Original Paper
https://doi.org/10.15826/jtr.2023.9.1.131

The influence of foreign ownership on tax avoidance in Thailand: A study from an emerging economy

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ABSTRACT
Tax avoidance is an effort to avoid paying more taxes lawfully, but it results in a tax revenue loss for the government. Even though the nominal avoided tax is enormous in advanced economies, the impact of tax avoidance is more severe in emerging economies. Thailand is a developing country whose government has been actively putting action to tackle aggressive tax avoidance. Like other similar economies, Thailand invites more foreign investors to invest in its local businesses. However, literature has said that ownership level can influence tax avoidance, and ownership by foreign shareholders in emerging countries can increase tax avoidance. Thus, examining whether foreign ownership increases tax avoidance in a developing country is crucial and interesting. By owning shares in the company, foreign investors have the power to influence the firm's decision-making process, including the decision for tax avoidance. This paper is the pioneer in discussing foreign ownership and tax avoidance in a Thai setting in its 100 most profitable companies. The observation is based on the five-year observations during 2015–2019. We measured tax avoidance using effective tax rate (ETR) and cash-flow ETR and manually collected foreign ownership data from the 500 annual reports. The statistical test verified that foreign ownership has a positive relationship with tax avoidance, which means that greater foreign ownership leads to a greater level of tax avoidance. This study recommends policymakers monitor the level of foreign ownership/control to limit aggressive tax avoidance that could be practised in the country.

KEYWORDS
foreign ownership, tax avoidance, effective tax rate, cash-flow ETR, Thailand

JEL H26

УДК 336.2

Влияние иностранного владения на избежание налогов в Таиланде: исследование из развивающейся экономики

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АННОТАЦИЯ
Избежание налогов – это попытка избежать уплаты большего количества налогов на законных основаниях, но это приводит к потере налоговых поступлений для правительства. Несмотря на то, что номинальное избежание налогов огромно в странах с развитой экономикой, его последствия более серьезны в странах с развивающейся экономикой. Таиланд является развивающейся страной, правительство которой активно борется с агрессивным уклонением от уплаты налогов. Как и другие страны с похожей экономикой, Таиланд приглашает больше

иностранных инвесторов вкладывать средства в местный бизнес. В литературе говорится, что уровень собственности может влиять на избежание налогов, а владение иностранными акционерами в развивающихся странах может его увеличить. Таким образом, изучение того, увеличивает ли иностранная собственность избежание налогов в развивающейся стране, имеет решающее значение и представляет интерес. Владея акциями компании, иностранные инвесторы имеют возможность влиять на процесс принятия фирмой решений, включая решение об избежании налогов. Эта статья является пионером в обсуждении иностранного владения и избежании налогов в 100 самых прибыльных зарегистрированных на бирже компаниях в Таиланде. Наблюдение основано на пятилетних значениях за 2015–2019 гг. Мы измерили избежание налогов, используя два показателя: эффективную налоговую ставку (ETR) и ETR с денежными потоками, а также вручную собрали данные о собственности на имущество из 500 годовых отчетов. Статистический тест подтвердил, что иностранная собственность имеет положительную связь с избежанием налогов, что означает, что увеличение числа иностранных владельцев приводит к более высокому уровню избежания налогов. Это исследование рекомендует директивным органам контролировалить уровень иностранной собственности/контроля с целью ограничения агрессивного избежания налогов, которое может практиковаться в стране.

КЛЮЧЕВЫЕ СЛОВА
иностранная собственность, уклонение от уплаты налогов. ETR, ETR с денежными потоками

1. Introduction

Tax avoidance is a situation or activity that attempts to reduce tax payments on several taxes imposed on a business, where the income tax contributes the most to the government. Governments use the collected taxes to operate their programs and activities. Even though it is legal, tax avoidance has become a concern for the government as tax collectors. Tax avoidance reduces the potential income for the government that could be used to develop the country, such as public physical facilities, research and development, and officers' salaries. While governments expect to collect more taxes, shareholders, on the other hand, avoid the potential taxes to increase the value of shareholders' wealth.

Tax avoidance is a common practice, and the amount is significantly higher in developed markets since firms in developed markets have more flexibility than those in emerging economies. Even so, people in lower-income countries will experience a significant economic impact because the potential avoided tax is 50% of their national health budget. In contrast, it is only 8% in higher-income countries.

