Journal of Business Theory and Practice
ISSN 2372-9759 (Print) ISSN 2329-2644 (Online)
Vol. 14, No. 1, 2026
www.scholink.org/ojs/index.php/jbtp

Original Paper

Corporate Tax Avoidance from the Perspective of Agency Theory and Multi-Task Incentives

Yu Xianting[1,2]

[1] HELP (Higher Education Learning Philosophy) University, Malaysia

[2] Chongqing College of International Business and Economics, China

Received: July 16, 2026 Accepted: July 21, 2026 Online Published: August 16, 2026

doi:10.22158/jbtp.v14n1p110 URL: http://dx.doi.org/10.22158/jbtp.v14n1p110

Abstract

Tax avoidance reflects more than a firm's reaction to tax rules. It is a choice made by managers who weigh competing pressures while their own interests often stray from those of shareholders. This article starts from two premises. First, when ownership is separate from control, the complexity of tax planning lets managers hide rent extraction behind apparent tax reduction. Second, tax decisions occur in a multi-dimensional setting. Managers divide effort across profitability, compliance, ESG metrics, and political costs. A stronger push on one dimension predictably alters behavior on others. The article traces the agency-cost logic of tax avoidance, the trade-offs that surface when multiple tasks compete for managerial attention, and the ways institutional conditions shape both.

Keywords

corporate tax avoidance, agency theory, multi-task incentives, ESG performance, corporate governance, digital transformation

1. Introduction

Corporate tax avoidance sits at the junction of finance, tax law, and governance. Previous research treats it as the firm's best reply to tax rules, emphasizing rate gaps, depreciation rules, and transfer pricing techniques. But firms do not make tax choices. People do. Managers with their own utility calculations do. Switching the unit of study from firm to agent turns tax avoidance from a technical puzzle into a matter of conflicting interests and multiple objectives.

The separation of ownership from control defines the modern corporation. It also creates the conditions for tax avoidance to become an agency problem. Managers who can extract private gains through intricate tax structures, without absorbing the full downside, face misaligned incentives from the start. Principals cannot see the real motivation behind tax moves. They cannot tell whether a strategy serves shareholders or funds empire building. Contracts cannot cover every tax scenario ex ante. U.S. data bear this out. Tax avoidance and managerial overexpansion move together, especially where governance is weak and CEOs hold concentrated power (Shams et al., 2022). The research agenda thus shifts from calculating optimal tax burdens to measuring agency costs.

Knowing why managers avoid taxes does not reveal how they weigh avoidance against competing goals. Tax strategy gets pulled in multiple directions at once. ESG ratings matter. Compliance risk matters. Quarterly earnings, long-term value, political exposure all matter. When pay contracts lean too heavily on short-term profit numbers, managers pursue tax savings more aggressively and ease off on compliance and reputation work that is harder to measure. This cross-task substitution gives the problem a structure that fits multi-task incentive models. Some evidence shows ESG performance discourages tax avoidance. Other evidence links environmental scores to more avoidance. Both patterns make sense once institutional context is taken into account (Jiang et al., 2024; Souguir et al., 2024).

Given the pull of agency conflicts and the push of multi-task substitution, what can actually govern tax avoidance? Agency theory explains how information gaps, contract design, and internal controls condition managers' motives to avoid taxes. Multi-task theory explains substitution between tax savings and other goals, plus the institutional settings that shape that substitution. The intersection of these two lines is where the paper makes its contribution. The hard problem is not a shortage of monitoring tools or performance indicators. Agency frictions and cross-task substitution form a loop. Each amplifies the other. Governance strategies that address only one side of this loop will not hold.

2. Corporate Tax Avoidance from the Perspective of Agency Theory

2.1 Information Asymmetry and the Moral Hazard Structure of Tax Avoidance Decisions

In agency theory terms, tax avoidance is a moral hazard setup. Tax arrangements are technically dense. Their informational footprint is faint. Both features let agents operate behind a curtain. Principals cannot see effort direction. They cannot sort value-maximizing tax planning from compensation-maximizing opportunism. The same accounting move can be efficiency signaling in one firm and rent grabbing in another. The governance context decides which it is (Jiraporn et al., 2008). Tax avoidance follows the same rule. Calling it efficient or opportunistic requires knowing the local severity of agency conflict and the transparency of the information environment.

