

**Political Embeddedness, Audit Architecture, and Corporate Tax Avoidance in Financially Regulated Banking Systems: Evidence from Emerging and Islamic-Oriented Markets**

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**ABSTRACT**

Corporate tax avoidance has long been recognized as a strategically important yet institutionally sensitive phenomenon in modern financial systems. Within banking industries, where firms are simultaneously profit-maximizing corporations and custodians of public trust, the dynamics of tax avoidance become even more complex. These complexities are magnified in emerging and institutionally heterogeneous markets, particularly those characterized by political embeddedness, regulatory fragmentation, and religiously informed governance structures such as Islamic banking. This study develops an integrated theoretical and empirical framework to examine how political connections and audit architecture interact to shape tax avoidance strategies in regulated banking environments, with particular emphasis on Islamic financial institutions.

Building on agency theory, political economy theory, and institutional theory, the article situates tax avoidance not merely as a technical outcome of accounting choices but as a politically mediated organizational behavior shaped by governance arrangements, ownership structures, and audit mechanisms. In doing so, it engages deeply with the growing body of literature that has examined tax avoidance across corporate contexts, including studies of managerial ability, ownership concentration, internal control, and audit committee characteristics (Akbari et al., 2018; Annuar et al., 2014; Bimo et al., 2019; Al Lawati & Hussainey, 2021). Central to the conceptual architecture of the present study is the proposition that political connections fundamentally alter the risk-reward calculus of tax avoidance, particularly when combined with joint audit regimes that may either constrain or facilitate opportunistic behavior.

The empirical and conceptual core of this article is anchored in the seminal work of Ajili and Khelif (2020), who demonstrated that political connections in Islamic banks are systematically associated with higher levels of tax avoidance, and that the presence of joint auditors significantly moderates this relationship. Their findings challenge conventional assumptions that Islamic ethical frameworks or enhanced audit oversight automatically reduce opportunistic tax behavior. Instead, their work reveals a more nuanced reality in which politically embedded banks leverage both regulatory proximity and audit complexity to optimize tax outcomes. By embedding their results within a broader comparative and theoretical framework, this article extends their insights beyond the immediate empirical context and into a generalizable model of politically mediated tax governance.

Methodologically, the article adopts a rigorous qualitative-analytical approach that synthesizes prior econometric findings, institutional indicators, and comparative governance analysis. Rather than presenting new numerical estimates, the study reconstructs causal pathways and behavioral mechanisms through careful interpretation of existing empirical literature, including cross-national studies of tax avoidance, audit effort, ownership separation, and political influence (Badertscher et al., 2013; Bae, 2016; Beer et al., 2019; Bianchi et al., 2018). This interpretive strategy allows for a richly textured understanding of how political, organizational, and audit variables co-evolve in

shaping tax outcomes.

The results demonstrate that politically connected banks, particularly in weak institutional environments, are structurally advantaged in pursuing aggressive tax strategies, even when subject to joint audits or formal governance reforms. These outcomes are further conditioned by ownership concentration, managerial incentives, and the symbolic versus substantive nature of audit quality. The discussion elaborates the theoretical implications of these findings for debates on regulatory capture, ethical finance, and the effectiveness of audit-based governance mechanisms. It also highlights the paradox that mechanisms designed to enhance transparency and accountability may, under certain political conditions, instead provide additional layers through which sophisticated avoidance strategies can be legitimized.

By integrating political economy with auditing and taxation scholarship, this article contributes a comprehensive framework for understanding tax avoidance in complex financial systems. It offers implications for regulators, auditors, and policymakers seeking to design governance architectures that are resilient to political capture and capable of genuinely constraining opportunistic fiscal behavior.

**Keywords:** Corporate tax avoidance; political connections; joint audit; Islamic banking; corporate governance; audit quality; emerging markets.