According to a Tax Justice Network [1] report, Thailand has the lowest tax avoidance level among developing Asian countries. Table 1 shows the potential tax loss experienced by Thailand and its neighbouring countries.

Tax avoidance is the practice of keeping cash resources within a company that

Table 1

Corporate tax avoidance level: Thailand and its neighbouring countries

Countries	Tax revenue loss (USD million)	Due to corporates (USD million)	Due to corporates (%)
Thailand	1,165	425	36.5
Malaysia	1,227	903	73.6
Vietnam	421	367	87.2
Philippines	2,135	1,878	88.0
Indonesia	4,865	4,786	98.4

Source: Tax Justice Network

would otherwise go to the government. At the same time, these resources may contribute to enhancing firm and shareholder value. Therefore, tax avoidance is often considered unethical because it only benefits the shareholders instead of the whole society [2]. Shareholders' interest is the profit after tax as it will higher the profit distributed to shareholders as dividends or retained by the company. Thus, the company's operations are influenced by its ownership structure, such as foreign ownership level [3].

Foreign investors have become an increasingly important source of financing. As a result of the rapid expansion of international investment, the roles of foreign investors in the companies have received significant attention. Recent research found that foreign investors significantly influence the corporate decisions of their investee firms through direct or indirect supply-demand threats [4]. They are also found to greatly impact minimizing taxes by proposing new tax strategies, intervening companies in determining intrinsic values, and requiring other mandatory interventions [5]. Reportedly, there is a rapidly increasing number of studies examining how shareholders influence tax avoidance from the traditional agency theory perspective [6].

Foreign-owned corporations, especially multinational corporations, are known to have greater advantages from different worldwide tax rates, specific accounting standards, and tax treatment in other countries [7] These characteristics provide firms with greater foreign influence, additional tax advantages, and tax planning opportunities. Furthermore, foreign influence also represents the objectives of the company's foreign head office [8]. Companies with foreign influence face greater complexity in corporate taxation due to the separation of ownership and control. As a result, they may take advantage of this opportunity to transfer income elsewhere.

Foreign investors with long-term investment prospects typically prefer to invest in countries with high tax morality, such as Indonesia and Singapore [5]. Foreign shareholders are negatively associated with tax avoidance in these countries and are involved in establishing corporate tax avoidance policies. Several recent studies have also found a negative correlation between foreign ownership and tax management in developed countries such as the United States, Japan, and Singapore [9].

However, Shi et al. [10] discovered a positive correlation between foreign ownership and tax avoidance in the Philippines. As a result of the Philippines' high tax rates and narrow tax base, tax avoidance schemes have evolved and become more complex over time. These plans may result in imperfections in implementing mechanisms and preventing the government from providing high-quality public services. The Philippines and Thailand have similar tax avoidance situations because they are both developing countries with low tax morality.

In Thailand, foreign shareholders and tax avoidance are common in developing countries, so the relationship between the two variables might also be found. These findings should be interesting in evaluating whether foreign shareholders on the boards of Thailand's publicly traded companies can cause tax avoidance because revenue losses due to tax avoidance are found to be an especially acute problem in low-income countries [11].

According to Tax Justice Network [1], Thailand has the lowest rate of tax avoidance among Asian countries. But Thailand is also a developing country with low tax morality, where international investors see it as a destination to perform their tax avoidance strategy [5].

This research aims to examine the impact of foreign ownership on tax avoidance in Thailand. By considering the context of Thailand, *this study hypothesizes* that foreign ownership can increase tax avoidance.

This paper provides an overview of foreign ownership and tax avoidance activities in Thailand, which may be useful for other Asian countries that have similar taxation contexts to Thailand. The results of this paper contribute to both academicians and policymakers. The academicians may refer to this paper for further study since this paper focuses on one of Asia's emerging economies, whereas most previous studies have focused on developed markets [12–14]. This paper completes the literature gap on emerging markets, such as Thailand. The findings of this paper also provide some recommendations and suggestions for policymakers, who can use the paper's findings to monitor the level of foreign ownership permissible in Thailand to limit tax avoidance practices.

The rest of the paper is arranged as follows: section 2 reviews the literature and develops hypotheses, section 3 explains the methodology, section 4 presents statistical results and discusses findings, and section 5 presents the conclusion.