More information asymmetry means more room for moral hazard in tax matters. Opaque environments let managers route avoidance through complex deals and related-party channels, and they drive up the cost outsiders pay to spot and stop it. EDGAR browsing records illustrate the pattern. Investors watch governance at large firms. They tune in outside the busy proxy season. Small and mid-sized firms get far less scrutiny, widening their managers' discretion over tax choices (Iliev et al., 2021). Chinese interactive investor platforms show the flip side. Where information asymmetry is higher, investors dig harder for data through these platforms. That digging speeds price discovery and narrows post-earnings drift, squeezing the space for opportunistic behavior (Guo et al., 2024). The takeaway is consistent. Governance should aim first at shrinking the gap between what insiders and outsiders can see, turning tax avoidance into something observable and checkable.

Transparency has its own costs. Research on public-private partnerships shows why. When information-gathering costs depend on organizational form, giving principals stronger surveillance tools does not guarantee better contracts. The act of gathering information changes bargaining positions and investment incentives (Schmitz, 2025). Tax governance faces the same logic. Giving authorities more access to firm data may close off some avoidance in the near term while also distorting business choices and breeding cleverer concealment tactics. Blockchain studies in supply chains capture the paradox well. The technology boosts the principal's control but cuts the agent's trust (Jeanneret Medina et al., 2024). Digital tax monitoring does the same. One agency problem gets solved. Another opens up as managers switch their energy from production to gaming the monitors.

Published by SCHOLINK INC.

2.2 Incentive Contract Design and the Endogenous Relationship with Tax Avoidance Motives

Information asymmetry creates the structural possibility of tax avoidance. Incentive contracts determine how strongly the motive actually fires. Agency theory insists that contracts must balance risk sharing against effort inducement. Tilt that balance and behavior distorts. Load compensation onto accounting profit or stock price, and managers get both a reason and a method to avoid taxes, because avoidance lifts those numbers without demanding extra operational work. Chinese listed firm data from 2016 to 2020 confirm the pattern. Equity incentive intensity and tax avoidance rise together, more so where internal controls are weak (Wenwu et al., 2023). Equity incentives, popular as a governance fix, produce side effects. They tie managerial wealth to stock and profit numbers, firing up the drive to improve real performance and, simultaneously, the drive to engineer those numbers through tax avoidance. Good governance tools push on more than one lever. The question is which push dominates.

Internal control moderates the whole dynamic. Strong controls make avoidance harder to hide and weaken the equity-incentive-to-avoidance link. Weak controls give managers the motive from equity stakes plus the opportunity from oversight gaps. The data show that control deficiencies amplify the effect of incentives on avoidance (Wenwu et al., 2023). The practical implication is straightforward. Incentive design and control strengthening must move together. They are one package. Effective governance needs the informational and organizational capacity to spot and correct avoidance, not just penalties after the fact.

Ownership structure adds another layer. Equity incentives push harder on tax avoidance in state firms than in private ones (Wenwu et al., 2023). The finding looks odd at first. State ownership should imply stronger compliance. But SOE managers work under tighter evaluation pressure and shorter expected tenures. For them, equity incentives become a tool to maximize personal returns before leaving, not a long-term alignment device. And the state backdrop may signal that tax disputes will be handled softly, lowering the expected cost of aggressive positions. Evidence from institutional investors tells a parallel story. More institutional ownership correlates with more tax avoidance, especially where shareholdings are dispersed (Jiang et al., 2021). Short-term ranking pressure may turn institutions into quiet supporters of aggressive avoidance. Any governance mechanism looks different depending on the incentives and institutions around it.

2.3 The Double-Edged Sword Effect of Reputation Mechanisms

Reputation adds an invisible layer of reward and penalty beyond written contracts. Career concerns theory says managers should police themselves to protect future job prospects. The facts disagree. Directors and CEOs at tax-avoiding firms pick up more outside board seats, not fewer (Lanis et al., 2019). The market, in some conditions, seems to read tax avoidance as a sign of financial competence rather than opportunism. Or the director market simply does not price the agency-cost side of avoidance. Reputation can therefore cut both ways. If avoidance is read as financial skill, the reputational machinery feeds it rather than checking it. A self-reinforcing loop takes hold. Reputation does its governance job only when the market can tell efficiency-oriented tax planning apart from opportunistic diversion and penalizes the latter. That sorting depends, once more, on transparency. Outsiders need enough standardized disclosure to judge what kind of avoidance they are looking at. Written contracts, reputation, and information flows form one system. A crack in any part weakens the whole.

