

Investigating the Impact of Tax Law Complexity on Financial Reporting Quality and Managerial Decision-Making

1. Ramtin. Sadatnajafi^{ORCID}: Adjunct Lecturer, Islamic Azad University, Ga.C., Garmsar, Iran

*corresponding author's email: najafi.ramtin@gmail.com

ABSTRACT

This study investigates the impact of tax law complexity on financial reporting quality and managers' investment decision-making in companies listed on the Tehran Stock Exchange during the 2015–2023 period. The primary objective is to identify the dual relationship between these complexities and the financial and behavioral performance of managers. The study is descriptive-correlational in nature and is based on annual panel data. The sample consists of companies listed on the stock exchange, excluding firms operating in the financial sector. Financial reporting quality was measured using the Modified Jones Accrual Model, while investment efficiency was assessed based on the deviation of actual investment from the optimal investment level. Data analysis was conducted using multivariate regression models with fixed effects and various diagnostic tests. The results indicate that tax law complexity reduces financial reporting quality through an increase in discretionary accruals. Simultaneously, however, it is associated with improved efficiency in managers' investment decision-making. These dual findings highlight the importance of optimally managing tax complexities. Tax law complexity is a multidimensional influential factor that should be considered with balance in both policymaking and corporate management. Such an approach can preserve the transparency of financial information while also creating opportunities to improve investment decisions.

Keywords: tax law complexity, financial reporting quality, investment efficiency, managerial decision-making, panel data

Introduction

Financial reporting quality has long been regarded as one of the fundamental pillars of efficient capital markets and effective corporate governance. High-quality financial reporting reduces information asymmetry between managers and stakeholders, enhances investors' confidence, improves resource allocation, and facilitates optimal economic decision-making. In modern financial systems, transparent and reliable accounting information enables investors, creditors, regulators, and policymakers to evaluate corporate performance accurately and predict future cash flows with greater precision. Consequently, financial reporting quality plays a critical role in improving market efficiency and promoting sustainable economic growth (1). In contrast, weak financial reporting quality can distort stakeholders' perceptions of corporate financial conditions and may result in inefficient investment decisions, increased financing costs, and reduced market transparency (2).

The growing complexity of business environments, expansion of regulatory requirements, and increasing interaction between accounting standards and taxation systems have intensified the importance of examining the determinants of financial reporting quality. Among these determinants, tax regulations and the complexity



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associated with their implementation have emerged as influential factors affecting managerial reporting behavior. Tax systems are designed not only to generate public revenues but also to influence corporate behavior through compliance mechanisms and enforcement policies. However, when tax laws become excessively complex, firms may encounter greater uncertainty regarding tax obligations, reporting standards, and regulatory interpretations (3). Such complexity may encourage opportunistic managerial behavior, increase earnings management practices, and reduce the transparency of financial reports. At the same time, complex tax regulations may also motivate firms to strengthen internal control systems and improve financial decision-making processes in order to minimize regulatory risk and optimize tax positions.

The relationship between taxation and financial reporting has become increasingly significant in recent years because accounting information serves as the primary basis for tax assessment and monitoring. In many countries, tax authorities rely heavily on corporate financial statements to evaluate taxable income and detect tax avoidance practices. Therefore, firms often face conflicting incentives between presenting favorable financial performance to investors and minimizing taxable income for tax authorities. This dual pressure can affect the quality and credibility of financial reporting practices. Research has shown that tax compliance and financial reporting quality are closely interconnected, particularly in environments characterized by regulatory uncertainty and weak monitoring systems (4). Similarly, the standardization of tax enforcement mechanisms has been found to improve financial reporting quality by reducing managerial discretion and increasing reporting consistency (5).

In emerging economies, including Iran, the issue of financial reporting quality is particularly important due to the evolving nature of accounting regulations, tax systems, and capital market structures. The Tehran Stock Exchange has experienced substantial growth in the number of listed companies and trading activities over the past decades, increasing the demand for transparent and reliable financial information. Nevertheless, firms operating in such environments often face considerable institutional challenges, including changes in tax regulations, inconsistencies in enforcement practices, and varying levels of corporate governance quality. These conditions may intensify the influence of tax law complexity on managerial decisions and financial reporting outcomes. Previous studies conducted in Iran have highlighted that financial reporting quality is influenced by numerous organizational, regulatory, and environmental factors, including governance mechanisms, audit quality, ownership structure, and tax-related incentives (6, 7).

