THE EFFECT OF TAX PLANNING AND CORPORATE GOVERNANCE ON TAX DISCLOSURE IN MALAYSIA

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By

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ABSTRACT

Tax authorities are still facing unresolved issues of a company's tax planning activities, whether they involve direct or indirect taxes. In Malaysia direct tax is the fundamental source of the government's income. The transformations in the tax systems and accounting standards have given companies opportunities to manage their tax affairs for the benefit of their shareholders. This study reports results of the relationship between tax disclosure and tax planning. At the same time it also considers corporate governance as a moderating influence. This study used a large sample of non-financial listed companies in Bursa Malaysia. To this end, the study used dataset of hand-gathered information from 286 company financial statements for the fiscal years 2010 to 2012. The results indicate that tax planning exhibits a strong positive relationship with tax disclosure, which is unconditional upon corporate governance. This relationship can be further explained as tax disclosure exhibits a significant positive association with the tax losses component of tax saving, but has a significant negative relationship with permanent differences component of tax saving and the temporary differences component of tax saving. This study contributes to the field of taxation in that it uses the ETR reconciliations to measure the level of tax disclosure in financial statements. Moreover, it contributes to the discussion of who verifies and benefits from tax disclosure conducted by companies. The findings of this study also contribute to the body of knowledge since there is a general dearth of published research that investigates these relationships, particularly in Malaysia.

Keywords: tax disclosure, tax planning, corporate governance, component of tax saving, effective tax rate

ABSTRAK

Pihak berkuasa cukai masih berhadapan dengan isu-isu aktiviti perancangan cukai syarikat yang masih belum selesai, sama ada yang melibatkan cukai langsung ataupun tidak langsung. Di Malaysia cukai langsung adalah sumber asas pendapatan kerajaan. Perubahan dalam sistem cukai dan piawaian perakaunan telah memberikan syarikat peluang untuk menguruskan hal ehwal cukai mereka untuk manfaat pemegang saham. Kajian ini melaporkan dapatan mengenai hubungan antara pendedahan cukai dan perancangan cukai. Pada masa yang sama, ia turut mengambil kira tadbir urus korporat sebagai penyederhana. Kajian ini menggunakan sampel yang besar, iaitu syarikat bukan kewangan yang tersenarai di Bursa Malaysia. Untuk tujuan kajian ini, set data telah dikumpulkan sendiri dari penyata kewangan 286 syarikat bagi tahun kewangan bermula 2010 sehingga 2012. Hasil kajian menunjukkan bahawa perancangan cukai mempamerkan hubungan positif yang signifikan dengan pendedahan cukai, tanpa pengaruh urus tadbir korporat. Hubungan ini berlaku kerana pendedahan cukai menunjukkan hubungan positif yang signifikan dengan komponen kerugian cukai penjimatan cukai, tetapi mempunyai hubungan negatif yang signifikan dengan komponen perbezaan tetap penjimatan cukai dan komponen perbezaan sementara penjimatan cukai. Kajian ini menyumbang kepada bidang percukaian melalui penggunaan penyesuaian ETR untuk mengukur tahap pendedahan cukai dalam penyata kewangan. Selain itu, ia menyumbang kepada perbincangan tentang siapa yang mengesahkan dan mendapat manfaat daripada pendedahan cukai yang dijalankan oleh syarikat. Akhir sekali kajian ini turutmenyumbang kepada badan pengetahuan akibat kurangnya penyelidikan yang mengkaji hubungan ini, terutamanya di Malaysia.

Kata kunci: pendedahan cukai, perancangan cukai, tadbir urus korporat, komponen penjimatan cukai, kadar cukai berkesan

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LIST OF ABBREVIATIONS

AICPA	American Institute of CPA_s
BCOMS	Board compensations of company
BM	Bursa Malaysia
CAPNT	Capital intensity of company
C-B-C-R	Country-by-Country Reporting
CEO	Chief Executive Officer
CG	Corporate governance
CLSA	Credit Lyonnais Securities Asia
DIVID	Dividend payout ratio of company
DTA	Deferred tax asset
DTL	Deferred tax liability
EM	Earnings management
ETR	Effective Tax Rates
FASB	Financial Accounting Standards Board
FIN48	Financial Interpretation No 48
FSIZ	Firm size
FSMP	Financial Sector Master Plan
GAAP	Generally Accepted Accounting Principles
GRTH	Growth
IAS 12	International Accounting Standard, 12 Income Taxes
IFRS	International Financial Reporting Standards
INDS	Industry dummy of company
IRBM	Inland Revenue Board of Malaysia
ITA	Income Tax Act
LEVE	Leverage
MCCG	Malaysia Code of Corporate Governance
MOWNR	Managerial ownership
MTUC	Malaysian Trades Union Congress
NOLs	Net operating loss (es)
OECD	Organization of Economic Cooperation and Development
PWYP	Publish What You Pay
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
STR	Statutory Tax Rates
TD	Tax disclosure
TEI	Tax Executives Institute
FTR	Foreign tax rates differentials
TLOS	Tax losses
TP	Tax planning
PD	Permanente differences
TDF	Temporary differences
UNC	Unclassified items
U.K.	United Kingdom
U.S.	United States of America

CHAPTER ONE

INTRODUCTION

This thesis examines the association between tax planning and tax disclosure, whilst also considers the function of corporate governance as a moderator that affects the relation. After controlling for company-specific characteristics (i.e. firm size, dividends and industry sector), this study begins by investigating the association between tax disclosure and tax planning, before examining how corporate governance may moderate the association. Agency theory (Jensen & Meckling, 1976) and the Scholes-Wolfson tax planning framework (Scholes, 2009) are the basis of the hypotheses development. The discussion in this chapter begins with the background of study, problem statement and motivation behind this study, research questions, research objectives and an overview of the research methodology. Following that, discuss the importance of this study, the thesis structure and conclusion.

1.1 Background of Study

Taxation is the government's main source of revenue and, thus, it is the most important contributor to public spending. Therefore, corporations are increasingly taking taxes into consideration seriously in today's world (Sabli & Noor, 2012). Nevertheless, tax-payers, specifically companies, continue to perceive taxes to be a burden. This perception stems from the fact that corporations, in general, are sceptical about paying substantial taxes to the tax authorities. This resistance makes them likely to engage in tax planning strategies

in order to reduce, eliminate, or defer tax liabilities (Sabli & Noor, 2012).

Tax-payers are probably to be involved in tax planning (TP) strategies in an effort to minimize or defer tax liabilities. Thus, tax planning in today's world, which is managed by complex laws, has become a necessity for companies that want to be sure their financial affairs are in order. Simply, tax planning can be defined as: *"what all sensible people do in order to reduce their tax liabilities* " (Tiley, 2005, p. 94). Hoffman (1961) noted that in order to properly understand the concept of tax planning activities, tax evasion and tax avoidance must be distinguished. In light of this, this study will consider all types of tax planning, including tax avoidance and tax evasion. Tax avoidance refers to any tax planning utilized legally by businesses to decrease their income tax (Rego, 2003). The term tax evasion involves any means of tax planning utilized, by tax-payers, to reduce the level of tax payments from their source of income even employ illegal tactics of tax evasion (Bruce, Deskins, & Fox, 2007). Moreover, based on the research by Abdul Wahab and Holland (2012) this study will define tax planning activities as a combination of evasion and avoidance. This study focuses on the association between tax disclosure and tax planning, while the lawful sides of evasion and avoidance are not investigated empirically. Section 3.1 in Chapter Three discusses on this in detail.

Studies on tax, either directly or indirectly , consider tax savings to be the result of tax planning (Rego, 2003; Abdul Wahab & Holland, 2012). In measuring the results of tax planning, the components of tax savings, namely permanent differences (PD)[1], temporary differences (TDF)[2], tax losses (TLOS) and foreign tax rates differentials (FTR), will

[1] PD are the differences that never reverse, they are either non-deductible expenses or non-taxable
[2] TDF are the differences between taxable-income and book-income because the items of expense or

further explain the value of tax planning. Moreover, Section 3.7 in Chapter Three and Section 7.2.2 in Chapter Seven elaborates on this in detail.

The disclosure of companies' tax information could discourage explicit aggressive tax planning, increase tax compliance or encourage companies to become less willing to undertake tax planning (Kornhauser, 2005). In this context, the issue of state company tax disclosures (TD) was raised in 1987 in the United States (Pomp, 1993). Activists around the world had called on governments and firms to disclose information to the public with regard to how much tax companies pay and to whom such tax liabilities were due (Christians, 2013). The aim of this action was to raise public awareness about the systemic under-taxation of multinational companies and to illustrate its harmful effects, especially in relation to the lack of development in poor countries (Christians, 2013). In this context, Paragraph 81 IAS12 Income Taxes requires an independent disclosure of the reconciliation of tax expense items, in order to interpret the association between an effective tax rates (ETRs) and statutory tax rates (STR) better (World GAAP Info, 2009). Therefore, tax disclosures are important lawful requirements, which adequately supply present taxation information to other relevant parties, for example the government (Francois, 2015).

Disclosure of tax information could help regulators develop the function of financial markets to discourage aggressive tax planning. Recently, the focus of regulators, auditors and the tax authorities has been on corporate governance practices and taxation policies (Slemrod, 2005). Accordingly, the separation of, the presence of asymmetric information, management roles and ownership introduces the possibility of a principal-agent problem

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revenue that are recognized in one period for the books, but in a different period for taxes.

(Jensen & Meckling, 1976; John & Senbet, 1998). In order to minimize agency costs and conflicts some mechanisms of internal and external corporate governance have been proposed (Haniffa & Hudaib, 2006). On this basis, corporate governance fundamentally concentrates on the procedures used to manage a company with the target of acting in the best interests of shareholders, while attaining the goals of the firm. Moreover, corporate governance can be a factor of moderation in the tax planning process as the procedure requires a commitment from managers who have the authority to make decisions regarding tax planning (Abdul Wahab, 2010). Section 4.1, in Chapter Four elaborates on this in detail.

1.2 Problem Statement and Motivation

Firms have a significant function to play in the public sphere since their actions have an impact on interested parties. Users of financial reports, particularly shareholders and decision makers, expect company financial statements to be reliable and clear. Therefore, the level of corporate tax disclosure is very important due to the fact that the main role of a financial report is to give useful information to the users (Rahman, 2003).

Due to a lack of information on tax governance, relevant parties such as shareholders assess tax planning differently (Henderson Global Investors, 2005). Henderson Global Investors (2005) documented evidence that there is information asymmetry between managers and shareholders. This evidence illustrates the considerable unwillingness on the part of management to disclose tax governance-associated information, in particular information about the tax risk management of the firm's tax affairs. Bearing in mind both

the perceived advantages and tax planning risks and disclosure, relevant parties are assumed to consider tax planning activities and the level of corporate tax disclosure in their evaluation of companies (SustainAbility, 2006).

There is a lack of empirical research which tests the association between tax planning and tax disclosure, particularly in relation to Malaysian corporations. Tax disclosure is a comparatively new area of firm reporting research and there are limited studies available (Lenter, Shackelford, & Slemrod, 2003). Accordingly, this study investigates whether tax planning activities reflect firms' tax disclosures. As the information and the practices of corporate governance are significant to the relevant parties in measuring the efficiency of the firm's management, the role of corporate governance is investigated with specific reference to the tax planning–tax disclosure association (Henderson Global Investors, 2005; Desai & Dharmapala, 2009). Nevertheless, there is a general lack of published research which investigates the relationship between tax planning and corporate governance from a tax disclosure perspective. A further incentive to carry out this research is that, to the best of the researcher's knowledge, there are no published studies which examine the influence of corporate governance on the association between tax disclosure and Malaysian corporations' activities of tax planning.

Malaysia, like many other countries, for instance the U.K. and the U.S., has experienced various phases of tax reforms such as adoption of IAS 12 Income Taxes in 2012. Moreover, the tax system has been used as a mechanism to achieve the country's economic growth. For example, modifications in tax regulations and the provision of tax incentives in the form of a reduction in the statutory tax rate, exclusions, exemptions and

deductions are reflected in a firm's tax burdens (Rohaya, Nor Azam, & Barjoyai, 2008). Consequently, this reflection will generate more revenue enabling these companies to finance new projects. The Malaysian corporate tax system provides a significant amount of tax incentives to corporations, thus encouraging firms to undertake tax planning. The variation in ETRs between sectors, however, suggests that the tax incentives are only beneficial to firms in certain industry sectors (Noor, Fadzillah, & Mastuki, 2010). This highlights the issue of non-neutrality of the corporate tax system. The above-mentioned reasons could prompt a tax authority to investigate legal and illegal tax planning activities. Moreover, the study by Noor *et al*. (2010) found that Malaysian corporations are engaged in tax planning. In this context, the Malaysian tax authority, the Inland Revenue Board of Malaysia (IRBM) has become increasingly aware of tax planning issues and has been constantly taking actions to decrease the extent of tax avoidance and tax evasion (Inland Revenue Board of Malaysia, 2015). In addition, the potential negative effects of tax planning on the ability to provide the public with goods and services can contribute to social issues (Sikka & Willmott, 2010) Thus, studies should investigate the tax planning strategies undertaken by corporations in the listed companies of the Bursa Malaysia (Noor *et al*., 2010).

This study focuses on some specific questions. Does the extent of corporate tax planning lead to differences in the level of corporate tax disclosure within companies? Do corporate governance mechanisms moderate the association between the level of corporate tax disclosure and the extent of tax planning activities? If tax planning information asymmetry exists between external parties and managers, corporate governance practices may either limit or increase reassurance to relevant parties on

managers' incentives, especially when they make decisions regarding tax planning (Abdul Wahab, 2010).

Growing concerns about the levels of corporate tax disclosure and tax planning activities by external parties, including non-governmental organizations (e.g. Malaysian Trades Union Congress (MTUC)) and governmental agencies (e.g. IRBM), prompted this study to examine whether companies' tax planning activities influence the level of corporate tax disclosure. Such a view might also be influenced by the perceived risk of moral hazard, in which managers' interest in tax planning is suspected (Abdul Wahab, 2010). Therefore, this study pursues to address the level of corporate tax disclosure from companies' perspectives, responding to suggestions that new research on the topic under discussion should consider the present requirements of disclosure in providing significant tax-associated information to related parties, particularly in the decision-making procedure (Abdul Wahab & Holland, 2012). This issue will be studied from both corporate governance and taxation sides. Furthermore, this study illustrates the implications and practicalities in terms of disclosure of effective tax rate reconciliation, tax expense and corporate governance to authorities, academics and corporate managers.

1.3 Research Questions

The research questions considered for this study are as follows:

1- Is there any significant association between the level of corporate tax disclosure and the extent of corporate tax planning?

2- Is there any significant association between the level of corporate tax disclosure

and the extent of permanent differences component of tax planning?

3- Is there any significant association between the level of corporate tax disclosure and the extent of temporary differences component of tax planning?

4- Is there any significant association between the level of corporate tax disclosure and the extent of foreign tax rates differentials component of tax planning?

5- Is there any significant association between the level of corporate tax disclosure and the extent of the tax losses component of tax planning?

6- Is there any significant association between the level of corporate tax disclosure and the companies' corporate governance conduct?

7- Do corporate governance practices moderate the association between the level of corporate tax disclosure and the extent of tax planning activities?

8- Do corporate governance practices moderate the association between the level of corporate tax disclosure and the extent of permanent differences component of tax planning?

9- Do corporate governance practices moderate the association between the level of corporate tax disclosure and the extent of temporary differences component of tax planning?

10- Do corporate governance practices moderate the association between the level of corporate tax disclosure and the extent of foreign tax rates differentials component of tax planning?

11- Do corporate governance practices moderate the association between the level of corporate tax disclosure and the extent of tax losses component of tax planning?

1.4 Research Objectives

The main purpose of this study is to examine the association between tax disclosure and tax planning among Malaysian public listed corporations, whilst also considering the function of corporate governance as a moderating impact. The particular aims are as follows:

1. To investigate the association between the level of corporate tax disclosure and the extent of corporate tax planning.
2. To investigate the association between the level of corporate tax disclosure and the extent of permanent differences component of tax planning.
3. To investigate the association between the level of corporate tax disclosure and the extent of temporary differences component of tax planning.
4. To investigate the association between the level of corporate tax disclosure and the extent of foreign tax rates differentials component of tax planning.
5. To investigate the association between the level of corporate tax disclosure and the extent of the tax losses component of tax planning.
6. To investigate the association between the level of corporate tax disclosure and the companies' corporate governance conduct.
7. To investigate whether the association between the level of corporate tax disclosure and the extent of tax planning activities is moderated by corporate governance conduct.
8. To investigate whether the association between the level of corporate tax disclosure and the extent of permanent differences component of tax planning is

moderated by firms' corporate governance.

9. To investigate whether the relationship between the level of corporate tax disclosure and the extent of temporary differences component of tax planning is moderated by firms' corporate governance.
10. To investigate whether the relationship between the level of corporate tax disclosure and the extent of foreign tax rates differentials component of tax planning is moderated by firms' corporate governance.
11. To investigate whether the relationship between the level of corporate tax disclosure and the extent of tax losses component of tax planning is moderated by firms' corporate governance.

1.5 Research Methodology

The sample frame is non-financial Bursa Malaysia listed companies for the period 2010 to 2012. Figure 6.3 in Chapter Six shows the research framework, which clarifies the key focus of the variables. The data considered in this research is an archival panel dataset, which is drawn from tax data collected by hand and corporate governance data from firm annual reports. The financial data related to company-specific characteristics is obtained from *Datastream*. Moreover, this study applies a quantitative research approach.

1.6 Significance of the Study

This study practically and theoretically contributes to the body of knowledge. To the best of the researcher's knowledge, it is the first study of its kind to focus on Malaysian

corporations. Moreover, this study supplies insights into the implications of tax planning in relation to tax disclosure. The contributions of this study are as follows: First, it adds to the body of knowledge on tax planning activities in Malaysia. Secondly, it contributes to taxation and corporate governance literature by highlighting the implications of tax planning and corporate governance in tax disclosure. Thirdly, it contributes to existing taxation literature by measuring tax disclosure using items of tax expenses and tax reconciliation. Finally, the study provides insights to academics, authorities and practitioners about the implications of disclosing tax and corporate governance information to the public.

1.7 Scope of the Study

This study concentrates on examining the relationship between tax disclosure and tax planning among Malaysian public listed corporations, whilst also considering the function of corporate governance as a moderating impact. The sample of the study was 286 companies listed on Bursa Malaysia from 2010 to 2012. This study used secondary data available from the annual reports and Thomson database. In terms of tax planning and component of tax savings, the variables tested in this study were tax planning measured by ETR, the components of tax savings, namely permanent differences (PD), temporary differences (TDF), tax losses (TLOS) and foreign tax rates differentials (FTR). In this context, this study used incentive compensation and managerial ownerships as proxies of corporate governance conduct. In terms of company-specific characteristics the control variables tested in this study were earnings management (EM), capital intensity (CAPNT), leverage (LEVE), dividend (DIVID), firm size (FSIZ), industry

dummies (INDS) and growth (GRTH).

1.8 Structure of Thesis

Figure 1.1 reports a synopsis of the thesis structure. In general, this thesis includes nine chapters of five parts: an introduction, literature reviews, analyses of research design and methodology, data analysis and results and a conclusion.

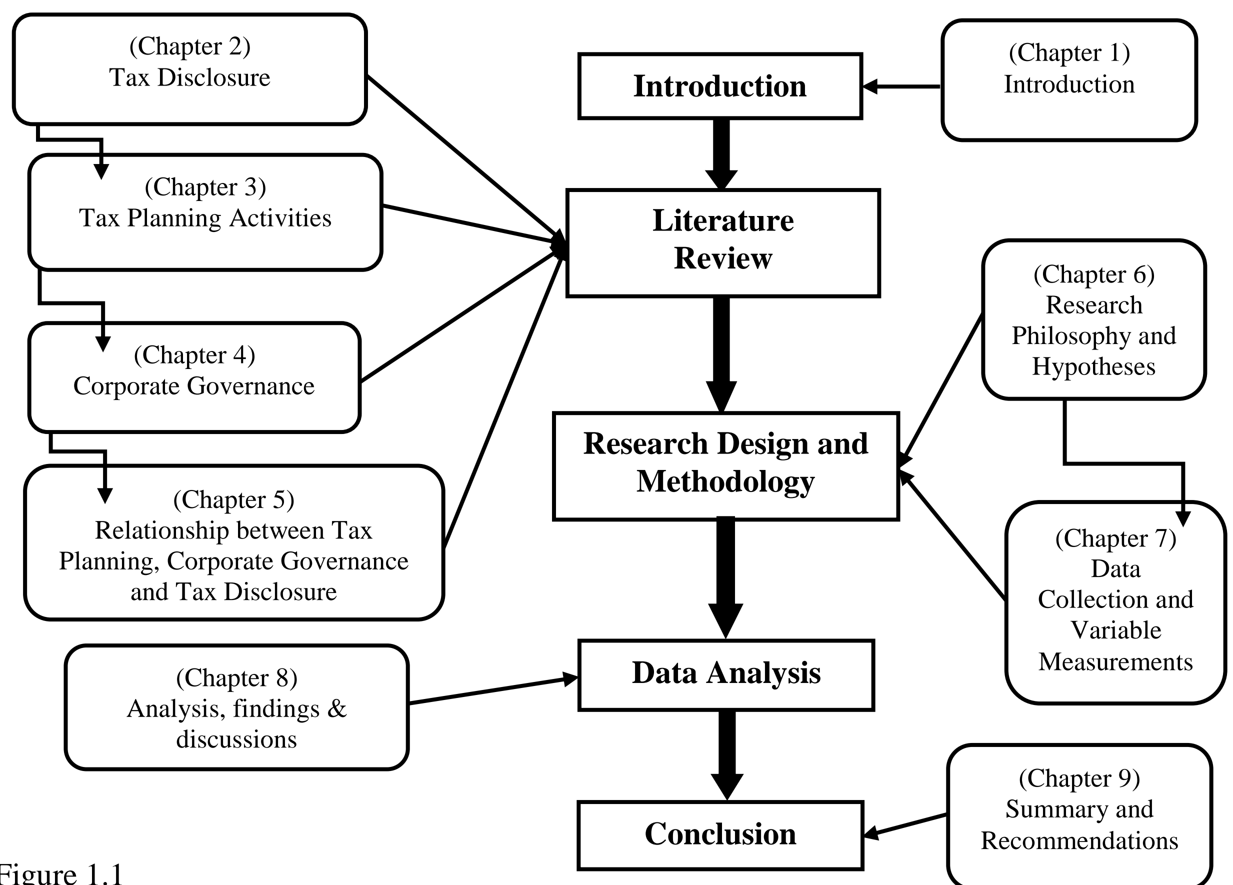

Figure 1.1
Thesis Structure

1.8.1 Literature Review

Based on the thesis structure, the literature review is divided into four chapters (namely

Chapters Two, Three, Four and Five), which review the literature on tax disclosure, tax planning activities, corporate governance and the impacts of tax planning and corporate governance on tax disclosure.

1.8.1.1Tax Disclosure

Chapter Two begins with a discussion of prior studies related to the concept of tax disclosure by corporations. The section starts with a review of the literature of tax disclosure, which involves definitions and the background of tax disclosure. The next sections review and discuss the underlying theories, objectives, boundaries, motivations and advantages of tax disclosure. Besides the discussion, each part also supplies an overview of the associated literature and therefore identifies the gaps in the existing body of knowledge.

1.8.1.2 Tax Planning Activities

Chapter Three begins with a literature review with regards to tax planning, which contains definitions and discusses the underlying theories of tax planning. The next sections review the objectives, boundaries, advantages and motivations of tax planning. The chapter continues with discussions on how tax planning is carried out with differing measurements and approaches during companies.

1.8.1.3 Corporate Governance

Chapter Four reviews corporate governance literature with the main purpose of

discussing corporate governance requirements in Malaysia. The chapter starts with an argument on the theories of corporate governance. The next sections present definitions of corporate governance, an overview of corporate governance in Malaysia, corporate governance requirements in Malaysia, and its mechanisms (including internal and external mechanisms). Earlier studies document mixed findings about the efficiency of corporate governance mechanisms on company performance (Abdul Wahab, 2010). Thus, each corporate governance mechanism could imply both negative and positive results, dependent upon the managers' opportunism in the business environment.

1.8.1.4 Relationship Between Tax Planning, Corporate Governance and Tax Disclosure

Chapter Five starts with a review of the literature and studies on the relationship of tax planning and corporate governance on tax disclosure. In order to attain a thorough understanding of this relationship, this chapter discussed the association between tax planning and tax disclosure and the relationship between corporate governance and tax disclosure. The next sections review the literature associated to the relationship of tax planning and corporate governance with tax disclosure. Moreover, the moderating function of corporate governance in tax disclosure-tax planning relationship is discussed. Based on the literature discussed in Chapter Four, it could be concluded that the characteristics of corporate governance have a significant function in explaining the relationship between the activities of tax planning and tax disclosure.

1.8.2 Research Design

The research design and methodology section consists of two chapters (Chapter Six and Chapter Seven). Chapter Six discusses the research philosophy and hypotheses development based on the understanding gained from Chapters Two, Three, Four and Five. In order to give a better understanding of the research philosophy, Chapter Six begins with explanations of epistemology, ontology, axiology and research paradigms. The following sections focus on the main and relevant theories involved in the development of hypotheses and also highlight the theoretical framework of this study. In order to understand the research problem, the signaling theory, Scholes-Wolfson framework and agency theory are mentioned to, applying prior knowledge on tax disclosure, tax planning and corporate governance respectively.

Chapter Seven consists of three main sections. The chapter presents the sample framework, estimation model development and variable measurements. Section 7.1 begins with the sample selection procedures and data resources. In this regard, the study used panel dataset for the sample of non-financial publicly listed companies in Bursa Malaysia (BM) for the period from 2010 to 2012. Then Section 7.3 discusses the model development and estimation. In Section 7.2, the chapter continues with variables measurements to facilitate understanding of the independent and control variables involved.

1.9 Conclusion

This chapter sheds light on the general idea of this study. With a view to attain a thorough

understanding of the idea of this study, this chapter begins with three sections, respectively explain the reasons and justifications in the background and motivations, research questions and research objectives. The following section of this chapter discusses with an overview of the research methodology adopted. The significance of study has been interpreted in the next part, which discusses briefly the contributions of study results. To facilitate the understanding of the thesis order, the thesis structure part describes the thesis outline.

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CHAPTER TWO

TAX DISCLOSURE

This chapter purposes to review the literatures associated with the concept of tax disclosure by corporations. It starts with a review of the literature and background of tax disclosure, which include definitions of and discussions on tax disclosure in companies. The following section reviews and discusses the underlying theories and previous literatures that link with tax disclosure. Further analyses and review follow in Sections Three and Four on the practice of efficient tax disclosure by revising objectives, boundaries, motivations, and advantages of tax disclosure. The fifth part of this chapter reviews the measurement of tax disclosure and, finally, the last part concludes the chapter.

2.1 Background and Definitions

Public disclosure of income tax information is a tax system policy tool. Disclose information about a company's tax received more attention in 2003 (Hasegawa, Hoopes, Ishida, & Slemrod, 2013). Sweden, Norway and Finland all presently have a policy requiring the public disclosure of taxable incomes, in Japan tax disclosure was required from 1950 until 2004. Australia is presently considering implementing a system of tax disclosure. The issue of company tax disclosure was raised in 1987 by a staff study for New York State's Legislative Tax Study Commission (Pomp, 1993). Since this date, three states (Arkansas, West Virginia, and Massachusetts) have embraced regulations requiring some state-level disclosure by corporations. Whilst Wisconsin has had a disclosure

regulation since 1923, it has just as of late been utilized for tax policy purposes (Mazerov, 2007). Currently, activists around the globe call on governments to request disclosure of information for public users from companies about what, what amount and where on the globe firms, particularly multinational firms, pay taxes (Christians, 2013). Their point is to stir public thoughtfulness to the systemic under-taxation of multinational companies, to demonstrate that this is linked to the failure of development in developing nations, and to persuade law-makers that the public is curious in changing this model. In their mission for financial transparency through tax disclosure, activists are admitting themselves to an elite policymaking yard that has customarily been dominated by the political elites, and seeking change. Tax transparency through applying tax disclosure norms challenges the tax policy standards developed within this yard, whilst the interest for activists in non-governmental organizations challenges the institutional foundations of contemporary worldwide tax policymaking (Christians, 2013).

Furthermore, Christians (2013) argued that, during recent years, the global financial crisis has produced and coordinated rescue operations across the rich countries. Adverse effects on large financial interests and commercial sectors, together with high budget deficits and budget cuts, have led to growing public concern about poverty and global financial inequality. During this time period, however, several multinational companies announced record profits for their operations in all parts of the world, whilst seemingly escaping the charges (Thomson Reuters, 2011). In a same vein, Fenster (2011) said that the international tax transparency is an universal phenomenon versus this occurrence and backdrop. Tax transparency activists seek to ask and respond to the question: how is it that the world's biggest profit centers are contributing so little to public revenue needs,

especially in developing countries? This is the question posed by campaigners, with an emphasis on the search for information rather than a request for a change (Christians, 2013). It is by no means the initial time tax information has been sought with respect to firms in the U.S. or somewhere else. Pomp (1993) discussed the U.S. experience with the disclosure of corporate tax and the development of the national policy.

In the same context, Mazerov (2007) argued that state companies' income tax disclosure was broadly discussed in the early 1990s, when legislature in Massachusetts was amended to implement a disclosure regulation. To contribute to the Massachusetts discussion, Prof Pomp of the University of Connecticut School of Law wrote a major report in 1993 on companies tax disclosure (Pomp, 1993). Tax disclosures (TD) have been defined as a term utilized to depict two separate situations: *"The first is the legal requirement to provide current taxation information to the other party. The second is related to transactions that may be viewed as tax sheltering that must be disclosed to the government when filing income taxes"* (Francois, 2015, Para. 1.2).

Atwood and Reynolds (2008) argued that the results support the proposal by the Financial Accounting Standards Board to implement a separate section in financial statements concerning disclosure of income tax. The board accepted and proposed that:

> *"all income taxes, including taxes related to transactions with owners, would be presented in a separate section in the basic financial statements. Amounts presented in all other sections (the business section, financing section, and discounted operations) would be pre-tax amounts, eliminating the need for intraperiod tax allocation requirements. Also, income taxes related to transactions with owners would be recognized in comprehensive income rather than as a direct charge or credit to equity. The Board also agreed to consider whether changes to existing income tax disclosure requirements are made necessary by the proposed changes in the presentation"* (Atwood & Reynolds, 2008, p. 3).

Paragraph 81 of IAS 12-Income-Taxes, (World GAAP Info, 2009) and Paragraph 81 (c) of MFRS 112 Income Taxes, (MASB, 2012) request an independent disclosure of reconciliation tax expense items to interpret the association between effective tax expense and statutory tax expense. The disclosures required by Paragraph 81(c) of income taxes, allow users of financial statements to understand whether the association between tax income or expenses and accounting loss or profit is out of the normal, as well as outlining important factors that might influence this association in the future. The association between tax income or expenses and accounting loss or profit can be affected by factors like normal income exempt from taxation, expenses that are not discountable in deciding the loss or gain for tax and the impact of tax losses, and possible tax rates incurred abroad. Furthermore, "*an explanation of the relationship between spending (income) tax and accounting, in one of the following forms, or both at once: (i) a reconciliation between the numerical expense (income) tax and the result of multiplying the result by the accounting rate or rates of tax applicable, specifying the manner of computing the applicable rates used. (ii) a reconciliation between the numerical average cash and the tax rate applicable, specifying the manner of computing the applicable rate used"*(World GAAP Info, 2009, p. 36).

Moreover, Amir, Kirschenheiter, and Willard (1997) and Amir and Sougiannis (1999) found evidence that the independent disclosure of deferred tax liability (DTL) and deferred tax asset (DTA) components also supplies relevant information. Another merit of taxation disclosure that is worth mentioning is the provision of public access by the disclosure of tax revenues in the U.S. to annual returns of tax exempt companies and the annual statements of insurance firms. From the 1970s, the U.S. presidents have

voluntarily disclosed their income tax returns publicly (OECD, 1999).

Among the OECD countries, Lenter *et al*. (2003), found that only Finland, Sweden, Norway, and Japan allow several forms of public access to taxation information. In Japan, taxable income figures are overtly liberated if the company reports more than 40 million yen (about $332,000) in taxable revenue. In 2000, nearly around 70,000 companies recorded enough taxable income to require disclosure. None of the components of taxable income (interest, cost of goods sold, revenues, etc.) were made publicly obtainable. Taxable revenue is disclosed publicly for all Swedish firms and Norway makes information on both tax liability and taxable income publicly available. However, if a corporation reports a tax loss, the amount of the loss is not recorded. Instead, the tax authorities disclose a zero amount of taxable income and none of the components of the taxable revenue are made available to the public. On the contrary, Finland supplies open admission to a database containing information on natural capital, income tax, and the amount of taxes to be paid amongst other figures. Reconciliations between book numbers and tax are also disclosed publicly for Finnish firms (Lenter *et al*., 2003).

Many researchers and practitioners expressed concern that Financial Interpretation No (FIN) 48[3] disclosures supply a roadmap to the tax enforcement agents (Frischmann, Shevlin, & Wilson, 2008; Mills, Robinson, & Sansing, 2010). According to IRS's Large & Midsized Business Field Examiners' Guide (2007), the disclosures required under FIN 48 must provide the service to some extent better inspection of a taxpayer’s uncertain tax positions; however, the disclosures are still not detail enough to allow an ideal view of

[3] Is section of the current Financial Accounting Standards Codification 740, Income Tax.

the issues and amounts at risk (Robinson & Schmidt, 2013). For instance, there may be a contingent tax liability listed in the tax footnotes of a big multinational taxpayer with the description "tax credits"; tax credits, however, could be the U.S., foreign, or state tax credits. Therefore, the "tax credits" in this instance may or may not in this case have the U.S. tax influence (IRS, 2007). While FIN 48 does not require the disclosure of information about exact operations, the level of tax reserves and disclosures concerning uncertain tax positions are utilized by enforcement agents to plan their own audits. Thus, managers have an incentive to supply lower tax reserves and low quality disclosures, since even the size of the reserve tax will be an indicator of tax planning and utilized by the Internal Revenue Service (Frischmann *et al*., 2008; Blouin, Gleason, Mills, & Sikes, 2010).

Managers of companies who are using tax planning do not wish to disclose information about these activities (Gleason & Mills, 2002). In accordance with FIN 48, disclosures would be more expensive and costly for companies in tax planning. Frischmann *et al*. (2008) documented negative market responses to the release of FIN 48, indicating that these reactions were based on the assumption that tax planning would be costly for the companies involved. This is because tax planning requires the integration of the organization with more staffing and increased budgets (Phillips John, 2003). Mills, Erickson, and Maydew (1998) postulated as an example that the cost of disclosure by companies with the largest tax planning ought to be higher. This is because companies that disclose tax information to the public undertake higher extents of tax planning and, as a consequence, owe increased amounts to the IRS, thus increasing the cost of disclosure (Gross, 2011). In order to avoid being liable for large IRS fees, some investors

avoid investing in companies with high extents of tax planning. Taxes and fees imposed by the IRS upon companies employing illegal tax avoidance measures can also increase the cost of disclosing tax information (Mills *et al*., 1998). Therefore, it could be costly for companies with higher extents of tax planning that have too much to hide and could get more control over their tax reserves (Sidhu & Whittred, 2003). Hence, Gross (2011) expected that higher corporate tax planning offers decreased disclosure quality and lower tax reserves.

2.2 Theories of Tax Disclosure

There are a few theories that discuss tax disclosure as a whole. Individual aspects of disclosure are examined in theories like political cost theory, signaling theory, and legitimacy theory. There are many reasons why companies provide or disclose differing levels of information, which are discussed below.