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### INTRODUCTION

Corporate tax avoidance occupies a central yet deeply contested space within contemporary financial and governance scholarship. While it is formally distinct from illegal tax evasion, tax avoidance involves the deliberate structuring of transactions, organizational forms, and accounting practices to minimize tax liabilities in ways that, although legally permissible, often conflict with the spirit of tax law and broader societal expectations (Beer et al., 2019). In highly regulated industries such as banking, tax avoidance assumes even greater significance because financial institutions are not only major taxpayers but also systemic actors whose behavior shapes macroeconomic stability, public finance, and social trust. The interaction between tax strategies and governance structures therefore represents a critical field of inquiry within both accounting and political economy research (Badertscher et al., 2013; Campbell & Helleloid, 2016).

Within this broad domain, two institutional forces have emerged as particularly influential in shaping tax behavior: political connections and audit architecture. Political connections refer to the formal and informal ties between corporate actors and state officials, including politicians, regulators, and government agencies. These connections can manifest through board memberships, ownership links, family ties, or revolving-door employment patterns, and they have been shown to affect access to credit, regulatory enforcement, and fiscal treatment (Amalia & Ferdiansyah, 2019; Annuar et al., 2014). Audit architecture, by contrast, encompasses the structure, quality, and configuration of external and internal auditing mechanisms, including the presence of joint audits, audit committee characteristics, and internal control systems (Bianchi et al., 2018; Bimo et al., 2019). While each of these forces has been studied

independently in relation to tax avoidance, their interaction remains under-theorized, particularly in non-Western and religiously informed financial systems.

Islamic banking provides a uniquely revealing context in which to examine these dynamics. Rooted in Shariah principles that prohibit interest, excessive uncertainty, and unethical financial practices, Islamic banks are often portrayed as inherently more ethical and socially responsible than their conventional counterparts. Yet Islamic banks operate within national regulatory frameworks, political systems, and competitive markets that may exert pressures toward profit maximization and fiscal optimization. The tension between religious-ethical commitments and political-economic realities thus creates a fertile ground for analyzing how tax avoidance is negotiated, justified, and implemented (Ajili & Khelif, 2020). Importantly, Islamic banks are frequently subject to dual governance regimes, including both conventional regulatory oversight and Shariah supervisory boards, which complicates the role of auditing and political connections in shaping organizational behavior.

The literature on tax avoidance has grown rapidly over the past two decades, producing a rich body of empirical and theoretical insights. Studies have shown that ownership structure plays a critical role, with higher separation between ownership and control often associated with greater tax avoidance due to agency problems and managerial opportunism (Badertscher et al., 2013). Managerial ability and incentives have likewise been linked to tax outcomes, as more capable or more risk-tolerant executives are better able to exploit legal loopholes and complex financial arrangements to reduce tax burdens (Akbari et al., 2018). Internal governance mechanisms, including audit committees and internal controls, have been found to both constrain and, paradoxically, sometimes facilitate tax avoidance, depending on their composition and effectiveness (Al

Lawati & Hussainey, 2021; Bimo et al., 2019).

Political connections add another layer of complexity to this picture. Firms with strong political ties may enjoy preferential treatment from tax authorities, reduced likelihood of audits, or more favorable interpretations of ambiguous tax rules (Amalia & Ferdiansyah, 2019). In weak institutional environments, where the rule of law is fragile and regulatory agencies are susceptible to capture, political connections can effectively substitute for formal compliance, allowing firms to engage in aggressive tax planning with minimal risk (Brookings Global Economy and Development, 2008). At the same time, politically connected firms may be subject to greater public scrutiny and reputational risk, potentially moderating their tax strategies. The net effect of political embeddedness on tax avoidance is therefore theoretically ambiguous and empirically contested.

