

The Influence of Tax Burden on the Tunnel Behavior of Major Shareholders: The Moderating Role of Internal Control

Shen Kexin

School of Management, Shanghai University
Corresponding Author: ShenKexin,

ABSTRACT: *In recent years, especially in emerging market countries, the equity of companies has become more and more concentrated, and the second type of agency problem between controlling shareholders and minority shareholders has become prominent. In order to protect their own interests, major shareholders often take advantage of their control rights and take various measures to infringe on the rights and interests of minority shareholders, which is the so-called "tunneling" behavior of controlling shareholders. Due to the limitation of research Angle of view, the enterprise tax burden on the company's controlling shareholder hollowed behavior, the influence of the few literature in-depth investigation, no more scholars to explore the quality of the internal control for the influence regulation of the process, therefore, this article from the perspective of internal control regulation, study the effect of enterprise tax burden hollowed behavior of major shareholders, not only can help investors know the cause of the big shareholders hollowed behavior further, but also opened up a study relationship between corporate governance and empty big shareholder behavior of new areas. It is helpful to have a deep understanding of the positive governance function of internal control and provide experience support for relevant regulatory departments to issue policies to improve internal control.*

KEY WORD: *Tax, The Tunnel Behavior, Internal Control*

Date of Submission: 20-05-2019

Date of acceptance: 03-06-2019

I. INTRODUCTION

In 2000, Johnson and other scholars first proposed the concept of "tunneling" of major shareholders, which was used to describe the behavior of major shareholders in transferring property and seeking the interests of minorities, and pointed out that this phenomenon exists in both emerging market economies and developed countries, but it is more serious in emerging market countries. Traced back to the lower level of legal protection of investors in emerging markets is one reason, on the other important reason is that control of the "pyramid structure", and, so to speak, are derived from the pyramid structure of "control" and "cash flow right" separation and control level is the deep-seated reasons for the controlling shareholder "tunneling" motivation. Through the collection of enterprise income tax at the same time, the country has a mandatory claims on corporate profits, so the fact is almost all of the company's "biggest" small shareholders, the existence of the enterprise income tax makes controlling shareholders share profit decline, so given the state of the "small shareholders" exists, the enterprise income tax will not increase tendency of the controlling shareholder "tunneling"?

The importance to the enterprise operation and management activities of the internal control has been advanced by practice, the international authority of the internal control standard setting bodies, the American COSO committee issued "Internal Control Integration Framework" with China's ministry of finance released five ministries and commissions such as the enterprise internal control basic norms were pointed out that reasonable internal control helps to guarantee enterprise management legal compliance, asset security, financial reports and related information and true, improve business efficiency and effectiveness. After Sarbanes-Oxley Act was enacted, domestic and foreign academia conducted a lot of studies on the economic consequences of the effectiveness of corporate internal control, and the results showed that high-quality internal control indeed improved the quality of financial reports (Doyle et al., 2007; Ashbaugh Skaife, 2008; Brown et al., 2014), reduced agency costs (Skaife et al., 2013), improved investment efficiency (Li Wanfu et al., 2011), and saved financing costs (Ashbaugh Skaife et al., 2009). From the above research results, the empirical evidence surrounding the compliance objectives of internal control is obviously insufficient. For enterprises, compliance with national tax laws and regulations is an indispensable part of their operations, but how does the quality of internal control affect the tax burden?

II. LITERATURE REVIEW

2.1 Research on Tunneling of Major Shareholders

2.1.1 The Concept of Tunneling

"Tunneling" is a concept proposed by Johnson et al. (2000). It mainly refers to the behavior of controlling shareholders to transfer the company's property and profits for their own interests. The main methods of tunneling are:

Related Party Transactions:

Related party transaction refers to the act of transferring resources, services or obligations between related parties, regardless of whether the price is collected or not. In accordance with the provisions of China's accounting standards in the enterprise financial and operating decisions, if one party control, common control of the other party or exert significant influence on the other side, and with two or more than two parties by one party control, joint control or significant influence, constitute related parties. If both parties to related party, trading is not completely under the market environment, the process is likely to appear not fair pricing, such as through a fair price and listed companies to buy and sell, for the assets of listed companies or does not pay, lead to the listed company's accounts receivable huge growth, in the long run, the normal production and business activities of listed companies will be affected. In fact, affiliated transactions themselves are not illegal, but because of the complexity and particularity of affiliated parties, it is used by some interested people to carry out illegal operations.

