

Impact of Outside Blockholders on Related Party Transactions and Book-tax Conformity Link

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ABSTRACT

This study assesses the effects of transfer pricing audit rules in 2005 on related party transactions and book-tax conformity. Further, the presence of outside blockholder beneficially owning at least five percent of the company's outstanding common stocks is examined. Data from 2003 to 2007 and 2018 of Taiwan-listed firms were collected from the Taiwan Economic Journal database and estimated by ordinary least squares using EViews. This study finds that book-tax conformity has no relation to related party transactions. The presence of outside blockholders is significant in the 2005 sample which might have resulted from an implementation of Transfer Pricing Assessment Rules. However, the presence of outside blockholder as an effective monitor over related party transactions – book-tax conformity link has no evidence. This paper offers evidence in an Asian context to enrich the discussion on related party transactions, book-tax conformity and outside blockholders. The finding is robust to an alternate measure of book-tax conformity.

Keywords: Book-tax conformity; Related party transactions; Outside blockholders

INTRODUCTION

In an environment where investor protection is weak, the control of a firm is secured by blockholders. The blockholders may be motivated by private and shared benefits of control whose sentiments are likely reflected in appointed executive personnel. Outside blockholders do not participate in the management of the firms, hold a share for the long term to stable market prices, accordingly, build up facts useful to monitor management with an objective view of the firm essential as effective monitors on the link between related party transactions (RPT) and book-tax conformity (BTC). The RPT accounts for the economic exchanges for cost-saving mechanisms among affiliated parties but is vulnerable to abuses by an expropriation motive of influential parties. To limit abuses, the International Accounting Standards (IAS) 24 necessitates disclosure on RPT [17]; and the Organisation of Economic Co-operation and Development [33] requires disclosure on beneficial ownership and control. Consequently, RPT may create small (large) book-tax differences (BTD), indicating high (low) BTC. Discussions are ongoing towards high BTC. However, the outcomes of previous studies show that BTC is linked to reduced earnings informativeness and change in financial reporting behavior to lesser tax expense.

This study is in response to a call for more studies that address how BTC is related to other aspect of business, further, examining whether the presence of outside blockholder with at least five percent ownership exhibits influence adequate to be an effective monitor. The authors are unaware of any research in the English language on the specific issue. This study hypothesizes that RPT increases BTC, and whose

association is moderated by the effects of outside blockholder monitoring. An introduction of Transfer Pricing Audit Rules in 2005 in Taiwan, set this study to utilize sample data within the period from 2003 to 2007, and 2018 for assessment whether any significant change occurred.

This study on Taiwan is relevant as an emerging market considering the interaction in the Taiwan Stock Exchange Corp. (TSEC), the agency problem, and the tax and financial reporting environment. Secondly, this study is important because Taiwan-listed firms engaged in RPT with the requirements by IAS 24 on RPT show how vital the results of this study are for Taiwanese domestic and overseas investors, tax and stock market regulators, and scholars. This study finds that BTC is not associated with the level of RPT engagement. The presence of outside blockholders is significant in the 2005 sample which might have resulted from an implementation of Transfer Pricing Assessment Rules. However, the hypothesis on any RPT-BTC association is moderated by outside blockholder is not supported. The results of this study documents evidence in Asian context and enriches the discussion on the BTC – RPT link and the monitoring function of outside blockholding. The effect is vigorous to an alternate measure of BTC.

This paper is organized as Section 2 for a literature evaluation on BTC, RPT, outside blockholders; and the development of the hypotheses. Section 3 illustrates the research methodology. Section 4 discourses the results and a conclusion is made in section 5.

RELATED LITERATURE

A. Background

Reference [36] distinguishes RPT based on the commencement of a transaction. While an ex-ante RPT is a commitment completed before any parties become related, an ex-post RPT is a deal after any of the related parties obtained an influential position. The latter manifests an uneven power of parties involved. Control of a firm is held by blockholders. Shared and personal perquisites of controls motivate shareholders to hold large ownership to qualify as blockholders [27], [38]. Consequently, their sentiments are mirrored by their appointed executive personnel [35]. Insiders, managers or shareholders holding management functions who has authority may engage RPTs at favorable terms [29], [32] disregarding an arm's length reference to prevailing market prices. An abusive RPTs occur when a combination of an influence, an opportunity and behavior inclines to take advantage. The risk that the interests of the controlling shareholders supplant the minority shareholders' interests emerges as a Type 2 agency problem [26].