Financial reporting quality is generally associated with characteristics such as relevance, reliability, comparability, transparency, conservatism, and timeliness. High-quality reporting reduces uncertainty in capital markets and facilitates better evaluation of firms' operational and financial performance. According to grounded theory approaches, the determinants of financial reporting quality encompass both internal organizational factors and external institutional pressures (8). Internal mechanisms such as effective auditing systems, managerial competence, and corporate governance structures contribute positively to reporting quality, while external pressures including tax regulations, legal requirements, and economic conditions may either improve or deteriorate reporting practices.

The role of auditing in improving financial reporting quality has also received significant attention in accounting literature. Independent auditing and internal auditing systems serve as monitoring mechanisms that reduce information asymmetry and limit managerial opportunism. Studies have shown that higher audit quality is positively associated with improved financial reporting quality because auditors constrain earnings manipulation and increase compliance with accounting standards (9, 10). Similarly, the tenure and experience of auditors can influence the

reliability of reported financial information by affecting auditors' familiarity with firm-specific risks and accounting practices (11). Internal auditing functions also contribute to enhancing reporting transparency and strengthening control systems within organizations (12).

Another important factor affecting financial reporting quality is corporate governance. Strong governance mechanisms improve oversight over managerial actions and reduce the likelihood of fraudulent reporting practices. The interaction between audit committees, internal auditors, and external auditors has been identified as an essential component in strengthening financial reporting quality and organizational accountability (13). In addition, public ownership structures and market monitoring mechanisms may encourage firms to adopt more conservative and transparent reporting practices in order to maintain investor confidence (14). Non-financial organizational characteristics such as managerial competence, operational complexity, and institutional reputation have also been found to influence reporting quality (15).

Tax avoidance behavior represents another dimension closely linked to financial reporting quality. Firms often attempt to minimize tax liabilities through legal tax planning strategies; however, aggressive tax avoidance may increase managerial incentives to manipulate accounting information. Studies conducted in the Iranian capital market indicate that tax avoidance practices can reduce the transparency of financial reporting and negatively affect the reliability of accounting information (16). Similarly, proprietary costs and tax-related incentives may motivate managers to withhold or distort financial information in order to protect competitive advantages or reduce regulatory scrutiny (17). Tax culture and corporate risk perceptions also play significant roles in shaping tax-related reporting behaviors, particularly in environments where enforcement practices are inconsistent or ambiguous (18).

The increasing complexity of tax laws may create substantial challenges for firms in interpreting and implementing tax regulations accurately. Complex tax systems often involve multiple exemptions, deductions, incentives, and compliance requirements that require sophisticated accounting and legal expertise. In such situations, managers may exercise greater discretion in estimating tax-related accruals and financial statement items, potentially reducing the comparability and reliability of financial reports. At the same time, firms facing complex tax regulations may adopt more cautious and strategic investment behaviors to avoid regulatory penalties and financial uncertainty. Consequently, tax law complexity may exert both negative and positive effects on corporate outcomes.

One of the important consequences of financial reporting quality is its impact on investment efficiency. Investment efficiency refers to the extent to which firms allocate resources toward value-creating projects and avoid overinvestment or underinvestment. High-quality financial reporting reduces information asymmetry and improves managerial accountability, thereby facilitating more efficient investment decisions (19). Firms with transparent reporting systems are generally better able to access external financing and evaluate investment opportunities accurately. Conversely, low-quality reporting may increase agency conflicts and lead to inefficient allocation of corporate resources. Research has demonstrated that financial reporting quality significantly influences firms' growth opportunities and long-term economic performance (20).

Recent studies have also emphasized the importance of accounting comparability in enhancing financial reporting quality and limiting opportunistic tax behavior. Comparable accounting information enables investors and regulators to evaluate corporate performance more effectively across firms and industries, thereby reducing informational uncertainty (21). In addition, timely financial reporting is considered a crucial indicator of reporting quality because delays in reporting may reduce the relevance of accounting information for decision-making

purposes. Factors such as profitability, financial distress, operational complexity, and firm size have been shown to influence the timeliness of corporate reporting practices (22).

Fraudulent financial reporting remains another major concern associated with weak reporting quality and ineffective regulatory systems. Fraudulent reporting practices can undermine investor confidence, distort market valuations, and create systemic risks within financial markets. Grounded theory research in Iran has identified numerous factors contributing to fraudulent financial reporting, including weak oversight mechanisms, managerial incentives, inadequate internal controls, and institutional pressures (23). The existence of complex and ambiguous tax regulations may intensify these problems by increasing opportunities for manipulation and reducing the transparency of accounting information.