Occupy the Funds of Listed Companies:

Large shareholders raise more money by window-dressing their companies' performance and faking profits to attract investors, and then use their control over listed companies to move the money out. There are usually three ways for major shareholders to occupy the funds of listed companies: direct occupation of funds by major shareholders, illegal borrowing and illegal guarantee.

Stock price manipulation:

With the improvement of the information disclosure system, more and more investors and the public can get information, but the position of the large shareholders and minority shareholders due to the different, is still very serious information asymmetry, the small and medium-sized shareholders cannot learn some key information, some of the big shareholders by publishing false information influence the judgment of investors to buy a large number of stock, the stock prices, this is big shareholders manipulate stock prices to empty the listed company.

2.1.2 Research on The Economic Consequences of Tunneling of Major Shareholders

Hollowed behavior due to the large shareholders is the most direct economic consequences encroached on the company's various tangible and intangible resources, such as the company's profits, such as money and good investment opportunities, the company's assets is big shareholders encroach on the company's future development capability and profitability have significant adverse effects, so scholars mainly study hollowed big shareholders value for enterprises in the capital market as a whole. La Porta et al. (2002) study found that when good investors know the company internal and external governance mechanism can play a positive effect of corporate governance, and the expected big shareholders will also dare not hollowed company due to the supervision of the company strong, investors' expectations for the future of the company, the company's stock in the market price will rise, enterprise overall rise in value. Li Zengquan et al. (2005) found that the main purpose of merger and acquisition is tunneling, and tunneling will reduce the future profitability and development ability of the company, thus reducing the value of the enterprise, but they did not find a relationship between tunneling behavior and the accounting performance of the enterprise from the empirical data analysis. Jiang Guohua et al. (2005) 's study shows that tunneling by major shareholders is significantly negatively correlated with the future profitability of the company, which indicates that tunneling by major shareholders will directly weaken the future profitability of the company, thus reducing the value of the company. Decline in value of the company as a whole will directly led to the decrease of the company stock prices in the capital market, and increase the risk of stock crash, Wang Chaoen etc. (2015) from the another manifestation of the fall in the value of the enterprise overall shares tumbled perspective, the study found that the big shareholders hollowed would result in grave damage to the company's future profitability and development ability, once this behavior is exposed, could cause investors to panic, caused investors sell the stock, eventually lead to share price collapse, the enterprise the overall value of heavy losses.

2.1.3 Research on the Governance Mechanism of Tunneling of Major Shareholders

Since tunneling of major shareholders has serious economic consequences, it is very important and urgent to study the governance mechanism of tunneling of major shareholders. In terms of internal governance mechanism, Li Zengquan et al. (2004) study found that with the rising proportion of the first largest shareholder, the empty big shareholders will be more and more serious, the big shareholders mainly plays the role of the hand of "stealing", and when the big shareholder shareholding reaches a certain level, large shareholders with the company's interests converge, big shareholders into the role of "hand" support, which leads to its will reduce the empty for listed companies. Is different to this is, GaoLei (2006) study found no such as the proportion of independent directors of all directors, equity checks and balances and nature of equity and big shareholder hollowed, obvious positive correlation or negative correlation relationship between but found that the higher the value of management shareholding and the more transparent information disclosure, the effective supervision of large shareholders, the hollowed less eventually led to the largest shareholder. Boateng et al (2016) started from emerging countries capital markets to the reality of investor protection is not sound, studied the relationship between equity checks and balances and big shareholder hollowed will varies for investors to protect the environment, studied the coma now with poor investor protection measures emerging market environment, multiple large shareholders equity checks and balances between the hollowed behavior of major shareholders have positive governance effect. Liu Shaobo and Ma Chao (2016) by building a game model, according to the independence of managers can be divided into a shape, independent model and peers of the three types, it is found that different types of managers' influence on empty big shareholder behavior differences, in particular the manager of the independent model hollowed behavior of major shareholders of the strongest inhibitory effect, followed by peers, and a body cannot be emptied of big shareholders not only has the inhibitory effect, can stimulate the hollowed big shareholders instead.