Results of previous studies find that Chinese firms managed RPTs to improve operating performance pre-IPO and drive share prices up [15]. Related loan guarantees are instrumental to move value from firms where controlling parties have lesser stakes to firms with larger stakes [5]. Thus, the RPTs may enable expropriation under a conflict-of-interest view. Primarily, the RPTs are aimed to facilitates trade among affiliated parties to allot limited resources, transfer obligations regardless of price; reduce transaction costs, lower costs of capital, and build financial profitability [32], [35] which fall under an efficient transaction view [19].

Popular RPTs are loans, guarantees, leasing and licensing agreements [32]; sales and purchases of goods, services and assets. The RPT is prevalent in Taiwan firms [30] where related sales account for three-quarters of the total RPT [44]. Results of previous studies find that related sales and related purchases positively impact Taiwan firms' performance [30]; and positively affect the corporate performance of Taiwan electronic firms [42]. However, the level of abnormal RPT negatively affects firm value [39].

As preventive measures against abuse, Chinese Taipei-listed firms are required to disclose major shareholders with at least five percent ownership, and the details of institutional shareholders in the top 10 largest shareholders serving as director or supervisor and the directors, supervisors and managerial officers

regardless of shareholding [33]. Further, IAS 24 requires disclosure of the identity of insiders and ultimate beneficial owners, related party relationships, and RPT; professes that related party is a party or a close member of that party's family that exercises significant influence over the reporting party [17]. Yet disclosure of related party relationships and RPT may be insufficient when investor protection is weak and insiders appointed by controlling parties are inefficient.

Though control of a firm is held by blockholders, a distinct type known as outside blockholders do not participate in the running of the company [16] and maintain an objective opinion. Being independent may justify them as effective monitors. Even a mere existence of institutional blockholders may aid as monitors [34] because an effective external monitor signals accountability from the management. Outside blockholders may choose to stay long-term to avert destabilizing the market prices [46], consequently, allow them to assemble data for monitoring managers [34].

Results of previous studies on monitoring of outside blockholders reveal mixed outcome. The institutional blockholders negatively impact the performance of United Kingdom firms, whereas made a positive effect on German firms, and insignificant effects in both Japan and the U. S., suggesting that local regulations matter [37]. The stock market regards outside blockholders associated with their firms as ineffective monitors [8] because of an established relationship and not independent.

The BTD occurs because of any one or a combination of the following: (1) divergent objectives between financial reporting standards and tax authority, (2) control earnings for the financial reporting, and (3) aggressive tax planning [11] resulting to either a temporary or permanent BTD. Permanent BTD is of interest because the discrepancy between the accounting standards adopted and tax regulations cannot be eliminated with time. A growing BTD was speculated to be caused by earnings management or engaging tax shelters [6]; and used in managing incomes for tax or book, or both incomes [14]. A large BTD signifies low BTC whereas a small BTD indicates high BTC whereas a low BTC. To eliminate the book-tax gap, changes under the United States of America (U.S.A.) Tax Reform Act of 1986 (TRA 86) were introduced [6], thus, promoting high BTC [22].

The BTC is expected to improve financial data [3], reduce aggressive financial reporting, lesser reporting costs, curtail abusive tax sheltering [43], [18], wise allocation of resources of capital market players [18], and increase in tax revenues [6]. However, results of previous studies document that BTC is linked to a reduced earnings informativeness [22], [24], [25], [1]. A call for more studies that address how BTC is related to aspects of business [21] such as engagement of RPT.