2.2.1 Political Costs Theory

Political costs "*are costs that groups external to the firm might be able to impose on the firm as a result of political actions"* (Watts & Zimmerman, 1978, p. 115). For instance, if a company accounts high profits, this might be utilized as a justification for trade unions or lobby groups to take action for an increased share of that profit in the form of higher wages. Therefore, companies may use income-decreasing accounting methods (Watts & Zimmerman, 1990). Furthermore, Deegan and Hallam (1991) gave another examples that may sustain political costs such as environmental factors like "carbon footprints".

Disclosures made by a firm in relative to their negative or positive influence on their physical environment might also be a technique to decrease any political costs. Political cost theory therefore can also make clear why many companies adopt voluntary social and environmental disclosures in their annual reports. It also explains why other parties who want more information about the firm's tax policies and ask for increased levels of disclosure lead companies to adopt tax disclosure (Deegan & Hallam, 1991). Changes in accounting procedures are not costless to firms (Watts & Zimmerman, 1978). Accounting standard changes, which either raise disclosure or require corporations to change accounting methods, raise the firms' book-keeping costs (including any necessary raises in cost in relation to disclosing information about taxes).

The political sector has the authority to affect wealth transfers between numerous groups. Tax law is one factor affecting management wealth, but is not directly tied to financial accounting standards, with the exception of a few cases (e.g., the last-in-first-out). If management expects a suggested financial accounting process to impact future tax regulations, their lobbying behaviour is affected by the future tax regulation effects (Moonitz, 1974).

Deegan and Hallam (1991) adopted a political cost perspective to voluntarily disclose value added statements in the annual reports. Particularly, they hypothesised that value added statement disclosure is related to labour intensity, company tax payments, rate of return, industry volatility, and company size. The study found that size (market concentration and absolute after tax profits), tax, and the industry to which a company belongs were all associated to the happening of value added statement disclosure.

Political cost theory can assist in explaining the decisions of voluntary reporting (e.g. Leftwich, Watts, & Zimmerman, 1981). Considerations of political costs, such as taxes and regulation, and the determinants that affect the welfare of management assistance are to better understand the origin of the pressures that drive the development of accounting standards (Watts & Zimmerman, 1978). The costs of contracting include agency, transaction, information, renegotiation, and bankruptcy costs, which are all crucial for the selection of accounting models (Watts & Zimmerman, 1990).

In contrast, managers have incentives to make a voluntary disclosure when the benefits outweigh the direct and indirect costs involved. Both mandatory and voluntary disclosures are to decrease the information asymmetry between informed and uninformed market participants, and between the taxpayer and the IRS. Such information helps correct any errors of evaluation of the firm. As a result, they help to reduce the cost of capital for the firm (Botosan & Plumlee, 2002) raise the demand of investors, reduce the bid-ask spread, and increase institutional interest and analytical following (Diamond & Verrecchia, 1991; Li, Richardson, & Thornton, 1997). Sengupta (1998) indicated that the benefits of the cost of capital resulting from the disclosure of the quality of the cost of capital also extend to include the cost of debt capital.

In summary, according to political cost theory, companies that are subject to high political costs (which highly relies on the size of the firm) are probably to supply and disclose further information about tax (Watts & Zimmerman, 1978). The political cost hypothesis states that large corporations, rather than small companies, are more likely to utilize accounting choices that decrease declared profits (Watts & Zimmerman, 1990).

2.2.2 Signaling Theory

In markets with information asymmetry, signaling theory states that corporations issue *"signals"* about who they are (Spence, 1973, p. 355). Spence (1974) defined market signals as altering the belief of, or conveying information to, other groups in the marketplace regarding some unobserved activity. Signaling information, therefore, is essential to reduce agency costs and information asymmetry between firms and the market.

Companies' disclosures of information, including information about tax, falls somewhere between no disclosure and full disclosure, depending on their motivations (Premuroso, 2008). These motivations differ and have different effects on the level of disclosure between companies and from one country to another. This is based on numerous factors, such as regulations, tax law, and political cost. All companies, at least partially, disclose information about their business prospects in order to signal whether they have or do not have good investment opportunities (Bhattacharya & Ritter, 1980).

Another possibility of using signaling theory is that managers may desire to decrease information asymmetry existing in the market regarding the company's performance. For instance, disclosures may serve as "signals" if they reflect information about unobservable attributes of a company's decision (Morris, 1989). In such a scenario, managers of higher quality firms with private information can distinguish themselves from lower quality companies via disclosures. In this context, managers can use tax disclosure to send signals to related parties that need information about tax in order to help them in their decisions. At the same time, managers of an underperforming firm may

signal that the firm is taking steps to improve performance by disclosing a decision related to outsourcing.

The finance literature tests company information disclosures using signaling theory in numerous ways. Ross (1977) contended that when managers possess inside information, the financial structure of the corporation (i.e., the amount of debt) signals information to the market. In another study, cash dividends functioned as a positive signal by the manager of expected cash flows when investors had imperfect information about companies' profitability (Bhattacharya, 1979). Recent research also applied signaling theory to undervalued companies announcing stock repurchases to separate themselves from overvalued corporations (Utpal & Dittmar, 2003). In such scenarios, it is clear to see how companies can send signals under signaling theory to the users of information or financial statements. In the same context, tax information can be sent as signals to IRS or users through tax disclosure.

In the case of asymmetric information, Akerlof (1970) who referred to the theory, suggested that firms with superior performance (good firms) utilize financial information (including tax information) to send signals to the market, users, and IRS. Therefore, managers can be motivated to provide or disclose specific information on a voluntary basis. This is because they are expected to supply (and to be interpreted as) a good indication of the performance of their companies in the market, and how to reduce the asymmetry of information.

2.2.3 Legitimacy Theory

"Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). A significant issue to be recognized is that there are, in fact, already two major classes of legitimacy theory. These are graphically reported in Figure 2.1. The "macro-theory" of legitimating, acknowledged as institutional legitimacy theory, deals with how organizational structures, in their entirety (government for instance, or capitalism), have gained acceptance from society. *"Within this tradition, legitimacy and institutionalization are virtually synonymous. Both phenomena empower organizations primarily by making them seem natural and meaningful"* (Suchman, 1995, p. 576).

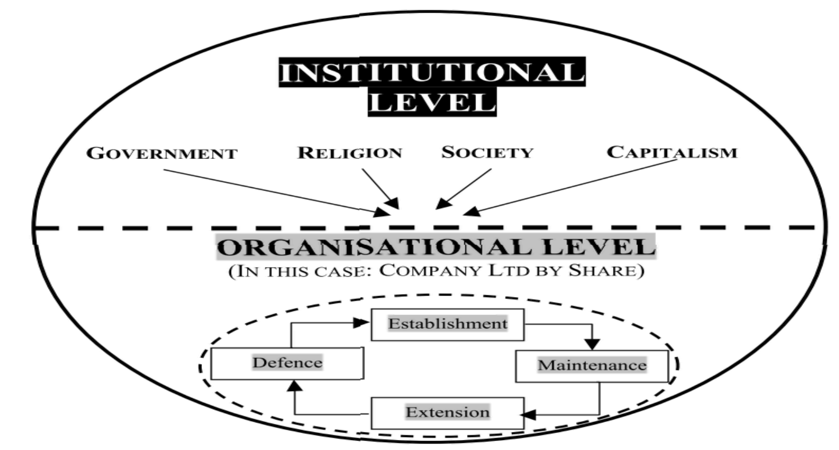

Figure 2.1
Categories of Legitimacy Theory

Source: *Figure 1.* Layers of Legitimacy Theory Refinements to legitimacy theory in social and environmental accounting, by Tilling, M, 2004, *Commerce Research Paper Series,* p. 3.

This suggests that organizations constantly strive to ensure that they operate within the limits and rules of their respective societies. It is based on the idea that there is a social contract between the company and the community, forcing the firm to voluntarily submit and disclose information on activities perceived as certain activities of the society (Guthrie, Petty, Yongvanich, & Ricceri, 2004). From the perspective of legitimacy theory, information disclosure is used as a tool for companies to show that they operate according to the values of the society and are socially responsible, as well as providing a picture to get or maintain social legitimacy (Patten, 1991, 2002). According to Guthrie *et al*. (2004) the theory of legitimacy is closely linked to disclosure of intellectual capital. Companies are more likely to report and disclose their assets as intangible if they have a specific need to do this and cannot legalize their status through "hard" assets that are recognized as a symbol of success in traditional companies (Guthrie *et al*., 2004).

Furthermore, from the stakeholder approach of analysis perspective, legitimacy theory is the interpretative lens of a number of performance studies and environmental reporting that are disclosed by the companies. Legitimacy theory is utilized as an interpretation for a company's reactions to threats to its legitimacy vis-a-vis the social contract. Voluntary disclosures, fundamentally in annual reports, are a communication mechanism by companies attempting to satisfy outer pressures to conform to socially satisfactory rules, substituting this communication mechanism for any substantive behavioural performance (Mobus, 2005).

In summary, in view of previous theories on tax disclosure, it can be concluded that political cost theory, signaling theory, and legitimacy theory are the theories that examine

the relationship of tax disclosure and society. Political cost theory indicates the costs companies incur when they disclose information about their tax. Moreover, political cost theory also makes it easy to see why many companies approve voluntary social and environmental disclosures in their annual reports (Deegan & Hallam, 1991). In contrast, signaling theory explains how firms can send signals to end users, shareholders, practitioners, and stakeholders in the form of information in financial statements. Additionally, tax information can be seen as signals to IRS or any other parties requiring this information through tax disclosure (Utpal & Dittmar, 2003). Finally, theory of legitimacy is closely linked with the disclosure of intellectual capital. Consequently, companies are likely to report and disclose their assets as intangible if they have a specific need for this kind of disclosure (Guthrie *et al*., 2004).

2.3 Constraints and Objectives of Tax Disclosure

2.3.1 Tax Disclosure Objectives

The immediate aim of tax disclosure is to broaden general knowledge regarding the universal incomes obtained by the multinational companies (Brauner & Stewart, 2013). However, the ultimate goal is to stimulate popular movements of the tax reform as communities interact with the knowledge acquired. Activists aim to report as an experimental fact a universal financial settlement that systemically lets multinationals companies escape taxation in roads that are expected and foreseeable, if not intentionally planned by lawgivers. Murphy (2011) in Country-by-Country Reporting (C-B-C-R) found that activists discovered that corruption and non-compliance by companies and the government is an advantage of this universal settlement, but this is not their merely, or

even elementary, concern. Alternatively, they attempted to reveal the lawful and institutional framework that permits multinational companies to avoid taxation in full acquiescence with all viable tax regulations. This is an extension of a large follow-up of the objectives of transparency beneath the ‘Publish What You Pay’ (PWYP) scheme. The purpose is to disclose cooperation between companies and governments that encourage corruption and non-compliance with tax legislations. The purpose of C-B-C-R, is to disclose cooperation between companies and governments that promote under-taxation of multinationals companies as an issue of systemic design (Christians, 2013).

The selected tool for knowledge extension is to beat current norms that either protect the privacy of tax data or on the other hand introduce complication in ways that shackle evaluation of a firm‘s financial status even when data is overtly accessible. Overcoming secrecy and complexity lies in the disclosure of recent standards of the law, which imposes on companies that publish only limited information about their transactions and partial. Tax disclosure is presented as the resolution to this issue. For instance, with C-B-C-R standards, multinational firms reveal information about their geographical locations in different parts of the world, such as the names of all its branches in various places, their markets, inter-company commercial, financial transactions, labour costs, the number of employees, properties in each country, estimated taxes, payments in each state, and further technical tax specifics (Christians, 2013). C-B-C-R is, therefore, not a tax policy repair but an accounting disclosure repair, to be accomplished throughout security legislations appropriate to big public firms in their home base states (Murphy, 2011). Several governments already gather some of this information, like pricing practices between companies and the actual tax payments by firms for the local government,

although not allowing disclosure to the public. However, tax disclosure activists also look for information that governments do not necessarily gather, occasionally notoriously, for instance the fee of taxes to foreign countries the identity of beneficiaries, and chains of corporate ownership, (Kelly Carr & Brian Grow, 2011).

Furthermore, proponents of transparency propose that several constituencies want to utilize the information on tax disclosure to do best-informed market decisions (Christians, 2013). The primary intended audience for this tax translucence is investors, who would superficially have further data to invest in unsteady system of government, tax shelters, and other sensible regions (Murphy, 2011). In the U.S., giving shareholders admission to company tax information and making corporate tax returns public were features of early current company returns tax, which was quickly passed under pressure from the business lobbyists[4] (Pomp, 1993; Christians, 2013).

2.3.2 Constraints of Tax Disclosure

Blank (2011) argued that increased disclosed information about tax would give tax-payers an inspiration and a road map to decrease their personal tax, whilst hindering the capacity of governments to preserve a picture of the tax scheme and providing a balanced tool for the rule of regulation. Furthermore, those in favour of more tax transparency (disclosure) argued that the disclosure of tax increases has little effect on compliance (Mazza, 2003; Kornhauser, 2005). An experience with better detection may supply a

[4] This is according ""*44 Congress Rec. 4000* (1909) (Senate debate in the *Payne-Aldrich Tariff Act of 1909*, the predecessor of the current U.S. corporate income tax system); *Pomp supra note 5 at 387-388* (discussing the efforts of the *Illinois Manufacturing Association to prevent company tax disclosure)".*

resource of information for needful analysis, however the modern overt discourse through tax transparency propose that the dearth of empirical evidence will not obstruct powerful support on either aspect (Christians, 2013).

Having stated a requirement for impressionability in order to make general oversight and interest in future tax repairs, the inquiry, for an activist, is the manner by which best to accomplish detection. Long-standing patriotic assurances for privacy of tax and financial information display lawful difficulties to change, whilst settled in and organized supporters with high stakes in preserving existing conditions present political barriers which activists must overcome. They additionally want to verify whether their objectives could be attained by controlling the legitimate and political difficulties in merely one or a small number of states, or whether worldwide repairs are fundamental, and if the latter can be achieved in a universe of independent sovereignty countries. The strategies protested by tax impressionability activists to date lighten these continuing difficulties (Christians, 2013).

According to the U.S. Treasury Department Secretary the SEC does not advantage from access to the company tax revenues as much information it yields is unrelated to the SEC. Neither would it be in the interest of the public to expose the proceeds of the tax on public companies because the complexity would lead to confusion, with companies and individuals making "*misinformed, inexpert analysis*" (Lenter *et al*., 2003, p. 806). Likewise, the Treasury Department Secretary answered to the chairman of the Senate-Finance-Committee that there is a probable huge damage to both companies and government tax management if organizations' tax portions or returns therefrom are made

openly accessible (Lenter *et al*., 2003). However, different alternatives may enhance tax and financial statements: the Schedule M-l, which is filled with companies tax income, accounting income and reconciled tax, could be enhanced, the disclosure of tax information in financial reporting might be modified, and a number of the variations between tax accounting and book might be eliminated (Mills & Plesko, 2003).

Lenter *et al*. (2003) argued that making firms' tax returns publicly infringes the established rules of confidentiality that would produce misinformation and confusion about a company's activities. Both of these issues are addressed below, along with a discussion of three other possible interceptions to the disclosure: one lawful, one depends on the fears of the government power, and one possibly unintended result.

2.3.2.1 Disclosure of Tax Information Violation Confidentiality

Public tax disclosure would break a key feature of the tax regulations: confidential tax information. Based on this view, a breach of privacy would be unwise for two causes. The initial reason that is linked to respect for compliance other than privacy is that the disclosure will lead firms to say less and thus pay less. The U.S. Tax Executives Institute (TEI) made this argument in its submission to the Treasury and the SEC, turning topsy-turvy the argument for disclosure on the basis of incremented acquiescence. It documented, that the field of data needed by the Internal-Revenue-Code is at once daunting and unusually delicate and that the ability of tax-payers to reveal private data is reinforced by affirmations that their confidentiality benefits will be protected by the

government[5] (Lenter *et al*., 2003, p. 822). If a firm's tax manager knows that the data they involve in the firm's tax income will be made public, be may withhold sensitive information. The tax liabilities of the company will then reduce, either directly through a simple understatement of tax returns or indirectly as a consequence of the inability to accurately assess the IRS tax liability because of a lack of the required necessary information (Traubenberg, 2010).

Other evidence is that the public disclosure of tax data would detect the valuable and contrary confidential business data to competing companies. In its statements to the Treasury and the SEC, the Tax Executives Institute (2002) showed instances of business items that are desired to be detected on tax income, and stated that the items would provide a great advantage to competitors of the company. These items contain the sources, character, and nature of a firm's expenses and revenues, details about the firm's lawful structure, advertising, licensing, sales, other selling expenses, leasing revenues by jurisdiction and lawful entity, and the environment and position of the firm's industrialization expenses by functional kind. If the information revealed is global, it might put a competitive benefit on those companies that have moderate significant proprietary data. Moreover, if the detection is not global, it could suggest a benefit to those firms that are not subject to the demands of disclosure. Generally, it would decrease the motivation to invest in acts whose return relies on the nature of the proprietary data (Lenter *et al*., 2003).

[5] Tax Notes Today by TEI. TEI message to Treasury, SEC on Companies Disclosure. 143 (July 25, 2002): 22.

2.3.2.2 Tax Disclosure Could Create Confusion

Public disclosure of a firm's tax information as well alleged revenues is lengthy and complicated and, if disclosed, could cause confusion about a company's activities, tax practices and accounting. According to the Tax Executives Institute (2002) considering the level and scope of variances in tax and financial accounting necessities, overt disclosure of organizations' tax income is befuddling rather than enlightening investors. In his response to the chairman of the Senate-Finance-Committee, the Treasury Department Secretary affirmed that they have genuine worries that overt disclosure of a big company's income would result in major embarrassment amongst the public and would render the companies to misguided, unskilled analysis of their operating and finances exercises. Such "*misanalysis*" and perplexity can prompt unsubstantiated loss of confidence in the company, which might importantly (and improperly) harm that corporation's remaining investors (Lenter *et al*., 2003, p. 824).

Numerous contentions can be made against these statements. Firstly, "inexpert and misinformed analysis" of the company's activities was previously across the board and it was not all agreeable whether the disclosed tax incomes would add to the present perplexity. Secondly, tax experts want in numerous situations to control the tax income information to a wider public. This argument practiced with much lower force to the restricted disclosure suggestions, on different foundations, have the most legitimacy. Thirdly, the reality that the detection of tax revenue would produce perplexity and weak analysis is not an argument against disclosure. If the perplexity is established in complicated tax norms and many book-tax contrasts, the appropriate answer may be not

to oppose expanded disclosure, but instead to handle the complex issues. Finally, widespread transparency and full disclosure of information are fundamental factors of a sound working of the economy. This contention against the disclosure of a company's tax returns data, which depends on the deceived analysis, can rapidly become a proof against all types of disclosure; however, limitations on detection would eventually have harmful impacts (Lenter *et al*., 2003).

2.3.2.3 Information to Government

According to Lenter *et al*. (2003), another argument against the disclosure of company tax information-not to the public in general, however the SEC and different agencies-is that making income accessible to government officials outside the IRS will provide a previously powerful federal bureaucracy an over amount of information to utilize versus tax-payers. The issue with this plea is that the additional data is presumably not significant. As described in the connection of business privacy, worries about confidentiality and government intervention have conventionally been raised against the disclosure of information about individual, not company's data. The confidentiality issues and worries raised by the disclosure of individual' tax information becomes less resonant when disclosure by companies are at issue (Lenter *et al*., 2003).

2.3.2.4 Unintended Behavioural Responses to Disclosure

Disclosure of a company's tax increases the expense of performing business in a type that is liable to disclosure. For instance, disclosure is limited to corporations that are liable to

SEC administrative supervision, that is, firms that are exchanged on open trades. Because no firms are traded on an open market presently disclose their tax income or important tax income data, it presumes that directors accept that the expenses of such disclosure surpass the advantages. If disclosure was mandated for public firms, several of them would choose to leave the public capital markets, instead of disclosing their tax data through tax disclosure. Such behaviour could subsequently increase the expense of acquiring capital (Lenter *et al*., 2003; Securities Commission Malaysia, 2007, 2012).

Likewise, if disclosure was restricted to tax income for companies (private and public), this law could lead to reformation and liquidation of organizations as co-partnership or other inflow, that is, bodies that would not be liable to disclosure. Similarly, if disclosure was authorized for all U.S. companies, the expense of being in the U.S. would increase compared with other nations. This raise could give a competitive benefit to outside firms and as a consequence firms would migrate out of the U.S. In brief, it is unattainable to authorize an entire tax income disclosure for all firms in the globe. Whether disclosure is expensive or not, a number of firms will react to disclosure by working on presumably and alternative suboptimal structures to evade the requirement of disclosure (Lenter *et al*., 2003).

2.3.2.5 Potential Obstacles Among Tax Disclosure Costs

Christians (2013) argued, however, that the requests of the market for information increase the likelihood that the flow of information may have unintended results on the behaviour of market entrants. In a short historical experience with the U.S. firm tax

disclosure, the opponents of companies tax disclosure debated that publishing a company's tax income failed to raise income, supported tax evasion (Ratner, 1980), and served to provide business competitors something of value to the detriment of the taxpayer.

2.4 Benefits of Tax Disclosure

Disclosures require companies to disclose greater tax-related detail. As known in the majority of countries, companies' tax disclosure regulation does not supply policymakers and other users with enough information to inform and motivate tax reform (FAST FACTS, 2007). When asking firms to disclose information regarding tax in details, there is a very important question that has been raised: Why should a company's tax income (or tax information) be disclosed? What are the motivations behind that? Public disclosure of a company's tax income information will motivate and aid government regulators. Tax disclosures also motivate and develop the functioning of the financial markets. Tax disclosure motivates and promotes tax compliance and leads to and aids increased political pressure for better tax policy (FAST FACTS, 2007).

Lenter *et al*. (2003) argued that greater transparency of tax could have numerous helpful effects. First, tax disclosure can put pressure on regulators to develop the tax system. Secondly, tax disclosure may force companies to resist effective strategies to reduce tax planning. For example, if they fear that the disclosure of payments of lower tax would lead to negative reactions from the consumer's responses (where it causes the negative reaction of investors) responses are less clear, such as increasing transparency and

stimulating the race to the bottom of the lower tax liability. Thirdly, it can contribute to improving the performance of financial markets, which sheds new light on the information contained in financial statements. Finally, disclosing information about tax in the financial statements of companies is more useful and beneficial to help investors understand the tax situation of the company and will provide public access to tax returns (Lenter *et al*., 2003). In following subsections some advantages of tax disclosure are discussed.

2.4.1 Tax Disclosure Identities Companies' Tax Loopholes

One advantage of tax disclosure is that companies can illustrate the tax loopholes that permit very profitable companies to evade taxes. Two mainly problematic loopholes have been newly identified at the state level and can be addressed through a policy disclosure of information, which is good. The first one is the "Toys R Us-style loophole," in which companies go from multi-state taxable income in high tax states to "passive income" and branches in countries with low or no taxes on corporate income. Therefore, Toys R Us was fundamentally moving income from non-taxing states to a taxing state. One way to disclose this loophole is to require companies tax disclosure of royalty payments to subsidiaries and interest (FAST FACTS, 2007).

According to FAST FACTS (2007), multi-state companies occasionally take benefit of tax state "nexus rules," which set the standard as a "physical presence" of the company—there must be a state responsible for charges for a sales office in the region. One way to expose this gap or loophole is for companies who believe they have duties, in a particular

case, to disclose why they should not be taxed on revenues from sales in the state.

Tax disclosure helps companies by levelling the playing field. Generally, the comprehensive results of tax disclosure lead to a fairer tax system and more equitable tax that would improve the business environment anywhere by attracting many companies to countries with tax transparent and more tax disclosure. Because these policies tend to lead to the inspiration of the tax burden more equitably across companies, they offer the best disclosure and reveal information to new entrants and, more importantly, help to bridge loopholes that lead to these tax benefits. In addition, corporate tax disclosure leads to the public gaining more confidence in the company. Disclosure inevitably reveals that many of the companies pay their fair share of taxes, with a focus on good corporate citizenship (FAST FACTS, 2007).

2.4.2 Tax Disclosure Motivates and Aids Government Regulators

One argument for making a company's tax returns publicly disclosed is to develop government legislation of companies. In this regard, making firm tax returns accessible to the SEC would aid government efforts to control CG and to make sure that firms file the right financial reports. Two ideas support this contention. The first key idea is that companies need to be better controlled. Even though there is disagreement about how better to answer to the numerous current instances of corporate wrongdoing, it is difficult to contradict that at some level CG performed weakly in several cases. The second key idea is that the information currently accessible to government legislator—both those officials occupied in administering the tax regulations and officials at the SEC—is

ineligible, and companies' tax income could serve as a helpful instrument to government regulators in their efforts to regulate firms (Lenter *et al*., 2003).

2.4.3 Tax Disclosure Develops Financial Markets Functioning

The disclosing of companies tax return information would assist financial markets function more effectively by developing financial reporting quality. This logic is, in a sense, a generalisation of the argument that it will help the SEC in its goal of defending investors by regulating the impartiality of the securities markets. Debatably, public disclosure of tax revenues levied on companies could aid the financial markets, even if it does not help the SEC (Lenter *et al*., 2003; Kleinbard & Canellos, 2002).

2.4.4 Tax Disclosure Motivates and Promotes Tax Compliance

Disclosure of companies' information about income tax return decreases aggressive tax avoidance and outright evasion for two reasons (Lenter *et al*., 2003). Firstly, if company officials are worried that a firm's taxable returns was revealed to be doubtfully low, the finding could produce an adverse public reply. Several firm officials might feel ashamed for being the officers of the firms exposed to be lesser than good companies' citizens. More significantly, they fear an opposite influence on the firm's bottom line since their business depends on their customers' confidence that they are good public citizens (Kornhauser, 2005).

The second reason, albeit less direct, is that the disclosure of information about corporate tax encourages increased compliance. Tax disclosure facilitates the reconciliation of the

main differences between tax and book, either because the company itself provides these reconciliations or since reconciliations are computed by interested parties, like the academics and business press. These reconciliations could help the IRS in detect a company's tax evasion. Accordingly, firms may be more irresolute to involve in aggressive tax planning (Lenter *et al*., 2003). For example, one may book an expanded tax reconciliation and shed light on the tax shelter transactions. In the context of the current policy, the process may not have been disclosed separately in the note of the tax balances (in a financial statement), as detailed in the Schedule M-l or not (Mills & Plesko, 2003).

2.4.5 Tax Disclosure Increases Political Pressure for Good Tax Policy

The public tax disclosure of a company's income tax returns will help raise political pressure for better tax policy. Hanlon (2003) discussed that the information provided in the financial statements is not in general enough to pinpoint the company's payments or annual tax liability. Disclosure would guarantee that a demonstrable and, to a certain degree, comparable number is in the public domain. If a firm thinks that the disclosed number is misguiding with regards to its right tax status, it would have the chance of releasing additional descriptive information (Hanlon, 2003).

If this increases the responsiveness to change the general impression that the tax system is fair, there may be at least two possible advantages. Firstly, in a democracy, respect for regulations and management is good in and of itself, and depends on the legitimacy of the government in this respect. Secondly, it may be the public perception of justice that

would raise voluntary compliance with tax legislations. Certainly, these arguments could be reversed if disclosure reduces public dependability on the fairness of the tax system or the perception that it preserves tax-payers' confidentiality (Lenter *et al*., 2003).

2.4.6 Motives for Managers to Manipulate Reserves and Disclosures

To reconcile the interests of managers with shareholders, the former get the equity incentives in the firm; this provides an incentive to reduce the cash outflows of tax (Jensen & Meckling, 1976; Fama & Jensen, 1983). FIN 48 restricts the efficiency of tax planning to the use of what has been disclosed and amounts reserved by the tax authorities. Blouin *et al*. (2010) argued that if the managers of the companies think that the IRS will utilize the amount of disclosed tax reserves, as above-mentioned, as one of the many references for aggressive tax, they will favour to disclose lesser tax reserves. Poor disclosure shows that the managers are scared about how the IRS will be using their FIN 48 disclosures, that is, the amount of tax reserves. Consequently, companies with poor disclosure are encouraged to report lesser reserves. Several managers may have other incentives that are most significant to defend the positions of tax. For instance, they may maintain reserves as financial “cookie jars” to meet the covenants and debt, rewards, and thresholds or profit goals (Watts & Zimmerman, 1990).

2.4.7 Potential Advantages of Poor Disclosure Managers

Managers will prefer to be less transparent in their disclosures since they think that these disclosures or statements could be utilized to undermine or weaken their positions of tax

and the cost of disclosure will outweigh the advantages. Robinson and Schmidt (2013) found that the market sets the value as less than the tax reserves of the companies with a high-quality disclosure, which indicates that investors believe that poor quality disclosure assists managers to safeguard the tax centers. Hence, Gross (2011) expected that companies with poor disclosure of the information will pay less tax in their future cash flow.

2.4.8 Potential Benefits of Excess Disclosure Managers

Company managers with administrative capacity and a large tax reserve will have an incentive to supply disclosure if it gives truthfulness to their budgets and makes the company looks less aggressive. In accordance with Verrecchia (1983), companies decide to disclose if the cost of disclosure outweighs the advantages. Li, Richardson, and Thornton (1997) applied proprietary cost theory to environmental disclosures viewing Verrocchia's (1983) partial disclosure equilibrium holds for the cost of government investigations. Thus, managers should supply further disclosure of information if they believe the costs outweigh the advantages. Moreover, it is expected that managers provide additional disclosure of information to promote attitudes of the tax or limit the scope of tax audits (Gross, 2011).

2.5 Measurements of Tax Disclosure

This part discusses measurements of tax disclosure. Tax disclosure measurements are rarely tested by previous studies. The measurement should varies greatly depending on

how data can be measured, the availability of data, and the interest of researchers in the general or specific approach to tax disclosure.

Disclosure indices are extensive lists of certain disclosure items which are duly weighted (depending on the objective criteria of usefulness in achieving the objectives of the user group) to measure the level of disclosure (Marston & Shrives, 1991). As a self-constructed measure, the main obstacle is the subjective judgment engaged in the construction of the index. Additionally, Singhvi and Desai (1971) argued that difficulty occurs in reproducing the analysis and making comparisons. Tax disclosure can be measured using an index of tax disclosure; empirical research on disclosure has been used as a tool to assess the quality and level of information disclosed by firms, of both a voluntary and mandatory nature (Portela de Lima Rodrigues, Oliveira, & Craig, 2005).

In the U.S., the Statement of Financial Accounting Standards (SFAS) 109 stresses that the following disclosure items must appear in a company's annual financial statements: (i) the income tax summary, which details the important components of income tax expense, (ii) the rate reconciliation, reconciling presented income tax expense with the amount that would come from applying the domestic federal statutory rate to pre-tax income, and (iii) the schedule of deferred tax positions, which supplies information about DTLs and DTAs (FASB, 1992). These three essential disclosures are generally presented in a tabular format. Companies also are predicted to disclose information about the amount and expiry dates of credit carry-forwards and loss, the division of tax expense between all other items and continuing operations, the composition of earnings before income taxes (total, domestic, and foreign), and temporary differences for which the

company has not registered a deferred tax liability, counting permanently reinvested foreign earnings. In many cases, these additional disclosures are supplied in the text format (IRS, 2015).

In addition, FIN 48 introduces guidelines for the recognition, measurement, and required disclosures of doubtful tax advantages in financial reports. The FASB aims for the recognition and measurement of unrecognized tax advantages under FIN 48 to decrease diversity in practice, and for the disclosure requirements to give more information about tax uncertainty (Robinson & Schmidt, 2013). The aim of FIN 48 is to provide consistent guidance for the recognition of these unknown tax advantages in financial statements when any likely tax disputes remain unresolved. According to the introduced the guidelines of FIN 48, constituents anticipated that the FIN 48 disclosures would entail some of items in the financial statement.

Similarly, Koester (2011) argued that FIN 48 supplies recognition threshold and measurement attributes for financial statement recognition and measurement of the position of the taxes. Recognition threshold requires that it is more probably than not that a tax position will be continued upon audit. The threshold has only been depends only on the technical advantages, assuming the position of the authority of taxation has all the related information and ignoring the possibility of the audit. Section 7.2.1 in Chapter Seven elaborates on this in detail.

2.6 Conclusion

This chapter reviews the literature regarding the implications of tax disclosure. In order to

give a good understanding of the a company's tax disclosure, this chapter begins with the current definitions and a background explanation of tax disclosure, in which there are three subsections that review tax disclosure-associated literature: first, related theories of tax disclosure, secondly, the objectives of tax disclosure, and, finally, the obstacles and benefits of tax disclosures. Thence, this chapter proceeds with sections that reviewing the literature associated with measurements of tax disclosure. Additionally, a summarised overview of the associated literature and thus determines the gaps in the present body of knowledge.

One of the big difficulties in researching disclosure of tax information is that tax disclosure is relatively a new area of corporate reporting research. By definition, offering disclosure means that some information that is now confidential becomes public. However, it is believed that there is no constitutional obstruction to forging the confidentiality of this information, and hence the case should be made on the basis of whether or not there are overriding advantages. This case has been found to be compelling and we can look forward to the next step of considering the best position of tax disclosure and the details of its implementation (Lenter *et al.*, 2003). The movement of tax transparency seems to prove the basis, as other initiatives to reform tax policies do not have that pressure on the system and should be applied from the outside. It is indicated that the movement currently engages individuals and the leaders in the management of fiscal policy could not be relied upon to focus on the distribution of tax burdens in an appropriate manner with wider social values. It remains to be seen whether the awakening public attention to multinational tax planning will lead to enough attention to the imposition of a political shift.

CHAPTER THREE

TAX PLANNING ACTIVITIES

This chapter contains a review of literature on the concept of tax planning activities for corporations. It starts with a review of literature in regards to tax planning by first offering the definitions of tax planning. Further sections review the practice of efficient tax planning, counting objectives, boundaries, advantages, and motivations of tax planning. Then it discusses the underlying theories and framework of tax planning. The next section of this chapter examines the literature in the curricula of applicable tax planning, because varying methods for tax planning exist from company to company. Finally, the last section concludes this chapter.

3.1 Tax Planning Definitions

There are many definition of tax planning. It is defined as "*the taxpayer's capacity to arrange his financial activities in such a manner as to suffer a minimum expenditure for taxes"* (Hoffman, 1961, p. 274). In this context, Jeff Pniowsky (2010) defined TP generally as being *"the process of structuring one's affairs in order to defer, reduce or even eliminate the amount of taxes payable to the government"* (Pniowsky, 2010, p. 1). The author found that in Canada TP is permitted, provided that it takes place within the provisions set out by the Income Tax Act (ITA). Moreover, TP has been identified as the best option, within legal guidelines, to reduce the tax burden. This is achieved through the differing of tax rates between distinctive jurisdictions and economic activities, as well

as many of the tax incentives provided under tax laws (Fallan, Hammervold, & Gronhaug, 1995).

Research on the activities of tax evasion explains that the term 'tax avoidance' includes any TP used legally by businesses to reduce their income tax. The term 'tax evasion' refers to any means of TP used, by tax-payers, to decrease the level of tax payments from their source of income. In other words, the term "avoidance" indicates the activities of TP and the consequences of ambiguity (intended or unintended) concerning tax laws, policies, or technical aspects (Rego, 2003). Prior tax researchers looked at tax evasion and TP as a significant component in the process of TP in order to understand the concept of TP activities (Rego, 2003). In another definition, Harvey (2012) stated that TP can be defined as drawing strategies throughout the year in order to reduce tax liability; for example, by choosing a tax filing status that is most helpful to the taxpayer. Such TP can be achieved by waiting until the next tax year to sell an asset, so as not to realize capital gains. Furthermore, TP can mean making a company's investment decisions based on determined revenue and current and projected tax laws.

Investigations into the degree to which, TP responds to differences in state tax policy have influenced the state company's income tax bases and revenues. An aggregation of tax avoidance, evasion, and practices differs from the traditional analysis, but is consistent with recent research for instance, overstating tax deduction or underreporting taxable income. Tax planning strategies are mostly lawful, but some might fall into a gray area in legal terms, or even employ illegal tactics of blatant tax evasion as an understatement of taxable income or deductions overstated (Bruce *et al*., 2007).

