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How Does Financial Expertise Moderate the Influence of Local CEOs on Tax Avoidance?

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Abstract. This research investigates the impact of local CEOs on tax avoidance, considering how CEO financial expertise moderates this influence. Utilizing data from 665 observations of non-financial firms listed on the Indonesia Stock Exchange between 2018 and 2021, the study employs moderated regression analysis (MRA) to assess its hypotheses. Consistent with the upper echelons theory, the findings suggest that local CEOs exert a positive and significant effect on tax avoidance. Conversely, the presence of financial expertise among CEOs appears to mitigate the negative impact of local CEOs on tax avoidance. The Coarsened Exact Matching (CEM) method robustly validates these conclusions. In essence, this study underscores the significance of both CEO locality and financial expertise in shaping corporate tax avoidance behaviour.

Keywords: CEO Locality, Financial Expertise, Upper Echelons Theory, Tax Avoidance, CEO Characteristics

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Introduction

Beginning with Hambrick & Mason (1984), the 'upper echelons' theory posits that top managers, including CEOs, wield considerable influence over firm performance. Extending this theory, recent studies have augmented the literature by offering empirical insights into the impact of CEO origins, such as local CEOs, on corporate outcomes. According to Chang et al., 2022 and Lai et al., 2020, a CEO is considered local if their origin matches the country of the company's headquarters. Despite the growing body of literature on local CEOs, empirical evidence regarding the effect of CEO locality remains sparse. For example, Chang et al. (2022) revealed that local CEOs exhibit greater involvement in corporate social responsibility disclosure, while Yang et al. (2023) found that local CEOs incur lower audit fees and engage in higher-quality accounting information disclosure. However, to the researcher's knowledge, empirical studies have yet to explore the influence of local CEOs in the context of tax avoidance. Therefore, this study expands on the previous research by Chang et al. (2022) and Yang et al. (2023) by providing empirical evidence on the potential significant impact of local CEOs on tax avoidance activities.

The tax ratio, which measures the proportion of tax revenue to Gross Domestic Product (GDP), is a standard gauge of tax effectiveness across both emerging and advanced economies. Indonesia's tax ratio in 2022 was 10.39 percent and remained within the 9–12 percent range throughout President Jokowi's administration (Panjaitan, 2023). According to the IMF, ideally, a country's tax ratio should be 15 percent, and the average tax ratio for developed countries is above 30 percent (Fauzia, 2018). When compared to other ASEAN countries, Indonesia's tax ratio is among the lowest. The low tax ratio indicates Indonesia's low fiscal independence, meaning it has not fully relied on tax revenue to finance its development.

The inability to meet tax revenue targets and the low tax ratio in Indonesia can be partly attributed to taxpayer behavior aimed at reducing their tax burden. Corporations, being significant contributors to the nation, engage in tax avoidance strategies, which involve actively minimizing taxes owed to a nominal amount without contravening the law, although such practices are not advisable (Harymawan et al., 2023). One method of tax avoidance involves relocating a business's operations or legal residence from a jurisdiction with high tax rates to one with lower rates (Vitols, 2023). Alternatively, tax avoidance may entail exploiting gaps or weaknesses in existing tax legislation (Achmad et al., 2023).

Drawing upon the upper echelons theory, this study fills a research void by empirically examining whether the presence of a local CEO significantly impacts tax avoidance activities, utilizing a sample of non-financial firms listed on the Indonesia Stock Exchange (IDX) spanning the period from 2018 to 2021. Besides their geographical ties, CEOs' educational backgrounds, experiences, expertise, and individual characteristics can also shape their management approaches and decision-making processes. Hence, this study incorporates CEOs' financial expertise as a moderating factor to explore whether their financial acumen strengthens or weakens the influence of CEO locality on tax avoidance. While CEOs with financial expertise are adept at analyzing the costs and benefits of tax avoidance (H. Huang & Zhang, 2020), they also tend to adopt a more cautious and less aggressive stance (Neifar & Huesing, 2023). Therefore, we need to observe if the financial expertise of CEOs enhances or reduces the influence of their locality on tax avoidance.