2. Literature review

2.1. Tax and tax avoidance

Tax is the contribution of society that enables governments to perform their programs and functions to benefit society [15]. Companies treat tax expenses similarly to other expenses in order to achieve the highest possible after-tax income. If it is done legally and without affecting one's consumption, the effort to reduce tax liability is known as tax avoidance [16]. Tax avoidance is the practice of reducing a tax firm's burden through investments and business structuring by planning tax allowable under tax law that is not punishable [17; 18].

Even though it is legal, tax evasion is critical because it undermines the state's ability to collect revenue and implement policies since taxpayers aim to minimize their taxable income. It is a concern for governments and society because it has the potential to prevent national programs for social and infrastructure development in the country. Tax avoidance could be an ordinary issue in developed countries, but it is a serious suffering for emerging economies country [1].

As the lowest corporate tax rate compared to Singapore and Brunei Darussalam, with each 17% and 18.5%, respectively, Thailand provides an interesting institutional setting to examine tax avoidance. When compared to other ASEAN countries like the Philippines (30%), Indonesia and Myanmar (25%), and Malaysia and Laos (24%), Thailand's tax rate percentage is just 20%. Thailand leads the ASEAN-5 by having a total tax avoidance of USD 25.8 billion, followed by Indonesia, Philippines, and Malaysia with total tax avoidance of USD 17.8 billion, USD 11.7 billion and USD 11.2 billion, respectively [19].

There are several definitions of tax avoidance. From an ethics perspective, tax avoidance is considered unfair as it exclusively benefits the shareholders (and others but less) [20]. From a legal perspective, Napitupulu et al. [21] mention that tax avoidance is an effort by taxpayers to avoid taxes legally, as it is not contrary to the taxation law.

Lipatov [22] defines tax avoidance as a lawful underreporting of tax liabilities. Meanwhile, Hanlon & Heitzman [23] have said that tax avoidance is a continuum of perfectly legal tax-cutting strategies. In conclusion, tax avoidance is legal and unpunishable, but it can limit governments' budgets to run national programs. Thus, tax avoidance is a concern.

2.2. Agency Theory

The agency theory describes the relationship and conflicts between agents (the firm's management) and stakeholders such as shareholders and creditors. Management needs to implement the goals and objectives established by the shareholders [24]. Shareholders expect management to separate ownership and control in order to avoid conflicts of interest [25]. According to Hanlon & Heitzman [23], a company's tax decisions may reflect the perspectives of both management and shareholders. Consequently, tax avoidance behaviour is influenced by both management and shareholder concerns, which are acknowledged by contrast interests [26; 27].

Moreover, corporate tax avoidance can lead to agency problems [28; 29].

According to Frank et al. [28], it is critical to limit the risk of agency conflict caused by tax evasion by employing a third party, such as the ownership structure, to supervise managers' decisions that maximize shareholder wealth. Furthermore, according to Tang et al. [30], the ownership structure in enterprises should highlight the split between management and shareholders by identifying the features of agency problems. Finally, ownership structure tends to establish policies that mitigate the relatively significant impact of tax avoidance on a company's market position [23].

2.3. Foreign shareholders and tax avoidance

In the context of ownership, foreign contribution is an attractive funding source that has the potential to improve firm performance [31]. The presence of international shareholders can result in better business strategies, such as asset maximization and tax avoidance [32]. South Korean researchers discovered that greater foreign ownership significantly reduces corporate tax avoidance in publicly traded firms [33]. Supporting the previous finding, Hasan et al. [5] also discovered that foreign ownership has a negative relationship with (decreases) corporate tax avoidance.

However, many researchers have discovered that foreign ownership in a company leads to a higher level of tax avoidance in an emerging economy like Thailand. According to relatively old but extensive literature by Demirgüç-Kunt & Huizinga [34], tax management is commonly practised in developing countries. They came to this conclusion after researching foreign-owned banks that pay lower taxes in eighty countries. Tax management is popular when foreigners own most shares [35].

Salihu et al. [8] conclude that a higher level of foreign ownership is directly proportional to the level of corporate tax avoidance, especially in developing countries. Foreign investors have the skills of tax planning and income maximization strategies available to apply [10]. Foreign investors are respected in smaller countries [36], but this situation can open opportunities to seek rents. Due to all of these reasons, this research hypothesizes that foreign ownership increases tax avoidance.