Audit architecture is similarly multifaceted. Traditional theories of auditing posit that higher audit quality, greater auditor independence, and more intensive audit effort should reduce opportunistic financial reporting and tax avoidance by increasing the probability of detection and sanction (Bae, 2016). Joint audits, in which two or more independent audit firms simultaneously examine a company's financial statements, are often promoted as a means of enhancing audit quality through mutual monitoring and reduced collusion (Bianchi et al., 2018). However, joint audits also introduce coordination challenges, potential free-riding, and strategic information sharing that may, under certain conditions, weaken rather than strengthen oversight. Empirical evidence on the relationship between joint audits and tax avoidance is therefore mixed and context-dependent.

It is within this intricate landscape that the contribution of Ajili and Khelif (2020) assumes particular importance. Focusing on the Islamic banking industry, their study provides robust empirical evidence that political connections are positively associated with tax avoidance, and that the presence of joint audits significantly moderates this relationship. Specifically, they show that politically connected Islamic banks engage in more aggressive tax avoidance than their non-connected counterparts, and that joint audit arrangements can either constrain or amplify this behavior depending on how they interact with political embeddedness. These findings challenge simplistic assumptions about the ethical superiority of Islamic finance and the uniformly disciplining role of audit mechanisms, instead pointing to a more nuanced interplay of power, governance, and institutional design.

Despite the significance of these insights, the broader theoretical and comparative implications of Ajili and Khelif's (2020) work have yet to be fully explored. Most existing studies either focus narrowly on specific governance variables or treat political connections and audit structures as additive rather than interactive

forces. Moreover, much of the literature remains grounded in conventional corporate settings, with limited attention to the distinctive features of banking and Islamic finance. As a result, there is a substantial gap in our understanding of how political and audit institutions jointly shape tax avoidance in complex, regulated, and ethically framed financial systems.

This article seeks to fill that gap by developing an integrated framework that situates political connections and audit architecture within a broader political economy of corporate taxation. Drawing on a wide range of empirical studies and theoretical perspectives, it argues that tax avoidance is best understood not as an isolated managerial choice but as the outcome of a multi-layered governance ecology in which political power, audit structures, ownership arrangements, and institutional quality are deeply intertwined. By placing Ajili and Khelif's (2020) findings at the center of this framework, the article both honors the empirical rigor of their work and extends its analytical reach.

The contribution of this study is therefore threefold. First, it provides a comprehensive theoretical synthesis of the literature on tax avoidance, political connections, and audit architecture, highlighting both complementarities and tensions among existing findings (Akbari et al., 2019; Anuar et al., 2014; Bianchi et al., 2018). Second, it offers a detailed interpretive analysis of how these forces operate in the specific context of Islamic banking, where religious, regulatory, and political logics intersect in distinctive ways (Ajili & Khelif, 2020). Third, it develops normative and policy-relevant implications for the design of audit and governance systems capable of mitigating politically driven tax avoidance without undermining legitimate fiscal planning or financial stability.

The remainder of the article proceeds through an extensive methodological and analytical journey that is intentionally expansive rather than reductive. In the methodology, the conceptual and interpretive approach is elaborated in detail, including its philosophical underpinnings and limitations. The results section then synthesizes and interprets the patterns that emerge from the integrated literature, with particular attention to how political connections and joint audits interact across different institutional settings. The discussion situates these results within broader debates on corporate governance, regulatory capture, and ethical finance, exploring both the theoretical stakes and the practical challenges of reform. The conclusion draws together the central insights and outlines avenues for future research in this evolving and critically important field (Ajili & Khelif, 2020; Beer et al., 2019).

### **METHODOLOGY**

The methodological architecture of this study is deliberately designed to align with the complexity of its central research problem, namely the interaction between

political connections, audit architecture, and corporate tax avoidance within regulated banking systems. Rather than relying on a single empirical dataset or a narrowly defined econometric model, the study adopts an interpretive-analytical synthesis approach grounded in comparative institutional analysis and critical accounting scholarship. This methodological choice reflects the recognition that tax avoidance, particularly in politically embedded and religiously informed financial environments, is not merely a measurable outcome but a socially constructed and institutionally mediated practice (Ajili & Khelif, 2020; Beer et al., 2019).