As for the external governance mechanism, the research results of GaoLei et al. (2006) show that the more intense the product market competition, the more perfect the investor protection measures and the higher the fund shareholding ratio are, the more effective they are in supervising and restraining the behavior of major shareholders, thus leading to less tunneling by major shareholders. Chen Hanwen (2006) from the Angle of view of the high quality audit requirements, found empty big shareholders more serious company, in order to hedge the risks of hollowed behavior was found, the maintenance management of reputation, the company the strength of the demand for low quality audit, further research found empty due to the large shareholders can lead to a significant increased risk of misstatement in the financial statements, so will consider the auditor to express an opinion on the company empty big shareholders, big shareholders hollowed degree, in order to control the inspection risk, the auditor will issue the audit report carefully, which leads to the greater the probability of the non-standard audit report issued by, This shows that external tripartite audit has obvious governance effect on tunneling of major shareholders. Li Ming and Ye Yong (2016) studied the supervision function of media on the behavior of major shareholders from the perspective of the supervision function of media on social and economic life. Through analysis, they found that negative media reports have the function of supervision and deterrence on the tunneling behavior of major shareholders, which can significantly inhibit the tunneling of major shareholders.

In conclusion, there is a lack of existing literature on how corporate income tax affects tunneling behavior. Only Wang Liangliang (2018) included "national shareholders" in the analytical framework of game behavior between controlling shareholders and minority shareholders to examine the influence of corporate income tax collection on tunneling and support of controlling shareholders. The results show that corporate income tax has two effects on the choice of "tunneling" and "supporting". Tax collection and management can curb the tendency of "tunneling". Therefore, the study on the relationship between corporate income tax and tunneling of controlling shareholders needs more direct empirical evidence from large samples.

2.2 Research on Internal Control

2.2.1 Research on the Influencing Factors of Internal Control

Internal control can ensure the healthy, orderly and efficient operation of enterprises in compliance with relevant laws and regulations, so as to ultimately improve the overall value of enterprises. Therefore, it is necessary to explore the characteristics of the company's internal control with better quality. Scholars have found that both external governance mechanism and internal corporate governance have an impact on the effectiveness of internal control. In terms of external governance mechanism, marketization degree, media attention and internal control quality are significantly and positively correlated. In addition, different types of media reports have different influences on the quality of internal control. When the level of competition in the industry is low, the quality of internal control is higher. Internal corporate governance, corporate governance structure is the perfect company, the higher the quality of internal control, in particular, a large number of the company, the board of directors of the company, equity structure reasonable and the quality of the staff with high quality of internal control are higher, and the background characteristics of executives and nature of the

ownership of the company may also affect the effectiveness of internal control. In addition, at the stage where the enterprise is different, different levels of attention to the internal control, which can lead to internal control quality is different also, in a mature enterprise has enough money and ability to carry on the internal control construction, the internal control is more attention, which leads to the internal control can play a positive function of corporate governance, so the quality of internal control is higher.

2.2.2 Research on the Economic Consequences of Internal Control

Doyle et al. (2007) took accruals that could not be converted into corporate cash flow as the proxy variable of earnings management, collected data of American listed companies that disclosed defects in internal control and found a significant positive correlation between them. On the contrary, Chan (2008) found a significant negative correlation between them. In domestic studies, scholars Zhang Guoqing (2007) study found no significant positive correlation or negative correlation between the two, and high quality of internal control can be used to strengthen the management of supervision and exert its positive function of corporate governance, which can effectively restrain earnings management behavior of management. As the engine of enterprise development, investment activities have a significant impact on the development of enterprises. So what is the impact of internal control on corporate investment? Li Wanfu et al. divided investment into under-investment and over-investment, and found that internal control can improve the quality of enterprise investment and inhibit non-efficiency investment through strong supervision of the behaviors of management, no matter it is under-investment or over-investment. Cheng et al. (2013) also confirmed that internal control has a positive governance effect on corporate investment. Fang Hongxing et al. (2013) divided efficiency investment into voluntary efficiency investment and operational efficiency investment according to the controllable degree of the management, and found that in different types of investment, internal control has different effects on investment efficiency. Ashbaugh Skaife et al. (2008) found that the lower the internal control quality is, the worse the corporate governance level of the enterprise will be, and ultimately the greater the financing constraint of the enterprise will be. Then Kim et al. (2011) further studied and found that for enterprises with low internal control quality, the debt financing cost of enterprises with high internal control quality was 28% lower. Chen Hanwen (2014) further explore the internal control of enterprise the financing cost of bank borrowing, found that the higher the quality of internal control, corporate governance level is higher, eventually led to the bank to collect the lower interest rate, namely the internal control is negatively related to the bank loan financing costs significantly, further studies have found that this negative relationship in private enterprises and financialization of the more prominent. In addition, some scholars have found that high-quality internal control will cause stock price reaction, change of senior executives, reduction of analyst prediction error, efficient operation of enterprises, reasonable tax avoidance of enterprises and high-quality disclosure of social responsibility information.

