THE IMPACT OF TAX AVOIDANCE ON THE COST OF CAPITAL: EVIDENCE FROM IRAQ AND KUWAIT STOCK EXCHANGE

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ABSTRACT: The best approach for assessment of organizational success has mounted on very limited variables, among them the cost of capital. Tax avoidance stands in the centre of a process of cost of capital measurement. Due to that, management accounting research concentrates on effect of tax avoidance practices on the cost of capital of some selected commercial companies. The sample of research includes 33 organizations listed in stock exchanges of Kuwait and Iraq. Simultaneously, control variable such as company size, financial leverage, operating cash flows and return on assets (ROA) are added to the examined equation which allows calculation of the cost of capital. All the information, which were derived from the financial statements of chosen companies within the time period of 2013 till 2022, is considered as the basic and relevant data for the research. The interrelationships between variables were discovered through Methods of Moments-Quantile-Regression or MMQR. Resultantly, this quantitative statistical measurement suggests negative relationship between tax avoidance and the cost of capital. On the other hand, company size, financial leverage, operating cash flows, and ROA present positive correlations. The study reveals significant outcomes on the effect of tax avoidance on the cost of capital, thus remain a guide and provision of the empowered decision making for policymakers, who desire to improve the cost of capital by decreasing tax avoidance practices.

Keywords: Tax Avoidance, Company Size, Financial Leverage, Operating Cash Flows, Return on Assets, Cost of Capital.

1. Introduction

So-called tax avoidance in corporate finance, being regarded as a legally permitted way of reducing tax burdens within certain legal boundaries, is the subject of intensive academic research and practical adoption. Due to its intricate and multifaceted nature, the implications of tax avoidance for the capital costs have far-reaching implications for the market forces, performance, and strategic planning in business (Abdelfattah & Aboud, 2020). A main concept in the aspect of corporate finance is associated to the cost of capital, representing the aggregate costs gained by an organization in securing financial resources through a combination of debt and equity instruments (El Ghoul et al., 2018). Integral to informing decisions related to capital structure, choices of investment, and the overarching financial well-being of a company, the interrelationship among tax avoidance and the cost of capital is complex. Such complexity comes from the fact that tax planning strategies can hold impact on the perceptions of investors, a risk profile of a company, and, finally, the cost of capital (Isin, 2018). Iraq and Kuwait provide an captivating contextual backdrop for this detection because of their unique economic milieus. However, a corporate reliance on the revenues of oil impasses such nations, differences manifest in their political structures, legal frameworks, and degrees of financial market maturity (Guan et al., 2021). After a phase having marked by harsh conflicts, Iraq is currently engaged in reconstructing its financial and economic infrastructure. On the other hand, Kuwait shows a more sophisticated fiscal sector and regulatory framework.

The current research aims to detect the impact of tax avoidance imposed on the cost of capital in various legislative and economic contexts, highlighting the economies of Iraq and Kuwait. The methodology requires a inclusive analysis of financial data from companies found on the Iraqi and Kuwaiti stock exchanges, employing financial statements, annual reports, and relevant documents to assess the extent of tax avoidance strategies employed by businesses. Control variables such as company size, financial leverage, ROA, and operating cash flows will be incorporated to improve the research validity. When we choose these control variables, we're basically focusing on how they affect a company's financial health and the amount it costs for them to get funding. Including the size of the company as one of these variables is super important because big companies can sometimes benefit from things like being able to produce at a lower cost or having a strong presence in the market, which can affect how much it costs for them to borrow money. Financial leverage is another big one. It's all about how much a company relies on borrowing money to run its day-to-day business. This directly affects how much it costs for them to get that

money and also how risky they seem to investors. Then there's the ROA rate. It tells us how good a company is at making money from the stuff it owns. It gives us a good overall picture of how well they're doing financially. Lastly, we look at operational cash flows. These show us how much money a company makes or spends from its main activities. It's important because it helps us see if they can pay their bills and stay financially stable.