With widespread RPT in Taiwan firms [30], the authors do not know of any research in the English language on how the level of RPT in Taiwan firms affects the BTC, with outside blockholders as monitors. This study addresses the gap in the literature by using a set of BTC from 2003 to 2007 in Taiwan and 2018 in a 15-year assessment. Using a single research environment confines the legal origin, the level of law enforcement, and accounting disclosure and recognition rules in the study period across all industries in exchange-listed firms. With an agency problem, financial and tax reporting environment in the TSEC stock market, this research on Taiwan is very relevant as an emerging market. Secondly, it is important because of the popularity of RPT in Taiwan-listed firms. Additionally, IAS 24 states the need for firms to release disclosures on RPT shows how important the results of this study are for investors, market and tax regulators, and scholars. The finding of this study contributes to the discussion on BTC, RPT, and the monitoring role of outside blockholder(s) in an Asian context.

B. Hypotheses

This study hypothesizes that RPT increases BTC. The RPT offers opportunities to engage in cost-effective deals or efficient time. Secondly, RPT may intensify due to the expropriation behavior of controlling parties

[7]. Incidences perceived as the extraction of personal benefits are transfer of resources among affiliated firms facilitated by an insider; and RPTs completed without an arm-length approach [29], [32]. The RPT may cause changes to BTC. Higher BTC is linked to a realignment of firms' accounting behavior towards lesser tax [20], [25]; and is associated with tax avoidance [9], [40], [4], [11], [18]. A lower tax motivates both RPT and higher BTC. However, the disclosure requirements of IAS 24 promote transparency and discourage abusive transactions which may decrease RPT. A positive (negative) impact of the level of RPT on BTC indicates higher RPT and higher (lower) BTC. The direction of the relationship between BTC and RPT is, therefore, an empirical question. The hypothesis statement is:

Hypothesis 1. Companies with higher book-tax conformity are likely to have more related party transactions.

Outside blockholders collectively may play effective external monitors. They hold significant ownership and are not involved in the daily activities of the management of the firm, maintaining an independent and objective opinion. Five percent is a pre-specified percentage of shareholding as a threshold for required reporting disclosure [16], a level that signals a potential influence of a shareholder. A presence of the largest outside blockholder beneficially owning at least five percent of the company's outstanding common shares with voting rights may be adequate to influence the engagement of RPT. Moreover, outside blockholders may affiliate among themselves and consolidate votes on issues they have common sentiments. Positive monitoring indicates the effects of the presence of at least one outside blockholder beneficially owning at least five percent of the company's outstanding common stocks on RPT support higher conformity. Negative monitoring indicates the effects of the presence of at least one outside blockholder beneficially owning at least five percent of the company's outstanding common stocks on RPT support lower conformity. The second hypothesis is non-directional:

Hypothesis 2. Companies with related party transactions and book-tax conformity link constructively holding at least five percent of the company's common stocks.

RESEARCH METHOD

A. Measure of conformity

The measure of book-tax conformity follows Atwood et al.'s (2010) model:

$$CTE = \beta_0 + \beta_1 PTBI + \beta_2 DIV + \varepsilon \quad (1)$$

where CTE denotes the present tax expenditure; PTBI denotes the pre-tax amount of book income. Foreign component (ForPTBI) forms part of the PTBI in this study. The DIV denotes the total dividends; and ε is an error term. The variables are scaled by average total assets. The standard error indicates a general level of discretion that book income differs from taxable income. Its root-mean-squared error (RMSE) is sorted in descending rank and serves as a proxy of book-tax conformity where a lower(higher) RMSE is designated a higher(lower) book-tax conformity. This study collects data from the Taiwan Economic Journal database which does not provide a segregation of the foreign and domestic portions of PTBI.

B. Assessment for the effects of related party transactions on book-tax conformity

To test hypothesis 1, the effects of RPT on BTC are examined using the following model:

$$BTC = \beta_0 + \beta_1 RPT + \sum \beta_4 \text{controls} + \varepsilon \quad (2)$$

where: BTC refers to descending root-mean-squared error of Equation (1); RPT is the summation of the

(ratio of related sales divided by total sales) [30], [44], [2], [38] and the (ratio of related purchases divided by operating costs) [30], [42].