Li Wanfu etc. (2012) pointed out that the quality of internal control and corporate tax presents the obvious negative correlation relationship, for the company, its degree is higher, to obey the law shows that the strength of their law-abiding consciousness, for some special attention to the company of its image, they are more likely to develop high compliance goals, more emphasis on creating a favorable internal environment, so that each employee actively comply with the relevant laws and regulations of the company, this type of companies generally do not tax problems; On the contrary, if the internal control of the company is relatively weak, the legitimacy of its tax activities will be questioned, which may lead to the phenomenon of tax avoidance. Elder et al. (2008) analyzed tax-related services and internal control defects, and pointed out that there was an obvious negative correlation between them. In foreign related studies, Doss (2004) found through analysis that various policies and measures designed by internal control can effectively improve the efficiency of the company's operation and thus help the company better achieve the set goals. Therefore, internal control also has an impact on tax planning to a certain extent.

III. THEORETICAL ANALYSIS AND HYPOTHESES

Assuming that the controlling shareholder of the company A is λ ($0 < \lambda < 1$), his earnings before considering whether to "tunneling" is shown in the table. In scenario 1, where there is no corporate income tax, the controlling shareholder with RMB 1 yuan of "tunneling" (pre-tax profit) can get RMB $1 - \lambda$ yuan more than without "tunneling". In scenario 2, namely, in the case of enterprise income tax with a specific tax rate of t , controlling shareholder RMB 1 yuan (pre-tax profit) can get more income of $1 - \lambda + \lambda t$ yuan. Comparing the two cases, compared with the case where there is no enterprise income tax, under the case where there is enterprise income tax, the controlling shareholder's "tunneling" can get more income, which actually is just equal to the enterprise income tax that the controlling shareholder needs to bear according to the proportion of its own equity. The opposite is true for tunneling. This example shows that in the case of corporate income tax, the collection of corporate income tax will enhance the incentive motivation of controlling shareholders to "tunneling".

H1: Under the control of other variables, the tunneling degree is positively correlated with the actual tax burden of the enterprise.

Table 1

	The controlling shareholder hollowed out RMB 1 yuan		
	Yes (1)	No (2)	Differences (3)=(1)-(2)
Scenario 1	1	λ	$1-\lambda$
Scenario 2	1	$\lambda(1-t)$	$1-\lambda+\lambda t$
Differences	-	-	λt

An effective internal control system of an enterprise can improve the quality of accounting earnings, increase information transparency, reduce the degree of information asymmetry between controlling shareholders and small and medium-sized shareholders, help small and medium-sized shareholders to understand the behavior of controlling shareholders in various encroaching interests, and take timely measures to protect the interests of enterprises and themselves. At the same time, the more effective the internal control is, the higher the quality of information disclosure will be. It is easier for the regulatory authorities to find out various illegal behaviors of the controlling shareholders and take effective measures. On the contrary, when the internal control defects or invalid, the private interests of controlling shareholders in order to get more, tend to use a variety of loopholes misappropriate company funds or related party transactions, related guarantee, joint venture, etc., and these actions will be because of the lack of internal control system and cannot be found in time, be cancelled, so that the controlling shareholder of hollowed behavior more rampant. Therefore, high-quality internal control can prevent and inhibit tunneling behavior, so as to alleviate the agency conflict between controlling shareholders and minority shareholders to a certain extent and ensure the safety of the company's assets. Therefore, the first hypothesis of this paper is proposed:

H2: When other variables are controlled, the internal control quality is negatively correlated with the tunneling degree of the controlling shareholder.

