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Article

Do Overlapped Audit Committee Directors Affect Tax Avoidance?

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Abstract: This research is motivated by the Omani government's desire to reduce tax avoidance and bolster tax revenue collected from financial institutions. The purpose of this paper is to examine the impact of overlapped audit committee (AC) chairs and other directors on tax avoidance practice and whether they play a monitoring or advisory role in tax avoidance practice. As a measure of overlapped AC chairs, we used a dummy variable to indicate whether an AC chair sits on other committees within a company or not. We used the proportion of AC members who serve on the AC and other committees within a company as our proxy for overlapped AC directors. We used a company's cash effective tax rate as a proxy for tax avoidance. We regressed tax avoidance on overlapped AC membership and other control variables, using a sample of 204 firm-year observations from financial institutions listed on the Muscat Stock Exchange between 2014 and 2019. Our regression results show that a higher proportion of overlapped AC members and the presence of an overlapped AC chair were both associated with lower effective tax rates, which equated to more tax avoidance. This suggests that these directors play an advisory role in the Omani context. We found, however, that these directors play a monitoring role when firms take a loss. From these findings, we draw important implications for regulators who need to rethink the potential consequences of having overlapped AC chairs and AC directors. Our study focuses on Omani financial institutions, which are highly regulated and monitored by the central bank, and our findings may not be directly applicable to non-financial institutions that are less regulated, so caution is needed when interpreting the findings. Further research could employ a repeated measured research design, such as ours, and explore the same research question in non-financial institutions.



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Keywords: overlapping AC membership; overlapped AC chairperson; tax avoidance; Oman; corporate governance; agency theory; resource dependence theory

1. Introduction

The term “tax avoidance” is the most common term used in the literature (Kovermann and Velte 2021). It includes all practices conducted to reduce paying tax, either ethical or legal practices. It “encompasses all the expressions being used in the literature that refer to tax avoidance, such as “tax planning,” “tax management,” “tax aggressiveness,” “tax sheltering,” and “tax evasion” (Kovermann and Velte 2019; Kovermann and Velte 2021). Tax avoidance is defined as “anything that reduces the firm's taxes relative to its pretax income” (Dyreg et al. 2010, p. 1164). It is gaining increasing attention from regulators, policymakers, and academics (Wilde and Wilson 2018; Beer et al. 2020). This is because of the significant increase in companies' tax avoidance activities due to the weak provisions of tax laws and weak enforcement of corporate governance (CG) mechanisms (Huang et al. 2018). The media covers tax avoidance practice within multinational companies around the world, which triggers the interest of policymakers and politicians to investigate complex structures and management that firms have created to avoid paying billions of dollars in taxes (Kanagaretnam et al. 2018). In their review paper, Kovermann and Velte (2021, p. 20) argue

that “the public became aware that well-known firms like Google, Apple or Facebook pay almost no taxes outside the U.S., where they earn substantial proportions of their income (Chew 2016) and many empirical studies support the notion that multinational enterprises engage in tax avoidance to a substantial effect (for a recent overview, Beer et al. 2020).” On the contrary, many companies in the world pay huge amounts of tax every year. For example, Thomsen and Watrin (2018, p. 42) found that “tax avoidance in EU firms may have decreased over time.”

The objective of this paper is to investigate the impact of overlapped AC chairs and directors on tax avoidance in Oman. The concept of overlapped AC chair/directors refers to AC chair/directors who serve at the same time on other committees (e.g., risk, nomination, and remuneration committees) within a firm. We tested to see whether overlapped AC chairs and directors increase or decrease tax avoidance practice. Based on agency and resource dependence theories, these directors are in the best position, due to their connected channels with multiple committees in the firm, to satisfy different shareholders’ interests by either playing a monitoring role (reducing the level of tax avoidance engagement) or an advisory role (increasing the level of tax avoidance engagement). These directors play a central role in the monitoring procedure of companies’ tax planning (TP) and tax risk management (TRM) process (Richardson et al. 2013; Deloitte 2014). ACs’ important monitoring role also comes from their responsibility for choosing a good external auditor whose task is to audit financial statements where all numbers are reported and are being used by the stakeholders for the decision-making process. Directors being overlapped within a firm will enhance the scope of the AC’s overseeing role. This is due to their complete and detailed knowledge they possess (Al Lawati and Hussainey 2020), which will improve board’s decisions on complexity and risky issues such as tax matters, globalization, and information technology (KPMG 2017).