At its core, the methodology draws on a structured review and theoretical integration of high-quality empirical studies that have examined tax avoidance from multiple angles, including managerial ability, ownership structure, audit quality, political connections, and internal control. The selection of these studies is not arbitrary but is bounded by the reference corpus provided, which represents a coherent yet diverse body of work spanning multiple countries, industries, and methodological traditions. By systematically engaging with these sources, the study reconstructs the causal mechanisms and institutional pathways through which political and audit variables influence tax behavior, without reducing these relationships to a single quantitative coefficient or model.

The interpretive synthesis is anchored in the foundational empirical findings of Ajili and Khelif (2020), whose study of Islamic banks provides a particularly rich and theoretically provocative case. Their work is treated not as an isolated empirical artifact but as a nodal point around which broader patterns and debates are organized. This approach is consistent with qualitative meta-analysis traditions in accounting and finance, which emphasize the cumulative and dialogical nature of knowledge production (Akbari et al., 2018; Annuar et al., 2014). By placing Ajili and Khelif's (2020) results in conversation with other studies of tax avoidance and governance, the methodology allows for the identification of both convergent and divergent patterns across contexts.

The analytical process unfolds in several interrelated stages. First, the conceptual constructs of political connections, audit architecture, and tax avoidance are carefully delineated based on their operationalization in the reference literature. Political connections are understood broadly to include any formal or informal ties between corporate actors and state power, including board memberships, ownership stakes, and familial or social networks (Amalia & Ferdiansyah, 2019; Ajili & Khelif, 2020). Audit architecture encompasses not only the presence of joint audits but also the quality, independence, and institutional embedding of both external and internal audit mechanisms (Bianchi et al., 2018; Bae, 2016). Tax avoidance is conceptualized as the

strategic reduction of tax liabilities through legal or quasi-legal means, typically measured through effective tax rates, book-tax differences, or other accounting proxies (Akbari et al., 2019; Beer et al., 2019).

Second, the study maps the theoretical frameworks that have been used to explain variation in tax avoidance across firms and contexts. Agency theory provides a starting point, emphasizing conflicts between managers and shareholders that can lead to opportunistic financial behavior when monitoring is weak (Badertscher et al., 2013). Political economy theory extends this lens by highlighting how firms embedded in political networks may face different incentives and constraints, including preferential access to resources and regulatory leniency (Brookings Global Economy and Development, 2008; Amalia & Ferdiansyah, 2019). Institutional theory further enriches the analysis by drawing attention to the role of formal rules, normative expectations, and cultural-cognitive frames in shaping organizational behavior, particularly in settings such as Islamic banking where religious norms are formally integrated into governance structures (Ajili & Khelif, 2020).

Third, the methodology involves a comparative reading of empirical findings across different institutional environments. Studies from developed and emerging markets, from conventional and Islamic banking systems, and from firms with varying ownership and governance structures are juxtaposed to identify patterns of similarity and difference. For example, the evidence that managerial ability is associated with tax avoidance in multilevel models (Akbari et al., 2018) is compared with findings that ownership concentration and control rights influence tax strategies (Annuar et al., 2014; Badertscher et al., 2013). These patterns are then interpreted through the lens of political connections and audit architecture, drawing on the specific insights of Ajili and Khelif (2020) regarding joint audits in politically connected Islamic banks.

An important methodological feature of this study is its explicit attention to institutional quality and state capacity. The Brookings Index of State Weakness (Brookings Global Economy and Development, 2008) is used as a conceptual benchmark for understanding how the effectiveness of public institutions conditions the relationship between firms and the state. In weak states, where tax enforcement is inconsistent and regulatory agencies are vulnerable to capture, political connections are likely to have a more pronounced effect on tax avoidance, and audit mechanisms may be more easily circumvented or co-opted. In stronger states, by contrast, formal rules and professional norms may provide a more robust counterweight to political influence, altering the dynamics observed by Ajili and Khelif (2020).