On the one hand, the improvement of internal control quality is likely to help reduce the company's actual tax burden. First, according to CSOX, weak internal control mechanism is often manifested as non-standard company institutional arrangement, unscientific organizational setup and unreasonable distribution of personnel rights and responsibilities. In such a weak internal control mechanism, not only the mutual restriction of rights, responsibilities and interests is easy to get out of balance, but also the supervision and incentive measures are often difficult to be put in place, resulting in the opportunistic behavior such as laziness. When such behavior is reflected in the employees of the tax functional departments of the company, it can be shown as that the tax-related personnel lack motivation and enthusiasm to conduct tax planning and give up exploring and using various tax preferential policies encouraged by the state, so as to reduce the effectiveness of corporate tax planning and virtually increase the tax burden of the company. At the same time, the lack of internal supervision and incentive measures is likely to make the management above the internal control of the company, resulting in the opportunistic behavior of seeking personal interests at the expense of corporate tax interests.

Secondly, as one of the five elements of internal control, the improvement of the "information and communication" mechanism helps to ensure the timeliness and usefulness of information communication among various departments of the company, reduce the information asymmetry within the company, and thus improve the communication and coordination efficiency among various departments of the company. Companies through a variety of ways to save the cost without tax planning of communication and coordination between departments, for example, take advantage of preferential tax policies will need to enterprise's R&D department and finance department can communicate with each other, coordinate the smooth realization of using different subsidiary preferential tax delivery to the customer to save tax cost also need information communication and coordination between the various subsidiaries, etc. Therefore, looked from the perfection of information and communication mechanism, the improvement of internal control quality and is often accompanied by the improvement of enterprise tax planning ability again, existing research shows that the weak internal control can make the enterprise face higher cost of equity financing, creditor's rights financing, and may be directly means that the presence of financing constraints, and financing constraints and limited resources will affect the enterprise personnel quality of the configuration of the various functional departments, and thus, high levels of tax officials of the relatively short condition are also more likely to appear in the enterprise. Therefore, from the perspective of financing constraints and resource constraints affecting the quality of personnel allocation, a weak internal control mechanism is also not conducive to improving the operating efficiency of the tax functional departments of enterprises.

In addition, according to Ye Kangtao's research, under the institutional background of China, the tax burden cost of earnings management evaded by listed companies through non-taxable items is relatively limited, and most of their earnings management behaviors are at the cost of increasing income tax cost. However, a perfect internal control mechanism can effectively restrain the earnings management behavior of the management through the reasonable setting of organizational structure, the reasonable distribution of personnel responsibilities and the checks and balances among various functional departments. At the same time, a sound internal control system can effectively restrain the management's motivation to manipulate profits through stricter supervision mechanism and more severe punishment measures. Therefore, internal control can also reduce corporate tax burden by restraining management's positive earnings management behavior.

However, on the other hand, the strengthening of internal control construction does not necessarily lead to the reduction of the actual tax burden of enterprises. High-quality internal control may also have the opposite effect on the actual tax burden of companies through the following ways, leading to the fact that companies with worse internal control quality may not show higher actual tax burden.

First, good internal control may also inhibit negative earnings management behavior. Lei Guangyong and Liu Huilong pointed out that listed companies may either positively or negatively manipulate the surplus in the process of rights offering, and companies that are not qualified for rights offering may negatively manipulate the surplus due to tax factors or "preserve strength" for later refinancing. In particular, when it is difficult for enterprises to make profits, they often have a "big bath", and the losses they make can also be used to offset taxes. In this case, the negative earnings management behavior of internal control by restraining tax avoidance motivation has exactly the opposite effect on corporate tax burden, making the better internal control is, the lower the actual tax burden is not necessarily.

Second, from the perspective of financing costs and financing constraints, weak internal control may also stimulate enterprises' motivation to avoid tax costs. Research shows that weak internal control will make enterprises face higher financing costs. Tax saving, as an internal source of funds, is an alternative to external financing. When enterprises are faced with more severe external financing constraints, they may have a stronger incentive to reduce tax burden to increase internal financing sources. Therefore, although the improvement of internal control mechanism can help alleviate problems such as financing constraints and resource constraints, thus bringing about higher quality tax personnel allocation, a weak internal control mechanism may also stimulate enterprises' motivation to save tax costs, resulting in lower actual tax burden for companies with lower internal control quality.