Technological developments and the expansion of digital reporting systems have also transformed the financial reporting environment. Modern reporting technologies, including extensible business reporting frameworks, have improved the speed, comparability, and accessibility of accounting information (24). However, despite technological advancements, the quality of reported information still depends heavily on regulatory clarity, organizational ethics, and managerial incentives. Therefore, understanding how tax law complexity influences financial reporting and managerial behavior remains an essential issue for researchers and policymakers.

The economic consequences of financial reporting quality extend beyond firm-level performance and affect broader market efficiency and economic stability. High-quality reporting supports sustainable economic growth by improving capital allocation efficiency, reducing financing constraints, and strengthening investor confidence (1). Conversely, poor reporting quality may contribute to market instability, inefficient investments, and reduced trust in financial institutions. Prior studies have demonstrated that the choice of financial reporting quality levels can produce significant economic effects within capital markets, influencing both firm valuation and investment behavior (25).

Despite extensive research on financial reporting quality, auditing, and tax avoidance, limited attention has been devoted to the direct role of tax law complexity in simultaneously affecting financial reporting quality and managerial investment decision-making, particularly in emerging markets such as Iran. Existing studies have primarily focused on isolated dimensions of taxation or reporting quality without considering the multidimensional consequences of regulatory complexity. Furthermore, empirical evidence regarding whether tax complexity necessarily deteriorates managerial performance or may, under certain conditions, improve investment efficiency remains inconclusive. This gap in the literature highlights the need for further investigation into the dual effects of tax law complexity on corporate reporting and managerial behavior.

Accordingly, the present study aims to investigate the effect of tax law complexity on financial reporting quality and managerial investment decision-making in companies listed on the Tehran Stock Exchange during the 2015–2023 period.

Methods and Materials

This study is applied in terms of objective and descriptive–correlational in terms of nature and methodology, and it is categorized as an ex post facto study based on archival data. The statistical population consists of all companies listed on the Tehran Stock Exchange. The study period covers the years 2015 to 2023. This time horizon was selected due to the relative stability of financial reporting regulations, complete accessibility of financial data, and the coverage of a relatively long period to enhance the generalizability of the findings. The research sample was

selected using a systematic elimination method. Accordingly, firms remained in the sample if they: (1) were listed and active on the Tehran Stock Exchange throughout the entire study period; (2) had a fiscal year ending on March 20 to ensure comparability of financial information; (3) did not change their fiscal year during the study period; (4) had the required financial information available for calculating the study variables; and (5) were not operating in the banking, insurance, financial intermediation, or investment industries, because the nature of their activities and financial reporting structures differ from those of other industries. After applying these restrictions, the final sample was selected through screening, and the data were organized in firm–year format.

The required data were extracted from audited financial statements, accompanying explanatory notes, and boards of directors' reports, and were collected through the Comprehensive Database of All Listed Companies (CODAL) and capital market information databases. In this study, financial reporting quality is considered the dependent variable, tax law complexity is regarded as the primary independent variable, and managerial decision-making is treated as the outcome variable. To control for the effects of other factors influencing financial reporting quality, several control variables were incorporated into the model, including firm size (natural logarithm of total assets), financial leverage (ratio of total liabilities to total assets), profitability (return on assets), and firm growth opportunities (market-to-book ratio of shareholders' equity).

Financial reporting quality was measured using the Modified Jones Accrual Model, which is one of the most widely used measures of financial reporting quality in accounting literature. Under this approach, total accruals are first calculated as the difference between net income and operating cash flows. Subsequently, the discretionary component of accruals is extracted using the Modified Jones regression model. The absolute value of discretionary accruals is considered an inverse proxy for financial reporting quality, such that lower values indicate higher reporting quality. The tax law complexity variable was measured based on the abnormal effective tax rate index, calculated through the difference between the statutory tax rate and the firm's effective tax rate. An increase in this gap may indicate greater complexity in the interpretation and implementation of tax regulations and higher levels of tax uncertainty. Furthermore, managerial decision-making was measured through firm investment efficiency. For this purpose, the expected level of investment was first estimated using a regression model based on growth opportunities. The deviation of actual investment from the expected investment level, calculated from the residuals of the investment model, was then considered an indicator of investment inefficiency.

Thus, the value of *INV* represents the deviation of investment from the expected level. Negative values indicate underinvestment, whereas positive values indicate overinvestment.