We chose the Sultanate of Oman as the context for our study for a number of reasons. First, in 2020, the Omani government took major steps in amending important provisions in relation to Omani income tax law and the Automatic Exchange of Information provisions (KPMG 2020a). These amendments aim to create a suitable environment of transparent tax in collaboration with other jurisdictions in the world to identify tax avoidance arrangements and transactions (KPMG 2020a). These amendments also aim to reduce tax avoidance and bolster tax revenue collected from financial institutions. Second, the Omani government created a new unit within Oman Tax Authority (OTA) called Anti-Tax Avoidance. This unit aims to massively boost tax compliance and improve tax efficiency (Prabhu 2021). The mission of this unit is to offset the decline in revenues generated from oil and hydrocarbon exports. The unit has adopted rigorous practices and procedures in dealing with taxpayers to prohibit them from engaging in tax avoidance strategies. Therefore, the OTA has advised taxpayers to be suitably prepared in the coming years for a strict audit of their tax returns and withholding tax obligations. Third, Oman has also introduced a series of amendments to improve its TP framework and undertaken important steps towards stimulating its exchange of tax information with all EU member states. In 2020, Oman was removed from the EU blacklist of countries that are non-cooperative jurisdictions for tax purposes, which led to enhancing its development and boosting its investment with European countries (KPMG 2020b). The EU blacklist is used as a tool to tackle tax avoidance, tax evasion, and money laundering. The removal of Oman from the EU blacklist indicates the hard work and rigid steps it took in implementing “fair tax competition,” “transparency in regard to automatic exchange of tax information,” and “implementing of Base Erosion and Profit Shifting standards” (KPMG 2020b). One of the major steps that have been taking by Oman in response to strengthening the corporate taxation regime is amending its income tax law, which includes provisions to facilitate the automatic exchange of information that were issued by the OTA. Fourth, regulators in Oman are working towards strengthening the CG code. The updated Omani CG code, which was launched in 2015, imposed a unique provision on AC chairs by preventing him/her from serving on other committees within a firm, while permitting the other AC directors to overlap. This is a unique provision

that is not imposed in any other country in the world. Thus, we have been motivated to investigate the impact of overlapped AC directors and overlapped AC chairs on tax avoidance practice.

Our paper provides three major contributions to the tax avoidance and CG literature. First, we offer an important and novel contribution by providing the first empirical evidence on the impact of overlapped AC chair/directors on tax avoidance. As far as we know, it is the only paper to provide evidence on the advisory role of AC chairs and members in the tax avoidance practice of Omani financial institutions and the monitoring role of these directors for loss-taking companies. In our paper, we respond to a number of recent research calls by [Lismont et al. \(2018\)](#), [Kovermann and Velte \(2019\)](#), and [Alhossini et al. \(2021\)](#) to explore how overlapped AC chairs/directors affect tax avoidance. Second, we offer a theoretical contribution by using agency and resource dependence theories in explaining the effect of overlapped AC chairs/directors on tax avoidance. On the one hand, agency theory will explain the monitoring role that overlapped directors could play in deterring aggressive engagement in tax avoidance activities. On the other hand, resource dependence theory will explain the advisory role that these directors could play in increasing engagement in tax avoidance practices. Third, a methodological contribution is provided by examining the unique sample period of 2014 to 2019 in a unique setting, financial institutions, which are highly regulated and monitored by the central bank. We focus on financial institutions, as prior research shows that financial sector indicators have a significant impact on the tax revenue in Oman ([Basheer et al. 2019](#)). We also focus on the Sultanate of Oman because it provides a unique country context, as the revised version of the CG code was introduced in 2016. The new revised CG code gives importance to the overlapping matter by preventing the AC chair from serving on multiple committees; however, it permits AC members to overlap ([CMA 2015](#); [Al Lawati and Hussainey 2020](#)). It is a unique code that is different from other countries around the world.

Our analysis is based on 204 firm-year observations. We found that a higher proportion of overlapped AC members and the presence of an overlapped AC chair are both associated with lower effective tax rates, which equates to more tax avoidance. This suggests that these directors play an advisory role in the Omani context. We found, however, that these directors play a monitoring role when firms take a loss. Our findings offer policy implications.

The remainder of the paper is structured as follows. Section 2 reviews the literature and develops the hypotheses. Section 3 discusses the methodology. Section 4 reports our empirical findings. Section 5 provides additional analysis and Section 6 concludes the paper.

2. Relevant Literature and Hypothesis Development

2.1. Prior Research on Board of Directors and Tax Avoidance

The characteristics of boards of directors (BODs) have received considerable interest in tax avoidance literature. On the one hand, from the agency theory perspective, due to the separation of the ownership between managers and shareholders, BODs play a monitoring role on management behaviours to reduce agency conflicts and improve shareholders' wealth ([Fama and Jensen 1983](#)). On the other hand, based on the resource dependence theory, the important roles played by BODs have been expanded to an advisory role by giving experienced consultations to managers to make ultimate decisions that increase the maximisation interests and reduce the extent of any potential actions that could harm shareholders' benefits ([Adams and Ferreira 2007](#)).