This study aims to offer contributions both theoretically and practically. Firstly, it enhances research on factors impacting tax avoidance by concentrating on CEO attributes, particularly locality and financial proficiency. Secondly, the research reveals that local CEOs exert a notable and positive influence on tax avoidance, whereas the financial acumen of CEOs mitigates this effect. These insights are anticipated to furnish valuable guidance for companies and stakeholders, advocating the consideration of CEO financial expertise in CEO selection processes, as part of endeavors to mitigate the adverse effects of local CEOs on tax avoidance endeavors.

Literature Review

Upper Echelons Theory

The correlation between executive backgrounds and tax avoidance aligns with research streams examining the influence of executives on firm performance. Originating with Hambrick & Mason (1984), the "upper echelons theory" posits that top executives play a significant role in determining firm performance. This assertion finds empirical support, indicating that CEOs possess diverse management styles that exert notable impacts on firm performance (H. Huang & Zhang, 2020).

CEO education, background, experience, personal traits, and other individual factors serve as personalized perspectives for assessing a company's strategic circumstances, encompassing threats, opportunities, alternatives, and the likelihood of various outcomes (Hambrick, 2016). Therefore, the upper echelons theory frames corporate strategic decisions like tax avoidance as expressions of the attitudes and inclinations of top executives (Hsieh et al., 2018).

Previous studies have explored the factors influencing tax avoidance, particularly examining the influence of executives on this behavior. For instance, Law & Mills (2017) revealed that executives with military backgrounds tend to avoid less tax and demonstrate higher tax payments annually. Similarly, Oussii & Klibi (2023) identified that CEO authority can diminish the extent of tax avoidance within companies. Furthermore, Hsieh et al. (2018) observed that companies are more inclined towards tax avoidance when led by CEOs exhibiting overconfidence. Building upon the theoretical framework of the upper echelons theory, this study contributes to the existing literature on tax avoidance determinants by investigating the impact of CEO locality and CEO financial expertise. Local CEOs possess in-depth insights into the local market, regulations, and industry dynamics pertinent to the company's operational region. Conversely, CEOs with robust financial backgrounds tend to prioritize financial considerations in decision-making processes, such as risk mitigation, capital allocation, and long-term financial strategy. Both characteristics are likely to shape corporate strategies, including involvement in tax avoidance activities.

Local CEO and Tax Avoidance

Tax avoidance plays a pivotal role in shaping corporate financial strategies. Implementing intelligent and effective tax management practices can mitigate income fluctuations and stabilize cash flow, thereby assisting CEOs in minimizing company risks and safeguarding corporate assets (Tan et al., 2023). Consequently, involvement in tax avoidance endeavors can enhance companies' market value and establish competitive advantages (Blaylock, 2016). However, excessive tax avoidance may incur tax and non-tax costs, posing potential risks. Tax avoidance activities often entail complex and convoluted procedures (Kovermann & Velte, 2019), potentially leading to diminished company profits and heightened financial reporting expenses (Tan et al., 2023). Inadequate information regarding actual company earnings may prompt investor disengagement, resulting in diminished stock prices (Thai et al., 2023). Furthermore, tax avoidance practices can impact corporate credit evaluations (Trisnawati & Nasser, 2017), hindering access to cost-effective financing (Elbannan & Farooq, 2020), while also increasing audit expenses and diminishing investment efficiency (Donohoe & Robert Knechel, 2014). Moreover, tax avoidance activities may invite sanctions and tarnish the reputation of both CEOs and companies (Al Mamun, 2016). Thus, CEOs must exercise discernment in selecting tax strategies, striking a balance between tax savings and overall costs.

In accordance with the upper echelons theory, the top management team (TMT), particularly the CEO, holds pivotal authority in making pivotal decisions within the organization (Dabbebi et al., 2022). Consequently, CEO attributes can elucidate significant corporate choices (Lassoued & Khanchel, 2023). One such notable characteristic is CEO locality, denoting the CEO's native country. CEOs from the company's home country, known as local CEOs, have a deep understanding of the local market, cultivate strong relationships with local stakeholders, show awareness of social and political dynamics in the local business environment, and demonstrate adaptability to country-specific regulations and governmental policies (Vo et al., 2020). R. Kaur & Singh (2018) conducted research suggesting that foreign CEOs may negatively impact company performance due to their unfamiliarity with national regulations and customary management practices in the local milieu. Hence, this study posits that local CEOs have a more profound comprehension of tax regulations pertinent to the regions in which the business operates. This equips local CEOs with the ability to exploit legal loopholes to engage in aggressive tax avoidance strategies.