To test the research hypotheses, multivariate regression models based on panel data were employed. In this study, two regression models were estimated to examine the effects of tax law complexity on financial reporting quality and managerial decision-making. The first model, designed to test the impact of tax law complexity on financial reporting quality, is specified as follows:

$$FRQ_{it} = \beta_0 + \beta_1 TAXC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \beta_5 MTB_{it} + \varepsilon_{it}$$

where:

FRQ= Financial reporting quality

TAXC= Tax law complexity

SIZE= Firm size

LEV= Financial leverage

ROA= Firm profitability

MTB= Growth opportunities

ε = Error term

i denotes the firm and t denotes the year.

The second model was estimated to investigate the impact of tax law complexity on managerial decision-making through the investment efficiency index:

$$INV_{it} = \beta_0 + \beta_1 TAXC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \beta_5 MTB_{it} + \varepsilon_{it}$$

In this model, the value of INV represents the deviation of investment from the expected level. Negative values indicate underinvestment, whereas positive values indicate overinvestment.

Before estimating the models, the necessary statistical tests were conducted to determine the appropriate model specification. First, the Chow test was employed to determine whether panel data estimation was preferable to pooled data estimation. Subsequently, the Hausman test was used to choose between fixed-effects and random-effects models. In addition, to ensure the validity of the results, the classical regression assumptions were examined, including tests for normality of data distribution (Jarque–Bera test), autocorrelation of error terms (Durbin–Watson test), heteroskedasticity (White test), and multicollinearity (Variance Inflation Factor [VIF]). In the presence of heteroskedasticity or autocorrelation, robust standard errors were applied in model estimation. Data analysis was conducted using EViews software, and the final results will be presented and interpreted through statistical tables including descriptive statistics of variables, correlation coefficient matrices, results of classical assumption tests, and regression model estimations.

Findings and Results

In the first stage, descriptive statistics including the mean, median, minimum, maximum, and standard deviation were calculated in order to identify the characteristics of the data and examine the general status of the research variables. The results are presented in Table 1.

Table 1. Descriptive Statistics of Research Variables

| Variable | Mean | Median | Minimum | Maximum | Standard Deviation |
|-----------------------------------|--------|--------|---------|---------|--------------------|
| Financial Reporting Quality (FRQ) | 0.087 | 0.079 | 0.011 | 0.321 | 0.064 |
| Tax Law Complexity (TAXC) | 0.064 | 0.058 | -0.021 | 0.214 | 0.051 |
| Investment Efficiency (INV) | -0.012 | -0.009 | -0.214 | 0.167 | 0.072 |
| Firm Size (SIZE) | 14.62 | 14.55 | 11.84 | 18.09 | 1.29 |
| Financial Leverage (LEV) | 0.58 | 0.57 | 0.12 | 0.89 | 0.17 |
| Profitability (ROA) | 0.112 | 0.103 | -0.094 | 0.348 | 0.086 |
| Growth Opportunities (MTB) | 1.74 | 1.51 | 0.42 | 4.93 | 0.93 |

The descriptive statistics indicate that the mean financial reporting quality of the sampled firms is equal to 0.087, suggesting a moderate level of discretionary accruals among the sample companies. Furthermore, the mean value of the tax law complexity variable is reported as 0.064, indicating a considerable gap between the effective tax rate and the statutory tax rate in some firms. The standard deviations of the variables also demonstrate an appropriate dispersion of the data and the existence of heterogeneity among the sampled firms.

To examine the preliminary relationships among the variables and to provide an initial assessment of multicollinearity, Pearson correlation coefficients were calculated.

Table 2. Correlation Matrix of Variables

| Variable | FRQ | TAXC | INV | SIZE | LEV | ROA | MTB |
|----------|--------|--------|--------|-------|--------|-------|-----|
| FRQ | 1 | | | | | | |
| TAXC | 0.214 | 1 | | | | | |
| INV | -0.186 | -0.231 | 1 | | | | |
| SIZE | -0.143 | 0.118 | 0.095 | 1 | | | |
| LEV | 0.167 | 0.092 | -0.134 | 0.201 | 1 | | |
| ROA | -0.298 | -0.121 | 0.254 | 0.164 | -0.187 | 1 | |
| MTB | -0.172 | 0.083 | 0.311 | 0.147 | -0.096 | 0.226 | 1 |

The results indicate a positive correlation between tax law complexity and financial reporting quality, which may suggest an increase in discretionary accruals under conditions of greater tax regulation complexity. In addition, the correlation coefficients among the independent variables are all below 0.7, indicating that there is no serious multicollinearity problem in the model.