3. Methodology

3.1. Samples and Data

This research takes Thai-listed companies as the contextual observations. The sample includes the 100 most profitable companies as we believe profitable companies are important in economies and significant for rule makers. However, we exclude financial companies as they are highly regulated [37] and real estate investment trusts (REITs) as they are flow-through entities [38]. As a result, all of our samples come from various industries since we recognize that the correlation between ownership structure and tax avoidance is not restricted only to a single industry [12; 38].

The data is from five years (2015–2019) of observation, covering accounting and non-accounting data. Accounting data, such as income tax expense and debt level, is downloaded from the subscribed database.

Income tax expense can be found in income statements for researchers who do not have access to financial markets databases, while cash tax paid can be found in cash flow statements. The non-accounting data, such as foreign ownership level, are manually extracted from the annual report for this study.

3.2. Variable operationalization

Dyreng et al. [39] adapted GAAP ETR to measure tax avoidance. There are other measures of tax avoidance, such as book-tax gap (BTG), both raw BTG and residual BTG [40], and book-tax differences (BTD) [41]. However, those BTGs and BTDs are usually used to measure tax aggressiveness. ETR modifications (ETRs), like cash-flow ETR (CFETR) or GAAP ETR, are often used for tax avoidance. CFETR represents cash tax paid over pre-tax income, whereas GAAP ETR represents total tax expense over pre-tax income.

An ETR is simply a tax rate applied by the taxpayer. Therefore, ETRs might not directly refer to tax avoidance, but the lower the ETR implies a lower rate applied by the company, which indirectly reflects a higher tax avoidance level [39]. An ETR is able to capture any form of tax reduction (legal or illegal) implied by tax shelters and loopholes in taxlaws [42; 44; 45].

Considering the advantages and drawbacks of several options of measurements for tax avoidance, we decide to measure tax avoidance using ETR and CFETR. ETR contains the total income tax expense, which includes deferred taxes and pre-tax income for the year [43]. Whereas CFETR, the data can be obtained from the cash flow statements and eliminate the impact of earnings management [41].

Foreign ownership is the independent variable in this study. It is measured by the percentage of foreign equity ownership in the company.

We include some variables in this study that we believe can influence tax avoidance. The control variables are firm size (measured by natural logarithms of total assets), leverage (long-term debt scaled by total assets), and capital intensity (net property, plant, and equipment scaled by total assets). Firm size is intended to seize and ease the effects of variation in firm investment, especially the tax-favoured assets.

Additionally, leverage is able to reduce tax payments for high-class businesses since loan interest is tax-deductible. By the accelerated depreciation method, usually using a proportional lifespan of the assets, capital intensity is able to reduce the effect on firms' effective tax rates (boosting tax avoidance) [8].

3.3. Model

This study tests whether foreign ownership can increase tax avoidance. We also consider other variables as controls that can influence tax avoidance levels. Thus, we withdraw our model as follows (Figure 1).

We employ two measurements of tax avoidance: ETR and CFETR, to ensure the strength of our model, as well as the ownership level (in decimals) by foreign investors as the measurement of foreign ownership level. The control variables: company size, leverage, and capital intensity, are also added to the model. Mathematically, the model looks like this:

$$TaxAvoid_{i,t} = a + B_1 Foreign_{i,t} + \\ + B_2 Size_{i,t} + B_3 Leverage_{i,t} + B_4 CapInt_{i,t},$$

where *TaxAvoid* is the tax avoidance measured by ETR and CFETR. *Foreign* is the foreign ownership measured by ownership level (in decimals) by foreign investors. *Size* is the company size (the natural logarithm of total assets), *Leverage* is the debt level (long-term debt scaled by total assets), and *CapInt* is the capital intensity (net property, plant, and equipment scaled by total assets).

4. Results

4.1. Descriptive statistics

Table 2 shows the descriptive statistics for all employed variables (dependent, independent, and control variables) in this research. In this paper, tax avoidance is measured by ETR and CFETR. The lower ETR represents a higher tax avoidance level. In the observation, we find that the minimum ETR (CFETR) is 0.01% (0.00%), which means that among these 100 most profitable companies,