The limitations of this methodological approach must be acknowledged with equal candor. Because the study does not generate new primary data or conduct original econometric analysis, its conclusions are necessarily

contingent on the quality, scope, and comparability of the existing literature. Differences in measurement, sample selection, and institutional context across studies may introduce biases or inconsistencies that cannot be fully resolved through interpretive synthesis alone (Akbari et al., 2019; Bianchi et al., 2018). Moreover, the reliance on published studies raises the possibility of publication bias, whereby statistically significant or theoretically novel findings are overrepresented relative to null or contradictory results.

Nevertheless, the methodological strategy adopted here is well suited to the study's objectives. By foregrounding the interaction between political connections and audit architecture, and by situating these interactions within a richly theorized institutional context, the study offers a depth of insight that would be difficult to achieve through purely quantitative or single-case approaches. In this sense, the methodology reflects the substantive argument of the article itself: that understanding corporate tax avoidance in complex financial systems requires a multi-dimensional, historically and politically informed analytical lens (Ajili & Khelif, 2020; Beer et al., 2019).

### RESULTS

The synthesis of empirical and theoretical literature reveals a set of interrelated patterns that illuminate how political connections and audit architecture jointly shape corporate tax avoidance in regulated banking systems. These results are not presented as numerical estimates or statistical coefficients but as analytically grounded interpretations of convergent evidence across multiple studies, with particular emphasis on the dynamics identified by Ajili and Khelif (2020). At the most general level, the findings indicate that tax avoidance is systematically higher among politically connected firms, that audit mechanisms such as joint audits have conditional rather than uniform effects on tax behavior, and that these relationships are profoundly influenced by institutional context and governance structures (Amalia & Ferdiansyah, 2019; Bianchi et al., 2018).

One of the most robust results emerging from the literature is the positive association between political connections and tax avoidance. Firms that maintain close ties to political actors or regulatory agencies consistently exhibit lower effective tax rates and greater use of aggressive tax planning strategies (Amalia & Ferdiansyah, 2019; Annuar et al., 2014). Ajili and Khelif (2020) extend this pattern to Islamic banks, demonstrating that political embeddedness in this sector is not merely symbolic but materially consequential for fiscal behavior. Their evidence shows that politically connected Islamic banks are more likely to engage in tax avoidance than their non-connected peers, even when controlling for size, profitability, and other firm-level characteristics. This finding challenges the assumption that religious governance frameworks inherently

restrain opportunistic financial practices, suggesting instead that political power can override or reconfigure ethical constraints.

The mechanisms underlying this relationship are multifaceted. Politically connected firms often enjoy preferential access to information about impending regulatory changes, informal assurances of leniency in enforcement, and the ability to lobby for favorable interpretations of ambiguous tax rules (Beer et al., 2019). In banking systems, where regulatory oversight is both intensive and discretionary, these advantages can be particularly valuable. Ajili and Khelif (2020) argue that Islamic banks with political ties are better positioned to navigate the complex interplay between Shariah compliance and national tax law, enabling them to structure transactions in ways that minimize tax liabilities without triggering regulatory or religious sanctions. This strategic flexibility is a key driver of the observed association between political connections and tax avoidance.

The second major result concerns the role of audit architecture, and in particular the presence of joint audits, in moderating tax behavior. Conventional wisdom in auditing research suggests that higher audit quality and greater auditor independence should constrain opportunistic reporting and tax avoidance (Bae, 2016). Joint audits are often promoted as a mechanism to enhance these qualities by introducing mutual monitoring and reducing the risk of collusion between auditors and clients (Bianchi et al., 2018). However, the evidence synthesized in this study indicates that the effects of joint audits are highly contingent on the broader governance and political environment.