Prior to estimating the regression models, it is necessary to examine the fundamental assumptions of the model and determine whether the data structure is appropriate for panel data analysis. Accordingly, this study first evaluates multicollinearity among the independent variables, followed by the Chow test to select between pooled and panel data models, and the Hausman test to choose between fixed-effects and random-effects models. The results of these tests are presented in the following tables.

To investigate the presence or absence of multicollinearity among the independent variables, the Variance Inflation Factor (VIF) index was employed. If the value of this index for the variables is less than 10, it can be concluded that no serious multicollinearity problem exists in the model. The results are presented in Table 3.

Table 3. VIF Test Results

| Variable | VIF |
|----------|------|
| TAXC | 1.82 |
| SIZE | 2.14 |
| LEV | 1.67 |
| ROA | 2.36 |
| MTB | 1.91 |

The results in Table 3 demonstrate that the VIF values for all independent variables are substantially lower than 10. Therefore, it can be concluded that there is no severe and harmful correlation among the explanatory variables, and the multicollinearity problem does not threaten the validity of the regression estimations.

To determine whether the data should be estimated using a pooled model or whether the panel data model is more appropriate, the Chow test was conducted. The results are reported in Table 4.

Table 4. Chow Test Results

| F-Statistic | Significance Level |
|-------------|--------------------|
| 7.84 | 0.000 |

Based on the results presented in Table 4, the significance level of the test is less than 0.05. Therefore, the null hypothesis regarding the appropriateness of the pooled model is rejected, and the panel data model is considered appropriate for estimating the research model.

Following confirmation of the suitability of panel data analysis, an appropriate selection between fixed-effects and random-effects models was required. For this purpose, the Hausman test was applied. The results are presented in Table 5.

Table 5. Hausman Test Results

| Chi-Square Statistic | Significance Level |
|----------------------|--------------------|
| 12.73 | 0.018 |

Given the significance of the Hausman test reported in Table 5, the null hypothesis is rejected. Therefore, the fixed-effects model is more appropriate for estimating the research model. This result indicates that individual differences among firms are correlated with the explanatory variables and should therefore be controlled through fixed effects.

To ensure the validity of the statistical inferences, the assumptions related to heteroskedasticity and autocorrelation of the error terms must also be examined. The results of the White test and the Durbin–Watson statistic are presented in Table 6.

Table 6. Results of Heteroskedasticity and Autocorrelation Tests

| Test | Statistic | Significance Level / Value |
|-------------------------|-----------|----------------------------|
| White Test | 21.46 | 0.031 |
| Durbin–Watson Statistic | 2.03 | — |

Based on Table 6, the White test indicates the presence of heteroskedasticity in the model because the significance level is below 0.05. In contrast, the Durbin–Watson statistic equals 2.03, suggesting the absence of a serious autocorrelation problem among the error terms. Therefore, the use of robust standard errors is necessary to improve the accuracy of the estimations.

After examining the characteristics of the data and conducting the diagnostic tests, the first research hypothesis was tested using a fixed-effects panel regression model. The purpose of this section is to investigate the effect of tax law complexity on firms' financial reporting quality while controlling for other influential factors. The estimation results are presented in Table 7.

Table 7. Regression Results for the Effect of Tax Law Complexity on Financial Reporting Quality

| Variable | Coefficient | t-Statistic | Significance Level |
|----------------------------|-------------|-------------|--------------------|
| Intercept | 0.241 | 3.18 | 0.002 |
| Tax Law Complexity (TAXC) | 0.156 | 2.97 | 0.003 |
| Firm Size (SIZE) | -0.018 | -2.41 | 0.016 |
| Financial Leverage (LEV) | 0.072 | 2.12 | 0.034 |
| Profitability (ROA) | -0.214 | -3.84 | 0.000 |
| Growth Opportunities (MTB) | -0.031 | -1.76 | 0.079 |

| Index | Value |
|-------------------------|-------|
| R^2 | 0.41 |
| Adjusted R^2 | 0.38 |
| F-Statistic | 18.62 |
| Significance Level of F | 0.000 |
| Durbin–Watson | 2.03 |

The results in Table 7 indicate that the coefficient of the tax law complexity variable is positive and statistically significant at the 1% level. Given that the financial reporting quality variable was measured based on the absolute value of discretionary accruals, this result suggests that an increase in tax law complexity leads to higher discretionary accruals and, consequently, lower financial reporting quality. Therefore, the first research hypothesis regarding the significant effect of tax law complexity on financial reporting quality is supported.