Published by SCHOLINK INC.

3. Tax Avoidance Trade-offs from the Perspective of Multi-Task Incentive Theory

3.1 The Multi-Task Nature of Tax Avoidance Decisions and Cross-Dimensional Substitution Effects

Standard agency models assume a single task. That buys analytical clarity at the cost of realism. Real tax decisions are choices among competing pulls. Tax savings deliver cash. But aggressive avoidance also eats into compliance reputation, raises audit risk, depresses ESG scores, and strains the firm's relationship with government. The benefits and the damage fall on different groups and land at different times. The manager's job is to fold these uneven trade-offs into one choice. That is the terrain of multi-task incentive theory.

Multi-task theory's central prediction is substitution across tasks. Ramp up incentives on one task while leaving others unchanged, and effort flows toward the high-powered target and away from the rest. The logic is simple. Its implications for tax governance are not. Suppose a firm's evaluation system weights quarterly profit and market value heavily while treating compliance, ESG, and reputation as afterthoughts. The sensible response from a manager is to pump up the financial numbers, including through aggressive tax positions, and let the non-financial dimensions drift. Tax avoidance stops being a separate decision. It becomes the byproduct of how effort is allocated in a multi-dimensional environment.

Evidence from S&P 500 firms during the COVID-19 pandemic illustrates the point. Under severe financial strain, sustainability disclosure and stock price crash risk moved together, a pattern that fits agency theory better than legitimacy theory (Zhang J et al., 2024). Managers under pressure pursued avoidance and managed disclosure at the same time. Tax avoidance supplied real cash. ESG disclosure supplied a legitimacy shield. The two strategies complemented each other in ways that no single-dimensional check can catch. From a multi-task angle, the ESG-tax avoidance link is not a fixed parameter. It bends with the financial and institutional pressures firms face. When financial strain rises faster than ESG pressure, effort tilts from compliance toward tax savings.

3.2 The Institutional Context Dependence of the ESG–Tax Avoidance Relationship

The empirical record on ESG and tax avoidance is split into two camps. One side finds that ESG performance markedly lowers tax avoidance, working through easier financing, tighter internal controls, and keener outside monitoring (Jiang et al., 2024). In the Chinese setting, strong ESG signals deep stakeholder ties to government and society. Those ties are a form of institutional capital that aggressive tax avoidance would erode. The calculus tilts managers toward compliance. The other camp, drawing on 222 French firms from 2009 to 2021, finds the reverse. Better environmental scores go with more tax avoidance. The Paris Agreement strengthened the link. Institutional investors and family blockholders amplified it (Souguir et al., 2024). These conflicting results do not point to empirical confusion. They point to institutions. In Europe, ESG pressure is strong while tax enforcement is lighter. Firms can run environmental performance and tax minimization as parallel strategies aimed at different audiences. Strong green credentials may even grant moral permission for aggressive tax behavior, offsetting the criticism avoidance would otherwise draw. Agency theory's predictive grip weakens as institutional distance grows (Kunst & Beugelsdijk, 2026).

The practical lesson is that adding ESG measures to managerial scorecards will not by itself curb avoidance. What matters is the balance between ESG pressure and enforcement strength. Where ESG pressure is high and tax enforcement low, ESG can turn into a legitimacy cover. Only when ESG and tax compliance are set up as complements, not substitutes, does the multi-task equilibrium tilt toward compliance. Sustained attention from analysts and other information intermediaries helps, by pressing managers toward long-term value rather than short-term manipulation (Wang & Cao, 2024).