The control variables are: SIZE refers to the natural logarithm of the company’s total resources following [23]; AGE is the total years a company was listed in the exchange; CR is the ratio of current assets to current liabilities; CFO refers to cash flows from operations; LEV is the ratio of total liabilities to total assets; ROA denotes a return on assets; MB refers to the firm’s market-to-book equity [44]; and INDE denotes a dummy variable whose value is one if the company has independent directors and supervisors, and zero otherwise.

The SIZE is to control for firm size effects; CR and CFO as proxies for liquidity; and firms with LEV or with poor ROA performance [10] are more likely to use upward income procedures. The INDE measures the effect of the independent directors and supervisors as a proxy for governance mechanism within the corporate board; and complements the monitoring procedures for efficient direction of RPT [35] such as the monitoring of outside blockholders. The coefficient of interest is β_1 in Eq. (2). A positive coefficient on β_1 indicates an increase in RPT supports higher book-tax conformity. A negative coefficient on β_1 indicates an increase in RPT supports lower book-tax conformity.

C. Test for the effect of the existence of a single outside blockholder holding at least five percent of common stocks on the connection concerning related party transactions and book-tax conformity

To assess hypothesis 2, the effect of existence of a single outside blockholder constructively holding at least five percent of a company’s common stocks on the RPT and BTC link is examined using the following model:

$$BTC = \beta_0 + \beta_1 RPT + \beta_2 BLK + \beta_3 RPT \times BLK + \sum \beta_4 \text{controls} + \varepsilon \quad (3)$$

where: BTC, RPT, and the control variables are previously defined. The BLK denotes a dummy variable designated a value of one if a company has a single outside blockholder constructively holding a minimum of five percent of the company’s common stocks and zero otherwise; RPT x BLK represents an interaction that signifies the existence of a single outside blockholder holding a minimum of five percent affects RPT. The coefficient of interest is β_3 in Eq. (3), an interaction term between BLK and RPT. A positive factor on β_3 signifies the effects of the presence of at least a single outside blockholder beneficially holding at least five percent common stocks on RPT support higher BTC. A negative factor on β_3 signifies the effects of the presence of at least a single outside blockholder beneficially holding at least five percent common stocks on RPT support lower BTC. The estimates are measured by ordinary least squares using EViews. Table 1 describes the variables used in the study.

TABLE 1 DESCRIPTION OF THE VARIABLES USED

Variables	Description
BTC	Denotes to book-tax conformity resulting from the scaled downhill rank of the root-mean-squared error (RMSE) from Equation 1
CTE	Denotes to present tax expense in Republic of China currency (NTD)
PTBI	Denotes to the pre-tax amount of book income in NTD
DIV	Denotes to the total dividends in NTD
RPT	Denotes to a summation of the (ratio of related sales divided by total sales) and the (ratio of related purchases divided by operating costs)
SIZE	Refers to the natural logarithm of the company’s total assets
AGE	Denotes to the total years a company has been listed in the exchange

CR	Is the ratio of current assets to current liabilities
CFO	Refers to cash flows from operations in NTD
LEV	Indicates the total liabilities over its total assets in NTD
ROA	Is the return on assets
MB	Refers to the firm's market-to-book equity in NTD
INDE	Represents a dummy variable whose value is one if a company has independent directors and supervisors and zero otherwise
BLK	Is a dummy variable whose value is one if a firm has at least one outside blockholder constructively owning at least five percent of the company's common stocks; and with voting rights and 0 otherwise.
RPT x BLK	Denotes an interaction that indicates the extent to the existence of at least one outside blockholder beneficially owning at least five percent of the company's outstanding common stocks affects related party transactions
IND	Is a dummy variable to control the industry's fixed effect.
YEAR	Is a dummy variable to control the year-fixed effect.
BTC2	Denotes to book-tax conformity as the ratio of book income (PTBI2) to taxable income (TI) by [23]
PTBI2	Denotes book income scaled by the market value of equity measured at the start of the year.
TI	Denotes to the taxable income scaled by the market value of equity measured at the start of the year.