Considering that the objective of the study is to investigate the impact of tax law complexity not only on financial reporting quality but also on managerial decision-making, the next step examined the effect of this variable on firms'

investment efficiency as an indicator of managerial decision quality. Investment efficiency reflects the degree of deviation of actual investment from the optimal investment level, and the lower this deviation, the more efficient managerial decision-making is considered to be. The results of the corresponding regression model are presented in Table 8.

Table 8. Regression Results for the Effect of Tax Law Complexity on Managerial Decision-Making

| Variable | Coefficient | t-Statistic | Significance Level |
|----------------------------|-------------|-------------|--------------------|
| Intercept | -0.132 | -2.87 | 0.004 |
| Tax Law Complexity (TAXC) | -0.148 | -3.21 | 0.001 |
| Firm Size (SIZE) | 0.021 | 2.18 | 0.029 |
| Financial Leverage (LEV) | -0.067 | -2.06 | 0.041 |
| Profitability (ROA) | 0.196 | 3.57 | 0.000 |
| Growth Opportunities (MTB) | 0.044 | 1.86 | 0.063 |

| Index | Value |
|-------------------------|-------|
| R^2 | 0.37 |
| Adjusted R^2 | 0.34 |
| F-Statistic | 16.94 |
| Significance Level of F | 0.000 |
| Durbin–Watson | 1.98 |

The results in Table 8 show that the coefficient of the tax law complexity variable is negative and statistically significant at the 1% level. Given that the *INV* variable in this study is defined as an indicator of the deviation of investment from the optimal level, the negative coefficient of *TAXC* indicates that as tax law complexity increases, the deviation of investment from the optimal level decreases. Therefore, based on this indicator, tax law complexity is associated with a relative improvement in investment efficiency.

Discussion and Conclusion

The findings of the present study indicate that tax law complexity has a significant positive effect on discretionary accruals and consequently reduces financial reporting quality in companies listed on the Tehran Stock Exchange. At the same time, the results demonstrate that tax law complexity is associated with a reduction in investment deviation from the optimal level, indicating an improvement in investment efficiency and managerial decision-making quality. These findings suggest that tax law complexity exerts a dual and multidimensional influence on corporate financial behavior. On the one hand, complex tax regulations create incentives and opportunities for earnings management and reduced reporting transparency; on the other hand, they encourage managers to adopt more cautious and efficient investment strategies in order to reduce regulatory risk and financial uncertainty.

The first hypothesis of the study demonstrated that tax law complexity negatively affects financial reporting quality. This finding is consistent with the theoretical perspective that increasing complexity in tax regulations enhances managerial discretion in financial reporting and creates conditions conducive to opportunistic accounting behavior. When tax rules become difficult to interpret and implement, firms face greater uncertainty regarding tax obligations and compliance requirements. Under such circumstances, managers may manipulate accounting accruals and financial disclosures to minimize tax burdens or avoid regulatory scrutiny. Consequently, the reliability and transparency of financial statements decline. This result is aligned with the findings of (3), who argued that complex tax accounting rules significantly influence financial reporting practices and managerial judgment. Similarly, (5) concluded that standardized and transparent tax enforcement mechanisms improve financial reporting

quality by reducing managerial discretion and reporting ambiguity. Therefore, the current study indirectly confirms that the absence of simplicity and consistency in tax systems may weaken reporting quality.

The findings are also consistent with prior Iranian studies emphasizing the relationship between tax-related incentives and reporting transparency. (16) found that tax avoidance practices reduce the transparency of financial reporting among firms listed on the Tehran Stock Exchange. Likewise, (17) demonstrated that proprietary cost-related factors and tax incentives may motivate firms to reduce disclosure quality in order to protect strategic interests or minimize taxation pressures. In environments characterized by regulatory ambiguity and evolving tax laws, managers may perceive discretionary reporting practices as mechanisms for managing financial and fiscal risks. This issue becomes more critical in emerging markets where institutional monitoring systems may not fully constrain opportunistic managerial behavior.

The present findings also support the grounded theory perspective proposed by (8), who identified external institutional pressures and regulatory structures as important determinants of financial reporting quality. Tax law complexity can be interpreted as an institutional pressure that influences managerial reporting choices and affects the overall quality of accounting information. Similarly, (6, 7) emphasized that the level of financial reporting quality is shaped by both organizational incentives and environmental conditions. The current study extends this perspective by showing that tax law complexity constitutes a significant environmental factor influencing reporting outcomes in the Iranian capital market.