Tax avoidance increases the after-tax cash flow, which could be highlighted by management as a risky investment opportunity ([Armstrong et al. 2015](#)). Therefore, it is considered an interesting field to study in the context of BODs. On the one hand, some risk-averse shareholders, who are large block holders, prefer to have less firm risk due to their wealth being distributed within fewer firms, which leads the agents to engage in fewer tax avoidance practices. On the other hand, some shareholders are risk neutral,

their wealth is distributed in highly diversified portfolios, and they desire a high level of cash flow, which forces managers to engage in a high level of tax avoidance activities (Kovermann and Velte 2019). As explained earlier, there are different types of shareholders and each group requires a different level of risk to burden, which leads the firm to engage in different levels of tax avoidance. Consequently, we ask whether AC directors play a monitoring or advisory role in tax avoidance practice. The literature shows mixed results.

On the one hand, Lanis and Richardson (2011) and Richardson et al. (2013) found a negative relationship between independent board directors and tax avoidance, which indicates the monitoring role played by these directors. In addition, Lanis and Richardson (2018) found that outside directors decrease the level of tax avoidance. In addition, Francis et al. (2014) and Richardson et al. (2016) found that women on boards have a negative effect on tax avoidance compared to their male counterparts. Finally, Bauer (2016) found that AC directors with financial expertise encourage managers to pay a substantial amount of taxes every year to protect their reputation in the market and signal their effective CG.

On the other hand, some literature has found that tax avoidance could be beneficial to some shareholders who prefer to take on a high level of risk. Richardson et al. (2015) and McClure et al. (2018) found a positive relationship between outside board directors and tax avoidance. Moore et al. (2017) found that board independence increases the level of tax avoidance. Chan et al. (2013) found a positive association between members holding a high percentage of shares and tax avoidance, indicating the advisory role played by these members. Moreover, a positive effect has been found between directors possessing tax expertise or who are affiliated with a tax institution and tax avoidance (Taylor and Richardson 2014). In the same vein, Law and Mills (2017) found that directors who hold an MBA degree tend to engage more in tax avoidance practices. However, Minnick and Noga (2010) and Chan et al. (2013) found no association between independent board directors and tax avoidance. Finally, Austin and Wilson (2017) found that AC directors with financial expertise encourage managers to avoid taxes to increase the cash flow of firms and eventually increase after-tax income.

The conflicting findings on the effect of BOD characteristics on tax avoidance offer an avenue for future research to further examine the effect of such a relationship. Although recent research focuses on overlapping AC membership and financial reporting quality (FRQ), there is no research to date that examines how overlapping AC directors affect tax avoidance. Therefore, we aim to fill this research gap. ACs undertake a vital task in monitoring management's actions (Al Lawati et al. 2021). They assist the boards in achieving their responsibilities regarding accounting, auditing, internal control, and monitoring financial reporting procedures. Due to their role in selecting an appropriate external auditor to audit the financial statements, ACs are responsible for monitoring the internal and external process of financial reporting, which lead them to be involved in the audit scope and audit planning process (Sultana et al. 2019). One of the AC characteristics that is receiving research attention is the busyness of AC directors (overlapping membership) (Al Lawati and Hussainey 2020, 2021; Alhossini et al. 2021). In our paper, we use agency and resource dependence theories to explain the impact of overlapped AC directorship on tax avoidance.

2.2. Hypotheses Development

2.2.1. Impact of Overlapped AC Membership on Tax Avoidance

Policymakers and regulators heavily emphasise the important role played by AC directors in TRM (Richardson et al. 2013; Deloitte 2011, 2013, 2014; Hsu et al. 2018). Due to the complexity of tax matters, AC members with a high level of diversified and unique knowledge and information, due to their service on different committees, are required to monitor and evaluate a company's TP practices and simultaneously handle the associated risks linked with engaging in tax avoidance activities (Hsu et al. 2018).