Third, in companies with poor internal control environments, executives in various functional departments, including tax functional departments, are more likely to be above internal control. When the interests of the corporate tax functional departments are directly linked to the actual tax burden of the company, the tax functional departments are likely to take risks and adopt aggressive means to avoid tax, or even use illegal means to "evade tax" and "evade tax" to reduce the actual tax burden of the company. One of the five objectives of internal control is to guarantee the enterprise operation and management, legal compliance, apparently, the internal control environment worse, due to the lack of internal supervision and control measures, it is more difficult to keep its tax management activities of the "legal compliance", thus more likely to have the radical, violation of tax avoidance. From this perspective, companies with lower internal control quality do not necessarily show higher actual tax burden.

Fourth, when the internal supervision and control measures involved in the company's internal control mechanism are too strict, too many supervision and control points and too complex control procedures may also lead to the difficulty for relevant personnel to timely use the information or opportunities they have to help enterprises reduce tax burden. According to the research of Li Wanfu (2012) and other scholars, empirical evidence proves the negative correlation between the quality of internal control and the actual tax burden of enterprises. This paper also USES the data of recent five years to test this conclusion, and the results are consistent. Therefore, this paper proposes the following hypotheses:

H3: High-quality internal control can inhibit the positive correlation between corporate tax burden and tunneling degree of major shareholders.

IV. VARIABLE DEFINITION AND MODEL DESIGN

4.1 Variable Definitions

This paper uses capital occupation (OCCUPY1, OCCUPY2) to measure the extent of tunneling of controlling shareholders and internal control index (ICI) to measure the quality of internal control. The internal control index is constructed by the internal control research group of Shenzhen Dibo Company and Xiamen University from the five elements of internal control objectives and internal control respectively. The ETR is used to measure the degree of corporate tax avoidance, and the income tax expense is divided by the pretax profit. In order to overcome the deficiency of this measurement method, this paper takes the applicable

tax rate (Rate) as the control variable to control the impact of the applicable tax burden on the actual tax burden, so that the ETR can more accurately reflect the degree of corporate tax avoidance.

The main control variables used to build the model in this paper are: company size (Size) , financial leverage(Lev) , company growth (Growth) , investment income (ROI) , return on equity (ROE) , shareholding ratio of the largest shareholder (First) and the ratio of independent directors (ID) . Virtual variable: applicable tax rate (Rate) , industry (Ind) and year (Year) .The variables are defined as follows:

Table 2: Variable Definitions

Variable types	The variable name	Variable definitions
Explained variable	OCCUPY ₁	Capital occupation, other receivables/total assets
	OCCUPY ₂	Capital occupation, other receivables/main business income
Explanatory variables	ETR	Corporate tax burden, Income tax expense/Pretax profit Reflect the extent of corporate tax avoidance
	ICI	Internal control quality
Control variables	Size	Enterprise size, the logarithm of total assets
	Lev	The ratio of a company's liabilities to its total assets
	Growth	Enterprise growth, annual revenue growth rate
	ROI	The return on investment, the return on investment at the end of the year divided by the total assets
	ROE	Return on equity is the ratio of total profits to net assets
	First	The largest shareholder shareholding ratio
Virtual variable	ID	Number of independent directors divided by the total number of directors
	Rate	High-tech industry is 0, no preferential other applicable tax rate is 25% enterprise is 1
	Year	Year
	Ind	Industry

4.2 Model Design

In order to test the three hypotheses proposed in this paper, the following three multiple linear regression models are constructed:

$$\text{Tunnel} = \alpha_0 + \alpha_1 \text{ETR} + \alpha_2 \text{Control} + \alpha_3 \text{Rate} + \sum \text{Year} + \sum \text{Ind} + \varepsilon$$

$$\text{Tunnel} = \beta_0 + \beta_1 \text{ICI} + \beta_2 \text{Control} + \beta_3 \text{Rate} + \sum \text{Year} + \sum \text{Ind} + \varepsilon$$

$$\text{Tunnel} = \gamma_0 + \gamma_1 \text{ETR} + \gamma_2 \text{ETR} * \text{ICI} + \gamma_3 \text{ICI} + \gamma_4 \text{Control} + \gamma_5 \text{Rate} + \sum \text{Year} + \sum \text{Ind} + \varepsilon$$