H1: Companies led by local CEOs tend to be more involved in tax avoidance activities than those led by foreign CEOs.

Local CEO, Financial Expertise and Tax Avoidance

While local CEOs may possess a superior grasp of regulations and governmental policies compared to their foreign counterparts, coupled with expertise and background in accounting and finance, they may also be aware of the risks associated with aggressive tax avoidance.

Engaging in such practices can yield adverse consequences, including potential harm to the

company's reputation (Carolina et al., 2019), erosion of stakeholder trust leading to stock price declines (Thai et al., 2023), and heightened borrowing costs (Trisnawati & Nasser, 2017). Expertise in finance and/or accounting provides local CEOs with the ability to discern the financial risks associated with aggressive tax avoidance strategies. They are better positioned to assess the enduring repercussions of specific tax approaches on the company's financial well-being and reputation. Also, CEOs who are good at finance and accounting tend to be cautious when reporting their company's finances to the outside world. This makes it less likely that financial statements will need to be restated or that financial disclosures will contain material errors (Hoitash et al., 2016). Huang & Zhang (2020) conducted research positing that CEOs with financial expertise prioritize investment opportunities over involvement in tax avoidance schemes. Similarly, Neifar & Huesing (2023) found that CEOs with financial proficiency tend to eschew tax avoidance practices. This study posits that the financial expertise of CEOs promotes a conservative approach, which in turn promotes tax compliance and upholds integrity in business operations, thereby mitigating reputational risks for the company.
H2: Companies led by local CEOs with financial expertise tend to engage less in tax avoidance activities.

Research Methods

Data and Sample

This study focuses on a sample comprising non-financial public companies listed on the IDX. We specifically choose non-financial companies because their accounting reporting practices differ from those of financial entities. Combining financial and non-financial companies in the sample could lead to complexities in interpretation due to variations in certain variables (Neifar & Huesing, 2023).
We extract data for this research from the financial statements and annual reports of the selected companies. Financial statements provide information on tax avoidance, company size, leverage, and return on equity, while annual reports furnish data on local CEOs, CEO financial expertise, CEO gender, and board size. The analysis spans four years, from 2018 to 2021, resulting in a final sample comprising 665 company-year observations. Table 1 outlines the detailed criteria for sample selection.

Table 1. Sample Selection

Description	Observation Amount
Indonesia listed companies from 2018–2021	3337
Excluded:	
Financial firms (SIC 6)	(707)
Missing data and negative earnings before tax: TA	(989)
Missing data: CEOFIN	(907)
Missing data: Control variables	(69)
Final observations	665

Variables Operationalization

Tax Avoidance. Tax Avoidance (TA) serves as the dependent variable in this study. Tax avoidance involves diminishing or postponing tax liabilities (Zeng, 2019). Consistent with prior studies (Gaaya et al., 2017; Oussii & Klibi, 2023), the measurement of tax avoidance in this research employs the effective tax rate (ETR), which is derived by dividing the total tax expense by the profit before tax. This methodology encapsulates all strategies aimed at reducing taxes through planning or protection (Dyreng et al., 2017). We exclude company-year observations featuring negative profits before tax to ensure the validity of the analysis, as calculating the ETR with negative profit before tax yields nonsensical results (Zeng, 2019).

Local CEO. In this study, the independent variable CEOLOCAL represents a local CEO. A CEO is classified as local when their home country aligns with the location of the company's headquarters (Chang et al., 2022; Lai et al., 2020). Following the study of Tong et al. (2023), the local CEO is quantified using a binary variable, taking a value of 1 if the company's headquarters matches the CEO's home country and 0 otherwise.

Financial Expertise. CEOs with financial expertise (CEOFIN) are a moderating variable in this study. CEOs with financial expertise are defined as CEOs who have previous work experience in finance-related fields. Following the research by (H. Huang & Zhang, 2020), CEO financial expertise is measured using a dummy variable, valued as 1 if the CEO has work experience as an accountant/financial director/treasurer/financial manager/auditor, and 0 otherwise.

Control Variables. This study controls for company-level factors that may potentially influence a company's tax avoidance, as documented in previous research (W. Huang et al., 2018; López-González et al., 2019; Mocanu et al., 2021; Rahmayanti et al., 2022). CEO Gender (CEOGENDER) represents CEO characteristics, while Board Size (BOARD) represents corporate governance. Meanwhile, company characteristics are reflected in Company Size (FSIZE), Leverage (DER), and Return on Equity (ROE). Additionally, this study also controls for industry and year fixed effects by including industry and year dummy variables (Vitols, 2023; Zeng, 2019). Detailed measurements of variables are listed in Table 2.