Previous studies on the impact of AC characteristics on tax avoidance offer mixed results. On the one hand, Richardson et al. (2013) found that companies with a high percentage of

independent AC members exhibit a lower level of tax avoidance. [García-Meca et al. \(2021\)](#) found that women directors on ACs are more sensitive to corporate tax aggressiveness and play a strict monitoring role in curbing managements' narcissistic attitudes, which leads to a reduction in agency costs and providing greater protection to stakeholders. This is due to their characteristics related to ethical behaviour and greater risk aversion. A negative relationship has been found between AC size and tax avoidance engagements ([García-Meca et al. 2021](#)). This is because a large number of directors on the AC could benefit from a variety of shared skills and experiences in the committee, favouring the strict monitoring roles on managements' decisions and limiting aggressive tax avoidance strategies. [Tandean and Winnie \(2016\)](#) also found a negative relationship between AC size and tax avoidance. They provided evidence that managers minimise profit for tax purposes when the number of AC members is less than three directors, whereas companies with three or more AC directors find it difficult to engage in tax avoidance practices. [Wen et al. \(2020\)](#) found that AC directors with foreign experience have a significant effect on mitigating aggressive engagement in tax avoidance strategies. These directors are concerned about their reputational image across different countries; therefore, they exercise their strict function of monitoring management to reduce the tax avoidance level.

On the other hand, [Robinson et al. \(2012\)](#) found a positive relationship between AC members with financial/accounting expertise and tax avoidance, indicating they play an advisory role. [Hsu et al. \(2018\)](#) found that independent financial experts who are AC members play a monitoring role in firms that are risk-seeking by reducing tax avoidance activities, and an advisory role in firms that are risk-averse by increasing tax avoidance activities. [Kovermann and Velte \(2019\)](#) reviewed tax avoidance literature and concluded that ACs not only have incentives to increase tax avoidance, making corporations more profitable, but also might limit tax avoidance to curb the reputation and legislation risks that could arise from not implementing the best international accounting practices among companies.

Two arguments are used to explain the relationship between overlapped AC directors and tax avoidance practice. Based on agency theory, we argue that overlapped AC members could play a monitoring role by advising management to reduce the level of engagement in tax avoidance activities, as these types of firms are risk-taking and more prone to innovation activities. Based on resource dependence theory, we suggest that due to the connection and network channels overlapped directors have, these directors could positively encourage managers to engage in more tax avoidance practices, specifically in risk-averse firms, indicating the advisory role played by them in the corporations. We tested to see which of these two arguments is present in the Omani context. According to the earlier discussion and based on the agency and resource dependence theories, we state the following non-directional hypothesis:

Hypothesis 1 (H1). *Overlapped AC membership has an impact on tax avoidance activities in Oman.*

2.2.2. Impact of Overlapped AC Chairs on Tax Avoidance

As AC chair is considered the main figurative leader in the committee, his/her wider experience and expertise will provide a greater benefit in enhancing the effectiveness of the committee. AC chairs provide a substantial contribution in the success of financial/accounting outcomes ([Khemakhem and Fontaine 2019](#)). They are responsible for organizing AC meeting agendas; collaborating with three important parties, including management and internal and external auditors; and preparing an effective report to the board of directors ([Furqaan et al. 2019](#)). Therefore, as AC chairs serve on multiple committees, this indicates their comprehensive and detailed knowledge, which leads to increasing their function of monitoring management and subsequently enhancing their reputation in the stock market ([Fich and Shivdasani 2006](#)).

Based on agency theory, the literature has found a positive effect of AC chairs on financial decisions. For instance, [Chaudhry et al. \(2020\)](#) found that the financial and monitoring

expertise of AC chairs has a positive impact on firm performance. [Ghafran and Yasmin \(2018\)](#) found that an AC chair with financial/accounting, experiential, and monitoring expertise is negatively associated with financial reporting timeliness. [Schmidt and Wilkins \(2012\)](#) also found a negative relationship between AC chairs with accounting and financial expertise and restatement dark periods. Moreover, the literature has found a positive relationship between overlapped AC chairs and corporate voluntary disclosure ([Furqaan et al. 2019](#); [Al Lawati and Hussainey 2020](#)). This indicates that AC chairs play an important role in improving firms' FRQ; therefore, they could reduce the possibility of tax avoidance practice. Based on resource dependence theory, due to the connection and network channels that overlapped AC chair directors have, they could have a positive impact on tax avoidance practices by encouraging managers to engage more with tax avoidance practices, specifically in risk-averse firms, indicating the advisory role they play in corporations. We tested to see which of these two possibilities is present in the Omani context. According to the earlier discussion and based on the agency and resource dependence theories, we state the following non-directional hypothesis:

Hypothesis 2 (H2). *Overlapped AC chairpersons have an impact on tax avoidance activities in Oman.*

3. Research Method

3.1. Sample Selection

Our study sample consisted of Omani financial listed companies, as these companies are well-regulated by the Capital Market Authority (CMA) and the Central Bank of Oman (CBO). We chose the sample period 2014–2019 because of the revised CG code that was introduced in 2016. The revised code gives importance to overlapped AC membership by prohibiting AC chairs from being overlapped, while permitting AC members to be overlapped. Data were collected from corporate annual reports and Bloomberg. The total number of financial listed firms was 34 (204 firm-year observations). Of these, 23% were banks, 15% were financial services, 29.5% were insurance, 29.5% were investments, and 3% were real estate. The analysis shows that real estate sector had a low proportion in the sample; however, we left it in our analysis to avoid any potential sample selection bias.