Tax is a significant cost for corporations; therefore, minimizing tax will enhance profitability. Tax liability is a manageable cost that can be decreased, like any operational costs (Garbarino, 2011). It is, consequently, a widely accepted practice in a company's tax administration that, according to their duties of faithfulness and concern towards stakeholders, managers use a duty of care and a duty of loyalty to reduce the company's tax burden. It is undertaken with high levels of diligence, concern, and experience in the belief that this minimization is in the best interest of the corporation (Keinan, 2003). Tax planning is a procedure that organizations, individuals, and businesses utilize to evaluate their financial profile with the purpose of reducing the amount of taxes paid on business profit or personal income.

In addition to previously-mentioned literature, Hoffman (1961) argued that, to understand TP concepts, tax evasion and tax avoidance should be distinguished. The failure to make any distinction between these separate concepts can guide to the discrediting the allowable TP and lead to serious legal consequences (for instance, penalties because of the ignorance of a taxpayer on any lawful side of TP). Consequently, it can be concluded that the fundamental terms to clarify the variation between tax avoidance and tax evasion are "legal" and "illegal" (Abdul Wahab, 2010).

Companies expect to take full benefits of allowances and provisions in the tax code so that they pay no more tax than is necessary. Some companies may be more aggressive in their TP and look to exploit loopholes or make favourable interpretations of the uncertainty in tax law. Whilst this genre of tax avoidance is legal, many analysts argue that tax avoidance is not in the spirit of the legislation. These TP activities are distinct

from those covered in the theory of tax evasion, in which firms illegally manipulate their tax liability (Bond, Gammie, & Whiting, 2014). This is why the majority of companies extensively engage in TP with the aim of decreasing their income taxes, as income tax expenses will decrease their profits. In actuality, corporations usually elect to hire a tax agent with the sole purpose of minimizing the taxes they are required to pay (Murphy, 2004). According to Murphy, TP is permitted by the tax regulations as it is considered a lawful tax avoidance system.

Some corporations have the opportunity to carry out TP, but because of the advantages and disadvantages connected with TP activities, some firms are reluctant to undertake TP, whilst other companies are involved in such activities. Noor *et al*. (2010) claimed that this is because of specific company factors such as the size of the company and its capacities with regards to undertaking TP. But the associations between the ETR and profitability and size are inconsistent in previous study (Derashid & Zhang, 2003) because of two diverse theories on the issue of firm size. These two theories are political power theory and political cost theory. The details about these theories will be discussed in the following chapters. The highly profitable firms were found to bear minimum income tax burdens as they used tax incentives and other provisions to decrease their taxable income (Rohaya *et al*., 2008). This, in turn, led to a lower ETR. Besides this, the nature of the business also affected the likelihood of a corporation engaging in TP. For example, companies in trading, industrial, technological, plantation, consumer products, services and properties sectors were generally involved in further aggressive TP that other sectors, such as companies in infrastructure and construction sectors because of the nature of the business and the limited tax incentives available to them (Noor *et al*., 2010).

Taking into consideration that different sectors approach TP differently, these variations can lead to differing extents of tax burdens (Derashid & Zhang, 2003). For example in the U.S., the U.S. companies in the textiles, farming, coal products, petroleum and real estate sectors paid significantly minimum income taxes compared to companies in pharmaceutical sectors (Omer & Molloy, 1991). The reason for this is associated with capital gains and the percentage of depletion allowances given to companies involved in developing, extracting, or mining natural resources. In Malaysia firms involved in the services and trading, construction sectors and properties sectors face high ETRs because they are involved in high extent of aggressive TP due to various tax incentives eligible for them to utilize. Therefore, the chances for these firms to engage in further aggressive TP is increased (Noor *et al*., 2010). Companies in the infrastructure and construction sectors, however, reported a much higher current-based ETR than others, suggesting that the firms in other sectors engaged in less aggressive tax planning (Noor *et al*., 2010).

The difference between avoidance and evasion is discussed in detail by Slemrod (2004), who acknowledged that there is no clear line between the two. This leads to varying interpretations of TP, often with differing opinions on what is “acceptable” and “unacceptable". Hoffman (1961) argued that it could be disputed whether tax avoidance is always ‘totally acceptable’, as the methods of avoidance employed differ between companies. This situation, in recent years, has been discussed among practitioners, tax authorities, and tax-payers since what is not acceptable to one party may be acceptable to others (Self, 2007). For example, a reduction of stamp duty rates implies an increased incentive for tax-payers to avoid the charges, and the difference in rates for a range of transactions encourage tax-payers to favour one form of transaction instead of another in

order to minimize tax costs. Such behaviours will influence what the authorities and governing bodies view as unacceptable tax avoidance (Bowler, 2009).

For clarity, to avoid problems in distinguishing and separating tax avoidance and tax evasion, there are additional studies that determine what is 'acceptable avoidance' and 'unacceptable avoidance'. In view of this, as previously-mentioned in Chapter One, this current study considers TP activities including all manners as avoidance and evasion. Following Abdul Wahab (2010), this research defines TP activities as a combination of avoidance and evasion. Accordingly, this study focuses on the association between TP and tax disclosure, whilst the legal aspects of evasion and avoidance are not empirically examined. When there is prior intent to reduce the tax burden, the procedures are described as passive TP activities. In the absence of an earlier intent or purpose, TP activities are described as 'effective', although it can be concluded that the activities of TP are either active or passive.

However, Abdul Wahab (2010) argued that, in the case of loss-making firms, there are still decisions to be made related to tax planning. Although it could be debated that the association between accounting income and tax (in these cases, loss) differs between loss and profit making firms, a claim for compensation for losses should be made, and therefore does not require any action by the company. Similarly, if a purchase decision does not look at the tax sides, the taxpayer is characterized as performing passive tax planning. For instance, a taxpayer could be considered a participant in activities of TP in buying capital assets (which entices capital allowances) if the intention is minimizing the taxable income (Abdul Wahab, 2010).

According to what has been put forward and discussed previously, any TP that can be interpreted as an activity may be defined as either avoidance or evasion. However, although tax authorities mostly view tax avoidance as a legal activity, they also use the term ‘acceptable’ or ‘unacceptable’ avoidance to distinguish between differing actions related to tax planning (Slemrod, 2004). Moreover, TP can also to be classified as either “active” or “passive”, based on the taxpayer’s intentions when conducting a transaction. Briefly, TP is considered an ongoing issue and is of interest to tax-payers, practitioners, authorities, and researchers. The issues of corporate tax avoidance and evasion are of concern to authorities and researchers as they are associated with public policy. Both activities might deform tax burden distributions and, from an economic viewpoint, could distort resource provisions (Slemrod, 2004).

Finally, TP is the act of arranging one's financial affairs to benefit from tax advantages and reduce tax liability as much as possible without breaching tax regulations. Additionally, tax planning is commonly a group of actions. Although the selection of a course of action may take one of various forms, the decision should be made on the basis of predicted tax consequences. Tax planning requires a practical and thorough knowledge of the regulation, of what to do and what not to do, how far to go, and when to stop.

3.2 Tax Planning Motivations and Advantages

The expected advantages for tax-payers are the primary motivation behind tax planning. Nevertheless, decision makers may employ widely differing extents of aggressive TP, which may rely on their individual attitudes (Abdul Wahab, 2010). For example, in the

case of risk aversion, decision makers would probably take decisions that involve less risk and, even, low yields, whilst, on the other hand, risk-takers prefer to aim for high yields, despite the high risks associated with this decision. The advantages of TP positions are explicit. They decrease tax liabilities, which increment cash flow and can also raise after-tax net income (King & Sheffrin, 2002).

Discussions on the factors that could stimulate the decision to implement TP provide an incomplete explanation of the moderating effects of tax planning. In the process of decision-making TP, factors of moderation are the factors that indirectly drive or prevent tax-payers in undertaking TP activities (Abdul Wahab, 2010). Utility theory explains that tax-payers' decisions are made on the basis of an expectation that they will receive the highest benefits possible when considering the trade-off between the risks from decisions made and the expected returns (tax saving). Alternatively, prospect theory explores tax-payers' decisions beneath safe and guaranteed conditions in which the tax-payers favour a TP strategy that is seen as low risk, even though the tax saving is lower. These attitudes could be more interpreted in relation to prospect theory and expected utility theory (King & Sheffrin, 2002). However, risk-takers, in line with probable usefulness theory, embark on TP strategies that offer the highest tax savings, whereas risk-averse tax-payers, according to prospect theory, favour a strategy that includes low risk and merely contracts with standard reductions (King & Sheffrin, 2002).

Based on the motivating factors that encourage companies to take TP, corporations engage themselves in TP for the primary benefits that result from a rise in after-tax returns. Likewise, as pointed out by various theories and definitions of TP, it is

significant to note that after tax returns could be unenthusiastically influenced by tax minimization, although tax minimization might be seen as an advantage of tax planning. This is because of the likelihood of a tax minimization strategy to draft in important expenses of a non-tax dimension, as discussed in the part of restrictions of TP previously. Additionally, Shackelford and Shevlin (2001) claimed that tax minimization advantage could result in other non-tax costs, for instance, lower reported revenue. Besides that, the Scholes-Wolfson framework argues that, because of its possible negative impact on after tax returns, tax minimization is not the best benefit in tax planning. For instance, in order to maximize tax, one could merely not invest in profitable ventures. Consequently, the addition of after-tax returns is the major objective of efficient TP instead of tax minimization (Scholes, 2009).

Furthermore, compared to after-tax income, raised cash inflows would be an advantage to the tax-payers by a rise of cash obtainable through corporations, with consideration to only the tax paid rather than tax cost. Besides a rise in after-tax returns, TP is also an advantage to the corporations in the form of cash inflows (Jones & Rhoades-Catanach, 2005). Based on the foregoing discussion, the cash inflow advantage of taxation may be connected to the timing or delays of TP strategies. Additionally, incremental cash flow advantage is obtainable by way of lesser tax rates surrounded by interrelated corporations.

3.3 Tax Planning Objectives

As argued by the American Institute of CPA_s (AICPA), tax planning has two main

objectives. The first is to minimize the overall income tax liability, whilst the other is to fulfil financial planning aims with minimal tax results (AICPA, 2015). These goals are achieved through three broad strategies. The first aims to reduce the income tax resulting from an arrangement or a transaction. The second involves shifting the timing of a taxable event, and the third relates to shifting income to another taxpayer, thus, reducing tax liability (AICPA, 2015). According to AICPA it is clear that the main objective of TP is to reduce the tax burden. This, therefore reduces the cost of tax liabilities. This means that tax-payers can take advantage of their ability to reduce tax liabilities in order to achieve the goal of TP as explained clearly by Hoffman (1961).

Alternatively, tax planning is viewed from two different perspectives. The first, due to the negative impact of managerial opportunism, is the view that TP is on par with tax evasion. The other orientation offers a direct solution to this problem. If conducted properly, TP activities undertaken within the tax law benefit both managers (agent) and shareholders (principal) and can reduce the tax burden borne by each party through effective TP strategies (Minnick & Noga, 2010; Sabli & Noor, 2012).

Efficient TP works to reduce the tax burden whilst, at the same time, does not bear any costs. This means that TP must be practiced with skill and adequate knowledge. It is also significant to observe that the best and optimal target for TP is to maximize the returns after taxes, because the goal of reducing taxes will contribute to the creation of non-tax costs (Scholes, 2009). On the contrary, it is also important to note that not all the activities of TP necessarily decrease the tax liability to one's required lowest level, because there is no certainty in TP due to the possibility of non-tax costs (Hoffman,

1961). The prime objective of TP is to present all items of a financial plan in the most tax-efficient way possible (Atlas, 2011).

Based on the above, the objective of TP should take into account all the components of the financial plan in order to avoid contributing to the creation of new costs borne by the company and help reduce the tax burden in line with the requirements of effective planning for the work of the organization as a whole (Scholes, 2009). On the other hand, the objective of TP is not to evade payment of tax, but for a taxpayer to optimize his or her tax exposure (Badertscher, Katz, & Rego, 2011). In many cases, the primary goal of TP is the application of the laws in such a way they allow business or an individual to reduce the amount of taxable income in any given period. Thus, planning for taxes requires the knowledge of which types of income are currently entitled to be free of taxes. The process also necessitates an understanding of what types of expenses can be considered as legitimate deductions and any conditions that can be used in the application for tax deductions (Jones & Rhoades-Catanach, 2005).

3.4 Theories of Tax Planning

Tax planning activity theories introduce concepts and principles that are typically applicable to tax practitioners. Tax planning could not be continued for a long term except if the activities of TP are "flexible", meaning of a continuity of the strategies (Hoffman, 1961). This is particularly applicable to the cases of TP strategies that depend on tax regulation ambiguities and loopholes. Thus, TP strategies must be time-oriented and proportionate in the logic that *"consistency requires that the past limit the present*

and the future but the present must be further circumscribed in the light of the taxpayer's future requirements" (Hoffman, 1961, p. 280). Furthermore, TP must be 'personalized and coordinated', meaning made to form, i.e., fit the subject taxpayer. It also should be with different approaches and types of taxes with "a resolving of conflicting interests", as well as being "completely honest", acting in good faith and maintaining moral responsibility for any behaviours undertaken in the process (Hoffman, 1961).

According to the above-mentioned principles, Shackelford and Shevlin (2001), when studying the income tax research development in accounting, highlighted that the Scholes-Wolfson framework adopts a positive approach in interpreting the function of taxes in organizations. Scholes (2009) explain that the Scholes-Wolfson TP framework proposes three significant principles in tax planning: 1) a multilateral approach for example, all contracting parties, could refer to both employers and employees' taxes; 2) the importance of unseen taxes (as an illustration, 'all taxes' could refer to extensive tax forms, such as explicit taxes-the tax paid to the authority-and implicit taxes, which are tax-induced decreases in pre-tax rates of return); 3) the importance of non-tax costs. "All costs" could mention management incentives and trade-offs, and transaction costs between company financial accounting targets and tax targets. The themes are detailed as follows: *"all contracting parties must be taken into account in tax planning; importance of hidden taxes–all taxes must be taken into account; and importance of non-tax costs–all costs of business must be considered, not just tax costs"*(Scholes, 2009, p. 3).

3.5 Tax Planning Restrictions

In order to achieve the objectives of TP listed above, firms face some difficulties and obstacles. For that reason, they must adopt optimal TP, taking into account the effects of TP on "all costs", "all parties", and "all taxes" (Scholes, 2009). Previous studies confirm the importance of the costs of TP in several cases; this has made it possible to interpret the restrictions and their effects through costs and non-tax costs. Moreover, these costs must be examined before embarking on the activities of TP because the process of TP and reduction of taxes can be costly. Thus, the activity will continue only if the costs are predicted to be less than the expected tax cuts. These conditions would not be favourable if the government later increases the company’s tax rates in response to minimum tax revenues (Tran-Nam & Evans, 2000; Rego, 2003; Slemrod, 2004; Rego & Wilson, 2012).

Generally, the costs incurred by companies due to TP emerge from the current TP strategies in place. As discussed earlier, there are two types of costs incurred in TP. The first is the costs that arise as a result of practicing TP now, whilst the other is related to future costs, appearing in accordance with the additional activities of TP through the pursuit of the application of new methods of TP in the future (Curry, Hill, & Parisi, 2007).

Corporations bear legal costs as part of the cost of compliance to ensure the goal of tax planning. This is because of the limitations of judicial branches and legislative in the planning of taxes. In the U.S., the IRS and the courts may challenge the TP strategies utilizing judicial doctrines and legislative. Legal costs of TP can also be associated with foreign aid, for instance, costs related with tax-associated fees paid to lawyers,

accountants and further relevant parties (Howell O'Neill, 2012). Additionally, in a study to investigate investments in TP (including in home countries), further costs of foreign aid and expenses in the conduct of TP were found (Hanlon & Heitzman, 2010). Howell O'Neill (2012) defined the 'home' costs as the cost of salaries for the company and the IRS, including fringe benefits. Direct costs are cash flows that must be incurred straight by the tax planners in order to achieve the goal of tax planning. These costs include the costs of taxes and lawful advice (Jones & Rhoades-Catanach, 2005; Schreiber & Fuehrich, 2007; Armstrong, Blouin, & Larcker, 2012).

A system (production efficiency) of neutral tax makes TP ineffective and avoids both direct costs of TP (tax costs and legal advice, as well as the cost to the government to tackle tax evasion). Indirect costs arise because the taxpayer changes his financing plans in the existence of taxes and his investments (deadweight loss) (Schreiber & Fuehrich, 2007; Howell O'Neill, 2012). Furthermore, director compensation and reputation, political costs, and implicit tax are additional indirect costs that are significant considerations in tax planning. Executive compensation could suffer in the case of performance-based remuneration, which decreases remuneration and the reporting income. This could be looked upon as tax disadvantageous for the corporation's administration that rely on performance-based rewards for employees, particularly in granting financial motives for managers (Stapledon, 2004).

Previous literature provides some evidence that managerial incentives impact TP options. Nevertheless, there is only a few evidence associated with the precise incentives of the tax directors, who directly participates in the tax decisions of a firm (Armstrong *et al.*,

2012). Conflicts exist because of the reputation that reflects the compensation of managers, and the political costs and implicit costs. Nevertheless, it is significant to observe that the impact of financial reporting and TP can operate in two ways, affecting the choices of financial accounting and tax planning (Shackelford & Shevlin, 2001). However, one important restriction to this model is that shareholders cannot monitor the compensation contract or know whether managers are engaging in lawful TP or unlawful tax evasion (Armstrong *et al*., 2012).

In line with the result that equity risk-taking incentives encourage managers to undertake further aggressive TP, Rego and Wilson (2012) found a positive relationship between stock return volatility and a company's tax aggressiveness. However, TP also imposes important costs on companies and their managers. They asked managers to invest essential resources in the form of fees paid to attorneys and accountants, in addition to the time that they and their employees devote to planning and resolving tax authority audits. Costs can raise significantly if tax authorities are successful in challenging an aggressive tax position (Rego & Wilson, 2012).

3.6 Tax Planning Approaches

There are many approaches that can be used by firms in the implementation of TP activities. Approaches that are discussed in this segment include participation in the profit or income change and changes in income properties and reorganization and participation in tax-free or tax-favored investments (Abdul Wahab, 2010). Tatum (2015) highlighted three common approaches to TP which aim to decrease the tax burden. The first is a

reduction of the adjusted gross income for a given taxable year (this is where the understanding of recent tax regulations in relation to exemptions and allowances becomes relevant). The second approach to TP is to increase the amount of tax cost. This means knowing the recent regulations and their application and when to apply to all normal and customary expenses related to the family or company is important. Because these may change from one year to the next, it is always a good idea to check the local laws. A final approach that is appropriate to effective TP concerns the use of tax exemptions (Tatum, 2015). Nonetheless, Curry *et al*. (2007) argued that these methods do not specifically and properly describe the approach to TP in a future of uncertainty, as they require ease of detection by the authorities. Their research suggests that, in a scenario where certain strategies have been adopted by tax-payers, the authorities may gain information to aid their efforts in decreasing or preventing the option of TP by that exacting approach. In following subsections some approaches of TP are discussed.

3.6.1 Tax Exemption

In line with the aforementioned TP approaches, dealing with tax-favored or tax exempt investments is an efficient TP approach. Tax exemption involves a person or organization not being taxed on a purchase or income that normally would be subject to some form of taxes. Some tax systems provide tax exemptions to organizations of people, items of property, taxable income, and others, under order. Tax credit may also refer to a personal exemption allowance or type of currency (Manzon & Plesko, 2002). This occurs when the firm claims for exemption to reduce one type of taxable income. Moreover, tax credits can provide the payment of tax-payers' tax in full, whilst other cases may be

subject to a reduced rate, or partially subject to tax (Scholes, 2009). Tax-favored investments may enjoy numerous types of tax-favored status; for instance, tax credits and full tax exemption, actually, the investment might enjoy further than one tax-favored status. It is known that tax-favored investments are clearly taxed more lightly than fully taxable bonds (Scholes, 2009).

3.6.2 Organizational Structure

Reorganization is a further TP approach that may be adopted by some corporations. Desai and Dharmapala (2006) highlighted the fact that any prediction of the directional correlation between TP and equity incentives is subject to the corporate structure. However, it is not clear how a group manager is capable to extract rents from the company (Armstrong *et al*., 2012). In a case-study of conglomerates, Stonham (1997) documented that, in 1996, corporations benefited from their TP through a demerger strategy in which they successfully achieved the U.S. tax authorities' agreement of a tax-free sharing of the stock dividend to their nationals. This allowed the corporations to gain some advantages in the form of tax exemption, a tax shield and a lesser tax bill. Nevertheless, a taxpayer must conduct a comprehensive examination before accepting this approach because of various differing structures and the difficulty of a demerger. On the other hand, TP can be taken via reorganizations by both international and domestic corporations. Moreover, the reorganizations by domestic firms include share reorganizations, mergers and demergers, amalgamations, reconstructions, management buyouts and share purchases, whilst international corporations may be engaged in transformation from subsidiary to branch or vice versa, or multinational mergers and

reorganizations(Abdul Wahab, 2011).

A&L Goodbody (2012) found, for instance, that Henderson and Accenture, were observed to migrate their company-holding corporations from the U.S. to Ireland to enjoy TP advantages while the latter supplied tax incentives to holding corporations, such as domestic exemptions from withholding tax, exemption on qualified capital gains, and lesser tax rates on Ireland-derived trading income. Likewise, a TP approach during reorganization could be approached by changing the residential situation of a firm. This strategy is also mentioned to as “company migration” or “company inversion” (A&L Goodbody, 2012). Tax planning during the organizational structure could be achieved through disintegration, migration of companies, and a reflection of the companies (Abdul Wahab, 2010).

3.6.3 Income Shifting

In applying income shifting approach, tax-payers adjust the nature of their incomes so that income or profit is connected with parties that are subject to inferior tax jurisdictions (Abdul Wahab, 2010). Sharing of profits or income shifting occurs in the situation of tax provisions through time and diverse tax rates, the site, and types of income (Slemrod, 1995), for instance, transferring profits to branches in dissimilar tax jurisdictions when TP is a concern for authorities as it has numerous negative implications, as argued by Gordon and Slemrod (2002). These include misguiding distributional statistics, misguiding corporate rates of return, and negative results on the efficiency in estimating the marginal surplus burden produced from any change of tax. Based on the Scholes-

Wolfson framework, corporations may turn out to be participating in TP during income shifting or profit-sharing by transferring the revenue from “one pocket to another pocket”, or shifting revenue geographically (transferring profits to a business premises with lesser tax jurisdictions and shifting the income over time).

Dharmapala and Riedel (2012) supported the hypothesis of income tax-motivated transformation, using a different identification approach called ‘a difference-in-difference approach’ than those used in the previous studies. Difference-in-difference approach was developed by Dharmapala and Riedel (2012) to estimate the magnitude and existence of tax-motivated income shifting among multinational companies, as the study focused on how a given earnings shock to the parent firm affects low tax subsidiaries differently than high-tax subsidiaries. Thus, this approach enhances and enriches the sources of evidence on this issue. For example, one cannot rule out the possibility that the results of profit conversion are only an artifact of the effects of time of a specific pairing of countries. In quantitative terms, the estimates indicate that the transfer is a margin of about two percent of the home country’s gain (additional) for the low tax subsidiary. This represents a significant impact, even if it is slightly lower than those found in earlier literature, assuming changes in the rates of company as a source of identity. On the other hand, the fact that these estimates are larger in size indicates that the current legal and economic differences (such as transfer pricing regulations and the rules of thin-capitalism) of the bond TP play an important role (Dharmapala & Riedel, 2012).

3.6.4 Modification of Income Characteristics

In the U.S. state business TP study, Bruce *et al*. (2007) illustrated that firms may reclassify trade income as non-business income and transport it to a low tax or no-tax state in order to decrease the state tax burden. By reclassifying a non-business income as a business income, a corporation may decrease the tax burden, whilst the business income would be desirable for a capital allowance reduction and business losses reductions. The tax-payers might be participating in TP during the modification of the nature of an income. This is mainly connected to the income shifting strategy, as it supplies a chance for firms to change the nature of the income from domestically-received to foreign income. Additionally, companies may follow TP by shifting the nature of an income during adjustment from income-revenue in nature to capital gain in nature. In the case of reduced capital gain tax rates in relation to income tax rates, this strategy is efficient. Similarly, a corporation may also be participating in TP by shifting the nature of an income from a business to non-business income or vice versa.

3.7 Tax Planning Measurements

Tax planning measures used in earlier studies vary, depending on the accessibility of data and the interest of researchers in the general or specific approach to tax planning. Prior researchers utilized different measures of TP utilizing both privately and publicly accessible data. In measuring the results of tax planning, they can assess a tax measure to be appropriate because it exhibits the gap between the taxes burden-based "book reports" and "taxable income-based". Several studies on tax, either indirectly or directly, deem a

tax saving to be the result of such tax planning. The mainly popular measures utilized by researchers are book-tax gaps (Plesko, 2003; Hanlon & Heitzman, 2010) and effective tax rates (Mills *et al*., 1998; Rego & Wilson, 2012). The measure of tax saving is a constant issue amongst researchers due to a debate on the accuracy of measures in exhibiting TP activity (Armstrong *et al*., 2012). This is because tax burden-associated data cannot be accessed by external interested parties. In addition, effective tax rate is also a suitable measure of TP as compared to book-tax gap measure since it can remove measurement errors associated with tax expense on tax credit and foreign income (Hanlon & Heitzman, 2010). Section 7.2.2 in Chapter Seven elaborates on this in detail.

3.8 Conclusion

This chapter reviews and examines the literature on various aspects of tax planning. It starts with a debate on the definitions and theories of tax planning. It goes on to review the literature on TP opportunities due to 'gaps' in the properties of the law and business taxes, and to discuss how TP is carried out with differing measurements and approaches. The final section describes and discusses TP strategies used by companies to achieve their TP objectives and TP measure covered in previous studies.

In general, based on the literature discussed above, TP essentially refers to avoidance and evasion. In this context, TP is defined in general as being the procedure of structuring one's affairs in order to postpone, decrease or even eliminate the amount of taxes payable to the government. Numerous TP approaches have been identified, including income shifting, modifying of characteristics of income, organizational structure and tax

exemptions. The primary motivations for undertaking TP are the expected financial benefits.

CHAPTER FOUR

CORPORATE GOVERNANCE

This chapter discusses and summarises previous studies, which examined the influences of corporate governance on firms' tax disclosure. The discussion is presented in six sections. Sections One, Two and Three present definitions of corporate governance, an overview of corporate governance in Malaysia and the relevant theories of corporate governance respectively. Section four discusses corporate governance requirements in Malaysia, Sections five reviews the literature on corporate governance mechanisms (including internal and external mechanisms) and Section Six concludes the chapter.

4.1 Corporate Governance Definitions

The separation of management roles, ownership and the existence of asymmetric information introduces the possibility of principal-agent conflict, such as manager’s self-interest, which may guide to the abuse of all what a company has, for instance, the pursuit of risk on account of the capital suppliers (Jensen & Meckling, 1976; Shleifer & Vishny, 1986; John & Senbet, 1998; Haniffa & Hudaib, 2006). To reduce agency conflicts and costs, several mechanisms of internal and external CG have been proposed. The governance mechanisms include, among other things, changes in the structure of the board, debt financing, shareholdings by outsiders and insiders and the market for company control (Haniffa & Hudaib, 2006). Corporate governance is necessary to explain the attitude of management and how the corporation is monitored to alleviate the conflict between owners and management. Furthermore, issues of CG have been vastly

discussed and studied because of information asymmetry effects on shareholder wealth (Boubakri, Cosset, & Guedhami, 2005). The theories of the CG issues are driven by the agency theory, which focused on the phenomenon of separation of control and ownership in the context of information asymmetry. Moreover, because of information asymmetry, shareholders depend on the CG mechanisms to ensure that actions taken by management are in line with the target to maximizing their wealth (Weir, Laing, & McKnight, 2002). Hence, from the economic perspective, CG interact in managerial opportunism in which a disagreement of interest interprets the managers' chance to pursue their own self-interest in tax planning (Desai & Dharmapala, 2008).

There are various definitions of corporate governance. The OECD defined CG as *"Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring"* (OECD, 2004, p. 11). This is in consistent with the definition of corporate governance as *"a response to the agency problems that arise from the separation of ownership and control in a corporation"* (Boubakri *et al*., 2005, p. 370).

Shleifer and Vishny (1997) defines CG as a means of ensuring that suppliers of finance receive a return on their investment. Williamson (1988) defined CG as a way to manage

the interests of shareholders and management. Zingales (2008) argued that CG is the tool for managers and shareholders to talk about valuation and distribution of shares. In this context, the definition set out in the High Level Finance Committee Report 1999 is *"corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long term shareholder value, whilst taking into account the interests of other stakeholders"* (Securities Commission Malaysia, 2012, p. 5). From this definition, corporate governance mostly concentrate on procedures utilized to manage a corporation with the aim to act for the best interests of shareholders, whilst also attaining corporate objectives. Corporate governance can be described as providing guidance on how the board of directors and managers of a firm should act in the interests of shareholders, investors and creditors (Zainal Abidin & Ahmad, 2007).

4.2 Corporate Governance in Malaysia

Corporate governance initiatives in Malaysia, similar to other Asian countries, were introduced in late 1997. It became important to both public and private sectors because of crises in regulations where by these regulations do not have the ability to accommodate and treat with such crises, including CG standards. In Malaysia, the Malaysia Code of Corporate Governance (MCCG) was established officially in March 2000 and was derived largely from the recommendations of the Cadbury Report (1992) and the Hampel Report (1998) in the U.K. (MFCCG, 2000; Du Plessis, Hargovan, Bagaric, & Harris, 2014; Bursa Malaysia, 2015). Nevertheless, the Malaysian business environment is

different from that in the U.K. in many ways and the application of several of these recommendations may be controversial. For example, there is a high concentration of ownership in Malaysia. This means that there is no vigorous market for company control and there are few opportunities for hostile takeovers or to discipline managers who do not work to maximize shareholders' value (e.g. OECD, 1999; Haniffa & Hudaib, 2006).

Moreover, even before and during the crisis, there was some good sides of Malaysian CG in that time. For example, Iu and Batten (2012) claimed that Malaysian CG has attracted successfully a better treat (compared to the U.K. and other Asian countries) of public interest because of its significance of the economic health of both the companies and society in general. The concept of CG covers a number of economic phenomena and is not a "one size fits all" solution. Malaysian firms have now attained an acceptable level of compliance and CG practices, which is evident in a joint study by the emerging market investment bank Credit Lyonnais Securities Asia (CLSA) and Asian CG in 2003 (Roche, 2005; OECD, 2014).

4.3 Theories of Corporate Governance

The main CG theories are agency theory, stewardship theory, stakeholder theory and resource dependency theory. These theories address the reasons and impact of CG mechanisms, such as audit committee, the configuration of independent directors, board members and the function of top management and their social associations rather than its regulatory frameworks (Haslinda & Valentine, 2009). These main theories are important in explaining the variety issues of CG including CG mechanisms and firm performance.

This is because of the functions that the theory can systematically predict which interpret and underpin the cause and impact association of the variables or the observed phenomenon (Mallin, 2013).

4.3.1 Agency Theory

Agency theory concerns about the association between the agent (decision-maker) and principal (shareholder) (Padilla, 2002). Agency theory is supported by the agency association, where there is a separation between control and ownership. It recognizes that problems can occur when management, acting on behalf of the owners, do not behave in ways that maximize the owners' welfare when involved in an agency association. The agency association is defined as *"a contract under which one or more persons (the principal [s]) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent"* (Jensen & Meckling, 1976, p. 308).

According to Jensen & Meckling (1976), agency theory supplies a framework linking disclosure behaviour to corporate governance. Corporate governance mechanisms are introduced to manage the agency problem and make sure that managers work in the interests of shareholders. In theory, the effect of governance mechanisms on company disclosures may be substitutive or complementary to the internal monitoring of the company (Ho & Wong, 2001). Further, Mallin (2013) described agency theory as a theory which *"identifies the agency relationship where one party, the principal, delegates work to another party, the agent. In the context of a corporation, the owners are the*

principal and the directors are the agent" (Mallin, 2013, p. 16). As there is a difference between control and ownership, the agency problem will happen when the management, who acts on behalf of the owners, may not in fact conduct in such a way as to maximize the owners' welfare.

For the past 20 years, agency theory was one of the utmost significant theoretical models in accounting (Lambert, 2001). It conceives disclosure as a mechanism to detect and reduce the costs of disagreement between shareholders and managers and conflicts between the company and its creditors. Therefore, disclosure acts as a mechanism to monitor the performance of managers. Consequently, managers are encouraged to disclose information voluntarily. In this context, agency theory supplies a framework for analysing financial reporting between owners and managers. Therefore, agency theory plays an important role in monitoring managerial opportunism, which is confirmed by a situation where control is separated from ownership. It also demonstrates why companies have the incentive to disclose information to the capital market, even when there were no compulsory reporting requirements (Friese, Link, & Mayer, 2008). To summarise, agency theory is the theory of CG, which interprets the agency problem because of the agency association. The agency association is about the relationship between principles and agents in which both parties have particular self-interest of maximizing wealth. Therefore, agency costs have to be incurred by the principals in order to reconcile those interests that ensure continued existence of the firm (Ongore & K'Obonyo, 2011). To overcome the agency problem CG characteristics, (such as board leadership, board composition or role duality, board size, concentrated ownership by outsiders and insiders and multiple directorships) are designed to reduce agency problems between agents and

principals.

Therefore, CG characteristics are considered necessary to decrease divergence of agents' interests from the principals' interests (agency problem). For example, CG is a mechanism utilized for effective utilization of company resources. It is a hybrid of external and internal mechanisms with a view to achieving effective utilization of company resources (Ho & Wong, 2001). Corporate governance characteristics are manifold and generally comprise external mechanisms as well as internal mechanisms (Biswas & Bhuiyan, 2008). The details about these characteristics will be discussed in Section 4.5.

4.3.2 Stakeholder Theory

Stakeholder theory is "*a theory of organizational management and business ethics that addresses morals and values in managing an organization*" (Phillips, 2003, p. 15). Similarly, Mallin (2013) explains stakeholder theory as a theory that *"takes account of a wider group of constituents rather than focusing on shareholders. Where there is an emphasis on stakeholders, then the governance structure of the company may provide for some direct representation of the stakeholder groups"* (Mallin, 2013, p. 16). Likewise, Jensen (2010b) refers to stakeholders as a group which is comprised of all groups or individuals who can substantially affect the welfare of the firm. This includes not only the financial investors and creditors, but also communities, customers, employees and governmental officials who *"say that managers should make decisions that take account of the interests of all the stakeholders in a firm"* (Jensen, 2010b, p. 236).

In cases of established companies, stakeholder theory looks to lead and interpret the corporations' operations and structures with the understanding that the company is an entity in which numerous parties perform their different and various objectives that are based on the needs of each part from these parties. For example, the main objective of management towards shareholders is to maximize their wealth (Donaldson & Preston, 1995). Consequently, managers need to clarify all stakeholders due to conflicting interests amongst stakeholders to guarantee the best grade of entanglements for decisions made in accommodating those interests. As this theory interprets, the managers are foreseeable to consider not only the shareholders, but as well as other parties that could be affected by the activities of the corporation (Jensen, 2010b). Based on the discussions above, it can be seen in the theory of stakeholders, at a global level, is a theory that comprehensively considers all stakeholders, individuals and communities affected by decisions taken by the management of the corporations. Figure 4.1 presents stakeholder parties in order illustrate how they are effected by or within the firm.