Another important explanation for the negative effect of tax complexity on financial reporting quality relates to the increased compliance burden imposed on firms. Complex tax systems require firms to devote greater financial and human resources to tax planning, legal interpretation, and documentation procedures. Such conditions may increase managerial focus on short-term tax management objectives rather than long-term reporting transparency. In addition, uncertainty regarding tax regulations may encourage conservative or strategically distorted accounting choices to avoid future disputes with tax authorities. These conditions may ultimately reduce the comparability and reliability of financial information. This interpretation is consistent with the arguments presented by (2), who highlighted that financial reporting quality is highly sensitive to regulatory challenges and institutional uncertainty.

The results concerning the control variables also provide meaningful insights. The negative relationship between firm size and discretionary accruals suggests that larger firms tend to produce higher-quality financial reports. Larger firms are generally subject to greater public scrutiny, stricter governance requirements, and more extensive monitoring by investors and regulators. Consequently, they may have stronger incentives to maintain transparent reporting practices. This finding is compatible with the conclusions of (14), who emphasized the importance of public ownership and market monitoring in encouraging conservative reporting behavior. Similarly, the negative effect of profitability on discretionary accruals suggests that profitable firms are less likely to engage in earnings manipulation because they face lower pressure to distort financial performance.

The positive relationship between financial leverage and discretionary accruals also deserves attention. Firms with higher debt levels may experience greater pressure to satisfy creditors and comply with debt covenants, increasing incentives for earnings management. This result aligns with agency theory perspectives suggesting that leverage intensifies conflicts between managers and external stakeholders. Prior studies such as (25) and (15) similarly reported that organizational and financial characteristics significantly influence financial reporting quality.

The second major finding of this study indicates that tax law complexity is negatively associated with investment inefficiency, implying that greater complexity improves managerial investment decision-making. Although this result

may initially appear contradictory to the deterioration in financial reporting quality, it can be interpreted within the context of risk management and organizational adaptation. Complex tax regulations increase the financial and legal consequences of inefficient or aggressive investment decisions. As a result, managers may adopt more cautious and analytical approaches when allocating corporate resources. In other words, tax complexity may compel managers to evaluate investment opportunities more carefully in order to avoid tax penalties, compliance costs, or financial instability.

This finding is consistent with the arguments presented by (19), who emphasized the relationship between financial reporting quality and investment efficiency. Although the present study found a decline in reporting quality, it simultaneously revealed that managerial caution in response to tax complexity may improve investment efficiency. This suggests that managers may compensate for increased reporting uncertainty by adopting more disciplined investment strategies. The finding also aligns with (26), who argued that information quality and investment efficiency are interconnected components of corporate financial management.

The observed improvement in investment efficiency may also reflect adaptive managerial behavior in uncertain regulatory environments. Managers operating under complex tax systems may seek to minimize operational risks by avoiding excessive or speculative investments. This interpretation is supported by (18), who found that tax culture and corporate risk perceptions significantly influence corporate behavior and strategic decision-making. In uncertain tax environments, firms may become more conservative in resource allocation, thereby reducing deviations from optimal investment levels.

Another possible explanation is that complex tax systems encourage firms to strengthen internal control mechanisms and improve financial oversight processes. To manage tax-related risks effectively, firms may invest in better accounting systems, more specialized financial expertise, and stricter managerial supervision. These improvements may indirectly enhance investment evaluation processes and reduce inefficient capital allocation. This interpretation is compatible with studies emphasizing the positive role of auditing and governance mechanisms in improving organizational decision quality. For instance, (13) highlighted the importance of coordination between audit committees, internal auditors, and external auditors in improving corporate accountability and governance. Likewise, (12) demonstrated that effective internal auditing contributes positively to organizational transparency and financial oversight.

The findings also contribute to the broader literature concerning the economic consequences of financial reporting quality and regulatory complexity. Previous studies have primarily focused on either the negative consequences of tax avoidance and regulatory uncertainty or the positive effects of governance mechanisms on reporting quality. However, the present study demonstrates that tax law complexity can simultaneously generate both adverse and beneficial outcomes depending on the organizational dimension being examined. While financial reporting transparency may deteriorate due to increased managerial discretion, investment decision-making may improve because of heightened managerial caution and risk awareness. This duality highlights the multidimensional nature of regulatory influences in corporate environments.