B. Sample selection

The government of Taiwan is structured as a semi-presidential republic and is a high-income East Asian economy with the most technologically advanced computer microchip manufacturing [41]. Qualified foreign institutional investors from the U. S. represent the biggest segment [31] in the market. In turn, Taiwan manufacturing firms supply U.S. firms with brand products as one of the primary export markets [13]. Reference [13] finds a directional volatility connection between the U.S. stock market using three indices and the Taiwan stock market using a stock index. This interconnection is meaningful for this study on BTC, a proposal related to TRA 86.

Weaker governance and limited protection for minority shareholders are noted in Asian markets [35] which are consistent with the descriptions of the Taiwan market as an emerging financial market [28]. The following weaknesses documented by [28] collectively contribute to the agency problem. About two-thirds of the Taiwanese-listed firms evolved from family firms [28]. Consequently, the market has domestic individual investors as dominant players who do not expend on research for informed investment decisions and are unreliable to monitor the managers' self-interest. Domestic institutional investors comprise the second segment who lack research and credibility to monitor firms' management. Reference [30] documents that 96% of Taiwanese firms engage in RPT. Consistent with the Organization for Economic Cooperation and Development Guidelines, Taiwan introduced Transfer Pricing Assessment Rules in 2005, with attention to RPT in tax havens [12]. With fundamental forces in the TSEC, financial and tax reporting, and governance in the country, Taiwan is relevant research setting for this study.

This study covers the period from 2003 to 2007, setting 2005 as a focus of the study The data for this study were collected from the Taiwan Economic Journal database. The sample selection criteria are used to limit the sample, excluding 1. financial firms because they follow rules specific to their industries; 2. firms with

financial reporting yet to be consolidated; 3. firms with negative pre-tax book income or with negative tax expense; and 4. firms must be listed in an exchange for more than six months.

The CTE and PTBI variables are adjusted for excessive values at the bottom and top one percent of the distribution. To alleviate the sample selection bias, firms are included in the sample regardless of engagement in RPT [7]. The final annual sample of firm-observations obtained are 249 (2003), 265 (2004), 362 (2005), 401 (2006), and 432 (2007) with total firm-observations of 1,709. Consistent with the selection criteria, this study is brought up to date by assessing 647 firms in the 2018 sample.

RESULTS AND DISCUSSION

A. Descriptive statistics

Panel A of Table 2 displays the statistics of the variables of the 5-year pooled sample. Firms in the sample are large, have been listed for 10 years, and enjoy growth opportunities. The firms maintain high liquidity, highly leverage, and generate returns on assets well above the median.

The mean BTC stands at 0.40 but Panel B further reveals it declined from the 2004 level of 0.46 to the 2007 level of 0.36. Sector 8(16) has the highest(lowest) conformity. For brevity, the measures of BTC per sector are not presented.

The RPT is prevailing in Taiwanese firms (at 96%) [30]. However, Panel C discloses the total firms with no engagement of RPT at 12% in 2003, indicating that 88% of the companies engages in RPT. It went down to 78% in the year of the introduction of Transfer Pricing Audit Regulations in 2005 and remained the same up to 2007. The annual mean RPT consistently declines from 7.45% in 2003 to 6.21% in 2007 (Panel B).

A regulation for new firms was introduced in 2002 to appoint independent directors. Consequently, the total firms with INDE recorded at 27% in 2003 and grows to 36% in 2007 (Panel C) with a maximum of five persons serving as INDE (Panel A). Ranging from 68% to 70% of the firms attracts at least a single outside blockholder constructively holding at least five percent of the company's common stocks (Panel B).

TABLE 2 DESCRIPTIVE STATISTICS

Panel A (Pooled sample)	Mean	Standard deviation	Median	Maximum	
BTC	0.40	0.27	0.35	1.00	
RPT	6.71	15.13	0.94	109.13	
SIZE	16.01	1.20	15.85	20.24	
AGE	9.98	9.08	7.00	45.00	
CR	212.34	153.42	171.89	2.802.42	
CFO	2,005,163	6.817,677	469,463	157,000,000	
LEV	43.39	15.69	44.27	94.75	
ROA	8.10	6.31	6.61	51.09	
MB	1.96	1.20	1.65	11.46	
INDE	0.98	1.42	0.00	5.00	
BLK	0.33	0.47	0.00	1.00	
Panel B	2003	2004	2005	2006	2007
	Mean				
BTC	0.40	0.46	0.41	0.39	0.36

RPT	7.45	7.22	6.96	6.24	6.21
BLK	0.32	0.30	0.34	0.33	0.33
Panel C	2003	2004	2005	2006	2007
no RPT	0.12	0.13	0.22	0.23	0.22
With INDE	0.27	0.34	0.42	0.39	0.36

Correlations using the pooled sample is examined. No correlation coefficients are extremely high; therefore, multicollinearity is not a serious concern. Presentation of the correlation was not displaced for brevity.