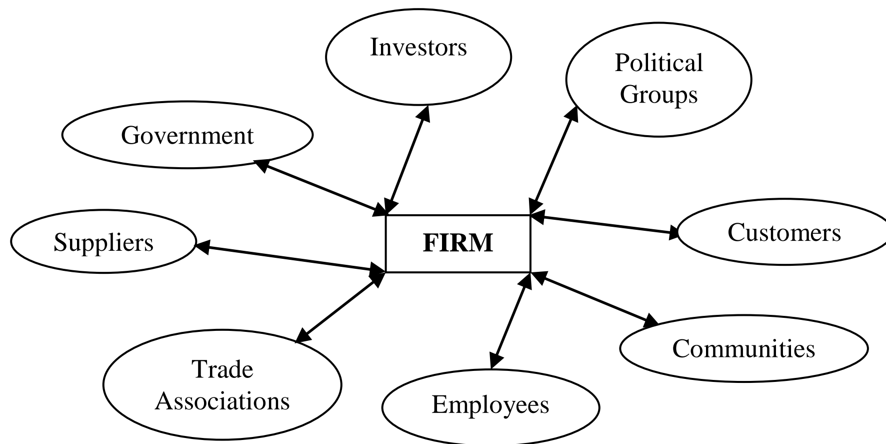

Figure 4.1
The Stakeholder Model

Source: *Figure 3*. Contrasting Models of the Corporation: The Stakeholder Model "The stakeholder theory of the corporation: Concepts, evidence and implications," by Donaldson and Preston, 1995, *Academy of Management Review,* p. 69.

Generally, shareholders are not the only affected parties to be considered in the decision-making procedure by managers. This is because of inputs from stakeholders in terms of skills, capital and other factors are also important. Stakeholder theory pays attention to the significance of the welfare of stakeholders. This leads to alternative theoretical models of stakeholders (Abdul Wahab, 2010). As far as CG is concerned, it is significant to note the variation of views in relation to stakeholders and shareholders. From the point of view of shareholders, CG is considered a confidential matter, whilst stakeholders consider companies as a social entity (Letza, Sun, & Kirkbride, 2004). This is because stakeholder theory may be inconsistent with CG because the theory is not consistent with the concept of CG that is accountability of management to shareholders and accountability of company employees and other company agents to the shareholders (Sternberg, 1997).

4.3.3 Stewardship Theory

Stewardship theory is a theory that assumes that "*managers, left on their own, will indeed act as responsible stewards of the assets they control*" (Barney & Hesterly, 2012, p. 263). Moreover, stewardship theory defines directors as *"the stewards of the company's assets and will be predisposed to act in the best interest of the shareholders"* (Mallin, 2013, p. 16). This simply means the stewards (managers) strives in realizing the organizational goals such as profit growth, revenue growth, which in turn reflects the shareholders wealth. Consequently, CG mechanisms are viewed as insignificant in disciplining the managers from the point of view of the shareholders. Moreover, the stewardship theory is depending on the supposition that managers are *"stewards whose motives are aligned with the objectives of their principals"* (Davis, Schoorman, & Donaldson, 1997, p. 21). The theory also investigates the role of managers in maximizing the wealth of principals by CG mechanisms. Certainly, this can reduce the costs targeted at controlling behaviours. This is in contrast with agency theory, which considers the managers' behaviours and acts as being undertaken to maximize their own wealth only (Donaldson & Davis, 1991; Davis *et al*., 1997).

Furthermore, stewardship theory proposes integrating the function of the CEO and the chairman in order to decrease agency costs and to have bigger function as stewards in the organization (Haslinda & Valentine, 2009). Indeed, Fama (1980) contended that directors and executives are also managing their careers in order to be seen like efficient stewards of their business. Stewardship model can have resemblance in countries such as Japan and Malaysia, where the worker presumes the function of stewards and takes ownership

of their work and jobs at it diligently (Haslinda & Valentine, 2009). Figure 4.2 illustrates the stewardship model.

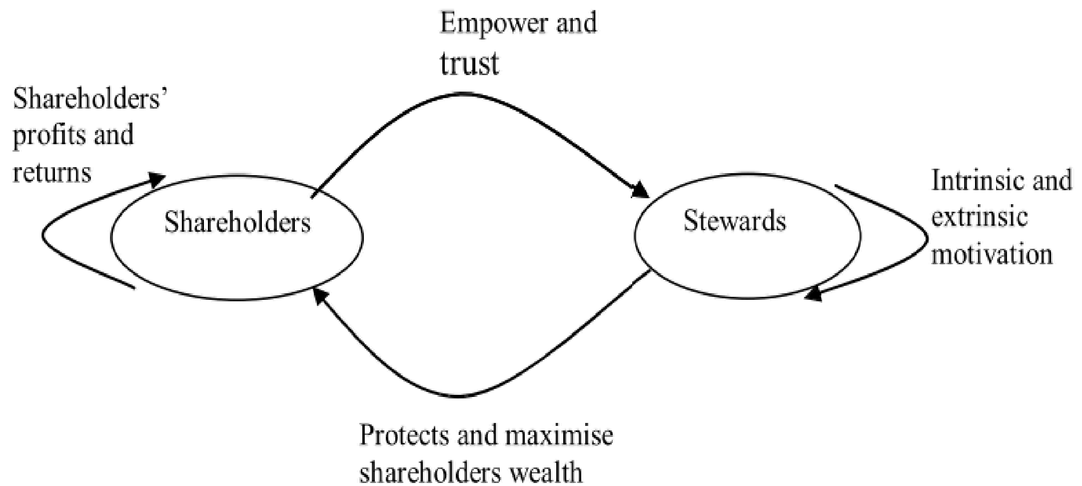

Figure 4.2
The Stewardship Model

Source: *Figure 2*. The Stewardship Model "Fundamental and ethics theories of corporate governance," by Abdullah and Valentine, 2009, *Middle Eastern Finance and Economics,* p. 91.

The model in Figure 4.2 explains that stewards are empowered by the shareholders to maximize and safeguard the shareholders' wealth through the reinforcement of the company's return and profitability. The shareholders supply some intrinsic and extrinsic motivation in the form of managerial perks to avoid stewards acting purely out of self-interest.

4.3.4 Resource Dependency Theory

The fourth main theory of CG is resource dependency theory, which asserts that a board is a fundamental link between a company and its resources that are necessary in maximizing performance (Pfeffer, 1973; Pfeffer & Salancik, 2003). Resource dependency theory is from both management disciplines resources and sociology but there is a lack of a universally accepted definition of what is a significant resource (Pettigrew, 1992; Pettigrew & McNulty, 1995). In studying each area, researchers made reliable evidences that the resources in question is a key determinant of achievement (Nicholson & Kiel, 2007).

In this context, the management scholars are inclined to take a further general approach following the resource-based view of the company (Barney & Hesterly, 2012). Researchers like Hillman, Cannella and Paetzold. (2000) and Palmer and Barber (2001) view the board as a probably significant resource for the firm, particularly in its associates with the external environment. Much literature on board–performance sees the capacity of the board to connect with important resources as one of its key roles (Zahra & Pearce, 1989; Korac-Kakabadse, Kakabadse, & Kouzmin, 2001). While the stakeholder theory focuses on associations with numerous groups for individual advantages, resource dependency theory focused on the function of the board directors in supplying access to resources needed by the company. Moreover, resource dependency theory focused on the function that directors play in securing or providing fundamental resources to an organization through their links to the external environment (Hillman *et al*., 2000).

According to Hillman *et al*. (2000), directors who supply resources, such as information

and skills, have access to key components, for instance suppliers, customers, social groups and policy makers. Directors can be classified into four groups of resource dependence, which are: professionals, specialists, business experts and a community of support (Hillman *et al*., 2000; Nicholson & Kiel, 2007). These four groups capture the central resources and linkages that contribute to the resource dependence function and the relative need for directors in each category will differ based on the environment. Firstly, professionals and managers include former and current executives of the company and supply expertise in particular areas such as law, finance, the company itself, as well as views on overall direction and strategy (Hillman *et al*., 2000). With directors who serve to linkage the firm with its outside environment, a board may work to decrease uncertainty. With resource dependence role, directors link the company with external factors which produced external dependencies and uncertainty (Pfeffer & Salancik, 2003). Uncertainty reduces organization's selection of strategies and control of resources and impedes easy functioning of a day-to-day operation. Efficient deal with uncertainty guides to power and ultimately raises the likelihood of survival (Singh, House, & Tucker, 1986).

Secondly, in the case of business experts group, the existence of an outsider director who has knowledge or regulatory expertise might not only decrease uncertainty through a gain in expertise and information, but may also decrease the transaction expenses connected with the regulatory agency (Nicholson & Kiel, 2007). Thirdly, underpin specialists are lawyers, bankers, representatives of insurance companies and public relations expert, as well as experts who provide specialist support in the field of individual work. The directors who supplied information on the bidding procedure for government contracts,

the suitable personnel to contact, or influence over planned regulation may essentially decrease the costs of transactions between the corporation and regulators, giving the company a cost advantage over competitors. Finally, the community influences are political leaders, academics, clergy and leaders of social organizations or communities (Hillman *et al*., 2000). Therefore, in addition to the advantages of decreased uncertainty and easier acquisition of resources, directors also decrease the transaction costs connected with the inter-dependencies between the company and a variety of institutions in the environment (Williamson, 1988).

4.4 Corporate Governance Requirements in Malaysia

Since the early 2000s, studies have highlighted the significance of CG in the monitoring of operational activities undertaken when managing a business (e.g. Aguilera & Cuervo-Cazurra, 2004; Haniffa & Hudaib, 2006; Lokman, Cotter, & Mula, 2009; Securities Commission Malaysia, 2012). Similarly, the Malaysian Code of Corporate Governance (MCCG 2012) adopts recommendations and structure from the blueprint issued by the Malaysian Securities Commission in 2012 and sections of the previous 2007 Code. Table 4.1 presents the recommendations and principles of the MCCG 2012 with harmonising the blueprint recommendations and related sections of the 2007 Code to assist the understanding of the MCCG 2012.

The MCCG Code requires public firms to abide to the principles based on the varying circumstances of individual firms. Hence, public corporations need to adhere to Malaysian Code on Corporate Governance associated with corporate governance

disclosure directors, audit committee and auditors. The MCCG Code underwent amendment in 2007 and 2012, as shown in Table 4.1. The new revision of MCCG made significant changes on the process of evaluating and nominating members of the board (Securities Commission Malaysia, 2007, 2012). Based on the code, the board of directors should carry out yearly evaluation for the efficiency of the board of directors, committees of the board and the contribution of every individual director. The modified code also supplied criteria that must be considered by the nominating committee when suggesting candidates for directorships. The suggested criteria includes knowledge, skills, expertise and professionalism, experience and integrity (Kamardin & Haron, 2011).

Table 4.1 also shows that the MCCG 2012 concentrates more on strengthening board composition and structure , recognizing the function of directors as active and responsible fiduciaries (Securities Commission Malaysia, 2012). Directors have a responsibility to be efficient stewards and guardians of the firm, not only in overseeing the behaviour of business and strategic direction such in the Malaysian Code on Corporate Governance 2007, but also in ensuring that the firm is in compliance with regulations and ethical values and maintains an efficient governance structure to guarantee the suitable management of internal controls and risks. In order to remain compliant with the current code, management and boards should be awake of their duty to manage their resources and efforts towards the best interest of the firm and its shareholders, whilst ensuring that the interests of other stakeholders are not compromised.

Table4.1

CG Regulations Comparison between the MCCG 2012 and the 2007 Code

Prin. No	**MCCG 2012 Principle**	**Rec. No.**	**MCCG 2012 Recommendation**	**Blueprint Recommendation No.**	**2007 Code**
CG in Malaysia				24 Mandate companies to focus on substance rather than form in meeting CG requirements	Introduction : Parts 3 and 4
1	Establish clear roles and responsibilities	1.1	"The board should establish clear functions reserved for the board and those delegated to management"	-	Part 2 : AA XVI "Relationship of the board to management"
		1.2	"The board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions"	-	Part 1 : A I "The board" Part 2 : AA I "Principal responsibilities of the board"
		1.3	"The board should formalize ethical standards through a code of conduct and ensure its compliance"	10 "Mandate boards to formulate ethical standards and system of compliance through the company's code of conduct"	-
		1.4	"The board should ensure that the company's strategies promote sustainability"	11 "Mandate boards to formulate strategies that address sustainability and stakeholder interests through internal policies"	-
		1.5	"The board should have procedures to allow its members access to information and advice"	-	Part I : A III "Supply of information"
		1.6	"The board should ensure it is supported by a suitably qualified and competent company secretary"	30 "Enhance the role of company secretaries through clarifying their role and look into qualification requirements needed to raise the skills and professional standards for company secretaries of listed companies"	Part 2 : AA XIX "Access to information" Part 2 : AA XX "Access to Advice" Part 2 : AA XXI and XXII
		1.7	"The board should formalize, periodically review and make public its board charter"	12 "Mandate formalization of the board charter and disclosure of the charter in the annual report"	-

Table 4.1 (continued)

2	Strengthen composition	2.1	"The board should establish a Nominating Committee which should comprise exclusively of non-executive directors, a majority of whom must be independent"	16 "Mandate boards to establish a Nominating Committee with enhanced roles chaired by an independent director".	Part I : A IV and Part 2 : AA VIII "Appointments to the board"
		2.2	"The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors"	-	Part 2 : AA IX Part 2 : AA X Part 2 : AA XIII "Directors' training"
		2.3	"The board should establish formal and transparent remuneration policies and procedures to attract and retain directors"	-	Part 1 : B I "The level and make-up of Remuneration" Part 1 : B II "Procedure" Part 1 : B III "Disclosure" Part 2 : AA XXIV "Remuneration Committees"
3	Reinforce Independence	3.1	"The board should undertake an assessment of its independent directors annually"	14 "Mandate boards to undertake an assessment on independence annually, upon re-admission and when any new interests or relationships surface-based on a set of criteria established by the boards"	-
		3.2	"The tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, the independent director may continue to serve on the board subject to the director's re-designation as a non-independent director	13 "Mandate a cumulative term limit of up to nine years for an individual to serve as an independent director"	-
		3.3	"The board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years"		

Table 4.1 (continued)

		3.4 “The positions of chairman and CEO should be held by different individuals, and the chairman must be a non-executive member of the board”	15 “Mandate separating the position of chairman and CEO and for the chairman to be a non-executive member of the board”	Part 2 : AA II “Chairman and Chief Executive Officer”
		3.5 “The board must comprise a majority of independent directors where the chairman of the board is not an independent director”		
4	Foster commitment	4.1 “The board should set out expectations on time commitment for its members and protocols for accepting new directorships”	21 “Mandate boards to set out their expectations on time commitment including protocols for accepting other external appointments in their board charter”	-
		4.2 “The board should ensure its members have access to appropriate continuing education programmers”	-	-
5	Uphold integrity in financial reporting	5.1 “The Audit Committee should ensure financial statements comply with applicable financial reporting standards”	-	Part II : BB II
		5.2 “The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors”	-	
6	Recognize and manage risks	6.1 The board should establish a sound framework to manage risks	-	Part I : D II “Internal control”
		6.2 “The board should establish an internal audit function which reports directly to the Audit Committee”	-	Part 2 : BB VII & VIII
7	Ensure timely and high-quality disclosure	7.1 “The board should ensure the company has appropriate corporate disclosure policies and procedures”	23 “Move beyond minimum reporting by making explicit the requirement for shareholders to be provided with quality and timely information”	-
		7.2 “The board should encourage the company to leverage on information technology for effective dissemination of information”	25” Promote better use of technology by companies to communicate with their shareholders”	-

Table 4.1 (continued)

8	Strengthen relationship between company and shareholders	8.1	"The board should take reasonable steps to encourage shareholder participation at general meetings"	5 "Mandate companies to make public their commitment to respecting shareholder rights and take active steps to inform shareholders of how these rights can be exercised 27 Encourage companies to provide better quality and timely information through notices and documents and to serve notices for meetings earlier than the minimum notice period"	Part 3 : I "Shareholder voting"
		8.2	"The board should encourage poll voting"	3 "Impose obligation for the chairman of the general meeting to inform shareholders of their right to demand a poll vote"	-
		8.3	"The board should promote effective communication and proactive engagements with shareholders"	-	Part I : C I "Dialogue between companies and investors" Part 2 : CC I "The relationship between the board and shareholder" Part 3 : II "Dialogue between companies and investors"

Source: *Table 1:* Comparison between the MCCG 2012 and the 2007 Code Malaysian Code on Corporate Governance, by Securities Commission Malaysia, 2012, *www.sc.com.my/eng/html/cg/cg2012.pdf,* p. 24.

4.5 Corporate Governance Mechanisms

Corporate governance mechanisms are capable to mitigate agency costs of free cash flow that emerge from the principal-agent problem (Jensen & Meckling, 1976; Jensen, 1986). In this context, the agency model determines a number of CG mechanisms that lead to

better governance relative of other lower efficient mechanisms. Moreover, with regard to reduced agency cost, the CG mechanisms align the interests of principals and agents (McKnight & Weir, 2009).

Demirag, Sudarsanam, and Wright (2000) clarify that the external mechanisms consist of stock market evaluation of company performance and a statutory audit, the market for company manage manifested in hostile takeovers whilst the internal mechanisms consist of non-managerial big shareholdings and the composition of the board, managerial ownership (inclusive shareholding institutional). Furthermore, CG mechanisms are presented as being comprised of a board of directors, big shareholders, proxy fights, financial structure and hostile takeovers (Hart, 1995). In addition to the above-mentioned mechanisms, Sharma (2011) additionally specified CG mechanisms as board composition, which is board independence and outside directorship, committee structure and board size, which is audit, compensation, nominating and compensation structures and productivity committees . The adequacy of these mechanisms in moderating agency problems is discussed in the next subsections.

4.5.1 External Mechanisms

Shleifer and Vishny (1997) argued that the CG mechanism in Malaysia ensures investors get adequate returns in their investments. The main reference of CG standards in Malaysia is the Malaysian's Code on Corporate Governance by the finance committee on CG, the capital market master plan by securities commission and the Financial Sector Master Plan (FSMP) by bank Negara Malaysia. They supply guidelines on the principals

and best practices in CG and the direction for implementation, in addition charting the future prospects of CG in Malaysia (Darani, 2012). In a research survey about international CG, Denis and McConnell (2003) found that the market for company control and lawful or regulatory systems are the major external CG mechanisms mitigating agency problems. The external mechanisms are said to interfere in the case where internal mechanisms fail to adequately govern in playing the governance role.

The efficiency of the regulatory or lawful system, however, is debatable. Jensen (2010a) regards the regulatory or lawful system as a blunt tool in efficiently handling the extravagant managerial problem. Three reasons are behind that: first, contradiction of regulation in governance around the globe; second, contradiction of implementation of the regulation around the globe; and third, the substitute mechanisms for poor investor safeguard (La Porta, Lopez-de, Shleifer, & Vishny, 2002). Therefore, the advantages and disadvantages of external and internal mechanisms could be an effective option in mitigating agency problems (Abdul Wahab, 2010).

4.5.2 Internal Mechanisms

The internal mechanisms' viewpoint sees the equity ownership and board of directors as the essential internal mechanism. In this context, Hamilton (2012) argued that owners have choices for reigning in self-interested management. They can provide incentives to improve the consistency of management behaviour and they can afford the costs necessary for overseeing the management and reducing divergent behaviour (Jensen & Meckling, 1976). In this case, some combination of the owners of each mechanism

chosen is beyond the scope of this study, but has been shown to depend on both company-specific factors, such as organizational complexity and risks of the company (Beatty & Zajac, 1994). In the following section, the internal CG mechanisms that will be discussed consist of incentive compensation and managerial ownership.

4.5.2.1 Incentive Compensation

Incentive compensation is a set of compensation based on the performance of an organization. Ei Yet and Song (2012) claimed that so far, studies on Malaysia's executive compensation are more focused on pay-for-performance. For example, Abdullah (2006) studied 86 distressed companies in 2001, and found an insignificant association between performance and pay. Tee and Hooy (2009) established a positive association of performance proportions and ratios for 21 government associated firms from 2001 to 2006. Furthermore, Dogan and Smyth (2002) found that remuneration is related with future growth and company' size but not for performance in a sample of 223 companies from 1989 to 2000.

According to the Malaysian Code of Corporate Governance 2012, annual reports must reveal remuneration of every director. This requirement promotes and recognizes significant principles of accountability and fairness (Securities Commission Malaysia, 2012). According to the Listing Requirement of Bursa Malaysia (BM), App. 9C (12), annual reports must contain a statement of how the firms have applied the principles set out in Part 1 of the MCCG to their exacting circumstances. They are required to disclose directors' remuneration, which involves the level and make-up of remuneration and the

process. Firms are also required to disclose the cumulative figure of remuneration of executives with categorisation, including executives' salaries, bonuses, commissions, fees, compensation for loss of office, advantages in kind depended on an predictable money value differentiation between non-independent and independent directors and the number of directors whose remuneration falls in each sequent band of RM50,000. Nevertheless, disclosure of directors' remuneration is not compulsory (Talha, Sallehhuddin, & Masuod, 2009).

In Malaysia, the "Articles of Association in Schedule Four of the Companies Act 1965" stated that directors' remuneration is subject to shareholders' ratification. However, there is no specific definition of directors' remuneration provided by the Companies Act 1965 to define what constitute remuneration. The majority of corporations only tabled directors' fees at the shareholders' annual general meeting for their ratification as required by "Bursa Malaysia Listing requirement Under Para 7.26" (Securities Commission Malaysia, 2007; Talha *et al*., 2009). However, the above-mentioned matter must be taken into account by the companies to be consistent with BM listing requirement.

The function of a remuneration committee in Malaysia is to recommend suitable remuneration levels of executive directors to the board in all its forms, drawing on external advice where needed (Bursa Malaysia, 2015). Executive directors should not play a part in deciding their personal remuneration. In the directors' report, the membership of the remuneration committee must be disclosed in the annual reports. The remuneration committee also is encouraged to consist of entirely or mostly non-executive

directors. The whole board is also accountable for determining remuneration packages of non-executive directors, inclusive the chairman of board of directors and the individuals concerned shall refrain from discussing their own reward (Talha *et al*., 2009).

4.5.2.2 Managerial Ownership

In a study utilizing Malaysian data, Abdullah (2006) proposed that ownership by non-executive directors effectively raises the incentive to monitor management in ensuring that their wealth in a company remains intact. The author found that non-executive directors' interests are associated negative financial distress. However, in a study of earnings management within Malaysian listed firms, Johari, Mohd, Jaffar, and Sabri (2008) found that managerial ownership is positively associated with earnings management practices. This proposes that when managerial ownership is important, it might incite managers to manage earnings, as managers have other chances to make decisions that advantage themselves at the cost of other stakeholders.

Abdullah's (2006) study provided argument to sustain the theory that ownership by non-executive directors significantly raises their incentives to monitor management in order to ensure that their wealth is taken care of. Nikkinen and Sahlstrom (2004) conducted an analysis on audit pricing and its association with agency theory by utilizing data from seven countries including Malaysia. In line with the theory, they found a significant and negative association between managerial ownership and audit fees, with a five percent confidence level for Malaysian data.

Additionally, Mustapha and Ahmad (2011) focused on managerial ownership as the

primary mechanism in aligning the interests of shareholders and managers in Malaysian companies. The results of the study are in line with the earlier results of studies in western countries that found that managerial ownership is an important factor that affects a firms' monitoring costs (e.g. Jensen & Meckling, 1976; O'Sullivan, 2000; Ang, Cole, & Lin, 2002; Nikkinen & Sahlstrom, 2004; Niemi, 2005). The findings also suggested that managerial ownership in Malaysian firms has a significant and negative association with total monitoring costs, as forecasted by agency theory. In depth, the analysis of the indirect shareholdings and direct managerial shareholdings also detect the same pattern of outcomes. Mustapha and Ahmad (2011) suggested that future research should be extended to include an increased number of years of data, meaning that additional examination on the effect of managerial ownership on the demand for monitoring mechanisms in the short-and long-terms can be analysed.

Similarly, Kamardin and Haron (2011) found that the shareholding in Malaysian PLCs is very highly concentrated in the hands of a number of shareholders (La Porta, Lopez-de, Shleifer, & Vishny, 2000; La Porta *et al*., 2002). Samad (2002) argued that the mean of the biggest shareholding was 30.30 percent and that the five biggest shareholdings was 58.84 percent, which accounted for further than 50 percent of the voting shares. About 71.4 percent of firms were beneath majority ownership, having a shareholding that exceed 50 percent and were dominated by their five biggest shareholders. The important methods of increasing levels of control in Malaysia are managerial ownership, cross-holding and pyramid-holding (Claessens, Djankov, & Lang, 2000). There is, also a significant number of company owners who actively participate in management, with 33 percent involved in the management of their companies (Exchange &

PricewaterhouseCoopers, 1999).

The study by Kamardin and Haron (2011) in Malaysia highlights a number of internal CG mechanisms (managerial ownership, non-independent and non-executive directors), which are found to be significantly associated with the extent of the roles conducted in both dimensions of monitoring functions. The findings reinforced the significance of having non-executive, non-independent directors as efficient monitoring mechanisms and the significant association between monitoring roles and managerial ownership underpins the function of managerial ownership as an efficient mechanism to align managers' decisions with shareholders' interests (Kamardin & Haron, 2011).

Moreover, Jensen and Meckling (1976) found that, within agency theory, CEO ownership serves to align management's behaviour with interests of shareholder. Some studies have recognized a trade-off between low levels of ownership that serve to align CEO interests and greater levels of ownership that foster CEO entrenchment, suggesting that the association between the level of CEO ownership and the alignment of interests is non-linear (Sundaramurthy, 1996). These findings are consistent with the management disclosure literature which demonstrate that lower levels of CEO ownership are related with a greater likelihood of issuing management forecasts (Karamanou & Vafeas, 2005) and increased voluntary disclosure quality (Eng & Mak, 2003).

Several different types of ownership structures have been studied by prior studies, for example, family ownership, ownership concentration, government ownership, institutional ownership, foreign ownership and managerial ownership. According to Jensen and Meckling (1976) the agent-principal problem between managers and

shareholders arises when managers have little equity in the company, which guides managers to decrease incentives to maximize job performance. Managers' behaviour should be under shareholders' observation in order to reduce the agency problem.

Tam and Tan (2007) studied ownership, governance and corporate performance in Malaysia by investigating ownership concentration among major ownership types in Malaysia and exploring how the influence of ownership concentration varies throughout Malaysian firms. The results demonstrated that Malaysian CG requested scrutiny of major shareholders in order to preserve minority shareholders' interests. Moreover, the Malaysian rapid economic growth was not weakening the concentrated ownership structure in Malaysian companies. In this context, the majority shareholders still possess an average of 30.3 percent of outstanding shares through all listed companies in Malaysia in 1998, with the topmost five shareholders owning 58.8 percent. Two-thirds of 2,980 companies in East Asia and about 40.4 percent of the 238 amongst the sample companies in Malaysia are held by individual large shareholders. This indicates that the ownership concentration is still high in Malaysia (Claessens *et al*., 2000). Furthermore, family and individual shareholders are often the major shareholders in Malaysia. Therefore, the existence of better CG mechanisms is probably to be a significant consideration for these companies (Zhuang, Edwards, Webb, & Capulong, 2001). These large shareholders maintain good associations with their companies, even after the firms are overtly listed. Redding (1996) has found that they often connect their families' prosperity to the company's performance.

4.6 Conclusion

This chapter reviews available CG literature with the fundamental purpose of discussing CG requirements in Malaysia. The chapter starts with an argument on the theories of corporate governance. This review has seen CG from a variety of theoretical perspectives. The development of agency theory, although there are available alternative theories to the agency theory, sees the remaining parts of this chapter constructed in light of the shareholders-managers disagreement, while agency theory has controlled the prior research of corporate governance. Furthermore, realizing the value of CG in ensuring the efficiency of CG, the next three parts of this chapter shed light on CG requirements in Malaysia and CG mechanisms respectively. Regarding internal CG mechanisms, this chapter focuses on incentive compensation and managerial ownerships respectively.

An efficient and better CG cannot be interpreted by one theory only; it is better to combine a deviation of theories, addressing not only the social associations, but also emphasizing the norms, legislation and stricter enforcement surrounding high-quality governance practice, as well going beyond the rules of a mechanical approach towards corporate governance. Literature has assured that even with rigorous laws, there have been violations in corporate governance. It is significant to re-visit CG in the light of the junction of these theories and with a new perspective, which has a whole view and incorporates objectivity from the perspective of social sciences. Based on the above-mentioned literature review, the efficiency of the CG mechanisms in mitigating the conflict between owners and managers can be analysed in this study based on two general categories: internal and external mechanisms. Earlier studies document mixed opinions

about the efficiency of CG mechanisms on company performance. Consequently, it can be concluded that each mechanism could imply both negative and positive results relying on managers' opportunism in the environment of an individual business.

CHAPTER FIVE

RELATIONSHIP BETWEEN TAX PLANNING, CORPORATE GOVERNANCE AND TAX DISCLOSURE

This chapter starts with a review of the literature and studies of tax disclosure and tax planning. Section two reviews and discusses the TP and CG literature. Further analyses and review follow in Section Three on the moderating function of CG in tax disclosure-tax planning relationship. The purpose of this chapter is to review the literature on the association of tax planning and corporate governance on companies' tax disclosure. Tax disclosure is a relatively new area of research and there are limited studies available (Lenter *et al*., 2003). The two subsections under Section Three of this chapter review the literature of the external and internal CG mechanisms and, finally, the last part concludes the chapter.

5.1 Tax Disclosure and Tax Planning

With regards to the relationship between tax disclosure and TP, greater tax transparency could have numerous helpful effects. First, tax disclosure can put pressure on regulators to develop the tax system. Secondly, tax disclosure may force companies to resist effective strategies to reduce TP, for example, if they fear the disclosure of lower tax payments could lead to negative consumer reactions. The negative reaction happens when consumers and investors consider the low tax payments as an indicator of high aggressive tax planning. Finally, it can contribute to improving the performance of financial markets, which highlights the information contained in financial statements (Lenter *et al*., 2003).

Moreover, the disclosure of company tax information encourages increased compliance. Tax disclosure facilitates the reconciliation of the differences between the book concept of income and tax, either because the company itself provides these reconciliations or because reconciliations are calculated by interested parties like the academics. These reconciliations could give support to the IRS in detecting company tax evasion. Consequently, firms may be more hesitant to engage in aggressive tax planning (Lenter *et al*., 2003). For instance, an expanded tax reconciliation should shed light on the tax shelter transactions. In the context of the current policy, the process may not have been disclosed separately in tax footnotes of financial statement (Lenter *et al*., 2003). In contrast, generally in the U.S., the FASB does not require the disclosure of information on specific operations. Tax reserve levels and disclosures regarding uncertain tax positions are utilized by enforcement agents to plan their own audits. Thus, managers have an incentive to supply low quality disclosures and lesser tax reserves, since even the size of the reserve tax will be an indicator of TP and used by the IRS (Frischmann *et al*., 2008; Blouin *et al*., 2010).

In Slemrod's (2005) discussion of the advantages and disadvantages of increasing disclosure of some tax return information, the author proposes such disclosure may well *"exacerbate the race to the bottom of ETRs"* (Slemrod, 2005, p. 95). Therefore, the author poses the issue as to where shareholders believe and think lower ETRs come from. Whilst it may be that some companies have smarter tax personnel, Slemrod (2005, p. 95) pointed out that *"savvy investors realize that lower ETRs result from a more aggressive stance that pushes the limits of what is legal"*. The question also raises the issue as to whether firms which reward the lowering of the ETR are supporting or emboldening an

aggressive TP approach which might not constantly be in the better interest of other stakeholders.

It is important to mention that TP could be evaluated from a shareholder perspective by using ETR information. This is because the ETR reflects TP activities (Abdul Wahab & Holland, 2012). Earlier researchers documented the association between shareholder evaluation and tax planning (Atwood & Reynolds, 2008; Frank, Lynch, & Rego, 2009). The difference between tax expenses and statutory tax expenses is important because it is reflecting the effectiveness of TP activities, which aim to provide long term financial benefits (Schmidt, 2006). Shareholders could benefit from information on the efficiency of TP activities because the variation between tax expenses and statutory tax expenses shows the amount of tax saved by the firms with respect to the financial reporting year. It is, therefore, better for companies to disclose this amount in financial reports (Abdul Wahab & Holland, 2012).

Furthermore, the impact of TP could be seen from the side of deferred taxes on the transfer of tax losses and net operating losses. Abdul Wahab (2010) inferred that shareholders are probably to value any losses of tax as a measure of TP and that this depends on how an item is presented in financial statements. Additionally, Atwood and Reynolds (2008) argued that the findings support the proposal of the Board of the Financial Accounting Standards to implement a separate statement of tax income in financial statements. It could, therefore, be deduced that shareholders are expected to value tax losses as a component of TP, relying on how the relevant information appears in the financial statements (Atwood & Reynolds, 2008).

Shareholders are not necessarily the only group assessing tax saving in a comprehensive assessment of TP activities. Those directly involved in implementing tax savings are also important. This is in consistent with the results of Lev and Nissim (2010), who found shareholders not to fully comprehend the total tax book difference. Disclosure of income taxes, especially when combined with other data required of companies, provides key information to statement readers who know how to extract it. Much of this information is not available from other sources (Lev & Nissim, 2010). In order to support the assessment of the importance of the total value of tax savings due to TP, it is important to investigate shareholders' perspectives of the disclosure of tax savings assessments.

5.2 Tax Planning and Corporate Governance

The association between the quality of CG and the level of tax revenues could also be showed by way of a rise in tax revenue in reaction to an increase of tax rates (Desai, Dyck, & Zingales, 2007). Using a sample of 36 countries, Desai *et al*. (2007) analysed corporate tax revenues in relation to tax rates with the quality standards of corporate governance. They found a strong negative interaction between tax rates and the use of confidential advantages of the shareholders. Because high amount of private benefits of the shareholders is an indicator of the worst CG, for example, countries with worse CG have a lesser sensitivity of tax revenues to tax increments. The authors interpret the results of low tax revenues and increases in tax rates in countries with varying levels of corporate governance. The outcome also exhibits that, with robust CG, an increase in tax rates increases tax revenues.

Moreover, from an economic perspective, tax and CG can exhibit managerial opportunism, presenting a conflict of interest. Managers may have opportunities to act in self-interest when performing TP and avoiding disclosing tax information (Desai & Dharmapala, 2008; Abdul Wahab, 2010). In this case, CG has a significant function in explaining the relationship between the activities of TP and tax disclosure (Desai & Dharmapala, 2008).

Some research broadly discusses the interactions between taxation and corporate governance (e.g. Hanlon, & Maydew, 2004; Desai & Dharmapala, 2006, 2008; Hanlon & Slemrod, 2009; Erickson, Hanlon & Heitzman, 2010). Corporate governance can be a factor of moderation in the TP procedure since the process requires a commitment from managers who have free admission to information about a firm (Abdul Wahab, 2010). Because of asymmetric information, there is a potential for managers to benefit at the expense of the shareholders. This is in consistent with the results of the research by Erickson *et al*. (2004), which investigated the evidence of taxes paid on claimed fraudulent earnings. The researchers found that managers may exaggerate tax revenues in order to decrease the chances of being found out by outsiders. On the other hand, the managers record a tax surplus in order to hide false exaggeration of profits from investors. Therefore, where variation in the information asymmetry is concerned, CG is a significant consideration in understanding the TP arrangements of the firm. This is because of shareholders' limited access to the institution's TP information, which is usually made secret by management for both commercial reasons and to avoid tax authorities' detection (Desai & Dharmapala, 2008).

Corporate governances' functions as a moderating element in TP can be seen through the reaction of investors towards a TP action. Moreover, the measure of CG is derived from a part of a firm's shares owned by institutional investors, which its ratio is an indication of stronger or weaker governance institutions. However, Desai and Dharmapala (2009) seen institutional investors as a key measure of CG, as they mediate the impact of tax avoidance for companies in the value of the company, resulting in higher tax savings with good governance companies. The following part reviews the literature associated to the relationship between CG, TP and tax disclosure.

5.3 Moderating Function of Corporate Governance in Tax Disclosure-Tax Planning Relationship

Recently, the focus of regulators, auditors and the IRS has been primarily on taxation policies and CG practices, mainly due to the Enron and WorldCom collapse. Slemrod (2005, p. 91) speculates that there is a *"rethinking of the governance of public corporation, and a new set of laws".* This 'rethinking' also includes the reconsideration of taxation regulations. Consequently, the U.S. disclosure requirements have been increased in the zones of IRS requirements and public accounting. The modifying regulatory environment brings with it calls for increased responsibility, resulting in a projected increase in attention to areas such as risk management and certain taxes (Lenter *et al*., 2003). Furthermore, Slemrod's (2005) findings revealed high levels of awareness among tax executives of changing legislation and of the emergence of a CG type environment and indicates how this awareness could lead to a breakthrough in the TP process and shows a good levels of tax disclosure.