The main goal of this study is to carefully examine how avoiding taxes affects the costs of getting funding for companies listed on the stock exchanges in Iraq and Kuwait. The research incorporates varying control factors, such as operating cash flows, financial leverage, company size, and the ROA rate. A main emphasis regarding this research is to evaluate the prevalence of tax avoidance strategies that are adopted by such firms in addition to analysing the correlation among such strategies and their respective costs of capital. Nonetheless, the current research significantly plays a basic role in existing knowledge gaps related to the nexus among tax avoidance and capital costs, particularly within the context of companies that are found in the list of stock exchanges in Kuwait and Iraq. By focusing on the dynamics of tax avoidance practices in these countries, the research extremely strives to cope with the dearth of understanding concerning such activities. Remarkably, the inclusion of crucial control factors, like firm size, financial leverage, ROA rate, and operating cash flows, could highly make this research distinct from prior ones that have investigated the overarching correlation among tax avoidance and the cost of capital. In the next research section, detecting related literature will be undertaken, tailed by clarifying the research methodology in addition to executing a comprehensive empirical analysis aiming at testing the formulated hypotheses.

2. Literature Review

Tax avoidance was defined as the legitimate strategic decrease of tax liabilities through painstaking financial planning, frequently exerts a negative effect on cost of capital related to the company (Col & Patel, 2019). The combination of expenses that are linked with debt and equity financing makes the total cost of capital for a particular business. Regardless of the potential savings of tax, making use of strategies regarding tax avoidance could greatly impact a perceived risk of the company and, consequently, its cost of capital (Abid & Dammak, 2022). As per Özbay, Adıgüzel and Karahan Gökmen (2023), applying certain strategies for assertive tax avoidance is sometimes sceptical by creditors and investors, indicating sharp financial risk and potential regulatory scrutiny. Corporations making planning of aggressive tax may be explained as having the immediate gains priority over long-term stability, possibly endangering their financial standing in addition to heightening investor perceptions of risk. Thus, lenders may maintain higher interest rates for debt, thereby increasing the weighted average cost of capital (WACC) (Özbay et al., 2023). Furthermore, the authorities of tax around the globe are greatly vigilant and undertaking measures to restrain practices of aggressive tax avoidance, thereby exposing businesses to the risk of legal entanglements or potential harm to their corporate reputation (Kovermann & Velte, 2019). The correlation exists among tax avoidance and the cost of capital emphasizes the imperative of attaining a kind of balance among tax efficiency, transparency, and ethical financial practices (Abid & Dammak, 2022). Enterprises engaged in proactive tax avoidance may attract heightened regulatory scrutiny, potentially contributing to adversative financial and legal consequences (Bird & Davis-Nozemack, 2018). Clearly, changes in tax statutes or regulatory frameworks may make some particular strategies of tax avoidance out-dated or depending on investigations, potentially resulting in financial penalties and reputational harm for the company. Thus, the cost of capital for the company could be increased, as creditors and investors re-evaluate related risks. Conversely, companies which adopt a more liable and transparent stance towards tax planning may garner increased credibility and trust from stakeholders (López-González, Martínez-Ferrero, & García-Meca, 2019). Hence, we posit that,

H1: Tax avoidance is negatively associated with the cost of capital.

The financial dynamics of enterprises are significantly impacted by dynamic and intricate interrelation between the size of a firm and the cost of capital. Financially, the cost of capital is as a crucial metric, encapsulating the expenses a company gains to secure funding, be it through debt or equity (El Ghoul et al., 2018). The cost of capital exhibits variability throughout various organizations, reliant upon too many criteria, with firm size being a core factor in this assessment. According to Schreck and Raithel (2018), big companies have all these advantages, such as economies of scale, they exist in the market more, and therefore it is easier for them to receive financing on better terms and at lower costs. They are considered less risky by investors, which means that they can take loans at more attractive interest rates and more convenient terms to attract investment. Big companies just have more resources and more different ways to make money, which is why they simply have more opportunities for profit even in a crisis. In the case of small companies, the situation is the exact opposite: "Raising capital is more costly for smaller companies. Small companies do not have access to financial markets and, on top of that, they are riskier for investors. Because of this, the return expected by the investors is higher". Smaller companies might also have trouble getting good deals from lenders, leading to higher interest rates on loans (Kgoroeadira, Burke, & van Stel, 2019; Ukanwa, Xiong, & Anderson, 2018).

But this balance between size and cost applies to all companies. It can affect how much money is available, the ability to grow, and ultimately, how long the company can survive. Companies need to be aware of this balance as they grow and make sure they're finding the right mix of size and cost to meet their needs (Ukanwa et al., 2018). This can be achieved by implementing informed financial management and strategic decision-making. Hence, we posit that,

H2: There is a relation between company size and cost of capital.

