0.0297)	(0.0322)	(0.0313)
GRI	-0.0117	0.0122	-0.0199	-0.0240	-0.0290
	(0.0196)	(0.0350)	(0.0270)	(0.0275)	(0.0339)
SIZE	-0.0613*	-0.0567	0.0191	0.0306	-0.0436
	(0.0356)	(0.0588)	(0.0587)	(0.0649)	(0.0538)
LEV	-0.0658	-0.1027	-1.7043**	-0.2129	0.0423
	(0.1533)	(0.1722)	(0.8221)	(0.2125)	(0.2251)
ROA	0.0166	0.0092	0.0378	-0.0008	0.1093***
	(0.0128)	(0.0162)	(0.0330)	(0.0151)	(0.0317)
ADV	-0.6071	0.9099	-0.1642	-0.5810	2.8954
	(1.3538)	(2.1143)	(1.8793)	(1.7540)	(2.2204)
AGE	-0.0562	0.0197	-0.0567	-0.3101***	0.0217
	(0.0381)	(0.0512)	(0.0495)	(0.0886)	(0.0507)
CAPIN	0.0018	0.0468	0.0027	0.0162	-0.0004
	(0.0053)	(0.0307)	(0.0059)	(0.0377)	(0.0058)
BOARD	0.1031	0.6276	-0.4350	0.4996	-0.9331*
	(0.2808)	(0.5479)	(0.3424)	(0.4506)	(0.4728)
IND	0.0684	0.2393	-0.3079	-0.0461	-0.1134
	(0.1227)	(0.1854)	(0.1989)	(0.2065)	(0.1688)
FEM	-0.0122	0.0551	0.0107	0.0502	-0.0779
	(0.0886)	(0.1508)	(0.1312)	(0.1207)	(0.1374)
FOD	-0.0561	-0.0975	-0.0381	-0.0035	-0.0490
	(0.0349)	(0.0739)	(0.0478)	(0.0491)	(0.0668)
DS	-0.0493**				
	(0.0217)				
IS	-0.0349*				
	(0.0178)				
Year	Yes	Yes	Yes	Yes	Yes

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dummy					
_cons	0.5540	-0.0762	1.2240	0.0397	-0.0678
	(0.4422)	(0.6868)	(0.8997)	(0.6920)	(0.6426)
N	232	116	116	116	116
F	3.9106	3.1226	1.9325	2.6464	3.3193
r2	0.3218	0.4384	0.3258	0.3982	0.4535
r2_a	0.2395	0.2980	0.1572	0.2477	0.3169

CONCLUSION AND IMPLICATIONS

Since the accounting and financial knowledgeable and expert board members, sagacious and legal experts on the board, and audit quality play a crucial role in strategic decision-making, such as tax avoidance, it is essential to examine how and to what extent they contribute to tax planning and tax decisions. A limited study in developing countries on tax avoidance like Bangladesh motivates this study to investigate the impact of board expertise, audit quality, and the moderating role of political connection on firm-level tax avoidance. The study finds that accounting expertise on corporate boards is positively associated with corporate tax avoidance, whereas board legal expertise and high audit quality are significantly associated with lower levels of tax avoidance. When the firms' political connections moderate the legal experts, it weakens the legal experts' role and influences them toward tax avoidance practices. The study also records that international standards like GRI reduce firms' tax avoidance. Further, the study confirms the agency conflict between investors and managers. Both institutional and managerial owners not only directly affect tax avoidance, but also dominate the board of directors regarding tax strategy.

The study offers several policy implications for bank management, regulatory authorities, the central bank, shareholders, and other stakeholders. First, the study suggests that the bank management should appoint more legal experts. As the legal experts are more oriented to comply with corporate rules and less risk-averse, they do not lead the firm to activities relating to reputational risks, which arise from tax avoidance. On the other hand, they should be careful about the actions of accounting experts and the political ties of the firm as they have a motive for more profit, which leads the firm toward aggressive tax avoidance practices. Politically connected firms frequently want to exert control over corporate boards in the interest of politicians, and as a result, they are reluctant to follow the rules and regulations enacted by regulatory bodies. Businessmen with political affiliations are less inclined to include corporate laws related to tax avoidance. In the presence of a political connection, the legal experts on the board cannot play their role independently. Therefore, the study suggests including politicians on the board as little as possible. The findings also suggest that policymakers and regulatory bodies enact rules so that the firms are bound to audit their financial statements by the BIG4 companies as it helps firms reduce tax avoidance. Compared to internal auditors, the auditors of BIG4 companies are more careful of their reputation; they do not compromise with any fraudulent activities. Additionally, the negative relationship between GRI and tax avoidance implies that regulatory bodies, including the central bank, should take the necessary initiatives so that firms follow GRI guidelines while preparing their financial statements. As following GRI guidelines by the firms is voluntary in Bangladesh, the regulatory bodies should motivate them to comply the international standards like GRI. These initiatives will reduce tax avoidance as a result. Finally, if the institutional and managerial investors hold a significant portion of a firm's shares, the board of directors including board accounting and legal experts could not play a role regarding tax decisions. Therefore, the research suggests that regulatory bodies and bank management reduce the percentage of institutional and managerial shares, which, in turn, reduces tax avoidance practices. Though it may seem to shareholders that tax avoidance benefits the firms from tax savings, the news of the firm level of tax avoidance may affect the firm share price (Hanlon & Slemrod, 2009). As a result, a firm's value may decrease, which, in turn, affects its profitability and dividend to shareholders. Moreover, tax avoidance by a firm reduces government revenues, which hinders the smooth public services provided by the government. In addition, it creates a tax burden on the citizens of the country. At the same time, tax avoidance is often regarded as part of firms' tax strategies aimed at maximizing firm value; however, unpaid taxes resulting from such practices may impose a burden on society, ultimately leading to welfare losses for consumers. As a result, conscious customers may not be interested in consuming a firm's products due to their irresponsible behavior toward society. It might cause a significant loss

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for the firm. Therefore, both institutional and managerial owners should be more concerned regarding tax avoidance practices.

Although this study provides evidence on the moderating role of political connections in the relationship between board expertise and tax avoidance, it has several limitations. This research is done on a single developing country, which may limit their generalizability to other countries and sectors. Future studies may conduct cross-country and multi-industry analyses to validate the findings. Despite these limitations, this study adds to the literature by stressing the joint effect of board expertise and political connections on tax avoidance in an emerging economy.

Data availability statement: The data, which have been collected from the Dhaka Stock Exchange (DSE), are available on request.

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