3.3 The Incentive Logic of Tax Avoidance-Driven Empire Building

Tax avoidance and empire building are tightly linked, and that link is where the agency and multi-task perspectives meet. Firms that avoid taxes score higher on composite empire-building measures and end up with lower valuations (Shams et al., 2022). The causal chain runs through three steps. Size-linked pay gives managers a reason to push beyond efficient scale. Capital market discipline on overinvestment forces them to look for internal funds. Tax avoidance supplies a cheap, hard-to-monitor internal financing channel that lets them bypass market constraints. Compensation design fuels avoidance, and avoidance funds overexpansion. Product market competition sets boundary conditions on this chain. When competition eases, the value of holding cash drops, and the drop is steeper where agency problems are worse and governance is lax (Zhang et al., 2022). Weaker competition loosens discipline from both product and capital markets, widening managerial discretion. Cash from tax avoidance flows toward bad projects rather than good ones. In multi-task language, weaker competition removes a check on the growth impulse, tilting effort away from efficiency. Tax avoidance greases the tilt.

Agency costs from tax avoidance go beyond the tax payments themselves. Overinvestment and empire building are the derivative damage. Policies that guard only the tax base while ignoring internal allocation efficiency undercount the real cost to the economy. Earnings management evidence offers a useful counterpoint. It is not, on average, harmful to firms (Jiraporn et al., 2008). The welfare effect of tax avoidance depends on whether it serves efficiency or overexpansion, and that question cannot be answered without looking at governance structures and contract designs. Dynamic q-theory models reinforce this. Agency frictions and financing constraints feed each other, amplifying investment distortions (Zhao & Shi, 2024).

4. Institutional Environment Changes and Emerging Challenges for Corporate Tax Avoidance Governance

4.1 The Dual Effects of Digital Transformation

Digital transformation is rewriting the conditions for tax avoidance across information gathering, process tracking, and decision analysis. ERP platforms, electronic invoicing, blockchain accounting, and real-time financial tools make business trails more visible and harder to disguise. Chinese tourism firm data show that digitalization curbs tax avoidance by tightening internal process monitoring, not by simply raising disclosure volume (Tiantian et al., 2023). The distinction is important. The effect runs through substantive technology embedding, not formal adoption. Layering digital tools onto unchanged processes does little to alter the information base of avoidance. But digital tools cut both ways. Better information processing helps investors, yet the gains spread unevenly across market participants (Ma & Yan, 2025). Managers can use the same advanced systems to find gaps in tax law and enforcement blind spots and to execute avoidance with greater precision. Digitalization arms both the monitor and the target. The net result is unclear ex ante. Information availability is not the same as information quality, and when avoidance techniques grow more complex alongside digitalization, adding more data channels does not guarantee better governance (Jo & Ryu, 2026).

4.2 Climate Risk and the Incentive Restructuring Effects of External Shocks

Climate risk has emerged as a significant factor in micro-level corporate behavior. The first large cross-country study breaks its effect on tax avoidance into two pieces (Ni et al., 2022). One is direct. Higher climate risk correlates with more tax avoidance, because risk tightens financing constraints and raises the premium on internal cash. The other is conditional. The correlation strengthens where governance is weak, information is poor, and policy is unstable. Sound institutions partly absorb the shock. Chinese manufacturing data sharpen the causal picture by treating temperature as an exogenous push. Hotter temperatures raise tax avoidance, concentrated in labor-intensive firms. The effect cannot be explained by firms choosing their locations strategically, so reverse causality is not the driver (Tang et al., 2023). In multi-task terms, climate shocks shift the weights managers attach to different objectives. Financing gets tighter. Short-term cash becomes more valuable. ESG reputation becomes relatively less so. Effort flows toward tax savings. Climate risk does not create avoidance motives from nothing. It rearranges the constraints managers face, and behavior follows. A further implication concerns timing. If tax audits target firms based on past avoidance records, managers learn to intersperse compliance episodes that lower their audit probability, creating windows for aggressive positions. This kind of intertemporal gaming challenges static audit methods. It calls for shifting from backward-looking audits to forward-looking, real-time risk monitoring.

4.3 The Systematic Moderating Role of Ownership Structure and Institutional Environment

Everything said so far points to one conclusion. Tax avoidance incentives are inseparable from their institutional setting. Panel data on 26,945 firms in 39 countries across 14 years offer the most direct support. Agency theory’s predictive power drops as a country’s institutions move away from the liberal market economy template (Kunst & Beugelsdijk, 2026). In a multipolar world with diverging institutional systems, governance theories born in one context lose force when exported to another.