B. Results from test of related party transactions and book-tax conformity link

To determine whether a relationship between BTC and RPT exists, the pooled and annual samples are examined using Eq. (2). The result of the test is presented in column 2 of Table 3 for the pooled sample, and columns 3 to 8 for the annual samples. The coefficients on RPT are insignificant, indicating there is no relationship with BTC in 5-yr. pooled sample from 2003 to 2007, annual sample from 2003 to 2007 and in 2018. Thus, hypothesis 1 is not supported.

The AGE is positive and consistently significant in all samples, indicating that mature firms have higher BTC. The coefficients on SIZE, CFO, LEV, ROA, MB and INDE are mixed in sign and significance. The results on SIZE are contrary to the result of Yeh et al. (2012) who find SIZE as positive and significant.

TABLE 3 RELATED PARTY TRANSACTIONS AND BOOK-TAX CONFORMITY

Book-tax conformity	5-yr Pooled	2003	2004	2005	2006	2007	2018
	Coefficient						
C	0.76***	0.72**	1.13***	0.70***	0.50**	0.59***	0.54***
RPT	(0.00)	(0.00)	(0.00)	(0.00)	0.00	0.00	(0.00)
SIZE	(0.03)***	(0.03)	(0.05)***	(0.02)	(0.01)	(0.02)	0.01
AGE	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***
CR	(0.00)	0.00	0.00	0.00	0.00	(0.00)	(0.00)
CFO	(0.00)**	(0.00)	(0.00)	(0.00)*	(0.00)*	(0.00)	0.00
LEV	0.00**	0.00	0.00	0.00	0.00	0.00	0.00
ROA	(0.00)	(0.00)	(0.01)***	(0.00)	0.00	0.00	(0.00)**
MB	(0.02)***	(0.04)	(0.03)	(0.03)	(0.02)	(0.02)	(0.00)
INDE	(0.01)***	0.01	(0.00)	(0.02)***	(0.01)	(0.02)*	(0.03)
IND	Yes	Yes	Yes	Yes	Yes	Yes	Yes
YEAR	Yes						
Adjusted	0.21	0.14	0.30	0.27	0.15	0.20	0.09
N	1,709	249	265	362	401	432	647

***, **, * indicate significance at the p<0.01, 0.05, 0.10 level.

C. Results from test on the role of outside blockholders over the related party transactions and book-tax conformity link

To determine the impact of outside blockholder beneficially owning at least five percent of the company’s outstanding common stocks on the RPT-BTC relationship, the 5-yr. pooled sample from 2003 to 2007,

annual sample from 2003 to 2007 and in 2018 are examined using Eq. (3). The result of the test is presented in column 2 of Table 4. The coefficients on RPT and the interaction between BLK and RPT are insignificant in the 5-yr. pooled sample, annual sample from 2003 to 2007 and in 2018. However, the coefficient on BLK is negative and significant at 5% in the 2005 sample, suggesting a significant impact of outside blockholder(s). A slight increase in the mean BLK is noted in 2005 (Panel B of Table 2). An implementation of Transfer Pricing Assessment Rules in 2005 might have caused a change in the monitoring of outside blockholders rendering it significant.

Nonetheless, the interaction of BLK and RPT is insignificant, indicating that outside blockholders do not have impact on RPT-BLK link, thus, hypothesis 2 is not confirmed.

The AGE is positive and consistently significant in all samples except in 2018 sample, indicating that mature firms have higher BTC. The coefficients on SIZE, CFO, LEV, ROA, MB and INDE are mixed in sign and significance. The result on SIZE is contrary to the result of Yeh et al. (2012) who find SIZE as positive and significant. For conciseness, the year- and industry-fixed effects are not presented.