Navigating the interplay among the cost of capital and financial leverage, a key aspect of corporate finance, is vital to firm-level decisions across all sectors of industry. Financial leverage, denoting the utilization of debt for financing a company's operations and investments of the company plays a core role in specifying the overall cost of capital (Afolabi et al., 2019). Through acquiring funds at a cost lower than the return generated on its assets, a corporate entity employing financial leverage aims to augment returns for its shareholders (Akhtar et al., 2022). Prudently employed, this approach holds the potential to enhance profitability and shareholder value. Nonetheless, the relationship between financial leverage and the cost of capital is intricate. As delineated by Drobetz et al. (2018), the cost of capital often escalates with increased utilization of debt due to the elevated interest rates and concomitant fiscal risks. The increased rates of interest on debt arise from lenders seeking a premium for the sharp risk required in dealings with leveraged enterprises (Brown, Harris, & Munday, 2021). On the other hand, this can lead to an increase of the firm's WACC, thus influencing its overall financial health and flexibility. As Jayasekera (2018) states: A balance needs to be achieved, however, and an overindebtedness may well lead to financial solvency risk and stifle the firm's ability to service its debts, as well as erode the value of the conglomerate. Factors such as risk tolerance, sector-specific features and overall financial goals must be carefully evaluated by the firm to determine the optimal financial leverage (Lechner & Gatzert, 2018). The connection between financial leverage and the cost of capital emphasised the importance of the alignment of optimal financial management, strategic vision and risk management decisions. According to Jayasekera (2018), the sound management of this complex relationship would help the business to achieve the optimal capital structure and ensure financial performance and growth in the long term within a dynamic and competitive market environment. Also, a well-balanced capital structure would enhance the resilience and provide flexibility in the dynamic financial environment and ensure adaptability during the economic downturn (Puaschunder, 2023). Consequently, we posit a hypothesis that,

H3: There is a relation between financial leverage and cost of capital.

The ratio of the COC and ROA holds the utmost importance in corporate financial management, serving as an indicator of the organisation's ability to efficiently facilitate profit in accordance with the expense of raising capital. ROA, which is one of the key performance indicators, implies the ratio of a company's net income to its total assets (Puspitasari et al., 2021). Conversely, the expenses incurred by a business to procure financing, encompassing both debt and equity, constitute components of the cost of capital (El Ghoul et al., 2018). This interplay between such dual metrics is key for an understanding of any business's capability of profit-making and its financial sustainability. The efficiency of the company in wealth-creation as well as its strong asset utilisation comes through when its ROA exceeds its cost of capital, thereby boosting its shareholders' value (Nieuwoudt & Hall, 2022). In such a scenario, the business generates profits surpassing the cost of capital, enhancing overall financial performance. This positive spread is attractive to investors, indicating greater potential for long-term gains and profitable returns on investment (Puspitasari et al., 2021). In contrast, if the ROA is inferior to the costs of capital, it may signify suboptimal utilization of assets and potential challenges in generating sufficient revenue to cover capital costs (Parvin et al., 2020). Such a difference can lead to a decrease in shareholder value and also raise questions about the company's ability 'to sustain profitability over the long run' (Denis, 2019). Thus, companies striving to maximise shareholder wealth, need to ensure that the cost of capital and the ROA ratios are in the balance. The so-called positive spread is achieved when ROA

is above the cost of capital (Nieuwoudt & Hall, 2022). This points to prudent financial management and appropriate strategic decision-making. Companies seeking a favourable spread and sustainable profitability must carefully analyse their capital structure, optimise operational efficiency, and make appropriate investment decisions. Furthermore, the trade-off between ROA and the cost of capital driven by market movements, economic factors and industry dynamics (Nieuwoudt & Hall, 2022). Hence, we posit that,

H4: There is a relation between rate of return on assets and cost of capital.