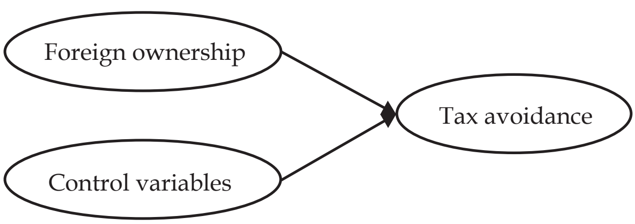

Figure 1. **Schematic of the model**

Table 2

Descriptive statistics

Indicators	N	Minimum	Maximum	Mean	Std. Deviation
ETR	500	0.001	0.590	0.150	0.090
CFETR	500	0.000	0.690	0.158	0.113
Foreign%	500	0.000	0.783	0.119	0.158
LNsize	500	10.190	21.440	14.380	1.452
PPE	500	0.002	0.791	0.330	0.238
Leverage	500	0.010	0.750	0.228	0.157
Valid N (listwise)	500				

some are paying almost no tax. On the other hand, the maximum ETR (CFETR) is 0.59% (0.69), which means that some of the companies apply tax rates more than the statutory tax rate. However, Thai companies' average effective tax rate is around 15%, which is still lower than the statutory tax rate of 20%.

Based on Table 2, the average ownership by foreign investors is 11.9%. Meanwhile, the minimum foreign percentage of the sample is 0%, and the maximum is 78.3%. It means that at least one sample has no foreign shareholders, and at least one company has 78.3% ownership by foreign investors. In Thailand, foreign shareholders can own up to 100% ownership of some companies under the Board of Investment (BOI).

The mean of assets growth (LNsize) is about 14.38 %, the minimum level of LNsize is 10.19 %, and the maximum level of LNsize is 21.44%. The mean of PPE is about 33%, the minimum level of PPE is 0.2 %, and the maximum level of PPE is 79.10%. On the other hand, the average leverage is about 22.80%, the minimum level of leverage is 1%, and the maximum level is 75%.

4.2. Regression Analysis

This subsection reports the regression analysis results for the relationships between tax avoidance with foreign ownership, company size, capital intensity, and leverage among Thailand's 100 most profitable companies. In Table 3, Foreign shares percentages show a negative and significant relationship with the ETR and CFETR at a 99% confidence level.

Moreover, LNsize shows a positive and significant relationship with the ETR and CFETR at 99% confidence levels, respectively. PPE shows a negative and significant relationship with the ETR and CFETR at 99% and 95% confidence levels, respectively. Leverage shows a negative and significant relationship with the ETR and CFETR at 95% confidence levels.

Table 3

Regression

Indicators	ETR	CFETR
Foreign%	–0.217**	–0.156**
LNsize	0.131**	0.155**
PPE	–0.160**	–0.113*
Leverage	–0.105*	–.092*

Note: * 95% confidence level; ** 99% confidence level

5. Discussion

In this paper, foreign shareholders own 11.86% on average within the samples, with the highest level reaching 78.26%, which is more than half of the ownership structure. It is also discovered that (at least) one company has no foreign shareholders, shown by the minimum value of 0.000. This result approves that foreign investor have considered Thailand an interesting country to invest in. This interest is influenced by Thailand's status as a developing country with low tax morality and tax rate, which is the lowest rate compared to other developing countries, which is 20%. Investors believe they will be able to receive higher dividends with a low tax rate as the tax burden is comparatively lower. The insufficiency of the Thai government in tax regulations has also attracted the attention of foreign investors, who can easily submit tax planning to maximize their profits.

The result of this paper also provides adequate evidence to accept the hypothesis that foreign ownership increases tax avoidance in Thailand. The effective tax rate has a negative correlation with tax avoidance (a higher ETR implies less tax avoidance). Thus, the negative sign between foreign ownership and ETR (CFETR) implies that a higher level of foreign ownership causes a greater level of tax avoidance.

This finding is consistent with prior studies, which have revealed a positive relationship between foreign investors and tax avoidance [8; 10; 31]. In this case, foreign shareholders use their influence to expropriate benefits from domestic companies. This type of shareholders are mostly short-term investors and do not pay attention to the long-term performance and image of the investees.

Alkurdi & Mardini [31] have also proved that tax avoidance increases in foreign-owned Jordanian companies. Foreign owners effectively monitor the company, thus leading to higher opportunities for the firm to use tax avoidance. Foreign investors choose companies that are in countries that are in favour in terms of tax rates and tax planning.

Research from Salihu et al. [8] also has seen indications of tax avoidance in parent and host countries from multinational companies that utilize their international scale of operations. In developing countries, foreign direct investment is highly welcomed, but policymakers must be careful in assessing such investments as there is potential for income shifting.