China’s ownership divide provides a clear illustration. SOEs and non-SOEs operate under different incentive regimes for tax decisions. SOE tax choices are not purely economic. Fiscal contribution expectations, social obligations, and administrative intervention all enter the calculation. Tax avoidance in SOEs is typically a bargain between efficiency logic and administrative logic, not a simple expression of agency conflict. This is why standard agency predictions need to be re-read against China’s institutional backdrop (Jiang et al., 2021; Wenwu et al., 2023). A comparison of independent director pay in the UK and Italy tells the same story from another angle. Both countries follow agency-theory logic formally, yet implementation and outcomes diverge sharply (Mallin et al., 2015). Tax governance differences across countries follow the same pattern.

Dynamic agency models that incorporate time-inconsistent preferences shed light on how property rights and policy conditions shape tax behavior (Liu et al., 2017). Weak property rights or high policy uncertainty shorten managers’ decision horizons. Future reputation losses and compliance penalties get discounted more steeply. Short-term tax savings win out over long-term reputation building. This mechanism explains why countries with different institutional quality produce different levels of tax avoidance even under similar tax rates and accounting rules. Institutions work by stretching or compressing the time horizon over which managers calculate.

Behavioral agency theory adds a psychological dimension. Managers are not pure calculators. Social comparison and fairness perceptions matter (Jiang et al., 2026). Extending this idea to tax behavior suggests that managers who feel underpaid relative to industry peers may use tax avoidance as a hidden way to close the gap, turning avoidance into a compensation mechanism for perceived inequity. The behavioral lens does not replace standard agency theory. It adds realism to the assumptions about how actual managers think and choose.

5. Conclusion

This paper has worked through the incentive logic and governance of corporate tax avoidance using agency theory and multi-task incentive theory as twin frames. The two frames complement each other. Agency theory explains the information and incentive conditions that breed avoidance motives. Multi-task theory explains the substitution between tax savings and other goals, plus the institutional conditions that govern that substitution. At their intersection sits the paper's central argument. The governance problem is a loop. Badly balanced incentives deepen agency conflicts, which magnify cross-task substitution, which shrinks the space where monitoring and reputation can work. No single-dimensional fix, technological or metric-based or oversight-focused, can break that loop alone. Getting governance right requires diagnosing the specific agency frictions and substitution patterns present in a given setting. Incentive contracts should treat tax compliance as a standalone dimension in a multi-task equilibrium, not as an afterthought for the tax authority. When compensation includes profitability, compliance, and sustainability together, the pull of one dimension checks the pull of another, turning governance from an outside constraint into an internal balance. Digital tools are powerful but depend on institutional fit. Weak controls and uneven disclosure standards mean digital instruments may squeeze old-style avoidance while spawning more sophisticated variants. Technology delivers governance only when embedded in parallel reforms of organization, governance structure, and incentives.

References

Guo, S., Yu, X., & Faff, R. (2024). When investors can talk to firms, is it a meaningful conversation? Evidence from investor postings on interactive platforms. *European Accounting Review*, *33*(3), 771-795. https://doi.org/10.1080/09638180.2022.2118147

Iliev, P., Kalodimos, J., & Lowry, M. (2021). Investors' attention to corporate governance. *The Review of Financial Studies*, *34*(12), 5581-5628. https://doi.org/10.1093/rfs/hhab003

Jeanneret Medina, M., Baudet, C., & Lebraty, J. F. (2024). Blockchain and agency theory in supply chain management: A question of trust. *International Journal of Information Management*, *75*, 102747. https://doi.org/10.1016/j.ijinfomgt.2023.102747

Jiang, H., Hu, W., & Jiang, P. (2024). Does ESG performance affect corporate tax avoidance? Evidence from China. *Finance Research Letters*, *61*, 105056. https://doi.org/10.1016/j.frl.2024.105056

Jiang, X., He, L., & Zhuo, X. (2026). Executive inequity aversion and corporate innovation: A behavioral agency theory perspective. *International Review of Economics & Finance*, *106*, 104931. https://doi.org/10.1016/j.iref.2026.104931

Jiang, Y., Zheng, H., & Wang, R. (2021). The effect of institutional ownership on listed companies' tax avoidance strategies. *Applied Economics*, *53*(8), 880-896. https://doi.org/10.1080/00036846.2020.1817308