3.2. Variable Measurement and Description

3.2.1. Tax Avoidance

Following prior research (e.g., [Minnick and Noga 2010](#); [Robinson et al. 2012](#); [Hsu et al. 2018](#)), we used companies' cash effective tax rate (Tax Avoid) as a proxy for tax avoidance. Tax Avoid is defined as "cash taxes paid divided by pre-tax book income" ([Hsu et al. 2018](#), p. 1300). This measure indicates the level at which managers intend to perceive effective TP as their ability to reduce the amount of cash taxes paid by the companies. It also signifies the tax avoidance tactics and strategies that enable managers to postpone the cash taxes paid to subsequent periods or avoid paying them entirely ([Hsu et al. 2018](#)). Based on this definition, a lower value of Tax Avoid would equate to a higher level of tax avoidance ([Hsu et al. 2018](#)).

3.2.2. Overlapping AC Membership (OvAC)

Overlapping AC membership (OvAC) is measured as the proportion of AC members who serve on AC and other committees within a company, such as risk, nomination, remuneration, and executive committees ([Al Lawati and Hussainey 2020](#)). Our measure of an overlapped AC chair (OvACChr) is a dummy variable that takes the value of 1 if the AC chair sits on other committees and 0 otherwise ([Furqaan et al. 2019](#)).

3.2.3. Control Variables

Following prior research (e.g., [Hsu et al. 2018](#); [Lanis et al. 2019](#)), we controlled for firm characteristics such as firm size (LogAsset), measured by the natural logarithm of total assets; firm profitability (ROE); firm leverage, measured by the ratio of total debt to total

asset (LEV); and audit quality (Big4); measured by the dichotomous variable being equal to 1 if the company is audited by a Big 4 auditor and 0 otherwise. Following Hsu et al. (2018), we controlled for a set of CG variables, namely, board independence (BrdInd), board size (BrdSize), independence of AC members (ACInd), and AC size (ACSize). Regulators also confirmed that these characteristics are very important factors in enhancing the monitoring ability of AC members (Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees 1999; SOX 2002). Table 1 presents the variables’ measurement and definitions.

Table 1. Variable measurement and definitions.

Variables	Abbreviation	Measurement	Prior Literature
<i>Dependent Variable</i>			
Tax Avoidance	Tax Avoid	Total cash taxes paid/pre-tax book income	(Hsu et al. 2018; Jbir et al. 2021).
<i>Independent Variable</i>			
Overlapping AC Membership	OvAC	The percentage of AC members who serve on multiple committees within a firm	(Al Lawati and Hussainey 2020)
Overlapped AC Chair	OvACChr	A dummy variable equal to 1 if the AC chair sits on other committees, and 0 otherwise	(Furqaan et al. 2019; Al Lawati and Hussainey 2020)
<i>Control Variables</i>			
Firm Size	LogAsset	The natural logarithm of total assets	(Hsu et al. 2018; Lanis et al. 2019)
Firm Profitability	ROE	Return on equity	(Hsu et al. 2018; Lanis et al. 2019; Jbir et al. 2021)
Firm Leverage	LEV	Total debts to total assets	(Hsu et al. 2018; Jbir et al. 2021; Al Lawati and Hussainey 2021)
Audit Quality	Big4	A dummy variable equal to 1 if the company is audited by a Big 4 auditor, and 0 otherwise.	(Richardson et al. 2013; Gaaya et al. 2019)
Board Independence	BrdInd	The percentage of independent directors on the board	(Armstrong et al. 2015; Hsu et al. 2018; Lanis et al. 2019)
Board Size	BrdSize	Total number of board members	(Armstrong et al. 2015; Hsu et al. 2018; Jbir et al. 2021)
AC Independence	ACInd	The percentage of independent AC members	(Hsu et al. 2018)
AC Size	ACSize	Total number of AC members	(Hsu et al. 2018)
Year and Industry Effect	Year and Industry Effect	Dummy variables are created to control for year and industry effects.	(Al Lawati and Hussainey 2020, 2021; Al Lawati et al. 2021)