Understanding the complex association among operational cash flows and the cost of capital is considerably vital for the process of assessing the financial robustness of a business and its ability to meet debt obligations while maximizing shareholder value. Operating cash flows, representing the cash generated or expended through core business activities, provide valuable insights into its operational efficiency and stability (Ngai et al., 2018). Conversely, the cost of capital consists of the expenses that a company has to bear in order to obtain funding, consisting not only of debt capital but also of equity funds. The interplay between such indicators is undoubtedly an important aspect for assessing the financial soundness of the company. Indeed, positive operational cash flows, which means the cost of the core activities is greater than the revenues, are typically a sign of good company (Beladi, Deng, & Hu, 2021). Consistently earning more from operating cash flows than the cost of capital is a good sign for a business. In this regard, this means that the company will finally be able to repay its debts and even generate funds for development without borrowing from sources beyond the company. The positive spread is also stated by Dhole, Mishra and Pal (2019) as a facilitator in making the company less dependent on debt, ensuring better financial options, and drawing investors. On the other hand, if operational cash flows consistently fall short of the cost of capital, it could mean trouble. The company may struggle to generate enough internal funds to meet its financial obligations and may have to rely heavily on borrowing money from external sources (Beladi et al., 2021). In simple terms, effective financial management involves finding a balance between the money coming in from operations and the cost of financing (Dhole et al., 2019). In agreement with Xu (2020), companies unfailingly making positive operational cash flows relative to their cost of capital show enhanced resilience during economic instabilities, allowing them to undertake judicious risks and make durable investments. Additionally, robust operational cash flows empower corporations to distribute bonuses, service debt, and reinvest in the company for sustained growth. Therefore, we assert that,

H5: There is a relation between operating cash flows and cost of capital.

3. Research Methodology

The study explores the impact of tax avoidance, company size, financial leverage, operating cash flows, and ROA on the cost of capital for thirty-three companies listed on the stock exchanges of Kuwait and Iraq. Secondary data extracted from the financial statements of selected companies spanning 2013 to 2022 is employed. The study formulates and establishes the below-mentioned equation for analysis.

$$CC_{it} = \alpha_0 + \beta_1 TA_{it} + \beta_2 CS_{it} + \beta_3 FL_{it} + \beta_4 ROA_{it} + \beta_5 OCF_{it} + e_{it} \quad (1)$$

Where;

CC = Cost of Capital
t = Time Period
i = Countries
TA = Tax Avoidance
CS = Company Size
FL = Financial Leverage
ROA = Return on Assets
OCF = Operating Cash Flow

The study employed the cost of capital as the dependent variable, quantified by the ratio of equity to the total components of capital. Additionally, tax avoidance was utilized as the independent variable, gauged by the difference between the statutory tax rate and the effective tax rate. The study incorporated four control variables: company size, measured by the logarithm of total assets; financial leverage, calculated by dividing total liabilities by total assets; ROA, computed by dividing net profit by total assets; and operating cash flow, expressed as the ratio of operating cash flows to total assets. These constructs and measurements are detailed in Table 1.

Table 1: Measurements of Variables.

S#	Variables	Measurement	Sources
01	Cost of Capital	The ratio of equity to the total components of capital.	Financial Statements
02	Tax Avoidance	Statutory tax rate - effective tax rate	Financial Statements
03	Company Size	The logarithm of total assets	Financial Statements
04	Financial Leverage	Dividing the total liabilities by the total assets	Financial Statements
05	Return on Assets	Dividing the net profit by the total assets	Financial Statements
06	Operating Cash Flow	The ratio of operating cash flows to the total assets	Financial Statements

The characteristics of the variables were inspected by descriptive statistics. In addition, the interrelationships among the variables were detected via a correlation matrix. Additionally, the examination of multicollinearity was carried out by employing the variance inflation factor (VIF). The equations employed for the test are delineated below.

$$R^2_Y \longrightarrow Y_{it} = \alpha_0 + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + e_{it} \quad (2)$$

$$j = R^2_Y, R^2_{X1}, R^2_{X2,} R^2_{X3,} R^2_{X4,} R^2_{X5} \quad (3)$$

$$Tolrance = 1 - R^2_j \; VIF = \frac{1}{Tolerance} \quad (4)$$

The study employed the MMQR, introduced by Machado and Santos Silva (2019), to inspect the interrelationships among variables. This strategy is highly significant owing to its robust outlier feature (Ike, Usman, & Sarkodie, 2020). Additionally, the MMQR lets the "conditional heterogeneous covariance effects" of CC to impact the whole distribution variously in comparison to panel quantile regression, which exclusively permits the latter (Adebayo, Rjoub, et al., 2022). Besides, the capability is processed by the MMQR to model both nonlinear and asymmetric relationships at the same time, while effectively controlling for heterogeneity, endogeneity, and other relevant factors (Adebayo, Akadiri, et al., 2022). Here, $Q\tau(\tau/X)$ represented the conditional quantile for the "locational-scale alternate model" that is developed below.