Jiraporn, P., Miller, G. A., Yoon, S. S. et al. (2008). Is earnings management opportunistic or beneficial? An agency theory perspective. *International Review of Financial Analysis*, *17*(3), 622-634. https://doi.org/10.1016/j.irfa.2006.10.005

Jo, J., & Ryu, D. (2026). Asymmetric information and valuation frictions in continuation funds. *Finance Research Letters*, *97*, 109773. https://doi.org/10.1016/j.frl.2026.109773

Kunst, V. E., & Beugelsdijk, S. (2026). The predictive power of agency theory in a multipolar world. *International Business Review*, *35*(1), 102526. https://doi.org/10.1016/j.ibusrev.2025.102526

Lanis, R., Richardson, G., Liu, C. et al. (2019). The impact of corporate tax avoidance on board of directors and CEO reputation. *Journal of Business Ethics*, *160*(2), 463-498. https://doi.org/10.1007/s10551-018-3949-4

Liu, B., Mu, C., & Yang, J. (2017). Dynamic agency and investment theory with time-inconsistent preferences. *Finance Research Letters*, *20*, 88-95. https://doi.org/10.1016/j.frl.2016.09.017

Ma, Y., & Yan, J. (2025). A portfolio game under asymmetric information. *Finance Research Letters*, *86*, 108666. https://doi.org/10.1016/j.frl.2025.108666

Mallin, C., Melis, A., & Gaia, S. (2015). The remuneration of independent directors in the UK and Italy: An empirical analysis based on agency theory. *International Business Review*, *24*(2), 175-186. https://doi.org/10.1016/j.ibusrev.2014.07.006

Ni, Y., Chen, Z., Li, D. et al. (2022). Climate risk and corporate tax avoidance: International evidence. *Corporate Governance: An International Review*, *30*(2), 189-211. https://doi.org/10.1111/corg.12398

Schmitz, P. W. (2025). Public–private partnerships, asymmetric information, and incomplete contracts. *Economics Letters*, *256*, 112649. https://doi.org/10.1016/j.econlet.2025.112649

Shams, S., Bose, S., & Gunasekarage, A. (2022). Does corporate tax avoidance promote managerial empire building? *Journal of Contemporary Accounting & Economics*, *18*(1), 100293. https://doi.org/10.1016/j.jcae.2021.100293

Souguir, Z., Lassoued, N., Khanchel, I. et al. (2024). Environmental performance and corporate tax avoidance: Greenwashing policy or eco-responsibility? The moderating role of ownership structure. *Journal of Cleaner Production*, *434*, 140152. https://doi.org/10.1016/j.jclepro.2023.140152

Tang, W., Yang, M., & Duan, H. (2023). Temperature and corporate tax avoidance: Evidence from Chinese manufacturing firms. *Energy Economics*, *117*, 106486. https://doi.org/10.1016/j.eneco.2022.106486

Tiantian, G., Hailin, C., Zhou, X. et al. (2023). Does corporate digital transformation affect the level of corporate tax avoidance? Empirical evidence from Chinese listed tourism companies. *Finance Research Letters*, *57*, 104271. https://doi.org/10.1016/j.frl.2023.104271

Wang, L., & Cao, L. (2024). Analyst attention and corporate green innovation. *Finance Research Letters*, *60*, 104924. https://doi.org/10.1016/j.frl.2023.104924

Wenwu, X., Khurram, M. U., Qing, L. et al. (2023). Management equity incentives and corporate tax avoidance: Moderating role of the internal control. *Frontiers in Psychology*, *14*, 1096674. https://doi.org/10.3389/fpsyg.2023.1096674

Zhang, J., Chen, H., Zhang, P. et al. (2022). Product market competition and the value of corporate cash: An agency theory explanation. *International Review of Financial Analysis*, *84*, 102422. https://doi.org/10.1016/j.irfa.2022.102422

Zhang, J., Zheng, C., & Shan, Y. G. (2024). What accounts for the effect of sustainability engagement on stock price crash risk during the COVID-19 pandemic—Agency theory or legitimacy theory? *International Review of Financial Analysis*, *93*, 103167. https://doi.org/10.1016/j.irfa.2024.103167

Zhao, S., & Shi, B. (2024). Agency conflicts, financial constraints, and dynamic q-theory. *Economics Letters*, *234*, 111501. https://doi.org/10.1016/j.econlet.2023.111501