Ajili and Khelif (2020) provide particularly nuanced insights into this contingency. Their analysis shows that in Islamic banks, the presence of joint auditors significantly interacts with political connections to shape tax avoidance outcomes. In some cases, joint audits appear to mitigate the positive effect of political connections on tax avoidance, suggesting that enhanced oversight can partially counterbalance political influence. In other cases, however, joint audits may actually facilitate more sophisticated avoidance strategies by enabling the diffusion of responsibility and the exploitation of informational asymmetries between auditors. This duality underscores the importance of viewing audit architecture not as a monolithic constraint but as a complex organizational arrangement whose effects depend on how it is embedded in political and institutional networks (Bianchi et al., 2018; Ajili & Khelif, 2020).

A third set of results relates to the interaction between ownership structure, managerial ability, and tax avoidance. Studies have consistently found that firms with greater separation between ownership and control are more likely to engage in aggressive tax planning, as managers have incentives to maximize short-term

performance or personal benefits at the expense of long-term shareholder value (Badertscher et al., 2013; Annuar et al., 2014). Managerial ability further conditions this relationship, with more capable executives better able to design and implement complex tax strategies (Akbari et al., 2018). In politically connected banks, these agency dynamics are often amplified, as managers can rely on political protection to shield them from the potential consequences of aggressive tax behavior (Ajili & Khlif, 2020).

The literature also reveals that internal governance mechanisms, such as audit committees and internal control systems, play a significant but ambivalent role in shaping tax avoidance. Strong internal controls are generally associated with lower levels of tax avoidance, as they increase the likelihood that aggressive strategies will be detected and challenged (Bimo et al., 2019). Similarly, audit committees with overlapping directorships or high levels of expertise can either constrain or facilitate tax planning, depending on whether their primary orientation is toward compliance or strategic optimization (Al Lawati & Hussainey, 2021). In politically connected firms, however, the effectiveness of these internal mechanisms is often undermined by external pressures and informal power structures, limiting their ability to counteract aggressive tax strategies (Amalia & Ferdiansyah, 2019; Ajili & Khlif, 2020).

Institutional context emerges as a crucial moderator of all these relationships. In countries with weak state capacity, high levels of corruption, and fragmented regulatory regimes, political connections are particularly potent in enabling tax avoidance (Brookings Global Economy and Development, 2008; Beer et al., 2019). Audit mechanisms in such environments are more easily co-opted, and even formally robust arrangements such as joint audits may be reduced to symbolic compliance. Ajili and Khlif's (2020) findings in Islamic banking systems located in emerging markets reflect this broader pattern, highlighting how the combination of political embeddedness and institutional weakness creates fertile ground for sophisticated tax avoidance strategies.

Taken together, these results paint a complex and sometimes counterintuitive picture. Political connections are not merely an external influence on tax behavior but are deeply intertwined with internal governance and audit structures. Joint audits and other oversight mechanisms do not operate in a vacuum but are filtered through the political and institutional environment in which firms are embedded. In Islamic banking, where ethical and religious norms add another layer of governance, these dynamics are particularly intricate, producing outcomes that defy simplistic expectations of either moral restraint or regulatory effectiveness (Ajili & Khlif, 2020; Bianchi et al., 2018).

### DISCUSSION

The findings synthesized in this study invite a profound reconsideration of how corporate tax avoidance is conceptualized, regulated, and ethically evaluated in modern financial systems. Far from being a purely technical matter of accounting choices or legal interpretation, tax avoidance emerges as a politically mediated organizational practice, shaped by the interaction of power, governance, and institutional design. The central insight of Ajili and Khlif (2020), that political connections and joint audits jointly determine tax avoidance in Islamic banks, serves as a powerful lens through which to interrogate broader theoretical and practical debates in accounting, finance, and political economy.

From a theoretical standpoint, the results challenge the sufficiency of traditional agency theory as a standalone explanation for tax avoidance. While agency problems between managers and shareholders undoubtedly play a role in shaping tax behavior (Badertscher et al., 2013; Akbari et al., 2018), the evidence reviewed here suggests that political connections fundamentally alter the incentive structures and constraints faced by corporate actors. In politically embedded firms, managers are not only accountable to shareholders but also to political patrons, regulators, and other state-linked stakeholders. This multi-principal environment complicates the classic agency framework, introducing new forms of moral hazard and strategic behavior that are not captured by models focused solely on internal corporate governance (Amalia & Ferdiansyah, 2019; Ajili & Khlif, 2020).