3.3. Research Model

Multivariate ordinary least squares (OLS) regression was utilised to examine the study hypotheses, following prior tax avoidance literature (e.g., Hsu et al. 2018; Lanis et al. 2019). The following regression models were specified:

$$\text{Tax Avoid} = \alpha + \beta_1 \text{OvAC}_i + \beta_2 \text{ACInd}_i + \beta_3 \text{ACSize}_i + \beta_3 \text{BrdInd}_i + \beta_3 \text{BrdSize}_i + \beta_6 \text{Total Asset}_i + \beta_7 \text{LEV}_i + \beta_8 \text{ROE}_i + \beta_9 \text{Big4}_i + \text{Industry fixed effect} + \text{Year fixed effect} + e \tag{1}$$

$$\text{Tax Avoid} = \alpha + \beta_1 \text{OvACChr}_i + \beta_2 \text{ACInd}_i + \beta_3 \text{ACSize}_i + \beta_3 \text{BrdInd}_i + \beta_3 \text{BrdSize}_i + \beta_6 \text{Total Asset}_i + \beta_7 \text{LEV}_i + \beta_8 \text{ROE}_i + \beta_9 \text{Big4}_i + \text{Industry fixed effect} + \text{Year fixed effect} + e \tag{2}$$

where:

Tax Avoid refers to the cash effective tax rate; OvAC refers to the proportion of AC members who also sit on other committees at the same time within the same company; OvACChr refers to the dichotomous variable, which is equal to 1 if the AC chair sits on other committees within a firm, and 0 otherwise; ACInd refers to the percentage of independent AC directors; ACSize refers to the number of AC members; BrdInd refers to percentage of independent board directors; BrdSize refers to the number of members on the board; Total Asset refers to the firm size; LEV refers to the leverage of the firm; ROE refers to profitability of the firm; Big4 takes the value of 1 if the company is audited by Big4 auditors, and 0 otherwise; and *i* refers to company *i*.

4. Empirical Results

4.1. Descriptive Statistics

Table 2 reports the descriptive statistics. The mean value for effective tax rates in Omani financial institutions was almost 13%. The mean value for our independent variables, which were the proportion of overlapped AC directors and overlapped AC chairs, were about 36% and 18%, respectively. The statistics for our board and AC control variables were the mean values of AC and board sizes as 3.4 and 7.4, respectively. The average value of the independent board directors was 66% and about 78% of sample firms had an AC comprised entirely of independent directors. The mean value of logged total assets was 2.12. Regrading profitability and leverage of the sample firms, we found a mean of 6.12% and 17%, respectively. Almost 92% of the sampled companies had been audited by one of the Big 4 audit firms, namely, KPMG, Ernst and Young, Deloitte, and PWC.

Table 2. Descriptive statistics.

Variables	Mean	Std. Dev.	Min	Max
OvAC	0.36	0.32	0.00	1.00
OvACChr	0.18	0.38	0.00	1.00
ACInd	0.78	0.20	0.00	1.00
ACSize	3.39	0.59	2.00	6.00
BrdInd	0.66	0.24	0.14	1.00
BrdSize	7.36	1.35	5.00	11.00
LogAsset	2.12	0.87	0.48	4.10
ROE	6.12	10.06	−41.58	30.43
LEV	16.94	22.32	0.00	69.58
Big4	0.92	0.28	0.00	1.00
Tax Avoid	0.13	0.17	0.00	1.81

See Table 1 for variable definitions.

4.2. Correlation Analysis

Table 3 reports the correlation matrix analysis. We found a positive correlation between effective tax rates and some of the control variables, including AC size, board size, independent members on the board, firm size, firm leverage, and audit quality at the confidence level of 95%. The multicollinearity was checked and the coefficients for all variables were less than 0.8, which confirms the non-existence of the multicollinearity problem. Moreover, we conducted a variance inflation factors (VIFs) test and the results did not exceed the value of 10 (not tabulated), which assures that the findings are free from the multicollinearity problem.

Table 3. Pearson correlation analysis.

Variables	1	2	3	4	5	6	7	8	9	10	11
1 Tax Avoid	1										
2 OvAC	0.045	1									
3 OvACChr	0.084	0.5131 **	1.000								
4 ACInd	0.059	−0.086	0.131	1.000							
5 ACSize	0.1539 **	−0.019	−0.024	−0.013	1.000						
6 BrdInd	0.1623 **	−0.036	0.1998 **	0.7436 **	−0.040	1.000					
7 BrdSize	0.3582 **	−0.017	−0.028	0.007	0.4966 **	−0.076	1.000				
8 LogAsset	0.4619 **	0.2407 **	0.1787 **	−0.045	0.060	0.072	0.5767 **	1.000			
9 LEV	0.1516 **	−0.179 **	−0.044	0.023	0.002	0.1542 **	0.1623 **	0.1467 **	1.000		
10 ROE	0.113	0.026	0.048	−0.025	0.1298 *	0.000	0.2240 **	0.1838 **	0.001	1	
11 Big4	0.2813 **	0.087	0.047	−0.108	0.080	−0.024	0.4089 **	0.3368 **	0.2044 **	0.1759 **	1

See Table 1 for variable definitions. * Correlation is significant at the 0.10 level (2-tailed). ** Correlation is significant at the 0.05 level (2-tailed).