Tabel 2. Variable Operationalization

Variable	Measurement	Source
Dependent variable		
Tax Avoidance (TA)	Tax expense divided by income before tax (EBT) and then multiplied by -1	Financial Report
Independent Variable		
Local CEO (CEOLOCAL)	Dummy variable, valued at 1 if the company is headquartered in the CEO's home country, and 0 if otherwise	Annual Report
Moderating Variable		
CEO with Financial Expertise (CEOFIN)	Dummy variable, valued at 1 if the CEO has work experience related to finance (accountant, finance director, treasurer, financial manager, auditor), 0 if otherwise	Annual Report
Control Variables		
CEO Gender (CEOGENDER)	Dummy variable, valued at 1 if the CEO is male, and 0 if the CEO is female	Annual Report
Board Size (BOARD)	Natural logarithm of total of company board of directors and commissioners	Annual Report
Company Size (FSIZE)	Natural logarithm of the company's total employees.	Financial Report
Leverage (DER)	Total debt divided by total equity	Financial Report
Return on Equity (ROE)	Net income divided by total equity	Financial Report
Industry FE	A series of dummy variables coded based on a single SIC digit	
Year FE	A series of dummy variables for each year of observation	

Empirical Models

To minimize the effects of outliers, this study first conducts winsorizing, followed by data analysis (Tong et al., 2023). Referring to the research by Tan et al. (2023), winsorizing is conducted for all continuous variables at the 1% and 99% levels. Subsequently, this study tests the research hypotheses using the moderated regression analysis (MRA) technique. We conduct the MRA test using two empirical models. We use the first empirical model to test the influence of local CEOs on tax avoidance. We use the second empirical model to examine how CEO financial expertise mitigates the impact of local CEOs on tax avoidance. Below are the empirical models used in this study:

Empirical Model 1

$$TA_{i,t} = \beta_0 + \beta_1 CEOLOCAL_{i,t} + \beta_2 CEOFIN_{i,t} + \beta_3 CEOGENDER_{i,t} + \beta_4 BOARD_{i,t} + \beta_5 FSIZE_{i,t} + \beta_6 DER_{i,t} + \beta_7 ROE_{i,t} + \beta_8 \mathit{Industry\ FE}_{i,t} + \beta_9 \mathit{Year\ FE}_{i,t} + \varepsilon_{i,t} \quad \text{.....(1)}$$

Empirical Model 2

$$TA_{i,t} = \beta_0 + \beta_1 LOCAL\_FINANCE_{i,t} + \beta_2 CEOLOCAL_{i,t} + \beta_3 CEOFIN_{i,t} + \beta_4 CEOGENDER_{i,t} + \beta_5 BOARD_{i,t} + \beta_6 FSIZE_{i,t} + \beta_7 DER_{i,t} + \beta_8 ROE_{i,t} + \beta_9 \mathit{Industry\ FE}_{i,t} + \beta_{10} \mathit{Year\ FE}_{i,t} + \varepsilon_{i,t} \quad \text{....(2)}$$

Results and Discussions

Descriptive Statistics

Table 3 presents an overview of descriptive statistics about the variables under investigation in this study. The results of the descriptive analysis reveal that the TA variable ranges from a minimum value of -3.808 to a maximum value of -0.000, with a mean value of -0.340. Furthermore, CEOLOCAL and

CEOFIN are dummy variables, so they have a maximum value of 1 and minimum value of 0. However, CEOs from Indonesia lead the majority of the sample companies, as indicated by the average of CEOLOCAL at 0.883. On the other hand, the CEOFIN mean of 0.391 suggests that CEOs with financial expertise lead only 39.1% of the sample companies.