Political economy theory offers a more encompassing framework for understanding these dynamics. By situating firms within networks of power and resource exchange, political economy highlights how access to political capital can substitute for or complement financial and organizational capital (Beer et al., 2019). In the context of tax avoidance, political connections can reduce the expected costs of aggressive strategies by lowering the probability of enforcement or by enabling favorable settlements when disputes arise. Ajili and Khlif's (2020) demonstration that politically connected Islamic banks engage in more tax avoidance is thus not an anomaly but a manifestation of broader patterns of regulatory capture and state-business interdependence.

Institutional theory further enriches this analysis by drawing attention to the symbolic and normative dimensions of governance. In Islamic banking, formal adherence to Shariah principles and the presence of Shariah supervisory boards create an institutional environment that ostensibly prioritizes ethical conduct and social responsibility. Yet the empirical evidence suggests that these normative frameworks coexist with, and are sometimes subordinated to, political and economic imperatives (Ajili & Khlif, 2020). This coexistence produces what might be termed "institutional layering," in which multiple governance logics operate

simultaneously, sometimes reinforcing and sometimes undermining one another. Joint audits, for example, may serve both as a symbol of enhanced accountability and as a practical mechanism through which complex tax strategies are coordinated and legitimized (Bianchi et al., 2018).

The ambivalent role of audit architecture revealed in the results has significant implications for debates on audit quality and regulatory reform. Traditional auditing theory assumes that greater independence, expertise, and oversight will necessarily lead to more conservative financial reporting and lower levels of opportunism (Bae, 2016). However, the evidence synthesized here suggests that in politically connected firms, and particularly in weak institutional environments, audit mechanisms can be repurposed to serve strategic rather than purely monitoring functions. Joint audits, by involving multiple firms and spreading responsibility, may create opportunities for regulatory arbitrage and sophisticated tax planning that would be more difficult under a single-auditor regime (Ajili & Khlif, 2020; Bianchi et al., 2018).

This insight resonates with broader critiques of audit and governance reforms that focus on formal structures rather than underlying power relations. Simply mandating joint audits or strengthening audit committees may have limited impact if political connections continue to shape enforcement and accountability. As the Brookings Index of State Weakness suggests, the effectiveness of any governance mechanism ultimately depends on the capacity and integrity of public institutions (Brookings Global Economy and Development, 2008). In contexts where tax authorities are under-resourced, politicized, or corrupt, even the most sophisticated audit architectures may be insufficient to curb aggressive tax avoidance (Beer et al., 2019).

The interaction between ownership structure, managerial ability, and political connections further complicates the picture. While concentrated ownership and high managerial competence can, in principle, align incentives and reduce agency problems, they can also facilitate more effective exploitation of tax loopholes when combined with political protection (Akbari et al., 2018; Annuar et al., 2014). In Islamic banks, where ownership structures often involve state-linked or politically influential shareholders, these dynamics are particularly pronounced. Ajili and Khlif (2020) show that such ownership and political configurations can override the disciplining effects of both market competition and religious governance, leading to higher levels of tax avoidance than might otherwise be expected.

These findings also have important ethical and normative implications. Islamic finance is often promoted as a more socially responsible alternative to conventional banking, grounded in principles of fairness, transparency, and social welfare. Tax avoidance, however, undermines

these principles by depriving the state of resources needed to provide public goods and by shifting the fiscal burden onto less powerful actors. The evidence that politically connected Islamic banks engage in aggressive tax avoidance therefore raises uncomfortable questions about the alignment between religious ideals and actual corporate practices (Ajili & Khlif, 2020). It suggests that ethical branding and formal compliance with religious norms may coexist with, or even mask, deeply embedded patterns of fiscal opportunism.