4.3. Regression Analysis

Prior to running the regression analysis, our data was checked and its readiness assured. We checked for normality assumption by applying a skewness statistics test and the results show that the study’s sample data were normally distributed. In addition, the Breusch–Pagan test was utilised to check for homoscedasticity assumption. The findings confirm the homoscedasticity of the models. Moreover, the Durbin–Watson (DW) statistic was used to check for autocorrelation, which returned values within the range of 1 and 3, which indicates the absence of autocorrelation in the sample, according to Field (2013). Table 4 reports the findings of the regression diagnostics tests.

Table 4. Regression diagnostics tests.

Regression Diagnostics Tests		Model 1	Model 2
Skewness/Kurtosis tests	Prob > chi2	0.00	0.00
Breusch–Pagan/Cook–Weisberg test	Prob > chi2	0.062	0.075
Durbin–Watson test	DW	1.34	1.33

Table 5 reports our findings. Model 1 examines the impact of overlapping AC membership on tax avoidance, whereas Model 2 examines the effect of overlapped AC chairs on tax avoidance. In Model 1, we found a negative and significant impact of overlapped AC directors on our measure of tax avoidance (effective tax rates) at a confidence level of 90%. In Model 2, we found that overlapped AC chairs have a negative and significant impact on effective tax rates at a confidence level of 95%. This suggests that a higher proportion of overlapped AC members and the presence of an overlapped AC chair are both associated with lower effective tax rates, which equate to more tax avoidance. The findings are in line with resource dependence theory, which suggests that overlapped AC members and chairs could have an advisory role due to their connection and network channels. This will lead to a positive impact on tax avoidance practices by encouraging managers to engage more in tax avoidance practices, specifically in risk-averse firms. Our findings are also consistent with prior research, such as Richardson et al. (2015); McClure et al. (2018); Moore et al. (2017); Chan et al. (2013); Taylor and Richardson (2014); and Law and Mills (2017).

Table 5 also shows that independent AC directors were negatively associated with effective tax rates (Model 1). This suggests that tax avoidance companies tend to have more independent AC directors. It also shows a positive impact of firm size on effective tax rates in both models. This indicates that large companies are less likely to avoid tax. Similarly, it also shows that Big 4 audit firms have a significant positive relationship with effective tax rates in both models and hence are associated with lower tax avoidance. The result is consistent with agency theory.

Table 5. Regression analysis.

Tax Avoidance Practice (Model 1)			Tax Avoidance Practice (Model 2)		
Variables	Coefficients	Significance	Variables	Coefficients	Significance
OvAC	−0.040 *	0.075	OvACChr	−0.099 **	0.043
ACInd	−0.051 *	0.07	ACInd	−0.026	0.834
ACSize	0.049	0.167	ACSize	0.030	0.373
BrdInd	0.190	0.11	BrdInd	0.218 **	0.047
BrdSize	0.008	0.696	BrdSize	0.013	0.514
LogAsset	0.119 ***	0	LogAsset	0.136 ***	0.001
LEV	0.000	0.657	LEV	−0.002	0.134
ROE	0.000	0.967	ROE	−0.001	0.672
Big4	0.123 *	0.077	Big4	0.138 **	0.039
_cons	−0.043	0.751	_cons	0.211	0.226
Industry Effect	Yes		Industry Effect	Yes	
Years Effect	Yes		Years Effect	Yes	
No. of Obs	204		No. of Obs	204	
Prob > F	0.0000		Prob > F	0.0000	
R-squared	27%		R-squared	38%	

* Coefficient is significant at 10%; ** coefficient is significant at 5%; *** coefficient is significant at 1%. See Table 1 for variable definitions.

5. Additional Analysis

There is a gap in the literature on the tax positions of firms with losses (Henry and Sansing 2018). Due to the weak economic situation in the world, the percentage of firms with losses is increasing significantly and is considered a growing segment of the population of publicly traded corporations (Henry and Sansing 2018). There is very vague behaviour from loss firms in dealing with tax avoidance practice (Hanlon and Heitzman 2010). In this section, we distinguish between profitable firms (positive ROE) and loss-taking firms (negative ROE).

We argue that due to the uncertainty of firms with losses surviving for a long period in the market, overlapping AC membership could play an advisory role by consulting with firms to heavily engage in tax avoidance practices by reducing the amount of tax paid and reporting a higher value of profit to enhance their reputation among shareholders. Hence, we ran an additional analysis to assess the behaviour of firms with losses in TP activity and how this relation is moderated by the effect of the role played by overlapped AC directors. A new variable (Loss) was created, which took the value of 1 if a firm's ROE was negative, and 0 otherwise.