Table 3. Descriptive Statistics

	Mean	Median	Min	Max
TA	-0.340	-0.246	-3.808	-0.000
CEOLOCAL	0.883	1.000	0.000	1.000
CEOFIN	0.391	0.000	0.000	1.000
CEOGENDER	0.899	1.000	0.000	1.000
BSIZE	2.112	2.079	1.386	2.890
FSIZE	6.875	6.914	1.792	10.852
DER	0.535	0.356	-0.541	3.501
ROE	0.113	0.084	-0.031	1.049

Pearson Correlation

Table 4 displays the outcomes obtained from the Pearson Correlation examination. These findings reveal a positive correlation between CEOLOCAL, CEOFIN, and CEOGENDER with TA, albeit not statistically significant. Conversely, BSIZE demonstrates a negative correlation with TA and lacks statistical significance. Notably, DER exhibits a significant negative correlation with TA, while ROE shows a significant positive correlation. The absence of statistical significance in the relationship between CEOLOCAL and TA could be attributed to the presence of other factors influencing TA that require control in the analysis to accurately gauge the association between CEOLOCAL and TA. Pearson Correlation, being limited to assessing monotonic relationships between two variables, may not fully capture these nuances. Hence, to address the research inquiry, multivariate analysis is employed, particularly moderated regression analysis.

Table 4. Pearson Correlation

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
[1]	TA	1.000							
[2]	CEOLOCAL	0.048	1.000						
		(0.219)							
[3]	CEOFIN	0.001	0.110***	1.000					
		(0.989)	(0.004)						
[4]	CEOGENDER	0.028	-0.075*	-0.059	1.000				
		(0.464)	(0.052)	(0.126)					
[5]	BSIZE	-0.002	-0.085**	0.086**	0.036	1.000			
		(0.955)	(0.029)	(0.026)	(0.357)				
[6]	FSIZE	-0.044	-0.036	0.076*	0.045	0.615***	1.000		
		(0.257)	(0.354)	(0.050)	(0.248)	(0.000)			
[7]	DER	-0.210***	0.012	0.049	0.024	0.117***	0.187***	1.000	
		(0.000)	(0.748)	(0.209)	(0.535)	(0.003)	(0.000)		
[8]	ROE	0.223***	-0.104***	0.064*	-0.073*	0.229***	0.139***	-0.029	1.000
		(0.000)	(0.007)	(0.098)	(0.061)	(0.000)	(0.000)	(0.458)	

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Moderated Regression Analysis (MRA)

Table 5 displays the outcomes derived from the moderated regression analysis. The table's first column examines local CEOs' influence on tax avoidance.

The results suggest a significant and positive correlation between local CEOs and tax avoidance (coefficient = 0.110, t-value = 1.69). This implies that companies led by local CEOs exhibit a tendency towards increased involvement in tax avoidance strategies, thereby supporting H1. Given their familiarity with regional tax regulations, local CEOs possess a deeper understanding of the existing legal frameworks, potentially exploiting available loopholes for aggressive tax avoidance measures. These results indirectly support the research by Vo et al. (2020), which states that local CEOs typically possess a deeper comprehension of the domestic market, forge strong connections with local stakeholders, exhibit sensitivity towards social and political dynamics in the local business milieu, and adapt to regulatory and governmental policies that affect company performance.

Additionally, in the second column of Table 5, the analysis explores how financial expertise influences the impact of local CEOs on tax avoidance. The findings suggest that LOCAL_FINANCE exerts a notable and negative effect on tax avoidance. This implies that companies led by local CEOs with financial expertise tend to engage less in tax avoidance practices, thus supporting H2. Participation in aggressive tax avoidance schemes can result in adverse consequences such as tarnishing the company's reputation and undermining trust from stakeholders (Carolina et al., 2019). These impacts can extend to causing a decrease in stock prices (Thai et al., 2023) and increasing credit costs for companies (Trisnawati & Nasser, 2017). Strong experience in finance and accounting strengthens the abilities and insights of local CEOs to evaluate risks more comprehensively, including the long-term implications of specific tax strategies on the financial health and reputation of the company. A financial background encourages local CEOs to be more conservative in business operations, prioritizing tax compliance and integrity in business practices aimed at avoiding potential risks detrimental to the company's reputation. These results indirectly support the findings of Neifar & Huesing (2023) which state that CEOs with financial expertise have a negative impact on tax avoidance.