$$Y_{it} = \alpha_i + X_{it}\beta + (\delta_i + Z_{it}\lambda)U_{it} \quad (5)$$

In equation (5), $P\{\delta_i + Z_{it}\,\lambda > 0\}$ = 1 exposed the probability, α,β,λ and δ exposed the parameters, α_i,δ_i i = 1,.....,n exposed the precise fixed effect, z exposed the k-vector of component X, and the components are transformed with component l given below:

$$Y_{it} = \alpha_i + X_{it}\beta + (\delta_i + Z_{it}\lambda)U_{it} \quad (6)$$

In equation (6), U_{it} exposed the orthogonal to X_{it} and dependable with attaining the moment conditions that do not comprise stringent heterogeneity. Thus, in the formulation of equation (5), the determination of the conditional quantile of Y is expressed as follows:

$$Q\tau(\tau/X_{it}) = (\alpha_i + \delta_i q(\tau)) + X_{it}\beta + Z_{it}\,\lambda\, q(\tau) \quad (7)$$

In equation (7), X_{it} represents the predictors, for example, TA, CS, FL, ROA, OCF, and Y_{it} represents the dependent variable, like, CC that is conditional as X_{it}. So, $Q(\tau)$ is established as under:

$$Min_q = \sum_t \sum_i p\tau\,(R_{it} - (\delta_i + Z_{it}\,\lambda)q) \quad (8)$$

4. Research Findings

Variables were scrutinized through descriptive statistics, revealing mean values of 74.921 for CC, 3.201 for TA, and 64.141 for CS. Additionally, mean values of 21.211 for FL, 32.165 for ROA, and 12.091 for OCF were observed in the outcomes. Table 2 presents these findings.

Table 2: Descriptive Statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
CC	330	74.921	3.201	69.091	76.019
TA	330	3.201	0.091	2.101	3.642
CS	330	64.141	2.657	57.403	66.443
FL	330	21.211	0.982	17.886	29.165
ROA	330	32.165	2.298	30.277	35.271
OCF	330	12.091	0.726	11.909	13.276

Furthermore, the examination of interrelationships among variables was conducted through a correlation matrix. The results reveal a negative association between tax avoidance and the cost of capital, while company size, financial leverage, operating cash flows, and ROA exhibit positive associations. Policymakers may derive guidance for enhancing the cost of capital by minimizing tax avoidance. These findings are detailed in Table 3.

Table 3: Matrix of Correlations.

Variables	CC	TA	CS	FL	ROA	OCF
CC	1.000					
TA	-0.546	1.000				
CS	0.564	-0.654	1.000			
FL	0.435	0.463	0.654	1.000		
ROA	0.654	-0.645	-0.654	0.674	1.000	
OCF	0.782	-0.776	0.642	0.543	0.655	1.000

Table 4: Variance Inflation Factor.

	VIF	1/VIF
TA	3.043	0.329
CS	2.182	0.458
FL	2.091	0.478
ROA	1.876	0.533
OCF	1.764	0.567
Mean VIF	2.191	.

Moreover, an assessment of multicollinearity was carried out utilizing the VIF. The results uncovered that the values of VIF do not go beyond five, and their reciprocals are not less than 0.20, demonstrating the absence of multicollinearity. These findings are illustrated in Table 4.

The study employed the MMQR to detect interrelations among variables, uncovering a negative association among tax avoidance and the cost of capital, while company size, financial leverage, operating cash flows, and ROA exhibited positive associations. These findings are summarized in Table 5.

Table 5: Panel Quartile Estimation (MMQR).