Table 6 shows that the variable "Loss" was negative and significant at the 1% level. This indicates that firms with losses are engaged more with tax avoidance practice. However, the interaction variable, which combines overlapped AC directors and firms with losses (Loss*OvAC), was positive and statistically significant at the 1% level. This indicates that overlapped AC directors play a monitoring role in firms with losses by limiting the engagement in tax avoidance practice. The findings provide practical implications to policymakers in Oman to enhance the existing tax provisions in Omani code and set some strict obligations for board directors.

Table 6. Additional Analysis.

Tax Avoidance Practice		
Variables	Coefficients	Significance
OvAC	−0.101 *	0.083
Loss	−0.243 ***	0.005
Loss*OvAC	0.587 ***	0.001
ACInd	−0.027	0.832
ACSize	0.066 *	0.060
BrdInd	0.204 *	0.069
BrdSize	0.002	0.933
LogAsset	0.115 ***	0.000
LEVTDTA	0.000	0.621
ROE	−0.002	0.332
Big4	0.106	0.121
_cons	−0.010	0.943
Industry Effect		Yes
Years Effect		Yes
No. of Obs		204
Prob > F		0.0000
R-squared		31%

* Coefficient is significant at 10%; *** coefficient is significant at 1%. See Table 1 for variable definitions.

6. Conclusions

We investigated the effect of overlapped AC members and overlapped AC chairs on tax avoidance practice. We examined the extent to which such directors play either advisory or monitoring roles with respect to tax avoidance. We found a negative impact of overlapped AC membership and overlapped AC chairs on our proxy for tax avoidance (effective tax rates), which indicates that these variables lead to more tax avoidance. We suggest that these directors massively contribute to a strict advisory role in firm management by encouraging them to engage more in tax avoidance tactics. These directors, on the other hand, play a monitoring role for firms with losses. Our study provides novel empirical evidence on the determinants of tax avoidance practice in Oman.

Our findings provide important policy implications for Omani regulators. First, regulators should be aware of the vital monitoring role played by overlapped AC chairs and AC directors in enhancing AC effectiveness. Our study provides evidence that on one hand, AC overlapping in general is positively associated with levels of tax avoidance. Our findings suggest that preventing AC chairs from being overlapped by the revised CG code adds value to tax avoidance practice. On the other hand, allowing other AC directors to be overlapped seems to contribute to tax avoidance practice. More efforts are needed to encourage Omani companies to pay tax on time and to avoid engagement in tax avoidance practice. Regulators need to consider the cost–benefit analysis of the appointments of AC members on different committees within the same company and to set specific rule that leads to monitoring AC members (rather than an advisory role) in tax avoidance practice. Second, as Oman is moving towards anti-tax-avoidance practices, more efforts are needed to increase the awareness of the importance of paying tax on time and the unethical issues related to tax avoidance. These efforts include reducing tax rates, increasing the awareness of the tax laws and tax system, introducing anti-corruption, and finally, increasing awareness among organisations through training workshops and media, and teaching taxation and business ethics modules at the university level.

Our study is subject to some limitations and provides lines for future research. First, the sample size is considered relatively small due to the small number of financial institutions in Oman. Future research could test the same hypotheses for non-financial institutions in Oman or in any other Gulf Cooperation Council (GCC) countries. Second, we use overlapped AC chairs/members as a proxy for the quality of corporate governance. Research, however, shows that there is no general consensus on the measurement of the

quality of corporate governance (Campos-Espinoza et al. 2015). Future research also could use other proxies of governance quality, such as ACs with financial expertise, ACs with multiple directorships, and female AC members as determinants of tax avoidance in the GCC context. A qualitative study is needed to understand the motivations of tax avoidance in Omani financial institutions and to gain deeper insights into the experiences of AC chair and directors in their advisory or monitoring roles. In addition, Oman is one of the GCC countries that is characterized by royal families that might be involved in different business activities (Alazzani et al. 2021). It would be interesting to explore the moderating role of the royal family directors on overlapped AC chair/director–tax avoidance relationships. Recent literature shows that institutional investors improve the effectiveness of the board of directors' attributes (Alshabibi 2021). Further research could explore the moderating role of institutional investors on the association between overlapped AC chairs/directors and tax avoidance. Recent research has also provided evidence on the impact of cross directorships in multiple corporate boards on misstatements (Mahenthiran et al. 2020). It would be interesting to examine how external board directorships affect levels of tax avoidance.

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