Table 5. Moderated Regression Analysis

	(1) TA	(2) TA
LOCAL_FINANCE		-0.328**
		(-2.580)
CEOLOCAL	0.110*	0.199**
	(1.690)	(2.250)
CEOFIN	-0.010	0.286**
	(-0.270)	(2.510)
CEOGENDER	0.088	0.099
	(1.160)	(1.310)
BSIZE	-0.004	0.015
	(-0.070)	(0.260)
FSIZE	-0.011	-0.010
	(-0.930)	(-0.890)
DER	-0.148***	-0.155***
	(-3.220)	(-3.370)
ROE	0.702***	0.745***
	(4.880)	(4.940)
_cons	-0.338**	-0.451***
	(-2.100)	(-2.620)
Year FE	Yes	Yes
Industry FE	Yes	Yes
R^2	0.124	0.133
R^2_Adjusted	0.101	0.109
N	665	665

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Robustness Test

One aspect of endogeneity involves the possibility that the sample of observations may be different. If the observations do not share similar characteristics, this discrepancy can lead to biased outcomes, a phenomenon known as sample selection bias (Nasih et al., 2022). CEO locality can be associated with unobservable factors influencing tax avoidance and leading to spurious correlations. In addition to using control variables and fixed effects for industry and year, this study also employs one matching method approach, namely Coarsened Exact Matching (CEM), to mitigate potential endogeneity issues. Referring to the research by Harymawan et al. (2022), in this study, the sample is split into two categories: treatment and control, depending on the independent variable CEOLOCAL. Following this, each entry in the treatment group is paired with another based on all control variables (CEOGENDER, BSIZE, FSIZE, DER, ROE), which have been categorized into three groups. Table 6 presents the outcomes of the testing conducted using the CEM technique. Table 6 in columns 1 and 2, despite using matched samples, this study found consistent results with the main findings in Table 5.

Table 6. Coarsened Exact Matching (CEM)

	CEOLOCAL = 0	CEOLOCAL = 1
All	78	587
Matched	73	508
Unmatched	5	79
	(1) TA	(2) TA
LOCAL_FINANCE		-0.253**
		(-2.050)
CEOLOCAL	0.122*	0.187**
	(1.820)	(2.060)
CEOFIN	0.005	0.231**
	(0.140)	(2.090)
CEOGENDER	-0.118	-0.109
	(-1.410)	(-1.510)
BSIZE	0.044	0.055
	(0.750)	(0.920)
FSIZE	-0.012	-0.011
	(-0.970)	(-0.850)
DER	-0.115**	-0.122**
	(-2.420)	(-2.570)
ROE	1.051***	1.087***
	(3.990)	(4.040)
_cons	-0.323**	-0.408***
	(-2.280)	(-2.760)
Year FE	Yes	Yes

Industry FE	Yes	Yes
R^2	0.137	0.144
R^2_Adjusted	0.111	0.117
N	581	581

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Conclusions

The attributes held by CEOs operating locally can profoundly shape their conduct, yielding significant implications and ramifications for corporate decision-making. Drawing on the upper echelons theory as a theoretical framework, this research addresses a gap in existing literature by empirically investigating the influence of CEO locality on tax avoidance behaviors within a sample of non-financial firms listed on the Indonesia Stock Exchange. Additionally, the study examines how CEO financial expertise moderates this relationship. The findings suggest that firms led by local CEOs are more inclined to engage in tax avoidance strategies. Intriguingly, firms under the leadership of local CEOs with financial expertise appear to exhibit lower levels of involvement in tax avoidance activities. These conclusions are rigorously validated through CEM regression analysis.

The empirical findings of this study should be considered given the numerous limitations and also suggest several alternatives for future research. Firstly, this study specifically focuses on tax avoidance to assess the impact of local CEOs from a tax perspective. Future research could expand by investigating how local CEOs influence company policies or performance from other perspectives, such as cash holding, financial distress risk, and so on. Secondly, this study only includes companies listed on the IDX, making it difficult to generalize the results to different contexts or countries. Subsequent research could consider using samples from different contexts or countries to broaden the study. Thirdly, this study only uses one measure of tax avoidance, namely the current ETR, so there is a possibility that using other tax avoidance proxies could yield different results. Therefore, future research could consider using different proxies to measure tax avoidance.

Despite its limitations, this study adds to the expanding body of research on the factors influencing corporate tax avoidance. It offers empirical proof that combining CEO locality and financial expertise can significantly influence corporate tax behavior. Specifically, the research suggests that local CEOs tend to adhere more closely to tax regulations when they possess financial expertise. These findings provide valuable insights for tax authorities seeking to understand how CEO traits impact corporate tax practices.

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