From a policy perspective, the results underscore the need for a more holistic approach to regulating tax avoidance in banking and other highly regulated industries. Focusing solely on technical accounting rules or audit standards is unlikely to be sufficient if political connections continue to shape enforcement and compliance. Instead, reforms must address the underlying political and institutional conditions that enable tax avoidance, including transparency in political financing, revolving-door employment, and the independence of regulatory agencies (Beer et al., 2019; Brookings Global Economy and Development, 2008). In Islamic banking, this may also involve strengthening the autonomy and expertise of Shariah supervisory boards and integrating them more closely with conventional audit and regulatory frameworks.

The limitations of the existing literature also point to important avenues for future research. While Ajili and Khlif (2020) provide a compelling analysis of political connections and joint audits in Islamic banks, more comparative work is needed to determine how these dynamics play out across different countries, regulatory regimes, and types of financial institutions. Longitudinal studies could shed light on how changes in political leadership, audit regulation, or institutional quality affect tax behavior over time. Qualitative research, including interviews with auditors, regulators, and bank executives, could further illuminate the informal practices and perceptions that underpin the observed statistical relationships (Bianchi et al., 2018; Al Lawati & Hussainey, 2021).

In sum, the discussion reveals that corporate tax avoidance in banking is not merely a matter of compliance or non-compliance with the law but a deeply political and institutional phenomenon. The interaction between political connections and audit architecture, as illuminated by Ajili and Khlif (2020) and corroborated by a wide range of other studies, represents a critical nexus at which power, ethics, and financial practice converge. Understanding and addressing this nexus is essential for scholars, regulators, and practitioners alike as they seek to promote more transparent, accountable, and socially responsible financial systems.

### CONCLUSION

The analysis presented in this study demonstrates that

corporate tax avoidance in regulated banking systems, and particularly within Islamic banking, cannot be adequately understood through narrow lenses of technical accounting, managerial opportunism, or formal audit structures alone. Instead, tax avoidance emerges as the product of a complex governance ecology in which political connections, audit architecture, ownership arrangements, managerial capabilities, and institutional quality interact in dynamic and often counterintuitive ways. By centering the empirical and theoretical contributions of Ajili and Khelif (2020) within a broader comparative and conceptual framework, the article has shown that political embeddedness fundamentally reshapes both the incentives and the constraints that govern corporate tax behavior.

The evidence synthesized here indicates that politically connected banks, including those operating under Islamic ethical frameworks, are structurally advantaged in pursuing aggressive tax strategies, even when subject to joint audits and other formal oversight mechanisms (Ajili & Khelif, 2020; Amalia & Ferdiansyah, 2019). Audit architectures that are commonly assumed to enhance transparency and accountability can, under conditions of political influence and institutional weakness, become tools through which sophisticated avoidance strategies are coordinated and legitimized (Bianchi et al., 2018; Bae, 2016). These findings challenge prevailing assumptions about the efficacy of governance reforms that focus primarily on formal structures rather than on the distribution of power and the integrity of institutions.

The implications of this analysis are both scholarly and practical. For researchers, it underscores the need to integrate political economy, institutional theory, and accounting research in order to capture the full complexity of corporate tax behavior. For policymakers and regulators, it highlights the importance of addressing political connections and state capacity as central components of any effective strategy to combat tax avoidance. In the context of Islamic finance, it also calls for a more critical examination of how religious and ethical governance frameworks interact with political and economic realities.

Ultimately, the study affirms that corporate tax avoidance is not merely a technical problem to be solved through better rules or more audits, but a deeply embedded feature of modern capitalism that reflects broader patterns of power, inequality, and institutional design. Confronting it requires not only technical expertise but also political will and ethical commitment, informed by a nuanced understanding of how governance systems actually function in practice (Beer et al., 2019; Ajili & Khelif, 2020).

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