The direct association between tax disclosure and CG has rarely been researched. In the past, studies were only concerned with the interaction of CG and taxation (Sabli & Noor, 2012). The disclosure of companies' tax information could raise tax compliance, discourage explicit aggressive tax planning (Kornhauser, 2005). Moreover, disclosure of company tax return information could help regulators develop the function of financial markets, discourage aggressive TP and, more generally, promote tax compliance. The relationship between TP and tax disclosure can be well interpreted when interacting with CG mechanisms (Lenter *et al*., 2003).

This section reviews the literature on the relationship of TP and CG with tax disclosure. Nevertheless, only a handful amount of literature on this relationship is currently available. There are some studies which discover the association between TP and disclosure, or the association between corporate governance and disclosure, separately. A very limited number of studies examined the association between both TP and CG with disclosure but to the researcher's knowledge there is no previous study which has examined the association between both (TP and CG) with tax disclosure. Figure 5.1 below proposes that CG plays a moderating role in affecting the associations between tax disclosure and tax planning.

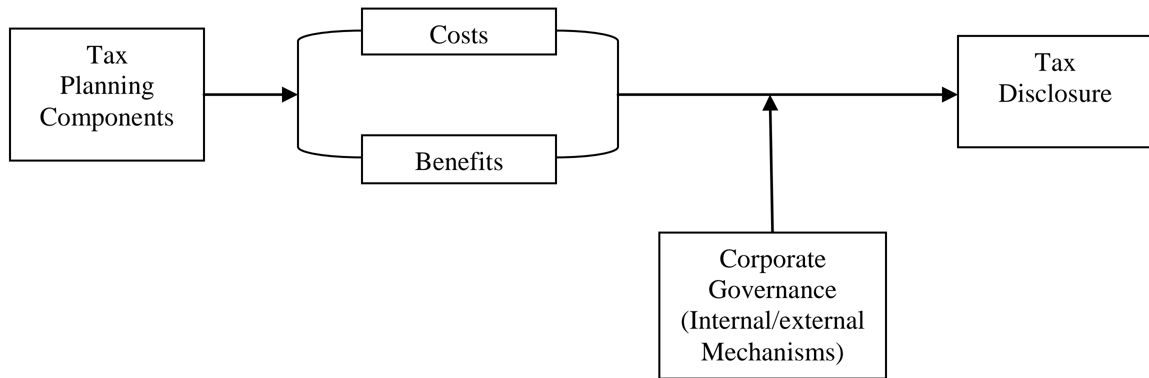

Figure 5.1
Summary of the Relationship BetweenTax Planning, Corporate Governance and Tax Disclosure

Tax disclosure rules which are applicable during the tax year, require any taxpayer that participates, directly or indirectly, in a "listed transaction" and any firm taxpayer that participates in "other reportable transactions" to file a disclosure statement as part of the taxpayer's return. The disclosure statement (the list of transactions that the individual taxpayer disclosed) must contain, amongst other items, an explanation of the principal items of the transaction, the tax advantage of the transaction and the identity of the persons who promoted, solicited or suggested the taxpayer's participation in the deal or who had a financial stake in the taxpayer's decision to participate (Lipton, 2003).

Findings of Desai and Dharmapala (2009) and Wilson (2009) also found evidence that tax avoidance, when practiced together with good practices of CG, could improve the performance of institutions. In contrast, when applied without good CG, improvement does not occur. In addition, a new template for efficient TP variable to the tax efficiency index was proposed and settled a certain basis for appreciation, all parties and all costs, all taxes, compatible tax avoidance, implicit taxes, tax beneficiaries and mysterious tax

burdens. On the other hand, addressing the same subject but without considering the governance variable, Desai and Dharmapala (2009) and Wilson (2009) did not find any abnormal returns on assets and higher values in firms that practice tax avoidance. Moreover, good governance could offer control a company's market risk by increasing both market transparency and disclosure of tax information, delineating the management and ownership structure and creating overlapping interests between managers and the corporation itself (Vello & Martinez, 2012). This can be achieved by lowering the agency conflict. Good governance reduce the occurrence of high risk, since the transparency it brings, together with the alignment of the interests of shareholders and managers, tends to lower the incurrence of legal risk from TP activities (Desai & Dharmapala, 2009; Rego & Wilson, 2009; Wilson, 2012).

In this context, the results of Vello and Martinez (2012) indicated that TP efficiency increases the value of abnormal returns of Brazilian firms. This is in line with the above-mentioned findings found by Desai and Dharmapala (2009) and Wilson (2009) in other markets. Furthermore, in order to achieve efficient TP, it is important for companies to have better practices of corporate governance and disclosure to align the interests of shareholders and managers. It is essential to note that not all TP leads to a lower risk. Tax planning efforts that are ambiguous or operate in the interests of managers (who may seek a short-term reward, rather than take an interest in the long term financial health of their firm) make the market uncertain and do not give the same advantage as actions carried out within disclosure procedures (Vello & Martinez, 2012). In a same line, a study by Hafkenscheid (2010) suggested that company tax avoidance should be evaluated together with the level of corporate governance involved. Transparency and disclosure

that come with good governance reduce the effects of agency conflict and the uncertainty of a market with regards to a firm's concealed tax liabilities.

Finally, there is a lack of literature on the moderating function of CG in tax disclosure-tax planning relationship**.** Furthermore, the above-mentioned discussions of studies (e.g Lenter *et al*., 2003; Lipton, 2003; Desai & Dharmapala, 2009; Wilson, 2009; Abdul Wahab & Holland, 2012; Vello & Martinez, 2012; Christians, 2013) concentrate on different settings and document mixed opinions on the relationships between TP and CG with other factors such as firm value.

5.3.1 Internal Mechanisms

The gap between CG and taxation studies contributes to insights of future research. Taxation has important relationship with different CG mechanisms, which act to improve companies' governance conduct (Desai & Dharmapala, 2008). In the association between incentive compensation as one of internal CG mechanism and tax disclosure-tax planning, the recent literature linked TP with top executive incentive compensation (e.g. Desai & Dharmapala, 2006; Rego & Wilson, 2012) and CG culture. Based on the aforementioned literature, together with literature that explained the information asymmetry problem in Chapter Four, Desai and Dharmapala (2008) concluded that internal mechanisms drive a company's tax disclosure. Regarding the relationship between board monitoring and tax disclosure-tax planning, Fama and Jensen (1983) and Munter and Kren (1995) found the board of directors provides a relatively low-cost mechanism to monitor and review an administration's decision making.

5.3.2 External Mechanisms

As mentioned in Chapter Four, corporate control and regulatory systems are the major external CG mechanisms in mitigating agency problems. Furthermore, takeovers can be seen as an effective external CG mechanism, as when the real value of company is sufficiently lower than its probable value, an incentive for outsiders to take over the domination of the company is created (Denis & McConnell, 2003). Takeover is, however, a costly external CG mechanism due to the leverage incurred in performing a takeover. Despite this cost, a takeover is often seen as preferable by shareholders because of the impermanent nature of the costs (Abdul Wahab, 2010). Such costs should not be permanent as the advantages of an expansion program that can be used to decrease the debts (Jensen, 1986).

Although numerous studies have found that taxes affect the behaviour and interests of various stakeholders, there are limited studies that examine the influence of tax on corporate governance (Graham, 2003). Since Berle and Means (1937; 1991) discussed the partition of control and ownership, there have been many studies on the CG mechanisms. Amongst a broad diversity of CG mechanisms through the universe (Judge, 2010), earlier literature on CG mechanisms concentrate on creditors' supervision (Diamond, 1984), blockholders (Shleifer & Vishny, 1986), voting proxy and hostile takeover (Jensen, 2010a), boards of directors (Hermalin & Weisbach, 1998), management incentives and investor protection (La Porta *et al*., 2002). Those studies generally ignore one significant and significant external mechanism of companies–tax enforcement. Besides tax legislations and tax rates, tax enforcement is a significant force to affect

companies. For instance, through collecting taxes, tax authorities have the right to audit company accounting books and they have incentives to supervise companies from any behaviour that damage tax revenue (Weichu Xu, Zeng, & Zhang, 2011).

In this context, Weichu Xu *et al*. (2011) claimed that tax enforcement is one type of governance mechanism. They built their study based on the work of Desai *et al*. (2007) but from a different perspective. Whilst Desai *et al*. (2007) investigated the association between CG and tax enforcement, they did not consider tax enforcement as a type of CG mechanism. Using a sample of 917 listed firms in China for the period from 2003 until 2006, Weichu Xu *et al*. (2011) analysed the impact of regional tax enforcement efforts on agency costs in Chinese listed firms. It was found that tax enforcement efforts decrease both agency costs between the manager and shareholders and those between minority shareholders and blockholders. Moreover, the governance function of tax enforcement is bigger for state-controlled companies than for entrepreneur-controlled companies. Based on that, tax enforcement plays an important role in CG in China (Weichu Xu *et al*., 2011).

In the context of the external CG mechanism, Hauswald and Marquez (2006) argued that companies disclosure policies, by promoting more transparency, encourage external scrutiny and thus activity in the market for company control. Nevertheless, agency problems between the shareholders and board could lead to ineffective levels of both disclosure and monitoring (Hauswald & Marquez, 2006). Developments in technology play a significant function in determining the level of information produced by a board, as does the company's disclosure policy. The author claimed that improvements in

dissemination technology will increase the disclosure level, enhance the external governance mechanisms and reduce the level of monitoring required by the board. This is due to the development in the dissemination technology allows of company data and at the same time it prevents the leakage of information that would worsen the competitive situation of the company. On the contrary, advances in information procedures that raise the returns to information acquisition lead to lower disclosure and more internal governance mechanisms (Hauswald & Marquez, 2006).

5.4 Conclusion

This presents the literature on the relationship of TP and corporate governance on tax disclosure. With the purpose of attaining a thorough understanding of this relationship, Section One reviews the literature associated to the association with TP with tax disclosure and Section Two discusses the association between CG and TP. Section Three discusses the relationship of TP and CG with tax disclosure, in which there are two subsections under this section: CG internal mechanisms and CG external mechanism. In order to guarantee efficient monitoring, a comprehensive understanding of the efficiency of internal and external CG mechanisms is discussed in detail in Chapter Four. This part also gives an overview and summary of associated literature and determines the gaps in the existing body of knowledge.

Since there is a general lack of published research on these associations, particularly in a Malaysian setting, additional research is necessarily to verify the association utilizing Malaysian data. It can be concluded that this chapter reviews the literature on the

relationship of TP and CG with tax disclosure. Currently there is a limited number of literature that study this relationship. There are some studies which discover the association between TP and disclosure, or the association between CG and disclosure separately. To the researcher's knowledge there is no previous study that has investigated the moderating function of CG in tax disclosure-tax planning relationship.

CHAPTER SIX

RESEARCH PHILOSOPHY AND HYPOTHESES DEVELOPMENT

Studies reviewed in Chapter Five, discussed evidence of the moderating function of corporate governance in the tax disclosure-tax planning relationship. In order to provide an understanding about research philosophy, this chapter begins with an explanation about epistemology, ontology, axiology and research paradigms. As mentioned previously, there is a lack of literature that tests the association between corporate governance and tax disclosure, the association between tax planning and tax disclosure and the relationship between all of them. The highlighted gaps suggest the need for further investigations into the relationships, especially in Malaysia. This chapter focuses on the major and relevant theories involved in the development of hypotheses and also highlights the theoretical framework of this study. Hypotheses development will also be discussed and testable hypotheses will be formally stated.

6.1 Research Philosophy

The research philosophy contains significant assumptions about the way in which researchers view the problem. These assumptions support research strategy and the methods chosen as part of that strategy (Saunders, Lewis, & Thornhill, 2012). Research philosophy has been defined as the "*perceptions, beliefs, assumptions, the nature of reality and truth (knowledge of that reality)*" (Flower, 2009, p. 1), that affects the way in which the research is undertaken, from design through to conclusions. Research philosophy relates to the researchers' perspectives and the potential influence on their

studies. This involves assumptions about what constitutes valid research methods. When undertaking research of any nature, it is significant to consider various research paradigms such as ontology, axiology and epistemology, because these paradigms describe assumptions and truth and the nature of reality (or knowledge of that reality) (Trochim & Donnelly, 2008; Flower, 2009). The epistemology, ontology, axiology and paradigms are discussed in this section in order to give a good understanding about the research philosophy of this study. The key aspects of this study involve the paradigms which describe the way of thinking about research philosophy, as shown in the summary and Figure 6.1 in this section.

6.1.1 Epistemology

Epistemology is the association between the "would-be knower" (the researcher) and the "knower" (the research participant) (Ponterotto, 2005). That is, by following standard procedures the participant and topic can be studied by the researcher with no bias (objectivism), and the knower and the would-be knower and topic are assumed to be autonomous of one another (dualism). Researcher-subject independence and objectivity are significant guidelines for the research procedure (Ponterotto, 2005; Saunders *et al.*, 2012).

Flower (2009) argued that certain researchers highlighted the inter-dependent association between ontology and epistemology and how they depend upon the other. Taking into account this link, the necessity to recognize the status of the researcher becomes clearer, for example, when the researcher holds certain assumptions about investigating the

phenomena (i.e., using the triangle method in collecting the data) these assumptions influences the research's epistemological choices such as the empirical tests used to examine the proposed hypotheses. Moreover, Saunders *et al*. (2012) highlighted that some researchers argued that data gathered from objects that exist separately from the researcher (an external reality) are less open to bias and hence more objective. These must be presented statistically (Flower, 2009).

Under this scenario, this study uses secondary data that will be gathered from the annual reports of listed firms in Bursa Malaysia. The data encompasses of real values (numbers) of independent variables that have not been previously prepared for this study. The conjuncture of these independent variables is developed based on the rationale theoretic perspective and empirical evidence. This implies that the would-be-knower is separated from any related relationship with objects in terms of the intervention of the researcher in the input, process and output of the data preparation. This also indicates that the reality of this study is external to the researcher because the prediction of the association between the tested variables of the study is unknown to the would-be-knower. The researcher will objectively judge the expected association between the hypothesised variables under research using appropriate statistical examinations. Under this circumstance, the bias in the study will be reduced. This is consistent with Blaikie (2007) who argued that companies are social objects that may be 'scientifically' examined as social objects, however realists, in consistent with the positivist position hold that science should be empirically-based, objective and rational. Therefore, the concentration is more on explanation and understanding. Based on this, the epistemology of this study is an empiricist, positivism and realism, meaning testing of hypotheses. This study examines a

number of hypotheses on the relationship between tax disclosure and tax planning, as well as a number of hypotheses on the moderating function of corporate governance on tax disclosure-tax planning association as interpreted in detail in the hypotheses development part of this chapter.

6.1.2 Ontology

Ontology covers the nature of being and reality. Particularly, ontology addresses the following question: "*What is the form and nature of reality and what can be known about that reality?"*(Ponterotto, 2005, p. 130). Furthermore, Blaikie (2007) described the root definition of ontology as the *"study of being, or the science"* (Blaikie, 2007, p. 178). The author developed this description to encompass claims about "*what exists, what it looks like, what units make it up, and how these units interact with each other"* (Blaikie, 2007, p. 3). In research, there will be a number of ontological assumptions which will influence the researcher's view on what is real (Saunders *et al*., 2012). In this context, since the present study is a quantitative approach, the ontology of this study is objectivist because there is a single reality and there is a need to know how objects react to this single reality. This study attempts to examine the existence of a single reality which is the influence of the corporate governance as a moderator of the association between tax planning on tax disclosure among public listed companies in Bursa Malaysia. Using the suggestions of the related theories and the supported literature as explained in Chapters Two, Three, Four and Five, this study examines the proposed association.

6.1.3 Axiology

Axiology concerns the role of researchers' values in the scientific procedure (Ponterotto, 2005). In considering the approach and research philosophy, it is significant to consider how the individual values of the researcher might affect each phase of the research procedure. Axiology of philosophy may contain values which researchers possess in the fields of ethics and aesthetics. The individual values of the researcher play an important role in all stages of the research procedure and they would be of importance if the researcher wishes to provide believable research results (Saunders *et al.*, 2012). In this regard, the researcher must be aware of and understand self-values, and consider them as part of the research's procedure. As a result, the research will be more viable and strengthened (Flower, 2009). As for this study, the researcher is autonomous of the data and gives an objective judgment to the results reported based on the theoretic perspective and the extant empirical research as discussed in previous chapters. The researcher applies the scientific methods of research coupled with research methodology ethics. For example, the researcher is committed to the ethic of objectivity in examining the association between tax disclosure and tax planning while takes into consideration the function of corporate governance as a moderation affect. In particular, this study argues that corporate governance moderates the association between tax disclosure and tax planning. This argument is based on: (1) theoretic perspectives of the signaling theory, the Scholes-Wolfson framework and agency theory, (2) the extant empirical literature, and (3) the country regulations, codes and laws. On the basis of these foundations, the researcher balances and assesses the results of this study without being bias.

6.1.4 Research Paradigms

A paradigm refers to the social phenomena investigated based on particular understandings of this phenomena and how it has been explained (Saunders *et al*., 2012). A paradigm can be defined as *"a way of examining social phenomena from which particular understandings of these phenomena can be gained and explanations attempted"* (Saunders *et al*., 2012, p. 118). The selected paradigm guides the researcher in philosophical assumptions about the research and lead the researcher to the chosen of participants, instruments and methods utilized in the study (Ponterotto, 2005). In this study, the research paradigm is developed based on the scientific method process using the predictions of a number of theories that have been previously empirically tested by several studies. In specific, the paradigm of this study is positivist (positivism), external, objective (realism), and independent. The researcher proposes hypotheses and then tests these hypotheses to fill the gap.

Figure 6.1 highlighted the main aspects of the research philosophy (paradigms of this study, ontology, axiology and epistemology) through the key aspects of this study that have been discussed in depth in previous chapters. The first aspect is the purpose of the study, as stated in Chapter One, which is to examine the association between tax disclosure and tax planning among Malaysian public listed corporations, whilst take into account the function of corporate governance as a moderating influence. The literature has been reviewed to develop the theoretical framework of the study and it is set out to test some existing theories (for example, through the use of hypothesis or experiments). This study will rely upon quantitative approach utilizing secondary data from annual

reports of the firms and analysing this data utilizing statistical (quantitative) proceedings, a multi-method quantitative study (Saunders *et al.*, 2012). To highlight clearly the approach of this study, the current study is a deductive rather than an inductive and theory-testing rather than theory-building of the tax disclosure in the Malaysian setting.

This study attempts to examine the existence of a single reality which is the influence of the corporate governance as a moderator on the association of tax planning with tax disclosure among public listed companies in Bursa Malaysia.

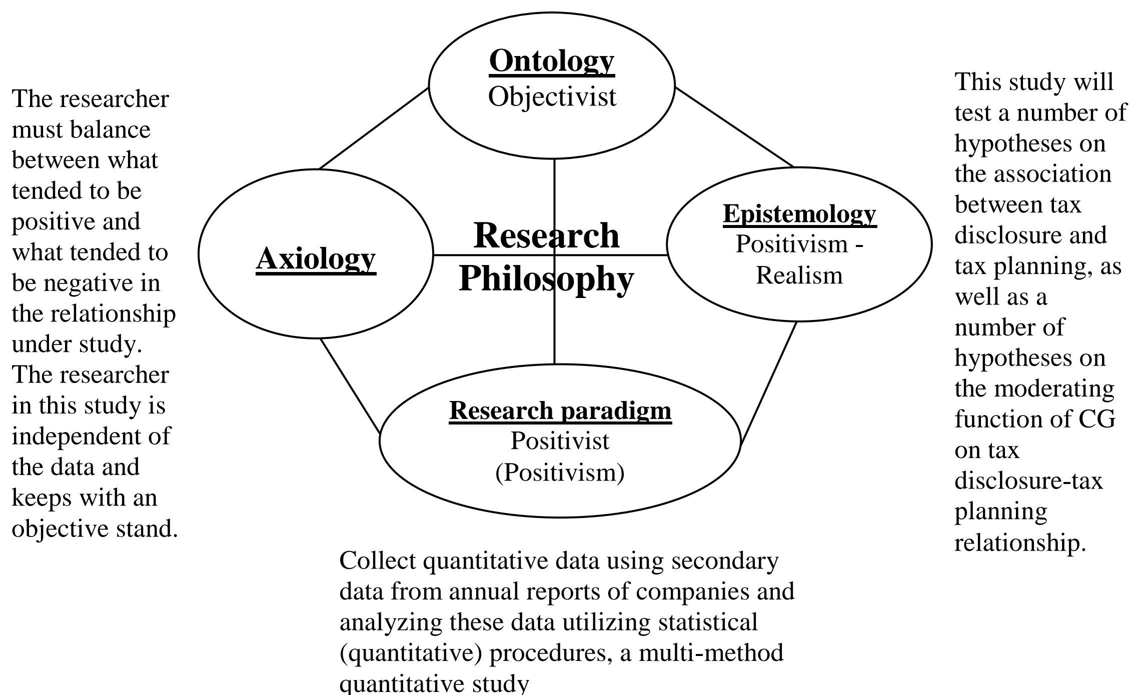

Figure 6.1
Main Aspects of Research Philosophy

6.2 Theory

Before outlining the nature of a theory, it is essential to explain the meanings of the theory (Lincoln & Lynham, 2011). The need for theories lies in the human desire to

rationalise experiences (Dubin, 1976). In empirical research, theories play a significant role in predicting the associations between variables (Abdul Wahab, 2010). The assumptions of this study are depending on three featured theories: the signaling theory, the Scholes-Wolfson framework and agency theory. These are the main theories concerned with tax disclosure, tax planning and corporate governance respectively. Evidence to support these main theories is discussed in Chapters Two, Three and Four, respectively.

In relation to tax disclosure, several theories have been discussed in Chapter Two. These theories have been used in the context of tax disclosure. As known, tax disclosure is a new field and there is a dearth of empirical studies that have tested this discipline. In such circumstance, signaling theory is the most relevant and appropriate theory that can explain this context. Moreover, this theory highlights a clear argument on tax disclosure, as shown in Chapter Two, compared with the other theories. Under such a scenario, and in relation to signaling theory, signaling theory states companies issue *"signals"* about what they believe and who they are (Spence, 1973, p. 355). Information disclosed by firms, including information about tax, falls somewhere between full disclosure and no disclosure, depending on their motivations (Premuroso, 2008). As known, these motivations vary and have different effects on the level of disclosure between corporations and countries. This is based on some reasons, for example, regulations and tax law (Bhattacharya & Ritter, 1983).

Further possibility of utilizing signaling theory is that managers may desire to provide through the dissemination of financial statements some information asymmetry regarding

firms' performance. For instance, disclosures may serve as "signals" if they reflect information about unobservable attributes of a company's decision (Morris, 1989). Under such situation, managers of higher quality firms with private information can distinguish themselves from lower quality companies via disclosures. In this context, managers can use tax disclosure to send signals to related parties that need information about tax in order to help them making sound decisions.

Additionally, in the case of circumstances of asymmetric information, Akerlof (1970) recommended that firms with higher performance utilize financial information (including tax information) to send signals to the market, users and tax authority. In such scenarios, it is clear to see how companies can send signals to the users of information or financial statements. In the same context, tax information can be sent as signals to the IRBM or users through tax disclosure.

In relation to tax planning, as discussed in detail in Chapter Three, the Scholes-Wolfson framework illustrates three significant principles of efficient tax planning: "all costs", "all taxes" and "all contracting parties" (Scholes, 2009). In reality, societies are the more impacted parties as activities of tax planning could produce problems in resource distribution (Abdul Wahab, 2010). In terms of the 'all costs' and 'all taxes', managers should include these principles in activities of tax planning, in order to achieve the ultimate goal of tax planning, which is to maximize after-tax returns, managers need also to consider the trade-off between the advantages and tax planning costs (Abdul Wahab, 2010). In this regard, all contracting parties, the significance of non-tax costs–all costs of business and significance of unobserved taxes–all taxes must be consider in tax planning.

This argument is based on the theoretic perspective of the Scholes-Wolfson framework.

In relation to corporate governance, agency theory interprets the agency costs involved in reconciling conflicting interests between principals and agents. These conflicts arise due to the complexity of the relationship between the contracting agent and principal (Jensen & Meckling, 1976; Fama & Jensen, 1983). Related parties' negative assessments of tax planning change when good corporate governance practices are implemented, which can be carried out via the mechanisms of corporate governance. Moreover, the important roles of the internal mechanisms of corporate governance, which include compensation incentives and managerial ownership, have been discussed extensively by researchers. Corporate governance could affect the activities of tax planning where the mechanisms provide guidance to users in assessing tax planning carried out by management (e.g. Zahra & Pearce, 1989; Hart, 1995; Denis & McConnell, 2003; Baek, Johnson, & Kim, 2009). The empirical argument on the efficiency of the monitoring roles of internal and external mechanisms from the related parties' perspective such as IRBM is discussed in Chapter Four.

Jensen and Meckling (1976) debated that the agency theory supplies a framework linking disclosure behaviour to corporate governance. Agency theory conceives disclosure as a mechanism to detect the costs of conflict between principal and agent and conflicts between the company and its creditors. Therefore, disclosure acts as a mechanism to monitor the performance of managers. Agency theory plays an important role in monitoring managerial opportunism, which is corroborative by a situation where control is detached from ownership (Friese *et al.*, 2008).

In summary, the signaling theory, Scholes-Wolfson framework and agency theory provide fundamental explanations towards the goals of this study in examining the moderating function of corporate governance in tax disclosure-tax planning relationship. These associations will be scrutinized in three sections. First, the association between tax disclosure and tax planning will be examined in order to increase insight into the issues of tax disclosure. Second, the association between tax disclosure and corporate governance will be tested to determine the effect of corporate governance mechanisms on tax disclosure. Thirdly, the relationship between tax disclosure, tax planning and corporate governance will be examined to examine the moderating function of corporate governance in tax disclosure-tax planning relationship, as highlighted in Figure 6.2.

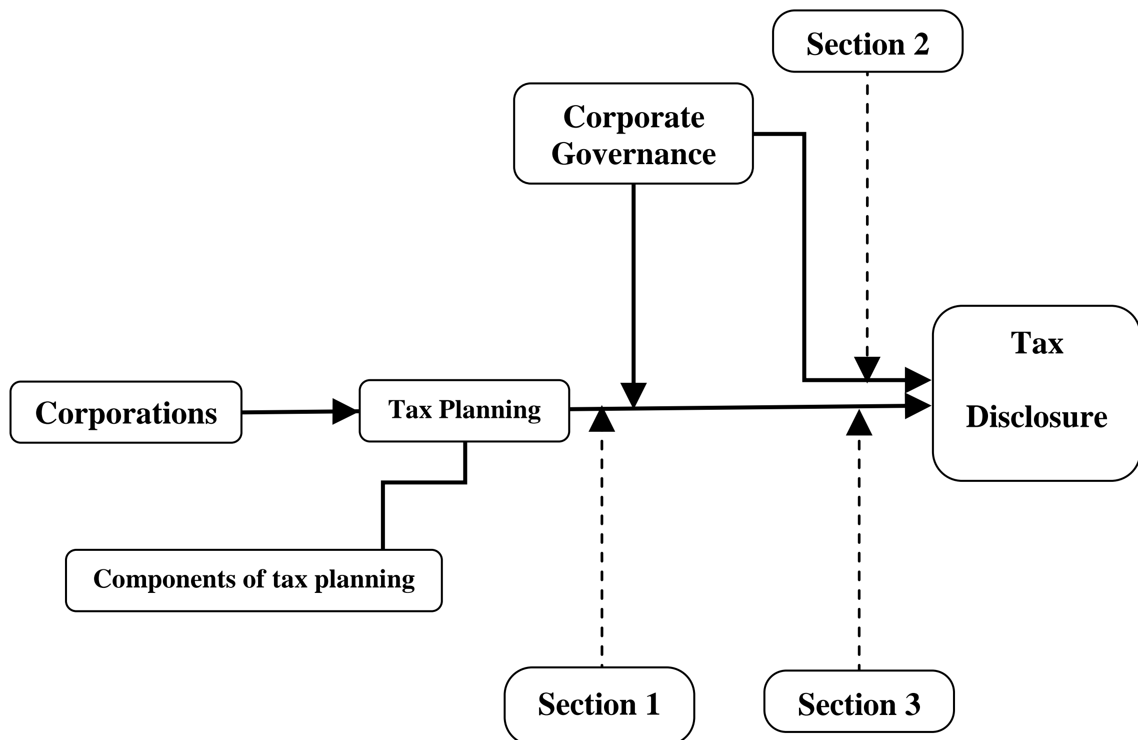

Figure 6.2
Tax Planning and Corporate Governance: Effects on Tax Disclosure

6.3 Theoretical Framework

The extant literature and addressing research gaps, led to the development of conceptual framework. The framework shown in Figure 6.3 interprets the influence of independent variables on dependent variable. This study fundamentally utilizes signaling theory, Scholes-Wolfson framework and agency theory to support the impact of interested variables on tax disclosure. The theoretical framework for this study highlighted the independent, moderator, control and dependent variables. The theoretical framework is depicted in Figure 6.3:

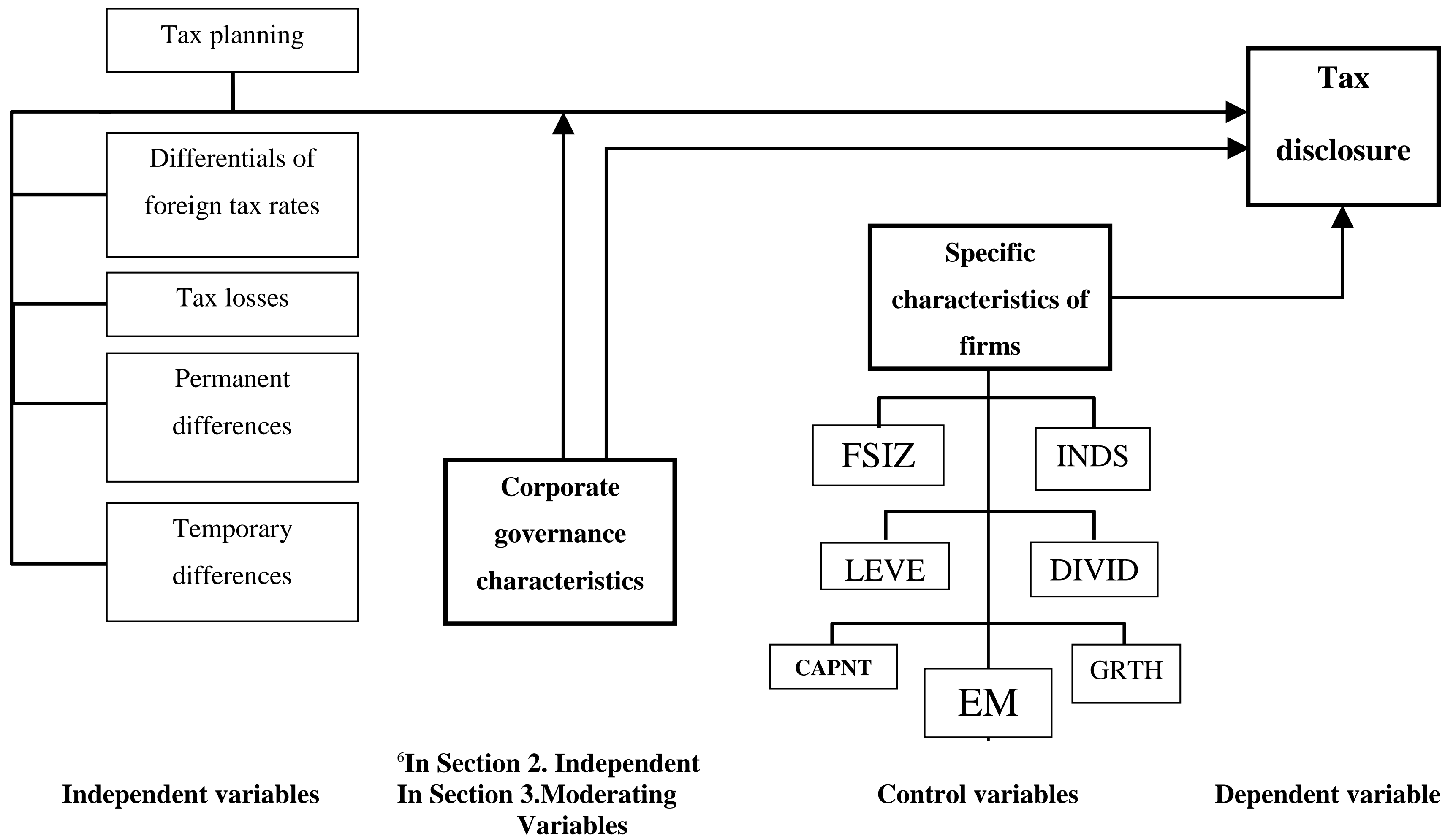

Figure 6.3
Research Framework

[6] These variables will be treated as independent variables in section 2, and as moderating variables in section 3, as highlighted in figure 6.2.

6.4 Hypotheses

A hypothesis is *"a good guess"* at the best respond to a question, depended on the most reliable facts available and a guess that will be examined (Popper, 1959). Likewise, a hypothesis is defined as a *"testable proposition about the relationship between two or more events or concepts"* (Saunders *et al*., 2012, p. 593). This section describes the hypotheses tested in this study. The hypotheses of this study relates to the variables associated with tax planning: tax disclosure and corporate governance. The understanding obtained from Chapters Two, Three, Four and Five was very helpful in developing the hypotheses of this study. Based on the discussions by earlier studies and the presumptions in tax planning frameworks, signaling theory and agency theory, this research plans to examine the relationship of interested variables with tax disclosure, corporate governance and tax planning.

6.4.1. Tax Planning and Tax Disclosure

Chapter Five discusses the association between tax disclosure and tax planning. The previous discussions have documented that high tax disclosure could have several beneficial effects such as tax disclosure may force firms to resist effective strategies to reduce tax planning. Tax disclosure can also contribute to improving the performance of financial markets, which highlight the information contained in financial statements (Lenter *et al*., 2003). Moreover, the disclosure of company tax information encourages increased compliance. This is because tax disclosure facilitates the reconciliation of the

variations between income and tax. These reconciliations could aid tax authority in detecting companies tax evasion (Lenter *et al*., 2003). For instance, an expanded tax reconciliation should shed light on the tax shelter transactions (Lenter *et al*., 2003). Based on the above-mentioned studies, the extent of tax planning is supposed to be associated with tax disclosure. Thus, it is alternatively hypothesised that:

Hypothesis 1 (H_1): The level of corporate tax disclosure is associated with the extent of corporate tax planning.

Based on previous studies that have been discussed above and in Chapter Five (and also in line with discussions on tax planning activities in Chapter Three), components of tax savings are classified as permanent differences (PD), temporary differences (TDF), tax losses (TLOS) and foreign tax rates differentials (FTR). Slemrod (2005) discussed the benefits and disadvantages of increasing the levels of disclosure of several tax return items. The author suggested such disclosure may well exacerbate the contest to the bottom of ETRs (Slemrod, 2005). The question raises the issue as to whether companies which reward the reduction of the ETR are encouraging an aggressive tax planning approach which may not constantly be in the better interest of other stakeholders. Because the ETR reflects tax planning, it is significant to mention that tax planning could be evaluated by using ETR information (Abdul Wahab & Holland, 2012). Previous researchers documented the relationship between ETR and tax planning (e.g. Atwood & Reynolds, 2008; Hanlon & Heitzman, 2010; Richard Miller, Linde, & Howarth, 2011). Moreover, users of financial statements evaluated corporations which are aggressive in tax reporting and found that these firms are connected with high permanent book-tax

differences (Abdul Wahab, 2010). This indicates the association between tax disclosure and permanent differences (PD), which could be because of the conception that permanent difference (PD) shows a firm's capacity to conduct strategic tax planning (Frank *et al*., 2009; Abdul Wahab, 2010). Consequently, it is hypothesised (in the alternative form) that:

Hypothesis 1_a (H_{1a}): The level of corporate tax disclosure is associated with the extent of permanent differences component of tax saving.