TABLE 4 RELATED PARTY TRANSACTIONS, BOOK-TAX CONFORMITY AND OUTSIDE BLOCKHOLDER

Book-tax conformity	5-yr Pooled	2003	2004	2005	2006	2007	2018
	Coefficient						
C	0.77***	0.81**	1.12***	0.77***	0.51**	0.60***	0.52***
RPT	(0.00)	0.00	(0.00)	(0.00)	0.00	0.00	(0.00)
SIZE	(0.03)***	(0.03)	(0.05)***	(0.02)	(0.01)	(0.02)	(0.01)
AGE	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***	0.01
CR	(0.00)	0.00	0.00	0.00	0.00	(0.00)	(0.00)
CFO	(0.00)**	(0.00)	(0.00)	(0.00)*	(0.00)*	(0.00)	0.00
LEV	0.00**	0.00*	0.00	0.00	0.00	0.00	0.00
ROA	(0.00)**	0.00	(0.01)***	(0.00)	0.00	0.00	(0.00)**
MB	(0.02)***	(0.05)	0.00	(0.03)*	(0.02)	(0.02)	(0.00)
INDE	(0.01)***	0.01	(0.00)	(0.02)***	(0.01)	(0.02)*	(0.03)
BLK	(0.02)	(0.04)	0.03	(0.06)**	(0.02)	0.03	0.00
RPT x BLK	0.00	(0.00)	0.00	0.00	(0.00)	(0.00)	0.00
IND	Yes	Yes	Yes	Yes	Yes	Yes	Yes
YEAR	Yes						
Adjusted	0.21	0.15	0.29	0.28	0.15	0.20	0.09
N	1,709	249	265	362	401	432	647

***, **, * indicate significance at the p<0.01, 0.05, 0.10 level.

C. Additional analysis

To test the robustness of the results, an additional analysis is conducted using an alternative conformity measure (BTC2) following the computation of the U.S. Treasury Department [23], the ratio of book income (PTBI2) to taxable income (TI), both scaled by the market value of equity measured at the start of the year. The minority interest is deducted from the pre-tax amount of book income to obtain the book income (PTBI2). The current income tax expenditure and current foreign tax expenditure comprised the pre-tax measure of total current tax expense, grossed up by the top statutory tax rate applicable to the period of

study to obtain the estimated gross measure of taxable income and deduct the adjustment in net operating loss carryforwards to obtain the adjusted current year's taxable income (TI). The highest corporate income tax rate in 2005 was 25%. Regressions were run again using Eq. (2), (3), and (4). The results of additional analysis are consistent with the result presented in Tables 3 to 4, thus, the outcome of this study is robust. For brevity, the results of the additional analysis are not presented.

CONCLUSION AND FUTURE DIRECTIONS

Using a base sample from 2003 to 2007 and 2018, this study assesses the effects of RPT on BTC. Further examination employs the outside blockholders in a monitoring role over the relation between RPT and BTC. The hypotheses profess that RPT increases BTC, accordingly, the RPT-BTC relationship varies with the effects of the presence of outside blockholder beneficially owning at least five percent of outstanding common stocks. This study finds that BTC has not linked with RPT. There is no support for the hypothesis. Further test shows that the presence of outside blockholders is significant in the 2005 sample which might have resulted from an implementation of Transfer Pricing Assessment Rules. However, the RPT-BTC link remains insignificant, thus, hypothesis is not supported.

The results of this study contribute to the discussions on RPT, BTC and outside blockholders. This study offers evidence in an Asian context on the association between BTC and RPT, role of outside blockholding on the relationship between RPT and BTC. The result of this study offers benefits to the advocate of corporate governance, shareholders, potential investors, auditors, tax and stock market regulators, and scholars.

However, this study is limited to five years within an introduction of Transfer Pricing Audit Regulations as central of the study. Future research may consider expanding into a longitudinal study, segregation of outside blockholders into local and foreign components, or inclusion of other control variables to assess the impact of outside blockholders on the relationship between RPT and BTC.

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