V. DATA ANALYSIS AND CONCLUSION

This paper intends to select the a-share listed companies in Shanghai and Shenzhen from 2013 to 2017 as the initial sample, and exclude the financial insurance industry, ST, PT company and incomplete companies in the sample. The internal control index comes from the Shenzhen dibo database, the nominal income tax rate data comes from the WIND database, and other financial data comes from the CSMAR database. In order to eliminate the influence of extreme values, this paper intends to conduct the tail reduction treatment on the scale of 1%--99% of the continuous variables in the model. Descriptive statistical results of the data are shown in the table below:

Table 3: Descriptive Statistics

VARIABLES	(1) N	(2) mean	(3) sd	(4) min	(5) max
OCCUPY ₁	10,300	0.0160	0.0229	0.000183	0.138
OCCUPY ₂	10,300	0.0435	0.0866	0.000284	0.602
ETR	10,300	0.173	0.176	-0.632	0.817
ETR*ICI	10,300	0.857	14.51	-870.3	169.8
ICI	10,300	6.479	0.121	5.830	6.700
Size	10,300	22.33	1.283	19.91	26.18
Lev	10,300	0.440	0.204	0.0615	0.892
ROI	10,300	0.00762	0.0158	-0.00765	0.0952
First	10,300	35.21	14.93	9.065	75.05
ROE	10,300	0.0717	0.0943	-0.356	0.344
Ind	10,300	4.367	1.237	2	6
Rate	10,300	0.659	0.474	0	1
Growth	10,300	0.215	0.524	-0.526	3.578
ID	10,300	14.84	4.663	1	35

According to the above model, two variables (OCCUPY₁ and OCCUPY₂) are regressed by the Stata software, and the results are shown in the following two tables:

Table 4: OCCUPY₁ Regression Results

VARIABLES	(1) occupy ₁	(2) occupy ₁	(3) occupy ₁
ICI		-0.0104*** (0.00242)	-0.0103*** (0.00242)
ETR*ICI			1.07e-05* (5.89e-06)
ETR	0.00358** (0.00151)		0.00333** (0.00153)
Size	-0.00105*** (0.000246)	-0.000837*** (0.000241)	-0.000859*** (0.000241)
Lev	0.0234*** (0.00155)	0.0229*** (0.00153)	0.0228*** (0.00153)
ROI	0.165*** (0.0218)	0.162*** (0.0215)	0.165*** (0.0216)
First	-0.000128*** (1.40e-05)	-0.000125*** (1.40e-05)	-0.000125*** (1.40e-05)
ROE	-0.0132*** (0.00325)	-0.00841** (0.00341)	-0.00922*** (0.00341)
ID	8.13e-05* (4.44e-05)	8.42e-05* (4.44e-05)	8.35e-05* (4.44e-05)
Growth	0.000654 (0.000596)	0.000818 (0.000597)	0.000849 (0.000596)
Rate	0.000890** (0.000418)	0.000903** (0.000415)	0.000829** (0.000417)
Year	control	control	control
Ind	control	control	control
Constant	0.0352*** (0.00496)	0.0980*** (0.0163)	0.0978*** (0.0163)
Observations	10,300	10,300	10,300
R-squared	0.126	0.128	0.129

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 5: OCCUPY₂ Regression Results

VARIABLES	(4) occupy ₂	(5) occupy ₂	(6) occupy ₂
ICI		-0.0608*** (0.00928)	-0.0606*** (0.00927)
ETR*ICI			3.78e-05** (1.87e-05)
ETR	0.0161*** (0.00564)		0.0151*** (0.00577)
Size	-0.00238** (0.000952)	-0.00115 (0.000907)	-0.00125 (0.000910)
Lev	0.0469*** (0.00601)	0.0439*** (0.00587)	0.0435*** (0.00585)
ROI	0.788*** (0.0888)	0.770*** (0.0875)	0.783*** (0.0879)
First	-0.000554*** (5.35e-05)	-0.000534*** (5.30e-05)	-0.000535*** (5.30e-05)
ROE	-0.101*** (0.0123)	-0.0741*** (0.0130)	-0.0777*** (0.0130)
ID	0.000341** (0.000171)	0.000357** (0.000170)	0.000354** (0.000170)
Growth	-0.000702 (0.00244)	0.000291 (0.00243)	0.000416 (0.00243)
Rate	0.00644*** (0.00154)	0.00640*** (0.00151)	0.00607*** (0.00152)
Year	control	control	control
Ind	control	control	control