Many of the previous studies of book tax-differences for example, Cloyd, Pratt, and Stock (1996) and Mills, Erickson, and Maydew (1998) attributed rising TDF to increasingly aggressive company tax planning. More current research, (e.g. Hanlon, 2005; Frank *et al*., 2009; Hanlon & Heitzman, 2010) support the association between tax disclosure and temporary differences. Temporary differences are also a concern to related parties to the company, as this type of tax saving could produce a raise in cash flows (Tran-Nam & Evans, 2000; Abdul Wahab, 2010). Based on the above discussions, the effect of temporary differences component of tax saving on tax disclosure is hypothesised (in the alternative form) that:

Hypothesis 1_b (H_{1b}): The level of corporate tax disclosure is associated with the extent of temporary differences component of tax saving.

The third tax saving component is foreign tax rates differentials (FTR). Foreign tax rates differentials is associated with tax disclosure as foreign tax rate differentials show persistent and permanent efficient tax planning actions as well to forward-looking

information for accurate predictions (Schmidt, 2006). The association between this component of tax saving and tax disclosure is documented by Bauman and Shaw (2008) who mention that companies must disclose tax information in separate part in the financial statement. Furthermore, Dyreng *et al*. (2010) and Abdul Wahab (2010) claimed that multinational companies (MNCs) that have exposed material operations in, at a minimum one tax shelter country, experience a comparatively lower universal tax burden. A tax saving from foreign tax rate differentials is derived by MNCs that have overseas operations in diverse tax jurisdictions (Abdul Wahab, 2010). Based on this, it is hypothesised (in the alternative form) that:

Hypothesis 1_c (H_{1c}): The level of corporate tax disclosure is associated with the extent of foreign tax rates differentials component of tax saving.

Atwood and Reynolds (2008) indicated that the fourth component of tax saving is tax losses. Companies can estimate tax losses by concentrating on carry-forward NOLs, presented in the income statement. Abdul Wahab (2010) inferred that parties related to the companies would probably value any TLOS as part of tax planning and that this depends on how an item is presented in the financial statements. Therefore, it is hypothesised (in the alternative form) that:

Hypothesis 1_d (H_{1d}): The level of corporate tax disclosure is associated with the extent of the tax losses component of tax saving.

6.4.2 Tax Disclosure and Corporate Governance

Corporate governance can mitigate the agency costs of free cash flow that emerge from the principal-agent problem (Jensen & Meckling, 1976; Jensen, 1986). Furthermore, corporate governance reduces agency cost because corporate governance mechanisms align the interests of agents and principals (McKnight & Weir, 2009). In this context, Slemrod's (2005) findings revealed that there are high levels of awareness among tax executives of firms in jurisdictions with changing legislation and the emergence of a corporate governance. Slemrod (2005) also indicates how this awareness could show acceptable levels of tax disclosure. The disclosure of firms' tax information could increase tax compliance, or encourage corporations to become less willing to take corporation positions within the framework of corporate governance rules (Kornhauser, 2005). In addition, disclosure of company tax return information could help regulators develop the function of financial markets, encourage compliance with corporate governance rules and, more generally, encourage tax compliance. Lenter *et al*. (2003) claimed that the relationship between tax planning and tax disclosure can be better interpreted if linked with corporate governance mechanisms. Based on the aforementioned literature, as well as the literature that explained the information asymmetry problem in previous study, Desai and Dharmapala (2008) concluded that internal mechanisms drive a firm's tax disclosure. Therefore, it is hypothesised (in the alternative form) that:

Hypothesis 2 (H_2): The level of corporate tax disclosure is associated with the companies' corporate governance conduct.

6.4.3 Tax Disclosure, Tax Planning and Corporate Governance

Chapter Five discussed the available literature on the association of tax planning and corporate governance on companies' tax disclosure. The direct association between tax disclosure and corporate governance is rarely been researched, as mentioned in Chapter Five. In the past, studies were only concerned with the interaction of corporate governance and taxation (Sabli & Noor, 2012). The disclosure of companies' tax information could discourage explicit evasion, increase tax compliance, or encourage corporations to become less willing to take company positions within tax planning, within the framework of the rules (Kornhauser, 2005; Hasegawa *et al*., 2013). The relationship between tax planning and tax disclosure can be best interpreted with corporate governance mechanisms (Lenter *et al*., 2003).

Based on earlier studies, there is a lack of available literature on the moderating function of corporate governance in the tax disclosure-tax planning association**.** Additionally, the aforementioned of studies (e.g. Lenter *et al*., 2003; Lipton, 2003; Desai & Dharmapala, 2009; Wilson, 2009; Hafkenscheid, 2010; Abdul Wahab & Holland, 2012; Vello & Martinez, 2012; Christians, 2013) focus on different settings, mixed opinions and varying results on the relationships between tax planning and corporate governance with other factors (shareholders' valuation, for example). Therefore, based on the previous studies discussed above, the moderating function of corporate governance in the tax disclosure-tax planning relationship will be examined. It is hypothesised (in the alternative form) that:

Hypothesis 3 (H_3): The association between the level of corporate tax disclosure and the

extent of tax planning activities is moderated by corporate governance conduct.

In the situation of the corporate governance moderating impact, there is limited proof that corporate governance mechanisms have a moderating impact on the tax disclosure-permanent differences component of tax saving relationship. In terms of the association of disclosure and corporate governance, Hafkenscheid (2010) found the disclosures that come with good governance decrease the effects of agency conflict. Taxation also has an important relationship with different corporate governance mechanisms, which act to improve the companies' governance conduct (Desai & Dharmapala, 2008). In this regard, Abdul Wahab (2010) found that the permanent differences component of tax saving restricted the extent of tax planning activities in identifying firm value. Moreover, in terms of interested parties' evaluation on the tax saving components, permanent differences are found to be of important in shareholders' tax planning valuation. Based on the above-mentioned studies that explained the information asymmetry problem, the following hypotheses will be tested. Therefore, it is hypothesised (in the alternative form) that:

Hypothesis 3_a (H_{3a}): The association between the level of corporate tax disclosure and the extent of permanent differences component of tax saving is moderated by companies' corporate governance.

In relation to the moderating impact of corporate governance mechanisms on the tax disclosure-temporary differences component of tax saving relationship, there is also a lack of studies that investigate this association. Abdul Wahab (2010) found that corporate

governance is not a controlling factor in the association between tax saving and firm value for both persistent and non-persistent profit making corporations and corporate governance does not affect the association between firm value and the TDF component of tax saving. Although the findings showed that shareholders evaluate the tax planning (TDF component of tax saving) as having a insignificant association with corporate governance, the insignificant difference does not underpin the argument on the significance of corporate governance practice to TDF component of tax saving, as highlighted by Desai and Dharmapala (2009) and Henderson Global Investors (2005).

Further, Hanlon, Krishnan, and Mills (2012) found that audit fees are significantly associated with the absolute value of TDF book-tax differences. This association is higher for companies that are more likely to manage earnings, relative to those that are tax planners (tax avoiders). The temporary differences are indicative of pre-tax earnings quality concerns (Desai & Dharmapala, 2006). Moreover, the results showed tax planning (tax avoidance) is not associated with higher audit fees. Furthermore, the results indicated that audit fees are larger when book-tax differences (TDF) are high and positive, but less so when temporary differences are high and negative, because the positive differences could include both potential earnings management and potential tax planning (tax avoidance) (Hanlon *et al*., 2012). Based on the aforementioned literature, the following hypotheses will be tested (in the alternative form):

Hypothesis 3_b (H_{3b}): The association between the level of corporate tax disclosure and the extent of temporary differences component of tax saving is moderated by companies' corporate governance.

In the case of the relationship between disclosure of information and corporate governance, Sundaramurthy's (1996) findings are consistent with the management disclosure literature, which demonstrates that lower corporate governance (CEO ownership) are linked with a greater likelihood of issuing management forecasts (Karamanou & Vafeas, 2005) and increased disclosure of information that is include tax disclosure (Eng & Mak, 2003). Hanlon and Slemrod's (2009) found a negative association between tax planning (foreign tax rates differentials component of tax saving) and firm value, with and without corporate governance variables, these findings are in line with Abdul Wahab (2010) who found insignificant moderating influence of corporate governance on the association between firm value and the FTR component of tax saving. Based on the above-mentioned literature, the following hypotheses will be examined (in the alternative form):

Hypothesis 3_c (H_{3c}): The association between the level of corporate tax disclosure and the extent of foreign tax rates differentials component of tax saving is moderated by companies' corporate governance.

There are restricted arguments that corporate governance factors have a moderating impact on the tax disclosure-tax losses component of tax saving relationship. The association between good corporate governance and disclosure of tax information could offer control of a company's market risk by increasing both market transparency and the disclosure of tax information, delineating the management and ownership structure and creating overlapping interests between managers and the corporation itself (Vello & Martinez, 2012). This can be achieved by lowering the agency conflict. Good governance

reduces the occurrence of high risk such as net operating losses (NOLs), since the transparency tends to lower the incurrence of legal risks from tax planning activities (Desai & Dharmapala, 2009; Wilson, 2009; Rego & Wilson, 2012).

Furthermore, it is significant to note that not all tax planning leads to a lower risk. The associations between firm value and the TLOS components of tax saving are found to be insignificant by Abdul Wahab (2010), both with and without corporate governance variables. Abdul Wahab (2010) argued that corporate governance does not influence the association between TLOS components of tax saving and firm value. Amir, Kirschenheiter, and Willard (1997) have examined the market valuation of deferred tax assets arising from tax loss carry-forwards. Their results reported that the market considers these assets in its valuation of firms' securities. The implication of tax planning could also be seen from the side of deferred taxes on the carry-forward of tax losses. Moreover, Amir and Sougiannis (1999) found a positive association between share price and carry-forward net operating losses. They described this association as an indication of the tax deferral planning activities. Based on above-mentioned studies, it is hypothesised (in the alternative form) that:

Hypothesis 3_d (H_{3d}): The association between the level of corporate tax disclosure and the extent of tax losses component of tax saving is moderated by firms' corporate governance.

6.5 Conclusion

This chapter begins with explanations about epistemology, ontology, axiology and

research paradigms perspectives in order to understand the research philosophy of this study. Moreover, in order to develop an understanding of the theories that support the hypotheses development, this chapter proceeds with explanations of the theories that support the development of hypotheses. This chapter was developed on the basis of discussion obtained in Chapters Two and Three, Four and Five, and it aims to give a justification of the underlying theories and assumptions developed in the study.

There are several main aspects about research philosophy; namely epistemology, ontology, axiology and research paradigms. Each differently affects a researcher's view when conducting a study. Hypotheses are developed in order to verify the effect of the components of tax savings. The hypotheses are developed in three parts: first, tax disclosure with tax planning and the components of tax saving, secondly tax disclosure with corporate governance, and thirdly, this study also tries to examine the association between tax disclosure and tax planning whilst considering corporate governance as a moderating factor. Generally, it will test eleven hypotheses in order to study the associations between the relevant variables, including tax disclosure, tax planning and corporate governance. To understand the study problem, the signaling theory, Scholes-Wolfson framework and agency theory are mentioned to apply earlier knowledge on tax disclosure, tax planning and corporate governance respectively.

CHAPTER SEVEN

VARIABLES MEASUREMENTS AND DATA COLLECTION

This chapter concerns the sample framework, estimation model development and variable measurements. The discussion starts with the sample chosen and data sources of data collecting and is followed by estimating model development. This chapter then continues with variables measurements. Variable measurements section begins with discussion of tax information and an explanation about the measurement of tax disclosure. Thereafter, this chapter continues with the interpretation about the rest of the variable measurements. Variable measurements are presented in order to facilitate understanding of the independent and control variables involved.

7.1 Data Sources and Sample Selection

This study uses panel dataset from a large sample of publicly-traded listed firms in Malaysia. The sample framework is non-financial public firms that are listed in Bursa Malaysia. The sample framework was chosen due to the public access to information about corporate governance and financial of firms, where Malaysian listed firms commit to publish their annual reports publicly after the end of the year (MFCCG, 2000). The structure of the sample frame focuses only on non-financial firms since financial firms have particular laws that may affect the association between tax planning and tax disclosure.

The sample selection procedure started with public listed corporations that were listed

during the period of 2010 to 2012. The period is selected to reflect the most current data related to public listed companies in Malaysia during data collection. The three consecutive years are chosen because this study aims to: (1) determine whether there are changes on tax disclosure information from year to year; (2) see whether there is an impact of improved corporate governance characteristics from year to year on the tax disclosure-tax planning relationship; and (3) use a longer period of years to achieve accuracy in the analysis and obtain more realistic results.

Table 7. 1
Sample Selection

Details	**Number of firms**
Public listed firms (listed throughout the period)	937
Finance firms	(65)
Not available in Datastream	(16)
Date of fiscal year end is not 31/12/ and Accounting period is more than 12 months	(165)
Loss-making companies at least in one of the years	(328)
Annual reports not available for three years	(97)
Extreme value of ETR (see Chapter Eight)	(6)
Outliers and Influential observations	(4)
Sample	**286**
Total	**×3 years**
	858

The data is collected over a period of three years, from 2010 to 2012. The dataset of this study can be categorised into ten types of industrial classification: industrial products, consumer product, construction, trading services, infrastructure, technology, hotels, properties and plantation. All of the data is archival and has been published by the firms.

The financial data (for instance, data related to firm-characteristics) is obtained from *Datastream*[7]. Corrections depended on the annual reports were made for any noticed conflicting information. Data on the industry classification is based on Bursa Malaysia's industrial classification. Table 7.2 highlights the distribution of the sampled firms in proportion to industry classification.

Table 7. 2
Classifications of the Listed Companies Based on BM

Industry	**Number of companies**
1. INDUSTRIAL/PRODUCTS	75
2. CONSUMER	44
3. CONSTRUCTN	14
4. TRADING/SERVICES	76
5. TECHNOLOGY	20
6. PROPERTIES	21
7. PLANTATION	20
8. IPC	3
9. HOTELS	3
10. REITS	10
Total	286

Taxation data, which includes reconciliation and tax expenses information, is hand gathered from the annual reports of the companies, particularly from the tax section of the notes to the accounts. Only one researcher is involved in data collection, thus inconsistency is not an issue. The items are carefully checked so that they are correctly coded. Ultimately, corporate governance data, which consist of information on the corporate governance internal mechanisms was obtained from companies' annual reports.

[7] The database in this part is supplied by Thomson Reuters, *Datastream*.

7.2 Measurements of Variables

7.2.1 Tax Disclosure Measurement

Tax disclosure can be measured using the level of company tax disclosure. In this regard, tax disclosure is measured by assigning a score for tax disclosure information based on the number of items disclosed in the companies' annual reports. The current accounting standards such as IFRS 12 provide guidance about ETR disclosure. In relation to reconciliation adjustments, the permanent differences can cause the ETR to deviate from the statutory rate. Permanent differences are caused by items that are included in taxable income but are not included in calculating pre-tax book income or vice versa. Instances of permanent differences are: (1) Items recognized in pre-tax book income but not in taxable income. They include interest on tax exempt municipal bonds and life insurance proceeds on an officer of the company, penalties and fines, qualified stock options accounted for using the fair value method, key employee life insurance premiums and most goodwill and in-process research and development in acquisitions, (2) Items recognized in taxable income but not in pre-tax book income (Schmidt, 2006).

However, some particular items that are technically considered as temporary differences have the same influence as a permanent difference because a deferred tax liability is not documented for these items (Weber & Wheeler, 1992). Temporary differences of ETR reconciliation involves changes not only for the tax influences of pre-tax income from continuing operations, but also for the tax influence of other items attributable to continuing operations, such as: (1) Deferred tax asset valuation allowance account adjustments; (2) changes in tax rates or tax laws; (3) changes in the tax position of an

enterprise (e.g. from a partnership to a corporation); and (4) tax loss carry-forward advantage. The difference from profit tax component reflects the overall impact of ETR reconciliation items and therefore, the extent to which the tax adjustment component of profits continue and help predict future gains indication of how ETR reconciliation items can be utilized in analysing the financial statements (Schmidt, 2006).

Accordingly, items associated with TLOS and FTR are categorised separately in Table 7.3 due to their different nature in explaining tax planning (Abdul Wahab, 2010). Unclassified items (UNC) section is represented by ETR reconciliation items that could not be classified under the other four groups because of the potentiality of them being categorised below more than one group. For the purpose of the robustness of the categorisation, the above-mentioned categories are also separately regressed as temporary difference and permanent difference. Therefore, all the tax expenses and tax reconciliation items in the annual reports have been listed and compared from all Malaysian listed companies' annual reports over a period of three years under study (Appendix 1). This is to ensure consistency and uniformity in the classification of the data and to ensure consistency of the items in the companies' annual reports with the measurement score's items created by Abdul Wahab (2010). Moreover, Abdul Wahab's (2010) items have been disaggregated based on the international accounting standard (IAS 12) which Malaysian firms then applied in one January 2012 under the name MFRS 112 Income Tax and covering the items that reflect tax disclosure information in the annual report. In this regard, this study measured the level of the company tax disclosure based on the number of items disclosed in the companies' annual reports, to fill the gap in the literature that was noted by Boatsman, Gupta, and Weaver (2002), Atwood and

Reynolds (2008), Bauman and Shaw (2008), World GAAP Info (2009) and Abdul Wahab and Holland (2012).

Therefore, this study measured the level of company tax disclosure by assigning a score for tax disclosure information based on the number of items disclosed in the annual reports of the companies. This study assigned the score based on items identified by Abdul Wahab (2010). Although, Abdul Wahab's (2010) items had been built based on U.K. companies, the author disaggregated the items based on the standard IAS 12, that the Malaysian firms apply. Paragraph 81 (c) of MFRS 112 Income Taxes, from MASB (2012), requires an independent disclosure of reconciliation tax expense items to interpret the association between effective tax expense and statutory tax expense . The disclosures required by paragraph 81 (c) MFRS 112 Income Tax, allows users of financial statements to understand whether the association between tax expenses or income and accounting profit or loss is abnormal and provide further understanding of the significant factors that may influence this association in the future. The association between accounting profit or loss and tax expenses or income is influenced by factors like ordinary income exempt from taxation, as the expenses are not subtract in deciding the loss or gain for tax, the impact of tax losses or possible tax rates incurred overseas (MASB, 2012). Based on this accounting standard and the aforementioned literature, the reconciling items from annual reports are carefully compared to the reconciling items that was selected by Abdul Wahab (2010). Furthermore, all items have been carefully scrutinized to reflect Malaysian taxation regulations. As a result, "tax benefit from goodwill deduction" has been removed from TDF section to PD section as the item is not allowable/taxable in calculating taxable income based on Income Tax Act 1967 (The Commissioner of Law

Revision Malaysia, 2014). Table 7.3 reports the categorisation of the ETR reconciling items that will be utilized as the measurement of the level of company tax disclosure based on previous above-mentioned studies such as Dhaliwal, Gleason, & Mills (2004), Atwood and Reynolds (2008), Bauman and Shaw (2008) and Abdul Wahab (2010).

Table7.3
Tax Disclosure Items

Component	ETR Reconciling Items (31 Items)
Permanent differences (PD) 10 Items	1) Associates and joint venture 2) Expenses that are not taxable/tax effect of income/allowable in determining taxable profit 3) Permanent difference 4) Sale of property 5) Income tax suffered 6) Rate change adjustment 7) Tax on capital items 8) Withholding tax or secondary taxation 9) Share-based payments/share options 10) Tax benefit from goodwill deduction
Temporary differences (TDF) 12 Items	11) Impairment of long leasehold properly 12) Recognition of a deferred tax asset not prior recognized 13) Provided deferred tax/movement in unprovided 14) Exchange differences 15) Timing differences 16) Current year deferred tax 17) Adjustments in respect of equity accounted investments

Table 7. 3 (continued)

Component	**ETR Reconciling Items (31 Items)**
Temporary differences (TDF) 12 Items	18) Deferred tax on retirement benefit obligations 19) Pensions and post-retirement benefits 20) Prior period adjustments 21) Deferred taxation on unremitted earnings of overseas subsidiaries 22) Liability not recognized/deferred tax asset
Foreign tax rates differentials (FTR) 1 Item	23) Subsidiaries operating in other jurisdictions
Tax losses (TLOS) 3 Items	24) Not-utilized tax losses and other assets/tax effect on utilization of formerly unrecognized 25) Recognition of tax losses/ tax effect on utilization 26) Tax effect of unrecognized/not-utilized losses
Unclassified items (UNC) 5 Items	27) Incentives/credit/relief 28) Restructuring and impairment 29) Exceptional items/accruals/provisions 30) Other 31) Tax on derivative financial instruments

Source: *Table 6.4.* Components of Tax Saving: Tax planning and corporate governance: effects on shareholders' valuation by Nor Shaipah Abdul Wahab, 2010, *Thesis for the degree of Doctor of Philosophy, University of Southampton, Southampton,* p. 163.

In order to assign the score of tax disclosure items, this study utilizes an unweighted approach. This approach is more suitable when no significance is given to any particular user-groups (Cooke, 1989; Ahmed & Courtis, 1999; Coy & Dixon, 2004; Akhtaruddin, Hossain, & Yao, 2009). The items of information are numerically scored on a dichotomous basis. Based on the unweighted disclosure approach, a company is scored "1" for an item disclosed in the annual report and "0" if it is not disclosed. The sum of tax

disclosure items in the above scores are calculated for each sampled company as a proportion of the sum disclosure score to the highest potential disclosure by the company. The tax disclosure items for each company is then expressed as a proportion (Akhtaruddin *et al*., 2009).

The unweighted tax disclosure items determine the level of disclosure as the proportion of the total items disclosed to the utmost potential score applicable for a particular firm. This is a popular way to identify the level of disclosure based on the annual reports (e.g. Abd-Elsalam & Weetman, 2003; Ali, Ahmed, & Henry, 2004; Coy & Dixon, 2004; Hodgdon, Tondkar, Harless, & Adhikari, 2008). Tsalavoutas (2011) for example termed this method as “Cooke's dichotomous approach”.

7.2.2 Tax Planning Measurement

As mentioned in Chapter Three, the way the tax planning is measured in earlier studies varies, depending on the availability of data and area of interest to the researchers. Previous researchers have used several measurements of TP, utilizing all publicly and privately accessible data. Numerous studies on tax look at tax saving to be the result of such tax planning. For instance, measuring the results of TP can assess a tax measure to be suitable because it exhibits the gap between the tax burden-based "book reports" and "taxable income-based". In view of this, the more common measures used by the researchers are ETR, which has been utilized by Mills, Erickson, and Maydew (1998), Rego and Wilson (2012), and Abdul Wahab and Holland (2012) and book-tax gaps (e.g. Plesko, 2003; Hanlon & Heitzman, 2010).

Based on the above discussion, this research measures TP as the amount of "tax savings" in profit terms, in which the TP is measured by multiplying profit before tax with the variation between STRs and ETRs (Abdul Wahab, 2010; Abdul Wahab & Holland, 2012). Measuring tax planning by using ETR is in conformity with prior studies (e.g. Rego, 2003; Abdul Wahab, 2010; Dyreng *et al*., 2010; Abdul Wahab & Holland, 2012). ETR is suitable for measuring TP compared to other measurements, for instance book-tax gap and marginal tax rates, as the information in calculating the ETR is obtainable from the financial statements of companies and hence available to shareholders (Stewart, 1981). Therefore, the ETR-based tax planning variable is the appropriate way to avoid that problem in relation to tax credit and tax expense on foreign income. In view of this, ETR is measured as the percentage of existing tax expense on profit before tax, in which the numerator eliminates deferred tax expense to reproduce "persistent" tax saving originated from strategic tax planning. This study measured TP as the difference between a company's present tax saving (disclosed of the firm in its annual financial statements) and the level of tax that is payable by the company (Abdul Wahab & Holland, 2012).

Components of tax savings (permanent differences, temporary differences, foreign tax rates differential and tax losses) further explain the value of tax planning. Permanent and temporary differences are formed from the deviation of real tax expense from tax statutory tax expense and identify the ETR reconciling to reflect both components (Boatsman *et al*., 2002; Hanlon, 2005; Hanlon & Heitzman, 2010). Further, Dhaliwal Gleason and Mills (2004), Atwood and Reynolds (2008) and Bauman and Shaw (2008), items associated with foreign tax rates differentials and tax losses are classified independently. This detailed approach allows the difficult evaluation of each component

of the above-mentioned categories.

This study measures the component of tax savings (permanent differences, temporary differences, foreign tax rate differential and tax losses) using the score of the components of tax saving that had been crafted by Abdul Wahab (2010) based on the standard IAS 12 and consistent with MFRS 112 Income Taxes (World GAAP Info, 2009; MASB, 2012). In this context, based on earlier related studies and IAS 12 standard, Abdul Wahab' (2010) score disaggregates the total tax saving into four components: tax losses, permanent differences, temporary differences and foreign tax rates differentials. Moreover, to aggregate tax saving information, the tax saving is measured based on the values of these items in the financial statement means based on components of total tax saving. Table 7.3 in (Section 7.2.1) reports the categorisation of the ETR reconciling items, whose descriptions are based on those adduced in the published ETR reconciliation (Abdul Wahab, 2010). Furthermore, the value of each component that has been utilized as a measurement of tax saving will be evaluated based on the magnitude of the items listed in Table 7.3.

7.2.3 Company-Specific Characteristics Measurements

This study utilizes several company-specific characteristics as control variables in order to make sure that the findings on the coefficient estimation of the tax planning is not driven by these variables. These variables control the possible effects of tax-related factors; such as, firm size, dividend, leverage and industry. This is in line with Chen *et al*. (2010) who used company-specific variables to control the essential influence of the

hypothesised variable.

The first firm-specific characteristics control variable is earnings management (EM). This variable is incorporated in order to control the difference in the TP variable (tax saving) that rises from earnings management (Holland & Jackson, 2004; Desai & Dharmapala, 2009). In this research earnings management is measured based on total accrual measures which is derived by subtracting net cash flow from operation from profit before tax (Phillips John, Pincus, & Rego, 2003).

The next control variable, capital intensity (CAPNT), is used to control the level of equipment utilization and machinery in a company's activity. The relationship between TP and CAPNT has been found by Mills *et al*. (1998) to be associated positively with TP investment expenditure. Moreover, the association between capital intensity and tax planning also has been exhibited by other earlier researchers in which the ETR is found to be associated negatively with the level of firms' CAPNT (e.g. Gupta & Newberry, 1997; Derashid & Zhang, 2003). Consequently, in order to control the influence of capital expenditure in TP, the capital intensity variable is measured by the equipment and ratio of gross machinery to total assets (Derashid & Zhang, 2003). Property and plant are eliminated from the measurement as tax incentives or capital allowances associated with them are minor as compared to equipment and machinery and hence are less attractive for TP aims (Abdul Wahab, 2010; Abdul Wahab & Holland, 2012).

Leverage (LEVE), is added to control for interest tax shield. This variable is found in previous literature to be associated with TP as leverage could denote the utilization of debt financing, aiming at achieving a high level of interest tax shield (Kim &

Limpaphayom, 1998; Derashid & Zhang, 2003). The association between TP and leverage is in line with the study conducted by Mills *et al*. (1998). In this study, leverage variable is measured by the ratio of long term debt to total assets and is incorporated to catch the level of the tax shield of debt (Armstrong *et al*., 2012). Additionally, dividend (DIVID) is added to the model in order to control for signalling influence. Dividend is measured as the proportion of dividend per share on earnings per share. This measure is consistent with the study by Berkman, Bradbury, Hancock, and Innes (2002).

The next company-specific characteristics variable, FSIZ is included to control the effect of company size on tax planning. The association between firm size and TP has been presented by prior researchers (Armstrong *et al*., 2012). Previous studies found that the association between GAAP ETR and company size is mixed (Armstrong *et al*., 2012). Further, Zimmerman (1983) and Rego (2003), documented a negative association between firm size and GAAP ETR, a result that is associated with the *"political cost"* hypothesis. Nevertheless, Mills *et al*. (1998) did not find a statistically significant association. Thus, company size has been included but did not necessarily predict an association (Robinson John, Sikes, & Weaver, 2010). Firm size is measured by various ways, for example turnover, total assets, total assets employed, number of employees and the firm's average market value. In line with Holland (1998) and Armstrong *et al*. (2012), this study measure firm size by total assets.

The next control variable is industry dummies (INDS). This study utilizes this variable in order to control the industry influence on the study model, due to heterogeneity of the sample. As mentioned at Chapter Three, industry sectors could influence tax planning

chances (Mills *et al*., 1998; Noor *et al*., 2010). This is due to some factors such as, the nature of the industries, the limited tax incentives available for the industries and the different approach of TP of each industry. Therefore, the industry classification is based on Bursa Malaysia classifications. In his study INDS, measured by 1 for each particular industry classification, and 0 otherwise (Mills *et al*., 1998).

The last control variable, growth (GRTH), is included in order to control the impact of the growth that can occur in many different aspects of a company's operations such as its cash sales, cash flow, net income and market share on companies' tax planning (G. B. Murphy, Trailer, & Hill, 1996). A variety of growth measurements have been used by previous studies such as new product success (Appiah, 1998) and product quality alongside more traditional measurements like sales level, target market share, growth rate, gross margin, return on investment and return on equity (Pelham, 1997). In this study, growth is measured by the percentage change in annual net sales revenues (Wei Xu, Wang, & Anandarajan, 2012).

7.2.4 Corporate Governance Measurement

One of the purposes of this study is to examine the moderating impact of corporate governance mechanisms on the association between tax disclosure and tax planning. Recent corporate governance measures are based on current Malaysian corporate governance studies by Buniamin, Alrazi, Johari, and Rahman (2011), Htay, Rashid, Adnan, and Meera (2012) and Securities Commission Malaysia (2012). Corporate

governance mechanisms adopted in this study primarily represent incentive compensation and managerial ownership. Chapter Four discusses the way in which managerial ownerships could be an efficient mechanism in decreasing agency contradict, due to the opportunity to align managers' and owners’ wealth purposes. In this context, managerial ownership is measured as a proportion of ordinary shares held by the CEO and executive directors (dividing the directors shares on total shares issued and fully paid) (Baek *et al.*, 2009; Cheng, Elyasiani, & Jia, 2011).

Another internal mechanism of corporate governance taken in account into this research is incentive compensation. Incentive compensation stands for the value of long term incentive awards prepared through the year, like share alternative shares or grants earmarked below long term incentive plans. Long term incentive plans award evaluations are calculated as the corporation share price multiplied by the maximum potential number of shares that can be received because of the award (Murphy & Conyon, 2000). Moreover, Murphy and Conyon (2000) defined total compensation as the sum of base salary, long term incentive plans, yearly bonus and share options valued at grant date. Based on that, and based on the study by Florackis (2008) this study measures the compensation structure by total salary paid to executive directors scaled by total assets.

7.3 Estimation Model Development

This study utilizes a 3-step hierarchical regression. Hierarchical regression is recommended by many researchers if the research involved a moderator variable (Aiken & West, 1991). In addition, Baron and Kenny (1986) argued that moderating effect can be assessed by using multiple regression. In order to study the impact of corporate governance as a moderator, hierarchical regression is seen as the appropriate analysis. In hierarchical regression analysis, the data is organized hierarchically, with first-level units nested within second-level units and second-level units nested within third-level units (Baron & Kenny, 1986).

The hierarchical regression method is utilized to test the association between tax disclosure among Malaysian companies and TP, while considering corporate governance as a moderator. As illustrated in the aforementioned discussions, the estimation models of this study utilize a 3-step hierarchical regression by integrating tax-related variables. In this context, the first-level of the estimation models consider TP variable and company-specific characteristics variables, such as firm size, growth, earning management and industrial. In order to control the company-specific characteristics, this research involves some variables that have been found by prior studies to be significant in interpreting tax disclosure and tax planning. Essentially, the estimation model is as follows:

$$TD_{it} = \beta_0 + \beta_1 TP_{it} + \beta_2 EM_{it} + \beta_3 CAPNT_{it} + \beta_4 LEVE_{it} + \beta_5 DIVID_{it} + \beta_6 FSIZ_{it} + \beta_7 INDS_{it} + \beta_8 GRTH_{it} + \varepsilon_{it} \quad (1)$$

Where:

TD_{it} = Tax disclosure of ETR reconciling items

TP_{it} = Tax planning of firm i at time t

EM_{it} = Earnings management of firm i at time t

$CAPNT_{it}$ = Capital intensity of firm i at time t

$LEVE_{it}$ = Leverage of firm

$DIVID_{it}$ = Dividend payout ratio of company

$FSIZ_{it}$ = Firm size

$INDS_{it}$ = Industry dummy of company

$GRTH_{it}$ = Growth of company i at time t

ε_{it} = Error term

it = Company i at time t

In examining the association between tax disclosure and the components of tax saving, model (1) is re-estimated by replacing tax planning with four independent variables. Moreover, items that can be classified under more than one category (i.e. temporary differences or permanent differences) are controlled as unclassified items (UNC_{it}). Incorporating the five above-mentioned variables (PD_{it}, TDF_{it}, FTR_{it}, $TLOS_{it}$ and UNC_{it}) in model (1) yields the following model (2):

$$TD_{it} = \beta_0 + \beta_1 PD_{it} + \beta_2 TDF_{it} + \beta_3 FTR_{it} + \beta_4 TLOS_{it} + \beta_5 UNC_{it} + \beta_6 EM_{it} + \beta_7 CAPNT_{it} + \beta_8 LEVE_{it} + \beta_9 DIVID_{it} + \beta_{10} FSIZ_{it} + \beta_{11} INDS_{it} + \beta_{12} GRTH_{it} + \varepsilon_{it} \quad (2)$$

Where:

PD_{it} = Permanent differences of ETR reconciling items

TDF_{it} = Temporary differences of ETR reconciling items

FTR_{it} = Foreign tax rates differentials of ETR reconciling items

$TLOS_{it}$ = NOLs of ETR reconciling items

UNC_{it} =Unclassified ETR reconciling items of firm i at time t

In the second-level of estimation models, the first-level units are nested within the second-level units. In this context, the next is model (3) which tests the effects of corporate governance mechanisms on the association between tax disclosure and tax planning. Model (1) is re-estimated with the extension of two moderating variables ($BCOMS_{it}$ and $MOWNR_{it}$) and two interactive variables ($TP_{it}*BCOMS_{it}$ and $TP_{it}*MOWNR_{it}$). This is to examine whether there is any effect of corporate governance on the association between tax disclosure and tax planning. Equation is written as follows:

$$TD_{it} = \beta_0 + \beta_1 \, TP_{it} + \beta_2 \, BCOMS_{it} + \beta_3 \, MOWNR_{it} + \beta_4 \, TP_{it}*BCOMS_{it} + \beta_5 \, TP_{it}*MOWNR_{it} + \beta_6 \, EM_{it} + \beta_7 \, CAPN_{it} + \beta_8 \, LEVE_{it} + \beta_9 \, DIVID_{it} + \beta_{10} \, FSIZ_{it} + \beta_{11} \, INDS_{it} + \beta_{12} \, GRTH_{it} + \varepsilon_{it} \quad (3)$$

Where:

$BCOMS_{it}$ = Board compensations of firm i at time t

$MOWNR_{it}$ = Managerial ownership of firm i at time t

$TP_{it}*BCOMS_{it}$ =Interaction between TP and BCOMS of company i at time t

$TP_{it}*MOWNR_{it}$ =Interaction between TP and MOWNR of company i at time t

The third-level of estimation model is drawn from the units of previous levels, which means the first-level units are nested within the second-level units and second-level units are nested within third-level units. In this context, the next model (model 4) which investigates the impacts of corporate governance on the association between tax disclosure and components of tax saving. Model (2) is re-estimated with the additions of two nested variables ($BCOMS_{it}$ and $MOWNR_{it}$) and ten interactive variables ($PD_{it}*BCOMS_{it}$, $PD_{it}*MOWNR_{it}$, $TDF_{it}*BCOMS_{it}$, $TDF_{it}*MOWNR_{it}$, $FTR_{it}*BCOMS_{it}$, $FTR_{it}*MOWNR_{it}$, $TLOS_{it}*BCOMS_{it}$, $TLOS_{it}*MOWNR_{it}$, $UNC_{it}*BCOMS_{it}$ and $UNC_{it}*MOWNR_{it}$) as follows:

$$TD_{it} = \beta_0 + \beta_1 PD_{it} + \beta_2 TDF_{it} + \beta_3 FTR_{it} + \beta_4 TLOS_{it} + \beta_5 UNC_{it} + \beta_6 BCOMS_{it} + \beta_7 MOWNR_{it} + \beta_8 PD_{it}*BCOMS_{it} + \beta_9 PD_{it}*MOWNR_{it} + \beta_{10} TDF_{it}*BCOMS_{it} + \beta_{11} TDF_{it}*MOWNR_{it} + \beta_{12} FTR_{it}*BCOMS_{it} + \beta_{13} FTR_{it}*MOWNR_{it} + \beta_{14} TLOS_{it}*BCOMS_{it} + \beta_{15} TLOS_{it}*MOWNR_{it} + \beta_{16} UNC_{it}*BCOMS_{it} + \beta_{17} UNC_{it}*MOWNR_{it} + \beta_{18} EM_{it} + \beta_{19} CAPNT_{it} + \beta_{20} LEVE_{it} + \beta_{21} DIVID_{it} + \beta_{22} FSIZ_{it} + \beta_{23} INDS_{it} + \beta_{24} GRTH_{it} + \varepsilon_{it} \quad (4)$$

7.4 Conclusion

The discussion in this chapter begins with the sample selection procedures and data resources. Then this chapter discusses the model development and estimation. The next section covers the measurement of the variables under study. The part on the concepts and empirical application supplied detailed interpretations of tax disclosure measurement.