Variables	Method of Moments Quantile Regression (MMQR)										
	Location	Scale	Grid of Quartiles								
			0.10	0.20	0.30	0.40	0.50	0.60	0.70	0.80	0.90
TA	0.765***	0.454*	-0.956**	-0.643**	-0.654*	-0.454**	-0.932*	-0.095	-0.774*	-0.643	-0.643*
CS	0.789**	0.654*	0.564**	0.542*	0.553*	0.303***	0.732	0.483**	0.271**	0.201	0.133*
FL	0.645***	0.867**	0.342**	0.772**	0.742*	0.456	0.001*	0.092**	0.985*	0.554**	0.321
ROA	0.493*	0.098**	0.644*	0.546*	0.543**	0.986*	0.442	0.342**	0.001*	0.785*	0.301
OCF	0.432*	0.423**	0.777*	0.876**	0.202***	0.201*	0.362*	0.201	0.543*	0.201*	0.249*

***, **, and * represent significant level at 1%, 5%, and 10%, respectively

5. Discussion

In the unique economic contexts of Iraq and Kuwait, this study investigates the intricate relationships among tax avoidance, control variables (company size, financial leverage, ROA rate, and operating cash flows), and the cost of capital. The study not only examines tax dynamics in various Middle Eastern countries but also explains how tax planning strategies and important financial factors such as capital costs are related. As for the main finding, this study shows that capital costs for the companies listed on the stock exchanges in Iraq and Kuwait are lower than for those firms that do not practice tax avoidance. The results may indicate that actively avoiding taxation may lower companies' capital costs, which is supported by Payne and Raiborn's (2018) study. The results also agree with the study made by Drake, Lusch and Stekelberg (2019), who maintained that companies engaged in effective tax planning benefit from a positive perception among the investors and the reduction of its financial risk. This result, however, is important. It should be viewed with caution because there is a thin line of tax planning, which is used by the right law from aggressive strategies of tax avoidance that may be prejudicial to the interests of the investing public and raise issues related to corporate social responsibility and to those of legal responsibility. Furthermore, the control variables provide much clarity toward the subject of the research and the different factors that are portrayed to affect the relationship amid tax avoidance and capital costs. For example, in the study by El Ghoul et al. (2018), a remarkable thing was found out: company size really matters. More interesting, however, was the issue to do with tax planning and its effect on the cost of doing business, where the large companies turned out to be more affected than small companies. This, therefore, means that the amount of taxes and due levies that a corporation is to pay can be highly reduced by employing tax avoidance strategies. This study underscores the crucial role of tax planning, particularly for major corporations. It elucidates how commanding a big share of the market and operating on a large scale can empower the entities to optimize their financial arrangements, eventually bringing down their operational costs.

Another case study concerning the impact of the tax strategy in carrying costs of the business, the amount a company borrows emerges as a key factor. The company borrows in such a manner that only companies that are balanced, not too conservative, and not too reckless tend to gain the most from tax planning. Such equilibrium enables them to minimize operational costs yet have an effective way of managing financial risks (Lechner & Gatzert, 2018). An important aspect is the impact on how effective monetization takes place. Companies making huge profits out of the assets tend to earn more benefits of tax planning. This is nearly the same as a positive feedback loop. Because the company, which can convert its assets to revenues more efficiently, is able to shield more taxes as a result, and thereby, ultimately reduces operational costs. Again, the generated revenue out of regular operations has a significant impact, making such planning effective (Parvin et al., 2020). Xu (2020) indicates that companies with higher revenues from day-to-day operations had more substantial cutbacks in operational costs with tax strategy implementation. Therefore, effective tax planning isn't solely about tax avoidance; rather, it revolves around striking a balance in borrowing, optimizing asset utilization, and maintaining efficient operational workflows. This comprehensive approach is what truly maximizes the benefits of tax planning for a company.

Implications

The results reveal that companies in Iraq and Kuwait can decrease their cost of capital by effective tax planning, optimal financial benefit and positive activity in front of investors. The larger companies could possibly have a better position to increase their tax avoidance effort, as they have a stronger market presence. The evidence given reveals that maintaining a balanced financial leverage is basic, and the systemic method is recommended to optimize the benefits of tax planning and attenuate its risks within the enterprise. The company that has higher ROA and operational cash flows is likely to experience the magnitude of cost of capital's reduction by tax avoidance, and this implies the relationship between profitability and taxation efficiency. Furthermore, the present research provides policymakers and regulators insights into the implications of tax planning strategies, guiding potential changes to regulatory frameworks. Policymakers can use this information to enhance the cost of capital by curbing tax avoidance.

Limitations

While the research results provide valuable insights, it is imperative to recognize the limitations of the study to create a comprehensive evaluation. Reliance on quantitative analysis may prevent the ability to adequately assess the changes in tax laws and qualitative aspects of tax avoidance. Furthermore, by concentrating solely on Iraq and Kuwait, the study restricts its applicability to other settings.

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