However, some research has found that foreign shareholders tend to avoid risky decisions [5; 9]. Tax avoidance is considered a risky activity that could damage the image of the companies in the public eye. Therefore, strict foreign shareholders provide more control over this activity, and the higher concentrated companies have a more risk-averse manager that would be less likely to perform aggressive tax planning. Foreign shareholders who are strategic investors (making long-term investments) would not be interested in tax avoidance as they are concerned about the bad and long-term consequences of such activity. Hasan et al. [5] also approve that the higher the foreign ownership, the less tax avoidance occurs.

The need for foreign financing is very supportive of business development in a developing country. Investor interest in Thailand's tax characteristics is unavoidable, while local businesses urgently require supporting financing. As a result, the government's role in resolving and managing this problem is critical. Foreign involvement in a company should be considered by policymakers and regulators because foreign shareholders may be aggressive in tax avoidance.

6. Conclusion

This study examines the relationship between foreign shareholders and tax avoidance in the Thailand context. Thailand is not experiencing a severe corporate tax avoidance practice compared to its neighbouring countries. However, it is an interesting context as it has so much lower tax avoidance level, with a developing economy and a moderate level of protection towards minority shareholders. The observation data in this research is collected from the annual reports of the 100 most profitable companies in Thailand from 2015 to 2019.

This study confirms the acceptance of the hypothesis that foreign ownership can increase tax avoidance. It provides statistical evidence that foreign shareholders and tax avoidance have a positive relationship. This means that the higher level of foreign ownership, the higher level of tax avoidance. This finding is significant for understanding the tax behaviour of foreign shareholders within our samples. Our finding helps firms understand that foreign shareholders could motivate tax avoidance. This study also provides helpful information to the government, firms, and policymakers who look to identify the determinants of tax avoidance and could assist readers in understanding the influence of foreign shareholders on tax avoidance.

This research has two limitations. First, it employs ETR and CFETR as tools to measure tax avoidance. Second, we only investigate the 100 most profitable listed companies in Thailand. Even though we have clear rationales for our sampling, we are aware that the findings of our paper might differ from future studies due to different techniques in drawing samples. We suggest two suggestions for future researchers interested in the same topic ideas.

First, future researchers might use other measurements or employ other measurements of tax avoidance. Second, the future researcher can expand their research into more samples, not only the profitable companies, or study other industries as some specific industries potentially are more tax avoidant than others.

Research on tax avoidance in Thailand's contexts could be considered novel. We are aware that the tax avoidance level in Thailand might not be as high as its neighbours. However, this phenomenon gets our attention since Thailand is a unique setting. So, we conclude that a higher foreign ownership level could increase tax avoidance in Thailand. Governments in the region might work together to minimize tax avoidance in foreign-influenced companies.

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Acknowledgements

We are thankful for the services from anonymous reviewers and the editorial team of the *Journal of Tax Reform*. We also would like to thank our students (Myint Myat, Angsumalee Songsitthichiaroen, Thipphawan Klomchit, Shamsan Shaiaa Naji Saadan, Nicha Kaewkaew, Arunya Aksorn) for helping us collect data.

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For citation

Syukur M., Jongsureyapart C. The influence of foreign ownership on tax avoidance in Thailand: A study from an emerging economy. *Journal of Tax Reform*. 2023;9(1):98–109. https://doi.org/10.15826/jtr.2023.9.1.131

Article info

Received *November 27, 2022*; Revised *January 13, 2023*; Accepted *February 3, 2023*

Благодарности

Мы благодарны анонимным рецензентам и редакции *Journal of Tax Reform*. Мы также хотели бы поблагодарить наших студентов (Myint Myat, Angsumalee Songsitthichiaroen, Thipphawan Klomchit, Shamsan Shaiaa Naji Saadan, Nicha Kaewkaew, Arunya Aksorn) за помощь в сборе данных.

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Для цитирования

Syukur M., Jongsureyapart C. The influence of foreign ownership on tax avoidance in Thailand: A study from an emerging economy. *Journal of Tax Reform*. 2023;9(1):98–109. https://doi.org/10.15826/jtr.2023.9.1.131

Информация о статье

Дата поступления *27 ноября 2022 г.*; дата поступления после рецензирования *13 января 2023 г.*; дата принятия к печати *3 февраля 2023 г.*