The discussion considers the other variable measurements, with a focus on TP measures, components of tax saving, firm-specific characteristics and corporate governance mechanisms. By highlighting tax disclosure in this study it is helpful for Malaysian regulators, institutional investors and international investment communities to understand tax disclosure in Malaysia. Data sources used in this study include annual reports, *Datastream* and companies' websites. The study utilized panel dataset for the sample of non-financial publicly listed firms in BM for the period from 2010 to 2012.

CHAPTER EIGHT

ANALYSIS, FINDINGS AND DISCUSSION

Chapter Six provided an explanation of the research philosophy and focused on the major and relevant theories involved in the development of hypotheses and also highlighted the theoretical framework of this study. Next, Chapter Seven discussed the sample framework, development of estimation models and variable measurements. This chapter highlights the empirical evidence of the study concerning the relationship between tax planning, corporate governance and tax disclosure. This chapter aims to discuss the data analysis and the consequences from the estimation models described in Chapter Seven.

The discussion begins with explanations of sample description, influential observations and the tests for outliers. The following sections cover performance of the analysis conducted, model specification tests and diagnostic tests, such as multicollinearity and heteroscedasticity tests. This chapter then continues with the descriptive statistics of the sample, debates on the multivariate results and discussions of results. Subsequently, this chapter continues by carrying out additional tests and sensitivity analysis to examine the robustness of the results. Finally, the last section concludes of the chapter.

8.1 Sample Description, Sample Statistics and Data Collection

This study utilizes panel dataset from a large sample of publicly-traded listed firms in Bursa Malaysia. The sample of this study's models is all non-financial firms listed on the

Bursa Malaysia from 2010 to 2012. The process of selecting the sampled companies has been highlighted earlier in Chapter Seven. The sample excluded financial companies, companies making a loss and companies with incomplete data. The sample size after the screening process for the annual period, the cases of multivariate outliers have been eliminated (as discussed in Section 8.2). Consequently, a final sample of 286 firms (858 observations) were specified to be eligible for implication in the analyses of all models. This study utilizes balanced panel data as it is a more sensitive measurement of the modifications that could occur between points in time (Cavana, Delahaye, & Sekeran, 2001). Additionally, the outcomes created are more robust, consistent, and stable to enable a generalisation of the population, so that it is more meaningful and representative.

8.2 Influential Observations and Outliers

Influential observations are the observations that have disproportionately influenced one or more of the sides of the regression estimates because of the extreme values of the dependent or independent variables (Hair, Black, Babin, & Anderson, 2013). In terms of outliers this study used a studentized residual to identify outliers of the data (Hair *et al*., 2013). In this context, outliers are observations that have *"a substantial difference between the actual value for the dependent variable and the predicted value"* (Hair *et al*., 2013, p. 155). Outliers can be detected using a variety of tools, such as univariate, bivariate and multivariate techniques, based on the number of variables and the Cook Distance test[8] (Hamilton, 2012; Hair *et al*., 2013). Based on Chen Xiao, Ender, Mitchell

[8] There are many ways to identify an outlier or unusual observation such as: (1) Studentized residual to

and Wells' (2005) study, the outliers were specified using studentized residual> | 2 | as this displays a high observations residual that may point out an abnormal value of the variable offering its value on the regressors.

In this regard, 18 observations (2.03 percent of the entire sample of 888 observations) have extreme ETR values and 12 observations (1.35 percent of the full sample of 888 observations) were specified as influential observations and outliers based on the studentized residual> | 2 |). The 30 observations from the estimation models that were utilized to examine the association between tax disclosure, tax planning and corporate governance have been specified as outliers and consequently have been eliminated from the multivariate testing. In order to avoid deformation in the results, the 30 outliers were excluded (Hair *et al*., 2013). Taking into consideration only firms that have robust motivations to carry out the activities of TP is harmonious with Mills *et al*.'s (1998) method in their research of TP investment. Consequently, the final dataset is 858 observations. However, to give an additional understanding of the various outcomes depended on the entire sample and with the exclusion of outliers, Appendix 3 presents the regression results of both before and after eliminating the outliers' observations. The final sample is the foundation for the remaining analysis, i.e. descriptive, bivariate, multivariate and additional tests.

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reveal influential observations in which the dependent variable is exceptional for certain values of the independent variables, (2) Leverage discover whether the independent variable' observation has swerved from its mean and which might affect the regression coefficients estimation. According to the latter, observations with leverage of more than 2k/n (where n is number of observations and k is the number of independent variables) determine outliers.

8.3 Model Specification Tests and Diagnostic Tests

8.3.1 Model Specification Tests

The appropriate model chosen should be tested in order to confirm that assumptions of multiple regressions are met and to guarantee that misleading outcomes are avoided. In this context, selection of the suitable model depends on some assumptions and tests (Greene, 2012; Baltagi, 2013; Gujarati, 2015). Consistent with econometric assumptions, numerous panel data models are utilized in different cases, such as: (1) constant coefficients models or pooled OLS regression, (2) fixed effects models and (3) random effects models. Due to the nature of this study which utilized three consecutive years and 286 cross-sectional companies, the panel data model was utilized for its advantages over cross-section companies or time series. After selecting the appropriate model, the diagnostics examinations covered multicollinearity and heteroscedasticity issues.

Panel data can enrich the quantity and quality of data and enhance empirical analysis through combining time series with cross-sections that would be not possible utilizing only one of these two dimensions to obtain similar outcomes. Panel data is able to control a number of omitted variables without even noticing them, but over time it is able to notice changes in the dependent variable (Baltagi, 2013; Gujarati, 2015). The first type of panel model is pooled OLS regression that can be run when there are neither significant spatial nor significant temporal effects (Stock, 2010). The second type of panel model is a random effect model, which is a function of a mean value in addition to a random error (Greene, 2012). The third type is a fixed effect model that could have constant slopes with intercepts that vary based on the cross-sectional (group) companies.

This means that the significant variations amongst companies exist in this model, but there are no significant temporal effects (Davidson & MacKinnon, 1993). In order to establish which model is appropriate for use in this study, some examinations and tests are performed as follows.

8.3.1.1 Selecting Between Pooled OLS Regression and Random Effect

The Breusch–Pagan-Lagrangian-Multiplier examination for random effects (LM) assists in selecting between the random effect model and the pooled OLS regression (constant coefficients model). The null hypothesis in the Breusch and Pagan Lagrangian multiplier test (LM) is that variations across firms are zero. There is no significant variance across companies (no panel effect). On the other hand, if they are insignificant (*p-value, prob >* chi^2 *larger than 0.05*), this means that the null hypothesis is not rejected and then pooled OLS regression is the best to utilize.

In Table 8.1, the outcome of the LM test is significant. So there is evidence of significant differences across companies and the null hypotheses are rejected. It is concluded that the random effect model is appropriate; consequently, random effect regression can be run for this study (Breusch & Pagan, 1980; Gujarati, 2015).

Table 8. 1
Breusch and Pagan Lagrangian Multiplier Test

	TD
$chibar^2(l)$	**367.07*****
Prob > $chibar^2$	0.0000

Indicate significant * 5%, **2.5%, * ** 1%, respectively

8.3.1.2 Selecting Between Fixed Effect and Random Effects

The Hausman specification test helps to determine whether the appropriate model for the data is a fixed or random effects model as it compares the fixed effects against the random effects beneath the null hypothesis that the individual impacts are uncorrelated with the other regressors in the model. On the other hand, the null hypothesis is the coefficient estimated by the effective random effect estimator, which is similar as the one that has been estimated by the regular fixed effects estimator. This means that if the p> chi^2 greater than 0.05 (insignificant) it is secure to use the random effects model; otherwise, the fixed effects model is utilized (Davidson & MacKinnon, 1993; Stock, 2010; Greene, 2012).

The outcome revealed in Table 8.2 indicted that Hausman specification tests are insignificant (*prob <chi^2 higher than .05*). Consequently, the null hypotheses are not rejected and it can be concluded that the random effects model is appropriate, because there is evidence of significant differences across companies; as a result, random effects regression can be run for this study (Gujarati, 2015).

Table 8. 2
Hausman Specification Tests

	TD
$Chi^2(23)$	**15.57*** **
Prob > chi^2	0.9461

Indicate significant * 5%, **2.5%, * ** 1%, respectively

8.4 Diagnostic Tests

In order to successfully conduct a chosen model in the study, regression diagnostics tests were carried out to confirm that assumptions of logistic regressions were met for all variables and to avoid confusing findings. In this regard, the estimations and the data were examined for multicollinearity to identify any inter-correlation of the independent variables. The data was also tested for heteroscedasticity so as to determine whether or not cross-section differences were persistent.

8.4.1 Multicollinearity

Multicollinearity occurs when more than two or two independent variables correlate with one another (Hair *et al*., 2013). High level of multicollinearity affects estimation and interpretation of each independent variable in the regression variant (Hair *et al*., 2013). Consequently, it is significant to correct and check any existence of the multicollinearity problem using several tests before carrying out the multivariate analyses; thus, the association between the independent variable and the dependent variables can be specified strongly (Hair *et al*., 2013). Therefore, for this aim, some diagnostic examinations were performed, such as analyses of correlation coefficients matrix test and variance inflation factors (VIF). In the analysis of correlation coefficients, statistically the coefficients of correlation matrix is high with 0.9 and above indicates a serious problem of substantial collinearity (Hair et al., 2013).

As mentioned in Chapter Seven (Section 7.1, Table 7.1) ten industry sectors have been used to measure the control variable industry dummies (INDS) as one of the company-

specific characteristic variables. The sector of Real Estate Investment Trusts (REITS) has been deleted due to the multicollinearity (there was no difference from year to year) problem in STATA software. The correlations matrix in Tables 8.3 below shows that there is no multicollinearity, because none of the variables correlates over 0.9 in the whole model. All variables have a correlation of less than 0.7801. Therefore, the correlation matrix test indicts that multicollinearity does not constitute an issue in any of the models.

Table 8. 3

Pearson Correlation Matrix of Independent Variables

N=858	TD	TP	PD	TDF	FTR	TLOS	UNC	MOWN	BCOMS	FSIZ
TD	1.0000									
TP	0.1213**	1.0000								
PD	0.0057	-0.2638***	1.0000							
TDF	-0.0395	-0.3104***	-0.0381	1.0000						
FTR	-0.0956*	-0.1476***	-0.0830*	0.1024**	1.0000					
TLOS	0.0882*	0.0191	-0.0734	-0.0717	-0.0010	1.0000				
UNC	-0.0843*	-0.0810*	-0.0861*	-0.0287	-0.0111	0.0025	1.0000			
MOWNR	-0.0369	-0.0090	0.0602	-0.0049	-0.0043	0.0691	0.0251	1.0000		
BCOMS	-0.1143**	0.0442	0.0028	-0.0182	0.0279	0.0643	0.0292	0.3372***	1.0000	
FSIZ	0.2429***	-0.0460	0.0065	0.0257	-0.0247	-0.1213	-0.0851*	-0.3309***	-0.5937***	1.0000
EM	-0.0011	-0.0035	-0.0016	-0.0052	-0.0247	0.0666	-0.0200	0.0024	0.0291	-0.0107
CAPNT	-0.0003	-0.0113	-0.0579	0.0620	-0.0039	-0.0181	-0.0764	-0.1337	-0.2369***	0.4840***
LEVE	0.1223***	0.0627	0.0706	0.0028	-0.0284	0.1594	-0.0162	-0.0518	0.1020	-0.1001
DIVID	0.0041	0.0030	-0.0971*	0.0233	-0.0115	-0.0154	-0.0227	0.0103	0.0835	0.0375
GRTH	-0.0019	0.0148	-0.0160	-0.0507	-0.0259	0.0134	0.0176	-0.0070	0.0192	0.0067
INDPROD	0.1072**	0.1291***	-0.0131	-0.0822*	-0.0956*	0.0613	-0.0709	-0.0254	0.0789	-0.1710
CONSUM	0.0336	-0.0296	0.1115**	0.0469	-0.0162	0.0241	0.0665	0.0199	0.0016	-0.0371
CONSTR	-0.0159	-0.0490	0.0293	0.0121	0.0359	-0.0313	0.0587	0.1192	-0.0523	0.0646
TRADSER	0.0318	-0.0709	0.0048	0.0655	0.0060	-0.0541	-0.0533	-0.0022	-0.0006	0.1388***
TECHNO	-0.0613	0.0440	-0.0543	-0.0134	0.0698	0.0651	0.0079	0.0945	0.2954***	-0.2981***
PROPERT	-0.0365	-0.0063	0.0681	-0.0219	0.0234	-0.0755	0.0454	0.0021	-0.0913	0.0902
PLANT	0.0237	-0.0811*	0.0189	0.0621	0.0336	-0.0014	0.0420	-0.0322	-0.1490	0.1480***
IPC	-0.0599	0.0576	-0.0210	-0.0830*	0.0089	-0.0040	-0.0311	-0.0702	-0.0672	0.1660***
HOTELS	-0.0192	0.0372	-0.0625	-0.0061	0.0092	0.0018	-0.0107	-0.0710	-0.0595	-0.0189
TP*MOWNR	0.0311	0.6193***	-0.1702***	-0.2070***	-0.0780*	0.0614	-0.0227	0.1961***	0.0964*	-0.1178**
TP*BCOMS	0.0032	0.6425***	-0.1533***	0.1402***	0.0301	0.0355	0.0389	0.0600	0.2932***	0.1679***
PD*MOWNR	0.0133	-0.2456***	0.5228***	0.0537	-0.1183	-0.0904	-0.0689	0.0646	-0.0005	0.0057
PD*BCOMS	0.0010	-0.2026***	0.5909***	-0.0482	-0.0789	-0.0766	-0.0591	0.0350	-0.0993	0.0465
TDF*MOWNR	-0.0396	-0.2850***	0.0547	0.5230***	0.0594	-0.0643	-0.0207	-0.0113	-0.0289	0.0340
TDF*BCOMS	-0.0135	-0.2273	-0.0624	0.5987***	0.0628	-0.0762	-0.0231	-0.0209	-0.0746	0.0326
TF*MOWNR	-0.0623	-0.1136**	-0.1375***	0.0641	0.5664	0.0111	0.0368	-0.1044	-0.0536	0.0274
FTR*BCOMS	-0.0283	-0.0879*	-0.1376***	0.0899*	0.6421***	0.0016	0.0022	-0.1036	-0.0345	0.0352
TLOS*MOWNR	0.0819*	0.0527	-0.0738	-0.0537	0.0138	0.5932***	-0.0110	0.1226***	0.1309***	-0.1470***
TLOS*BCOMS	0.0732	0.0294	-0.0701	-0.0568	0.0061	0.6100	0.0294	0.1262	0.1419***	-0.0750
UNC*MOWNR	-0.0326	-0.0308	-0.0675	-0.0158	0.0306	-0.0233	0.5886***	-0.1238***	-0.0215	0.0553
UNC*BCOMS	-0.0462	-0.0647	-0.0573	-0.0145	-0.0014	0.0187	0.6592***	-0.0217	-0.0875	0.0446

Indicate significant * 5%, **2.5%, * ** 1% respectively

Table 8.3 (continued)

	EM	LEVE	CAPNT	DIVID	GRTH	INDPRO	CONSU	CONST	TRADSE	TECHN
EM	1.0000									
LEVE	-0.0273	1.0000								
CAPNT	0.0309	-0.1022**	1.0000							
DIVID	0.0216	-0.0114	-0.0270	1.0000						
GRTH	-0.0346	0.0353	-0.0766	0.0793*	1.0000					
INDPROD	0.0189	-0.1380***	0.3899***	0.0248	-0.0789*	1.0000				
CONSUM	0.0569	-0.1277***	0.0605	-0.0037	-0.0494	-0.2542***	1.0000			
CONSTR	-0.0694	0.0722	-0.0798*	-0.0216	0.0075	-0.1353***	-0.0967*	1.0000		
TRADSER	-0.0271	0.1425***	-0.1246***	0.0533	0.0081	-0.3587***	-0.2565***	-0.1365***	1.0000	
TECHNO	0.0661	-0.1172**	0.0828*	0.0266	0.0172	-0.1635***	-0.1169**	-0.0622	-0.1650***	1.0000
PROPERT	-0.0893*	0.0695	-0.2024***	-0.0614	0.1629***	-0.1678***	-0.1200	-0.0639	-0.1693***	-0.0772*
PLANT	0.0015	-0.0262	-0.1079**	-0.0176	0.0010	-0.1635***	-0.1169**	-0.0622	-0.1650***	-0.0752
IPC	-0.0044	0.1314***	-0.0894*	-0.0756	0.0158	-0.0614	-0.0439	-0.0234	-0.0619	-0.0282
HOTELS	-0.0307	-0.0329	-0.0615	-0.0490	-0.0383	-0.0614	-0.0439	-0.0234	-0.0619	-0.0282
TP*MOWNR	0.0225	-0.0411	0.0288	0.0076	0.0283	0.1347***	-0.0351	-0.0599	-0.0348	0.0481
TP*BCOMS	0.0155	-0.0750	-0.0221	0.0462	0.0575	0.0638	-0.0162	-0.0497	-0.0344	0.0906
PD*MOWNR	-0.0471	0.0176	-0.0389	-0.0833*	-0.1114**	-0.0129	0.0566	0.0783	0.0281	-0.1491
PD*BCOMS	0.0070	0.0323	0.0224	-0.1138**	-0.1055**	-0.0159	0.0577	0.0562	0.0203	-0.1249
TDF*MOWNR	0.0235	0.0195	0.0093	0.0346	0.0145	-0.0888*	0.0758	0.0287	-0.0001	-0.0372
TDF*BCOMS	-0.0013	0.0213	0.0071	0.0147	-0.0146	-0.0766	0.0186	0.0038	0.0896*	-0.0614
TF*MOWNR	-0.0008	-0.0091	-0.0649	0.0392	0.0035	-0.0677	-0.0158	0.0441	0.0146	0.0229
FTR*BCOMS	-0.0136	-0.0190	-0.0673	-0.0020	-0.0154	-0.0935	-0.0203	0.0415	0.0398	0.0408
TLOS*MOWNR	-0.0047	-0.0409	0.1342***	-0.0567	0.0623	0.0275	-0.0026	-0.0229	-0.0279	0.1368
TLOS*BCOMS	0.0262	0.0172	0.1308***	-0.0498	0.0315	0.0096	-0.0048	-0.0566	0.0005	0.0930
UNC*MOWNR	0.0021	0.0213	-0.0137	0.0072	-0.0246	-0.0871*	0.0080	0.0272	0.0082	0.0009
UNC*BCOMS	-0.0084	0.0234	-0.0137	-0.0063	0.0000	-0.0541	0.0313	0.0325	-0.0259	0.0211

Indicate significant * 5%, **2.5%, * ** 1% respectively

Table 8.3 (continued)

	PROPE	PLANT	IPC	HOTELS	TP*MOWNR	TP*BCOMS	PD*MOWNR	PD*BCOMS	TDF*MOWNR	TDF*BCOMS
PROPERT	1.0000									
PLANT	-0.0772	1.0000								
IPC	-0.0290	-0.0282	1.0000							
HOTELS	-0.0290	-0.0282	-0.0106	1.0000						
TP*MOWNR	-0.0518	-0.0333	-0.0155	-0.0158	1.0000					
TP*BCOMS	0.0061	-0.0473	-0.0147	-0.0137	0.5262***	1.0000				
PD*MOWNR	0.0264	-0.0366	-0.0022	-0.0021	-0.4007***	-0.2131***	1.0000			
PD*BCOMS	-0.0132	0.0053	0.0022	0.0010	-0.1994***	-0.3852***	0.5838***	1.0000		
TDF*MOWNR	0.0079	0.0478	0.0016	0.0014	-0.4787***	-0.1390***	0.1108**	0.0144	1.0000	
TDF*BCOMS	-0.0120	0.0149	0.0126	-0.0010	-0.1652***	-0.2829***	0.0188	-0.1208***	0.4346***	1.0000
TF*MOWNR	0.0194	0.0183	0.0072	0.0072	-0.1532***	-0.0640	-0.2372***	-0.1271***	0.1481***	0.0991*
FTR*BCOMS	0.0164	0.0159	0.0058	0.0059	-0.1101**	-0.0733	-0.1974***	-0.1462	0.1301***	0.2128***
TLOS*MOWNR	-0.0447	-0.0497	-0.0083	-0.0083	0.1012**	0.0376	-0.1968***	-0.0959*	-0.1085**	-0.1217***
TLOS*BCOMS	-0.0276	-0.0118	-0.0074	-0.0074	0.0442	-0.0097	-0.1086**	-0.0882	-0.1088**	-0.1338***
UNC*MOWNR	0.0413	0.0370	0.0096	0.0101	-0.0875*	-0.0109	-0.0904*	-0.0935	-0.0331	-0.0109
UNC*BCOMS	-0.0008	0.0277	0.0052	0.0043	-0.0162	-0.1241***	-0.1027**	-0.0434	-0.0091	-0.0843*

Indicate significant * 5%, **2.5%, * ** 1% respectively

Table 8.3 (continued)

	TF*MOWNR	FTR*BCOMS	TLOS*MOWNR	TLOS*BCOMS	UNC*MOWNR	UNC*BCOMS
TF*MOWNR	1.0000					
FTR*BCOMS	0.7801***	1.0000				
TLOS*MOWNR	0.0197	0.0143	1.0000			
TLOS*BCOMS	0.0117	0.0075	0.7547***	1.0000		
UNC*MOWNR	0.1120**	0.1041**	-0.0396	0.0345	1.0000	
UNC*BCOMS	0.0727	-0.0210	0.0377	0.0974*	0.6128***	1.0000

Indicate significant * 5%, **2.5%, * ** 1% respectively

Since the correlation coefficient test interprets the association of just two variables, this analysis does not assure the presences of a multicollinearity problem (Hair *et al*., 2006). Tolerance and VIF value is a value that expresses and measures the level to which every independent variable is not interpreted by the set of other independent variables. Table 8.4 indicates the VIF that is associated to the models that investigates the relation between tax planning and corporate governance effect on tax disclosure. The table consists of four models (Model 1-4), Model 1 is associated to the model that examines the association between the tax disclosure and tax planning variables, Model 2 is associated to the model that examines the association between tax disclosure and tax saving components variables, Model 3 is associated to the model that tests the effects of corporate governance mechanisms on the association between tax disclosure and tax planning, and Model 4 is related to the model that investigates the effects of corporate governance on the association between tax disclosure and tax saving components with interaction variables.

The accepted degree of multicollinearity is a VIF of less than 10 (Hair *et al*., 2013; Pallant, 2013). There are no VIF values that show significant multicollinearity between the independent variables (in Table 8.4). Moreover, the mean VIF values of the four models range between 2.67 and 2.43, and the mean VIF of all independent variables in one regression is only 4.30 (Appendix B, Table 1). This indicates multicollinearity does not exist in relation to the independent variables.

Table 8. 4

Variance Inflation Factors (VIF)

	(Model 1)	(Model 2)	(Model 3)	(Model 4)
	TD and TP Variable	**TD and Components of Tax Saving**	**CG Mechanisms, TD and TP**	**CG, TD and Components of Tax Saving**
Variables	**VIF**	**VIF**	**VIF**	**VIF**
INDPROD	7.79	8.08	8.08	8.58
TRADSERV	6.85	7.22	7.22	7.69
CONSUM	5.26	5.61	5.61	5.93
TECHNO	3.3	3.38	3.38	3.71
FTR*BCOMS	-	-	-	3.4
PROPERT	3.01	3.19	3.19	3.36
PLANT	3.02	3.17	3.17	3.33
TF*MOWNR	-	-	-	2.83
TLOS*BCOMS	-	-	-	2.77
TLOS*MOWNR	-	-	-	2.71
CONSTR	2.39	2.5	2.5	2.66
FSIZ	1.54	1.57	1.57	2.3
UNC*BCOMS	-	-	-	2.26
UNC	-	1.05	1.05	2.12
PD*BCOMS	-	-	-	2
TP	1.03	-	-	-
TDF	-	1.06	1.06	1.97
UNC*MOWNR	-	-	-	1.93
PD	-	1.13	1.13	1.93
PD*MOWNR	-	-	-	1.92
TDF*BCOMS	-	-	-	1.87
BCOMS	-	-	-	1.85
FTR	-	1.04	1.04	1.85
TLOS	-	1.06	1.06	1.79
TDF*MOWNR	-	-	-	1.53
LEVE	1.42	1.43	1.43	1.46
CAPNT	1.37	1.4	1.4	1.46
IPC	1.32	1.33	1.33	1.35
HOTELS	1.33	1.33	1.33	1.33
MOWNR	-	-	-	1.31
GRTH	1.05	1.05	1.05	1.08
DIVID	1.04	1.05	1.05	1.08
EM	1.02	1.03	1.03	1.04
N	**858**	**858**	**858**	**858**
Mean VIF	**2.67**	**2.43**	**2.64**	**2.58**

8.4.2 Heteroscedasticity

One of the common violations in regression analysis with cross-section data is the existence of heteroscedasticity (Hair *et al.*, 2013). The heteroscedasticity examination is related to the analysis of the association between the dependent variable and cross-section error term. Furthermore, heteroscedasticity is a problem that can raise a bias value for true variance. The presence of heteroscedasticity also indicates unequal variance circumstances of the residual and the dispersion of the dependent variable values is not continual across the independent variables values (Hair *et al.*, 2013). This problem leads to higher t and F values, where the null hypotheses could be rejected while they must not be rejected if the problem is addressed. This shows that the variation of the dependent variable is not evenly interpreted by any of the independent variables and so restricts the interpretation of the impacts of the regressors. This will guide to erroneous evaluation of the standard errors and, therefore, the outcomes from testing hypotheses are biased. Several tests can be conducted in order to detect and determine the level of the heteroscedasticity problem, such as the Breusch–Pagan Godfrey Test, and White's-General-Heteroscedasticity Test, Park Test, Glejser Test, and Sperman's Rank Correlation Test.

This study has used two heteroscedasticity tests to detect the heteroscedasticity problem: Breusch and Pagan (1979) and Cook and Weisberg (1983). Generally, all the tests for all models show a significant rank of heteroscedasticity in which the differences are not persistent. Consequently, to manage for heteroscedasticity, this study in the analyses used robust standard errors (Eicker, 1963; Huber, 1967; White, 1980).

8.5 Descriptive Statistics

This section highlights the descriptive statistics of dichotomous and continuous variables for the sample of the models. To recognize and determine the situation of each construct (dependent, independent and moderator), descriptive statistics, for instance mean and standard deviation, were utilized as a way of clarification. This is an attempt to discuss and interpret the outcomes gained from descriptive statistics for the independent variables, moderator variables and control variables. Table 8.5 reports the descriptive statistics of the variables. Tax disclosure (TD) scores for the sample companies vary from 3.23 percent to 70.97 percent with a mean of 22.31 percent. This indicates that TD tends to be low on the average within the sample companies. The data represents a sample of the study with an average tax planning (TP) of 6.15 percent. This indicates that tax planning tends to be low on the average. The average TP of Malaysian listed companies in this study is low compared to finding by Abdul Wahab and Holland (2012) for the U.K. companies (persistent profitable companies 27.11 percent and non-persistent profitable companies 32.90 percent).

The an average score of component of tax saving are: permanent differences (PD) -0.77 percent, temporary differences (TDF) -0.10 percent, foreign tax rates differentials (FTR) -0.36 percent, tax losses component (TLOS) 0.17 percent and unclassified reconciliation items (UNC) -1.21 percent, respectively. This indicates that components of tax saving tends to be low on the average. The average components of tax savings of Malaysian listed companies in this study are in line with the finding of the above-mentioned U.K. study. Considering the scale heteroscedasticcity effect, the highest mean of the five tax

saving components that has been scaled by profit before tax (PBT_{it}) in magnitude for the sample is from unclassified reconciliation items (UNC) and is followed by PD. The foreign tax rate differentials (FTR) are in the third class of the highest average of tax saving components and this is then followed by TLOS and TDF. Nevertheless, this rank is seen to be various without scaled components (by PBT_{it}) the highest tax saving (in RM'000) is from PD and is followed by TDF. The unclassified reconciliation items (UNC) are in the third rank of the highest average, TLOS items and this is thereafter followed by foreign tax rate differentials (FTR). These indicate and present the presence of the activities of TP across firms in the sample. These also, in general, denote the variances in the extent of TP across companies.

Regarding corporate governance data, the mean of both managerial ownership (MOWNR) and board compensation (BCOMS) shows an average of 11.89 percent and 5.46 percent, respectively. This indicates that control effect of corporate governance factors tends to be low on the average. The results of BCOMS indicated appropriate remuneration levels of executive directors to the board in all its forms; this means the function of a remuneration committee in Malaysia is applied well (Bursa Malaysia, 2015). Moreover, the executive directors did not play a role in determining their own remuneration; this is consistent with Talha *et al*'s (2009) recommendations. In this context, MOWNR was not affected by the rapid economic growth in Malaysia sapping the concentrated ownership structure in Malaysian companies (Claessens *et al*., 2000). Additionally, individual and family shareholders are often the main shareholders in Malaysia. Consequently, the needs of better CG mechanisms is probably to be a significant consideration for Malaysian companies (Zhuang *et al*., 2001).

The control variables for the study models as shown in Table 8.5 reveal that the mean of firm size (FSIZ) is 5.6477, with a maximum of 7.8161 and a minimum of 3.7564. With regard to the companies' earning management (EM) the average mean is 0.86 percent, with a maximum of 10.52 percent and a minimum of -9.90 percent. In terms of capital intensity (CAPNT) the results reveal that its mean is 39.34 percent, with a maximum of 133.95 percent and a minimum of 0 percent. This indicates that CAPNT tends to be moderate on the average. The mean of companies' growth (GRTH) is 11.93 percent, with a minimum of -99.83 percent and a maximum of 158.14 percent. Moreover, the average leverage (LEVE) of the sample companies is 7.76 percent, with a maximum of 58.32 percent and a minimum of 0 percent. The results reveal the dividends mean is 1.2095 percent, with a minimum of 0 percent and a maximum of 7 percent. Finally, the industry dummy variable indicates an average mean between 26.57 percent in the TRADSERV sector and 1.05 percent in the HOTELS sector. Nevertheless, the descriptive analysis is considered to be a somewhat limited analysis because it does not take into account the interrelationships amongst independent variables.

Table 8. 5

Descriptive Statistics: Tax Planning and Corporate Governance: Effects on Tax Disclosure

N=858	Mean	Min	Max	S.D
TD	0.2231	0.0323	0.7097	0.0815
TP	0.0615	-0.7615	1.1451	0.1894
PD	-0.0077	-0.7400	0.8813	0.1366
TDF	-0.0010	-0.3940	0.3938	0.0793
FTR	-0.0036	-0.2484	0.2286	0.0401
TLOS	0.0017	-0.2038	0.2381	0.0427
UNC	-0.0121	-0.3033	0.2501	0.0572
MOWNR	0.1189	0.0000	0.6967	0.1723
BCOMS	0.0546	0.0000	0.4576	0.0713
FSIZ	5.6477	3.7564	7.8161	0.6372
EM	0.0086	-0.0990	0.1052	0.0255
CAPNT	0.3934	0.0000	1.3395	0.2958
GRTH	0.1193	-0.9983	1.5814	0.3216
LEVE	0.0776	0.0000	0.5832	0.1017
DIVID	1.2095	0.0000	7.0000	1.0443

INDS*	Firms	Percentage
INDPROD	75	26.22
CONSUM	44	15.38
CONSTR	14	4.90
TRADSERV	76	26.57
TECHNO	20	6.99
REITS**	10	3.49
PROPERT	21	7.34
PLANT	20	6.99
IPC	3	1.05
HOTELS	3	1.05
TOTAL	**286**	100

Note: * Industry Dummy Variable. **REITS industry sector has been eliminated from all regressions by STATA software.

8.6 Multivariate Results

Multivariate analyses were performed after controlling for influential observation and outliers (Belsley, Kuh, & Welsch, 2004; Chen Xiao *et al*., 2005). The independent variables were tested for multicollinearity (Belsley *et al*., 2004). Multicollinearity does not exist between independent variables of this study. This is explained in the

multicollinearity test part aforementioned. Moreover, heteroscedasticity tests disclose that the residuals' differences are not fixed in that residuals are scattered randomly through the range of the estimated dependent (Eicker, 1963; Huber, 1967; White, 1980). In accordance with the hypotheses (Chapter Six) the outcomes are presented based on three sections: first, tax disclosure and tax planning, second, tax disclosure and corporate governance and third, tax disclosure, tax planning and corporate governance.

8.6.1 Tax Disclosure and Tax Planning

Table 8.6 shows the findings of the association between tax disclosure and TP. Two sets of results are presented in (Models 1 and 2). Model 1 reports the findings of the estimation model that examines the association between tax disclosure and the extent of TP of the sampled companies (H_1). Model 2 presents the findings of the association between tax disclosure and tax saving components. As reported in model 1 the association between tax disclosure and the level of TP in the model is significant ($p < 0.0000$) with Wald chi^2 value of 127.60 and R^2 of 17.60 percent. In line with hypothesis H_1, the results show that there is a relationship between tax disclosure and the degree of TP and this relationship is positively significant ($p<0.000$).