The findings related to growth opportunities further reinforce this interpretation. Firms with higher growth opportunities exhibited relatively greater investment efficiency, suggesting that firms with strong future prospects may allocate resources more effectively despite regulatory complexity. This observation is consistent with (20), who emphasized the relationship between financial reporting quality and future growth throughout firms' life cycle

processes. Firms anticipating long-term growth may prioritize strategic efficiency and sustainable investment decisions over short-term opportunistic behaviors.

The present study also supports the view that regulatory environments significantly shape managerial behavior and organizational outcomes. Tax regulations are not merely legal instruments for revenue collection but also institutional mechanisms that influence corporate governance, risk management, reporting behavior, and investment policies. As argued by (1), improving transparency and tax compliance contributes to sustainable economic growth by strengthening institutional trust and market efficiency. Therefore, understanding the consequences of tax law complexity is important not only for corporate managers but also for policymakers and regulators seeking to balance regulatory effectiveness with economic efficiency.

Furthermore, the results indirectly highlight the importance of technological and institutional modernization in reducing the adverse effects of tax complexity. Advanced reporting technologies and standardized accounting systems can reduce ambiguity in financial reporting and facilitate more transparent tax compliance procedures. (24) emphasized that extensible financial reporting technologies improve the accessibility and comparability of accounting information. Therefore, integrating digital reporting systems and intelligent tax administration mechanisms may help reduce the negative effects of regulatory complexity on reporting quality.

The study also contributes to the literature on fraudulent financial reporting and managerial opportunism. As noted by (23), weak oversight mechanisms and institutional pressures increase the likelihood of fraudulent reporting practices. Tax complexity may intensify these pressures by expanding opportunities for subjective accounting judgments and manipulation. Consequently, strengthening monitoring mechanisms, audit quality, and regulatory clarity becomes essential for preserving the integrity of financial reporting systems. Studies by (9), (10), and (11) similarly emphasized the role of audit quality and auditor characteristics in constraining opportunistic reporting behavior and improving the credibility of accounting information.

One of the important implications of the current findings is that policymakers should not assume that stricter and more detailed tax regulations automatically improve transparency and compliance. Excessive complexity may unintentionally reduce reporting quality by encouraging discretionary accounting practices and increasing compliance burdens. Therefore, regulatory authorities should seek to design tax systems that are transparent, understandable, and enforceable while minimizing unnecessary ambiguity and administrative complexity. At the same time, firms should strengthen governance structures, internal auditing systems, and financial expertise to manage the challenges associated with complex tax environments more effectively.

The present study ultimately demonstrates that tax law complexity represents a multidimensional institutional factor with simultaneous effects on financial reporting and managerial decision-making. The findings enrich the existing literature by providing empirical evidence from an emerging capital market and by highlighting the coexistence of negative reporting consequences and positive investment-related outcomes under conditions of regulatory complexity.

One limitation of the present study is that the measurement of tax law complexity was based primarily on the difference between statutory and effective tax rates, which may not fully capture all dimensions of tax complexity, such as legal ambiguity, enforcement inconsistency, or procedural complexity. In addition, the study focused exclusively on firms listed on the Tehran Stock Exchange, limiting the generalizability of the findings to non-listed firms or firms operating in other institutional environments. Another limitation is the reliance on archival financial data, which may not fully reflect behavioral and qualitative dimensions of managerial decision-making.

Future studies are encouraged to examine additional dimensions of tax complexity, including qualitative indicators related to regulatory ambiguity, tax enforcement quality, and legal interpretation challenges. Researchers may also investigate the moderating role of corporate governance mechanisms, ownership structure, audit quality, and managerial characteristics in the relationship between tax complexity and financial reporting quality. Comparative studies across different countries or industries could provide broader insights into how institutional environments shape the consequences of tax law complexity. Furthermore, future research may employ mixed-method approaches or behavioral analyses to better understand managerial responses to regulatory uncertainty.

From a practical perspective, policymakers and tax authorities should seek to simplify tax regulations and improve the clarity and consistency of tax enforcement procedures in order to reduce reporting ambiguity and compliance costs. Companies should strengthen internal auditing systems, financial expertise, and governance mechanisms to mitigate the negative effects of tax complexity on financial reporting quality. In addition, managers should adopt transparent reporting practices and invest in advanced accounting technologies that improve compliance accuracy and reduce informational uncertainty. Strengthening coordination between tax authorities, auditors, and corporate governance bodies can also contribute to improving both reporting transparency and investment decision efficiency.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adhered in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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