Constant	0.0981*** (0.0189)	0.467*** (0.0641)	0.466*** (0.0641)
Observations	10,300	10,300	10,300
R-squared	0.149	0.154	0.155

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

According to the figure above, when OCCUPY and ICI are regressive alone, the result coefficients are significantly negative, indicating that OCCUPY and ICI show a negative correlation; When OCCUPY and ETR are regressive alone, the result coefficients are significantly positive, indicating that there is a positive correlation between OCCUPY and ETR. After introducing the product of ICI and ETR as a variable, perform a regression analysis on the OCCUPY, ICI, ETR and product terms at the same time. It can be seen that the coefficient symbols of ICI and ETR are unchanged and still significant, while the coefficient of the product term is greater than 0, but the value is very small, showing the same significance.

The above results confirm the hypothesis of the article: Under the control of other variables, the tunneling degree of controlling shareholders is negatively correlated with the quality of internal control and positively correlated with the actual tax burden of enterprises. The improvement of internal control quality will restrain the tunneling behavior of controlling shareholders. The higher the tax burden, the higher the tunneling degree. The quality of internal control is negatively correlated with the tax burden of the company. With the improvement of the quality of internal control, the tax burden of the company decreases significantly, and the inhibiting effect on tunneling behavior increases. The internal control quality of an enterprise plays a negative role in adjusting the relationship between the tax burden of the enterprise and the extent of tunneling. Enterprises can reduce the tax burden by improving the quality of internal control, so as to inhibit tunneling behavior.

REFERENCE

- [1]. Liu Shaobo, Ma Chao. Manager Heterogeneity and Tunneling Suppression of Major Shareholders [J]. Economic research. 2016, 51(04): 129-145.
- [2]. Wang Liangliang. Tunneling and Support of Controlling Shareholders: the Impact of Corporate Income Tax [J]. Financial research. 2018(02): 172-189.
- [3]. Li Wanfu, Chen Huili. Internal Control and The Actual Tax Burden of the Company [J]. Financial research. 2012(09): 195-206.
- [4]. Zheng Guojian, Lin Dongjie, Zhang Feida. Financial Distress, Tunneling and Effectiveness of Corporate Governance of Major Shareholders -- Evidence from Financial Data of Major Shareholders [J]. 2013(05): 157-168.
- [5]. Cao Yue, Sun Li. Customer Concentration, Internal Control Quality and Corporate Tax Evasion [J]. Audit research. 2018(01): 120-128.
- [6]. Mihir A. Desai , Alexander Dyck , Luigi Zingales . Theft and taxes[J]. Journal of Financial Economics. 2006, 84(3).
- [7]. Ashbaugh Skaife , H., D. Collins , W . Kinney , and R . La Fond . The Effect of Internal Control Deficiencies and Their Remediation on Accrual Quality[J]. The Accounting Review. 2008(1): 217~250.
- [8]. Bertrand M., Y. Mehta and S. Mullainathan . Ferreting Out Tunneling: An Application to Indian Business Groups[J]. The Quarterly Journal of Economics. 2002(1): 121~148.
- [9]. Baek J , Kang J , Lee I. Business group sand tunnelling :Evidence from private securities offerings by Korean chaebols[J]. Journal of Finance, 2006(5): 2415~2449
- [10]. Cheng Y., P. R. Rau and A. Stouraitis. Tunneling , Propping and Expropriation :Evidence from Connected Party Transactions in HongKong [J]. Journal of Financial Economics, 2006(2): 343~386.
- [11]. Cheng ,Q. Luo, T. , Yue, H.. Managerial Incentives and Management Forecast Precision[J]. The Accounting Review. 2013(5): 1575~1602. search Part B: Methodological, 18(4-5), 289-299.

Shen Kexin" The Influence of Tax Burden on the TunnelBehavior of Major Shareholders:The Moderating Role of Internal Control" International Journal of Business and Management Invention (IJBMI), vol. 08, no. 05, 2019, pp 05-13