Table 8. 6

Regression Results: Tax Disclosure and Tax Planning

DV =TD	(Model 1)		(Model 2)	
	IV = Tax Planning		IV = Component of Tax Saving	
	Coefficient	**z-statistic**	**Coefficient**	**z-statistic**
TP	**0.0464**	**(4.16)*** **	-	-
PD	-	-	**-0.0288**	**(-1.92)***
TDF	-	-	**-0.0455**	**(-1.71)***
FTR	-	-	-0.0531	(-0.71)
TLOS	-	-	**0.117**	**(2.19)****
UNC	-	-	-0.0531	(-1.48)
FSIZ	**0.0452**	**(5.37)*****	**0.0460**	**(5.46)*****
EM	0.0793	(1.35)	0.0666	(1.14)
LEVE	-0.0231	(-0.79)	-0.0294	(-0.98)
CAPNT	-0.00081	(-0.07)	-0.00507	(-0.40)
DIVID	-0.00195	(-1.12)	-0.00208	(-1.18)
GRTH	-0.000927	(-0.18)	-0.00147	(-0.30)
INDPROD	**0.128**	**(7.77)*****	**0.137**	**(8.00) *****
CONSUM	**0.116**	**(5.82)*****	**0.125**	**(6.13)*****
CONSTR	**0.0970**	**(4.47)*****	**0.105**	**(4.62)*****
TRADSERV	**0.107**	**(7.25)*****	**0.114**	**(7.36)*****
TECHNO	**0.118**	**(5.62)*****	**0.126**	**(5.84)*****
PROPERT	**0.0891**	**(6.00)*****	**0.0981**	**(6.39)*****
PLANT	**0.102**	**(4.62)*****	**0.107**	**(4.74)*****
IPC	0.0106	(0.42)	0.0176	(0.71)
HOTELS	**0.0935**	**(4.77)*****	**0.100**	**(4.93)*****
Cons	**-0.135**	**(-2.76)*****	**-0.143**	**(-2.91)*****
R-sq	-	0.1760	-	0.1833
N	-	858	-	858
Wald chi2	18#	**127.60*****	22#	**113.65*****
Breusch-Pagan	16#	**101.48*****	20#	**107.51*****

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics. * 5%, **2.5%, *** 1% respectively.
degree of freedom

Model 2 presents the results of testing related hypotheses (H_{1a}, H_{1b}, H_{1c} and H_{1d}) that is the association between tax disclosure and the extent of tax saving components. In addition, the model that incorporates the components of tax saving items as independent variables was estimated. The model is significant (p <0.000) with a Wald chi^2 value of

113.65 and R^2 of 18.33 percent. The results show that there is a negative significant association between tax disclosure and the two components of tax saving, PD and TDF, and a positive significant relationship with the TLOS. This outcome supports hypotheses H_{1a}, H_{1b} and H_{1d} in expecting the association between the tax disclosure and the extent of tax saving from permanent differences, temporary differences and tax losses. However, the outcomes on tax disclosure of the other component, foreign tax rates differentials (FTR) is discovered to be unsupportive of the hypothesis, H_{1c}. Consequently, generally, it can be explained that the positively association between tax disclosure and tax planning as in Model 1 is affected by the significant association of tax saving components as in Model 2, especially the TLOS components of tax saving.

Regarding firm-specific characteristic variables in both Model 1 and 2, the outcomes indicate significant positive relationships between tax disclosure and two variables: FSIZ and industry dummy (INDS). There are eight sectors of the control variable industry dummies measurement that are positively significant: INDPROD, CONSUM, CONSTR, TRADSERV, TECHNO, PROPERTY, PLANT and HOTELS, respectively. Significant negative associations were not found in any control variables. In terms of the other firm-specific characteristic variables, such as earnings management, capital intensity, dividend, leverage and growth, insignificant associations with tax disclosure were found. These findings are consistent across the other three estimation models, reported in Tables 8.7 and 8.8.

8.6.2 Tax Disclosure and Corporate Governance

In testing the direct association between corporate governance and tax disclosure and the moderating impact of corporate governance on the association between tax planning and tax disclosure, the estimation model has been tested for that purpose. Estimating the model to examine the association between tax disclosure, corporate governance and tax planning produced the results presented in Model 3 and 4 of Table 8.7. Overall, the model of the direct association between tax disclosure and corporate governance (Model 3) is significant ($p < 0.000$) with a Wald chi^2 value of 128.90 and R^2 of 17.68 percent. Model 3 reports that the direct association between the level of company tax disclosure and the companies' corporate governance as stated in H_2 is insignificant with both of its proxies: MOWNR and BCOMS. Consequently, hypothesis H_2, which predicts the presence of a direct impact of corporate governance on tax disclosure, is not supported. The results do not support Slemrod's (2005) study that documented high levels of awareness among tax executives of changing legislation and of the emergence of a corporate governance type environment, indicating how this awareness could show acceptable levels of tax disclosure.

Table 8. 7

Regression Results: Tax Disclosure and Corporate Governance

	(Model 3)		(Model 4)	
DV=TD	**IV = Tax Planning and Corporate Governance**		**IV = CG and TP with Interactive Variables**	
	Coefficient	**z-statistic**	**Coefficient**	**z-statistic**
TP	**0.0466**	**(4.17)*** **	**0.0684**	**(4.08) *** **
MOWNR	0.0156	(0.60)	0.0196	(0.74)
BCOMS	-0.0325	(-0.71)	-0.015	(-0.30)
FSIZ	**0.0447**	**(4.81)*** **	**0.0451**	**(4.84)*** **
EM	0.0796	(1.35)	0.0789	(1.34)
LEVE	-0.0236	(-0.81)	-0.0262	(-0.90)
CAPNT	0.0000538	(0.00)	-0.000534	(-0.04)
DIVID	-0.00197	(-1.13)	-0.00192	(-1.12)
GRTH	-0.000656	(-0.12)	0.000262	(0.05)
INDPROD	**0.128**	**(7.71)*** **	**0.128**	**(7.88)*** **
CONSUM	**0.116**	**(5.80) *** **	**0.115**	**(5.83) *** **
CONSTR	**0.0946**	**(4.27)*** **	**0.0932**	**(4.24)*** **
TRADSERV	**0.107**	**(7.28) *** **	**0.106**	**(7.43) *** **
TECHNO	**0.119**	**(5.64)*** **	**0.118**	**(5.75)*** **
PROPERT	**0.0879**	**(5.80)*** **	**0.0870**	**(5.8)*** **
PLANT	**0.100**	**(4.66)*** **	**0.101**	**(4.74)*** **
IPC	0.0110	(0.44)	0.00824	(0.34)
HOTELS	**0.0934**	**(4.80)*** **	**0.0916**	**(4.91)*** **
TP*MOWNR	-	-	-0.0835	(-1.13)
TP*BCOMS	-	-	-0.142	(-1.27)
Cons	**-0.132**	**(-2.44)** **	**-0.136**	**(-2.50)** **
R-sq	-	0.1768	-	0.1826
N	-	858	-	858
Wald chi2	20#	**128.90*** **	22#	**138.51*** **
Breusch-Pagan	18#	**118.33*** **	20#	**123.36*** **

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics. * 5%, ** 2.5%, *** 1% respectively.
degree of freedom

In order to examine the function of corporate governance, as explained in Chapter Six and Seven, the model in Model 3 of Table 8.7 was re-estimated. The results in Model 4 of the same table, shows the interacting effect of corporate governance variables and tax planning (TP*MOWNR and TP*BCOMS) on tax disclosure. In other words, it shows whether the association between tax disclosure and TP is conditional upon the power of a firm's CG characteristics. As a rule, the model is significant (p <0.000) with Wald chi^2

value of 138.51 and R^2 of 18.26 percent.

Results in Model 4 shows that the earlier significant association between tax disclosure and TP still holds when both of the interacting variables are added in the model. This implies that CG mechanisms have a positive impact on the interested parties' estimation of TP activities. Nonetheless, the lack of a significant coefficient related with any one of the interactive variables makes it hard to understand the nature of the association. Thus, the lack of a moderating effect of the corporate governance interactive variables is a contrary result to that of Desai and Dharmapala (2008) who concluded that CG internal mechanisms drive a firm's disclosure. This result also does not underpin Desai and Dharmapala's (2009) evidence on the stronger influence of tax planning, when the CG mechanism is stronger. However, the results are in line with the U.K. study, which failed to underpin the evidences on the importance of corporate governance to moderate the association between TP and other factors that may be to some extent have influenced the quality of the companies' financial reporting (Abdul Wahab & Holland, 2012).

8.6.3 Tax Disclosure, Corporate Governance and Tax Planning

In order to examine the role of CG characteristics further this study investigated the moderating impact of corporate governance on the relationship between the tax saving components and tax disclosure. The above-mentioned estimation model is an additional estimate with the insertion of corporate governance variables, MOWNR and BCOMS. Here the model that was estimated to derive the findings in Model 2 of Table 8.6 was additionally re-estimated with a further ten interactive or moderating variables:

$PD_{it}*BCOMS_{it}$, $PD_{it}*MOWNR_{it}$, $TDF_{it}*BCOMS_{it}$, $TDF_{it}*MOWNR_{it}$, $FTR_{it}*BCOMS_{it}$, $FTR_{it}*MOWNR_{it}$, $TLOS_{it}*BCOMS_{it}$, $TLOS_{it}*MOWNR_{it}$, $UNC_{it}*BCOMS_{it}$ and $UNC_{it}*MOWNR_{it}$. These variables were utilized to test whether the association between tax disclosure and the tax saving components is conditional upon the power of a firm's CG characteristics.

The results are presented in Table 8.8. The results are depended on the balanced sample of 858 firm-year ends, the sample that has been used in all models. Overall, the model is significant ($p < 0.000$) with Wald chi^2 value of 136.05 and R^2 of 19.33 percent. Comparing the outcomes with the initial results in Model 2 of Table 8.6, a consistent significant negative association between tax disclosure (TD) and PD is documented and still holds in the new model. As mentioned above, a consistent negative significant tax disclosure-permanent difference association is reported but at a greater magnitude than the PD coefficient estimated. On this basis, these results, generally, highlight that CG characteristics have an effect on the interested parties' evaluation of the components of tax saving. Table 8.8 reported the outcomes of the analysis, which specify that the earlier negative significant association between tax disclosure and TDF and the positive significant association between tax disclosure and TLOS generally won't holds when the ten interacting variables are added in the model. This also supports the above argument that CG characteristics have an effect on the companies and interested parties' assessment of components of tax saving.

Table 8. 8

Regression Results: Tax Disclosure, Tax Planning and Corporate Governance

DV=TD	**IV = TP (tax saving components) and CG with Interactive Variables**	
	z-statistic	**Coefficient**
PD	**(-2.33)****	**-0.0464**
TDF	(-1.52)	-0.0524
FTR	(-1.15)	-0.0818
TLOS	(1.16)	0.0633
UNC	(-1.19)	-0.0622
MOWNR	(0.66)	0.0173
BCOMS	(-0.39)	-0.0176
FSIZ	**(5.06)*****	**0.0481**
EM	(1.32)	0.0776
LEVE	(-0.99)	-0.0292
CAPNT	(-0.24)	-0.00292
DIVID	(-0.88)	-0.00162
GRTH	(0.07)	0.000389
INDPROD	**(7.91)*****	0.139
CONSUM	**(6.14)*****	**0.127**
CONSTR	**(4.41)*****	**0.103**
TRADSERV	**(7.21)*****	**0.114**
TECHNO	**(5.78)*****	**0.128**
PROPERT	**(6.14)*****	**0.0993**
PLANT	**(4.83)*****	**0.110**
IPC	(0.69)	0.0174
HOTELS	**(5.03)*****	**0.103**
PD*MOWNR	(1.01)	0.126
PD*BCOMS	(0.85)	0.199
TDF*MOWNR	(-0.82)	-0.156
TDF*BCOMS	(0.98)	0.416
FTR*MOWNR	(0.06)	0.0451
FTR*BCOMS	(0.61)	1.322
TLOS*MOWNR	**(1.81)***	**0.987**
TLOS*BCOMS	(-0.43)	-0.272
UNC*MOWNR	**(2.02)****	**0.342**
UNC*BCOMS	(-1.37)	-0.521
Cons	**(-2.84)*****	-0.159
R-sq	-	**0.1933**
N	-	858
Wald chi2	34#	**136.05*****
Breusch-Pagan	32#	**172.03*****

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics. * 5%, **2.5%, *** 1% respectively.

degree of freedom

The absence of a significant coefficient associated with any of the two interactive variables between corporate governance variables (MOWNR and BCOMS) and tax disclosure makes it complex to understand the nature of the association. On the contrary, tax disclosure is shown to be positively significant associated to TLOS upon the addition of TLOS*MOWNR as an interactive variable, but negatively insignificant upon the inclusion of TLOS*BCOMS as an interactive variable. Additionally, tax disclosure is also found to be positive and significant associated to the UNC*MOWNR interactive variable. These indicate that the moderating impacts of corporate governance on unclassified components (UNC) and TLOS are provisional upon the strength of the managerial ownership (MOWNR).

8.7. Discussions of Results

The purpose of this study is to explore the relationship between tax planning, corporate governance, and tax disclosure. There are eleven hypotheses based on main theories Socholes -Wolfson framework, agency theory and signaling theory, also based on other theories that have been discussed in Chapters Two, Three and Four, respectively. By testing these hypotheses, the study revealed some results, which may improve our knowledge of corporate tax planning and tax disclosure. In general, the level of tax disclosure varies among firms. For some items some firms did not have such items and hence did not disclose any information regarding those items. How far this is genuine is difficult to tell, because a firm may have the item, but would not want to admit to it due to the practice of income management etc. Consistent with multivariate results above-mentioned in Section 8.6, the results discussions will be presented based on three sections

as follows: first, Section 8.7.1 reports the association between tax disclosure and the extent of tax planning (H_1) and the association between tax disclosure and the extent of tax saving components predicted in H_{1a}, H_{1b}, H_{1c} and H_{1d}. Second, Section 8.7.2 presents the direct relationship that predicted the association between corporate governance with tax disclosure (H_2) and the moderating effect that predicted the influence of corporate governance on the association between tax disclosure and tax planning (H_3). Third, Section 8.7.3 reports the moderating effect of corporate governance on the relationship between the tax saving components, namely; PD predicted in H_{3a}, TDF predicted in H_{3b}, FTR predicted in H_{3c} and TLOS predicted in H_{3d} with tax disclosure.

8.7.1 Tax Disclosure and Tax Planning

Section 8.6.1 reports the multivariate results of the association between tax disclosure and tax planning. The results showed that there is an association between the tax disclosure and the extent of TP and this relationship is positively significant (H_1). This is not in line with the discussion of Lenter *et al*. (2003) who documented that high tax disclosure could have some beneficial effects, such as tax disclosure may force firms to resist effective strategies to reduce tax planning. This may be due to the different environment in the U.S. compared to Malaysia. Moreover, Lenter *et al*. (2003) argued that the disclosure of organization tax information supports increment compliance. This is due to tax disclosure simplifies the reconciliation of the varieties between income and tax. These reconciliations could help tax authority in discovering firms' tax evasion and this discussion may support the results of H_1.

Based on that premise, in Malaysia TP activities is not viewed as a value-increasing activity within companies even its relationship is positive and significant on tax disclosure, no valuation effect can be inferred. Also because these activities are considered to be unconnected with managers' moral hazard, as Desai and Dharmapala (2009) claimed, or for the reason that higher TP levels cannot merely be gained if further risks are taken (Slemrod, 2005; Chen *et al.*, 2010). Furthermore, this result could be related to taxpayer' lack of concern about investigation by the authorities. As Tiley (2005) illustrated in the case of *Furniss v Dawson*[9] there is a risk of provoking the tax authority when the prospective tax saving may be decreased by the authority's behaviours in resisting TP activities. Consequently, it can be inferred that the findings underpin the hypothesis that forecasts a relationship between tax disclosure and the extent of tax planning.

Regarding the relationship between tax disclosure and components of tax saving that had been predicted in H_{1a}, H_{1b}, H_{1c} and H_{1d}. The findings present significant negative interested parties' assessment on the PD and TDF component of tax saving of the firms (H_{1a} and H_{1b}). The findings are originated from the multivariate analysis that examines the association between tax disclosure and the tax saving components. These findings underpin Frank *et al.*'s (2009) evidences on the negative impact of PD and TDF on tax reporting aggressiveness. Furthermore, the results underpin the argument by Abdul Wahab (2010) of existence of the association between disclosure of tax information and PD (H_{1a}), which could be due to the conception that PD indicates a company's capability to carry out strategic tax planning. The author suggested such disclosure make users of

[9] House of Lords case in the area of U.K. tax (1984).

financial statements assessment firms which are aggressive in tax reporting and found that these companies are associated with high permanent book-tax differences (Abdul Wahab, 2010). In this regard, the negative and significant findings of this result that predicted H_{1b} are inconsistent with Mills, Erickson, and Maydew (1998) arguments who attributed incrementing TDF to an increasing extent of aggressive organization tax planning. Additionally, the results is in accordance with current research, (e.g. Frank *et al.*, 2009; Hanlon & Heitzman, 2010) who support the association between disclosing information about tax and temporary differences. Moreover, the results also show TDF are a worry to interested parties, as this kind of tax saving could result in an increase in cash flows (Tran-Nam & Evans, 2000).

On the contrary, the findings present significant positive relationship between the TLOS components of tax saving and tax disclosure (H_{1d}). As a result, the above-mentioned positive association between tax disclosure and TP can be generally deduced as associated to the TLOS component of tax saving. The remaining components of FTR (H_{1c}) was found to be not significantly associated with tax disclosure, suggesting that this component has a low influence on interested parties' tax disclosure evaluation. This is contradictory to Schmidt (2006) argument about the FTR is related with disclosure of tax information as FTR show permanent effective TP activities also to forward-looking information for precise forecasts. Based on that, the findings sustain the hypothesis that predicts a relationship between tax disclosure and the PD, TDF and TLOS component of TP activities. The findings, nonetheless, failed to underpin the hypothesis that predicts a relationship between tax disclosure and the foreign tax rates differentials. In general, companies in Malaysia, as the finding of this study shows, are consistent with Bauman

and Shaw (2008) who specify that firms must disclose tax information in particular part in the financial statement.

In terms of firm-specific characteristic variables, the results show positive and significant associations only between tax disclosure and two variables: FSIZ and industry dummy (INDS). The positive and significant relationship between FSIZ and tax disclosure is consistent with a study by Evers, Finke, Matenaer, Meier and Zinn (2014). The results are generally consistent with the empirical disclosure literature. Insignificant relationships are found in capital intensity (CAPNT) and earnings management (EM). These results imply that the interested parties may not pay attention when they assess the extent to which firms are involved in earnings manipulation. This evidence does not underpin the argument concerning the awareness of interested parties about management's discretion in financial statements (Lev & Nissim, 2010).

Moreover, in relation to the above associations, the outcomes also illustrate that there are no significant association between tax disclosure and leverage, dividend and growth. As the growth is, for the most part, connected with good performance and management. It is contended that the management of an organization with good prospects is eager to advise financial specialists of its growth chances (Kanto & Schadewitz, 1997). Consistent with signaling theory, high growth organizations are likely to disclose more information to highlight good news and to offer certainty to investors. On the contrary, firms with low or negative growth are more likely to hide bad news by disclosing less information. In line with Ku Ismail and Chandler (2005) which examined the impact of growth on the level of disclosure in Malaysia, this study found that there is no significant relationship between

growth and tax disclosure.

Regarding leverage, from the viewpoint of agency theory, Jensen and Meckling (1976) contended that higher monitoring costs would be incurred by companies that are highly leveraged. To decrease the monitoring costs, it is normal for organizations that are highly leveraged to disclose more information in their financial reports. In this context, the relationship between leverage and the level of disclosure needs to be positive. All things considered, prior evidence demonstrates that the results were uncertain. A few studies demonstrated a noteworthy relationship (e.g. Schadewitz & Blevins, 1998), while others in studies of annual reports discovered no relationship (e.g. Ahmed & Nicholls, 1994). Taking into account the arguments of agency theory, this study expected to find that highly leveraged firms disclose more information in their financial reports compared with lesser leveraged companies. In contradiction of Ku Ismail and Chandler (2005) which analysed the effect of leverage on the level of disclosure in Malaysia, found that there is no significant relationship between leverage and tax disclosure. However, the results of this study are consistent with the findings of the above-mentioned studies by Kamran Ahmed and Nicholls (1994) and Evers *et al*. (2014).

8.7.2 Tax Disclosure and Corporate Governance

Disclosure of company tax information could help regulators develop the function of financial markets, encourage compliance with corporate governance rules and, generally, encourage tax compliance (Lenter *et al*., 2003). The multivariate findings on the direct (H_2) and moderating (H_3) impact of corporate governance on the association between tax

disclosure and TP were presented in Section 8.6.2. The section also presented the outcomes of the further investigations that were performed to value whether the aforementioned associations revealed are conditional upon the power of firms' corporate governance structures. The findings showed that corporate governance is not a moderating factor in the association between tax disclosure and tax planning. For example, in comparing the outcomes in Model 3 of Table 8.7 with the results presented in Model 1 of Table 8.6, a consistent positive significant tax disclosure-TP association is reported, but at a greater magnitude than the TP coefficient estimate. Particularly, with the addition of the variables of CG the coefficient estimated of TP of both direct and moderating relationships are presented as a higher coefficient than their primary evaluations, i.e. without corporate governance variables. The coefficient estimated of the TP variable without and with corporate governance variables of both models, for both direct and moderating relationships are unimportantly different from each other.

Furthermore, the results reported that, with CG, the interested parties assessed the TP even more positively. The insignificant variation between both estimates does not underpin the argument on the significance of CG mechanisms to interested parties' TP evaluation (Henderson Global Investors, 2005; Desai & Dharmapala, 2009). The findings of this study are in line with the U.K. study which failed to underpin the evidences on the significance of corporate governance to moderate the relationship between TP and other factors that affect the quality of companies' financial statement (Abdul Wahab & Holland, 2012). This may be due to the interested parties' point of view that there is generally better corporate governance practice in Malaysia and thus practice of corporate governance is not a distinguishing factor from the interested parties' perception.

Consequently, it can be inferred that the findings do not underpin the hypotheses in testing the direct and moderating impact of corporate governance on the association between tax disclosure and the extent of TP activities.

8.7.3 Tax Disclosure, Corporate Governance and Tax Planning

Similar implications for CG on interested parties' tax planning evaluation, is as well noted in the association between tax disclosure and the tax saving components (as indicators for TP activities). Moreover, in line with Abdul Wahab & Holland's (2012) this study found the PD variable was negatively significant, regardless whether CG variables were entered into the regression or no. This does not enhance the argument that taxation has a significant association with various CG mechanisms, which work to develop the firms' governance behaviour (Desai & Dharmapala, 2008).

In contrast to the initial findings of the association between tax disclosure and the other two tax saving components, the coefficient estimates of the two components, TDF and TLOS were found to be insignificant, and similar to the initial findings, the foreign tax rates differentials was additionally discovered to be insignificant. This suggested that corporate governance does not influence the association between tax disclosure and the three components of tax saving. In general, the findings failed to underpin the hypothesis that predicted the moderating impact of corporate governance on the relationship between tax disclosure and tax saving components, which are the PD, TDF, TLOS and FTR respectively.

In testing if the corporate governance implication on tax saving components was

conditional upon the power of corporate governance structure, there was a lack of a significant coefficient related with any of the two interactive variables between corporate governance variables (MOWNR and BCOMS) and tax disclosure. This made it complicated to understand the nature of the association. On the opposite, as mentioned previously, the tax disclosure was shown to be positively and significantly associated with tax losses upon the incorporation of interactive variable TLOS*MOWNR, but negatively insignificant upon the inclusion of TLOS*BCOMS as an interactive variable. In this context, it can be concluded that the association between good corporate governance and disclosure of tax information could offer control of a firm's market risk by increasing both disclosure of tax information and the market transparency, delineating the ownership structure and management and producing overlapping interests between managers and the company itself (Vello & Martinez, 2012). This underpins the restricted argument about corporate governance factors that have a moderating impact on the tax disclosure-tax losses relationship. Moreover, tax disclosure was also found to be positively significant associated with the UNC*MOWNR interactive variable. As a result, in accordance with Desai and Dharmapala (2009), it can be inferred that CG mechanisms are known to be essential by interested parties in valuing TP activities of companies. This is in line with Lenter *et al*. (2003) who claimed that the relationship between tax planning and tax disclosure can be better interpreted if the former is linked with CG mechanisms. In addition, in line with the interpretations of the association between corporate governance (ownership) and disclosure of information, Sundaramurthy’s (1996) results are consistent with the management disclosure literature, which explain that lower corporate governance (CEO ownership) are associated with a

greater likelihood of issuing management forecasts (Karamanou & Vafeas, 2005) and increased disclosure of information that is include tax disclosure (Eng & Mak, 2003). Based on previous studies, and as for as the researcher is concerned, there is no literature on the moderating role of corporate governance in the tax disclosure-tax planning association**.**

Moreover, the above discussions of previous studies, (such as Lenter *et al*., 2003; Desai & Dharmapala, 2009; Abdul Wahab & Holland, 2012) focus on different settings. There were mixed opinions and varying results on the associations between tax planning and corporate governance with other factors for example, shareholder evaluation. In this study, the analysis of the moderating effect of corporate governance on the model examined the implication of a strong structure of CG on TP evaluation, where both corporate governance variables (proportion of MOWNR and BCOMS) indicated conflicting impacts on tax disclosure, i.e. negative coefficient estimation of interaction variable between tax saving and proportion of MOWNR and positive coefficient estimation of interaction variable between tax saving and proportion of BCOMS and vice versa. In brief, this study found weak confirmation of a moderating impact of corporate governance on tax planning–tax disclosure relationship. Consequently, it can be explained that a CG mechanism does not moderate the association between tax disclosure and tax planning.

8.8 Additional Tests and Sensitivity Analysis

Several further sensitivity and robustness tests were run for all the models to evaluate the

robustness of the results and to further supply supplementary results. The analysis is related to results of the OLS regression, autocorrelation, possible effects of tax planning-related factors, linearity tests, reclassification of unclassified reconciliation items and annual regressions and year dummies.

8.8.1 Results of Pooled OLS Regression

The results of this study are presented based on random effect estimation as mentioned earlier in this chapter. This estimation is suitable as this study aims to generalise the results from the sample to its population (Kennedy, 2003). Table 8.9 present the results of testing the hypotheses on OLS regression estimation regression of all models of relationships between tax disclosure, tax planning, corporate governance and components of tax saving with interaction variables by using the OLS regression method, utilizing the STATA software package in order to evaluate this relationship. The table depicts estimated models coefficients, the associated significant test outcomes, R^2 of the models.

Table 8. 9

Results of OLS Regression of Tax Disclosure with: Tax Planning, Corporate Governance and Components of Tax Saving with Interaction Variables

	(Model 1)		(Model 2)		(Model 3)		(Model 4)	
DV=TD	**Coef**	**z-statistic**	**Coef**	**z-statistic**	**Coef**	**z-statistic**	**Coef**	**z-statistic**
TP	0.0533	**(3.81)*****	-	-	0.0917	**(5.01)*****	-	-
PD	-	-	-0.0419	**(-2.22)****	-	-	-0.0716	**(-2.90)*****
TDF	-	-	-0.0474	(-1.56)	-	-	**-0.0753**	**(-1.89)***
FTR	-	-	-0.145	(-1.65)	-	-	-0.149	(-1.33)
TLOS	-	-	0.206	**(2.9)*****	-	-	0.137	**(2.17)****
UNC	-	-	-0.0944	**(-2.04)****	-	-	-0.0931	(-1.43)
MOWNR	-	-	-	-	0.0252	(1.34)	0.0156	(0.85)
BCOMS	-	-	-	-	0.0402	(0.86)	0.0162	(0.38)
FSIZ	0.0473	**(7.78)*****	0.0478	**(7.92)*****	0.0503	**(7.04)*****	0.0515	**(7.08)*****
EM	-0.00651	(-0.07)	-0.0361	(-0.38)	-0.00257	(-0.03)	-0.0154	(-0.16)
LEVE	-0.0711	**(-2.30)** **	-0.0755	**(-2.42)** **	-0.0739	**(-2.39)** **	-0.0751	**(-2.38)** **
CAPNT	0.00362	(0.38)	0.000684	(0.07)	0.00193	(0.2)	0.000687	(0.07)
DIVID	-0.00291	(-1.05)	-0.00328	(-1.18)	-0.00303	(-1.09)	-0.00277	(-0.99)
GRTH	0.00503	(0.67)	0.00361	(0.49)	0.00644	(0.88)	0.00524	(0.73)
INDPROD	0.120	**(11.36)*****	0.129	**(11.12)*****	0.119	**(11.37)*****	0.133	**(10.9)*****
CONSUM	0.109	**(8.82)*****	0.119	**(8.91)*****	0.106	**(8.77)*****	0.123	**(8.88)*****
CONSTR	0.0913	**(6.81)*****	0.102	**(6.88)*****	0.0856	**(6.23)*****	0.101	**(6.48)*****
TRADSERV	0.102	**(11.15)*****	0.110	**(10.86)*****	0.0993	**(11.09)*****	0.112	**(10.35)*****
TECHNO	0.111	**(8.2)*****	0.120	**(8.44)*****	0.108	**(8.19)*****	0.125	**(8.19)*****
PROPERT	0.0821	**(8.25)*****	0.0950	**(8.66)*****	0.0789	**(7.88)*****	0.0982	**(8.35)*****
PLANT	0.0945	**(6.89)*****	0.103	**(6.94)*****	0.0933	**(7.03)*****	0.108	**(7.09)*****
IPC	0.0072	(0.34)	0.0159	(0.76)	0.000554	(0.03)	0.0157	(0.73)
HOTELS	0.0853	**(6.47)*****	0.0929	**(6.87)*****	0.0834	**(6.64)*****	0.0976	**(7.28)*****
TP*MOWNR	-	-	-	-	-0.101	(-1.16)	-	-
TP*BCOMS	-	-	-	-	-0.314	**(-2.14)** **	-	-
PD*MOWNR	-	-	-	-	-	-	0.251	(1.65)
PD*BCOMS	-	-	-	-	-	-	0.15	(0.6)
TDF*MOWNR	-	-	-	-	-	-	-0.00362	(-0.02)
TDF*BCOMS	-	-	-	-	-	-	0.535	(0.9)
FTR*MOWNR	-	-	-	-	-	-	-0.8	(-0.82)
FTR*BCOMS	-	-	-	-	-	-	2.829	(0.92)
TLOS*MOWNR	-	-	-	-	-	-	0.966	(1.32)
TLOS*BCOMS	-	-	-	-	-	-	-0.669	(-0.70)
UNC*MOWNR	-	-	-	-	-	-	0.205	(0.88)
UNC*BCOMS	-	-	-	-	-	-	-0.258	(-0.45)
Cons	-0.138	**(-4.15)*****	-0.147	**(-4.41)*****	-0.158	**(-4.0)** ***	-0.174	**(-4.27)** ***
N		858		858		858		858
R-sq		0.18		0.192		0.189		0.205
F-statistic	18#	**16.66*****	22#	**12.55*****	22#	**15.32*****	34#	**8.64*****

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics. * 5%, ** 2.5%, *** 1% respectively.

degree of freedom

Table 8.9 shows the results of testing the hypotheses on all models of the relationships. Tax disclosure is statistically significant with some variables, indicating that the overall tax disclosure can be interpreted. The R^2 for the models is between 18 percent and 20.5 percent, these statistics show that tax disclosure level explained 20 percent of the total variance in tax disclosure. Furthermore, this illustrates that the level of tax disclosure has a good level of explanatory power.

8.8.2 Autocorrelation

Autocorrelation indicates the infringement of the regression's assumption that the error terms are not correlated with one another, either on the size through a series of observations in time series, or cross-sectional data, or on the direction. Whilst the panel dataset includes duplicated observations on the similar cross-section, the firm-year observations in this study possibly show autocorrelation (Wooldridge, 2010). Therefore, an autocorrelation test (Wooldridge, 2010) was employed to discover any possible first-order time series autocorrelation problems. The test results in Table 8.10 show no significant autocorrelation in any of the study models.

In all estimation models that test the association between tax disclosure and tax planning, tax disclosure; tax planning and corporate governance, and tax disclosure, components of tax saving and corporate governance, the F-statistics of the tests are 0.089 (p-value of 0.7658), 0.182 (p-value of 0.6697), 0.110 (p-value of 0.7401) and 0.470 (p-value of 0.4937), respectively.

Table 8. 10

Wooldridge Test for Autocorrelation in Panel Data

	(Model 1)	(Model 2)	(Model 3)	(Model 4)
	TD and TP	TD and Component of Tax Saving	TD, TP and CG	TD, CG and Component of Tax Saving
F(1, 285) =	0.089	0.182	0.110	0.470
Prob > F =	0.7658	0.6697	0.7401	0.4937

8.8.3 Possible Impacts of Tax Planning Related Factors

In evaluating the association between tax disclosure and tax planning, growth (GRTH), leverage (LEVE) and capital intensity (CAPNT) are included in the evaluation models to control for possible effects of tax-associated factors. Any one of these factors contains an area that could include tax planning. As a result, the tax planning variable may in impact be including tax planning in another non-determined area. For example, due to their related lack of transparency compared to capital structure interested parties such as shareholders, may evaluate these factors negatively. In this context, the models were re-estimated with the exception of growth (GRTH), leverage (LEVE) and capital intensity (CAPNT), to examine whether the outcomes of the tax planning-related variables, TP, PD, TDF, FTR, TLOS and UNC are capturing the likely impacts of tax planning related factors. Table 8.11 presents the results of this re-estimation.

Table 8. 11

Potential Effects of Tax Planning-Related Factors

	(Model 1)		(Model 2)		(Model 3)		(Model 4)	
DV=TD	**Cof**	**z-statistic**	**Cof**	**z-statistic**	**Cof**	**z-statistic**	**Cof**	**z-statistic**
TP	0.0464	**(4.15)** ***	-		0.0679	**(4.05)** ***	-	-
PD	-	-	-0.0283	**(-1.89)***	-	-	-0.0456	**(-2.31)** **
TDF	-	-	-0.0468	(-1.77)	-	-	-0.0536	(-1.56)
FTR	-	-	-0.0529	(-0.71)	-	-	-0.0827	(-1.16)
TLOS	-	-	0.111	**(2.14)** **	-	-	0.0606	(1.14)
UNC	-	-	-0.0531	(-1.47)	-	-	-0.0612	(-1.16)
MOWNR	-	-	-	-	0.0189	(0.71)	0.0171	(0.65)
BCOMS	-	-	-	-	-0.0161	(-0.32)	-0.0184	(-0.41)
FSIZ	0.0434	**(5.52)** ***	0.0435	**(5.59)** ***	0.0430	**(4.90)** ***	0.0458	**(5.10)** ***
EM	0.0787	(1.35)	0.0664	(1.14)	0.0784	(1.34)	0.0772	(1.32)
DIVID	-0.00194	(-1.12)	-0.00204	(-1.16)	-0.00188	(-1.09)	-0.00154	(-0.84)
INDPROD	0.130	**(8.55)** ***	0.137	**(8.51)** ***	0.130	**(8.60)** ***	0.140	**(8.49)** ***
CONSUM	0.119	**(6.21)** ***	0.126	**(6.40)** ***	0.118	**(6.20)** ***	0.129	**(6.46)** ***
CONSTR	0.0984	**(4.54)** ***	0.105	**(4.63)** ***	0.0951	**(4.32)** ***	0.104	**(4.48)** ***
TRADSERV	0.109	**(7.54)** ***	0.115	**(7.51)** ***	0.108	**(7.66)** ***	0.116	**(7.41)** ***
TECHNO	0.120	**(6.16)** ***	0.126	**(6.19)** ***	0.120	**(6.26)** **-*	0.129	**(6.12)** ***
PROPERT	0.0906	**(6.06)** ***	0.0991	**(6.38)** ***	0.0891	**(5.86)** ***	0.101	**(6.23)** ***
PLANT	0.104	**(4.86)** ***	0.110	**(4.95)** ***	0.104	**(5.00)** ***	0.113	**(5.06)** ***
IPC	0.0113	(0.45)	0.018	(0.71)	0.00932	(0.39)	0.0181	(0.70)
HOTELS	0.0960	**(5.17)** ***	0.103	**(5.27)** ***	0.0944	**(5.35)** ***	0.105	**(5.41)** ***
TP*MOWNR	-		-		-0.0819	(-1.10)	-	-
TP*BCOMS	-		-		-0.137	(-1.25)	-	-
PD*MOWNR	-		-		-		0.121	-0.96
PD*BCOMS	-		-		-		0.201	-0.89
TDF*MOWNR	-		-		-		-0.155	(-0.82)
TDF*BCOMS	-		-		-		0.414	(0.98)
FTR*MOWNR	-		-		-		0.038	(0.05)
FTR*BCOMS	-		-		-		1.381	(0.64)
TLOS*MOWNR	-		-		-		1.005	**(1.84)***
TLOS*BCOMS	-		-		-		-0.331	(-0.53)
UNC*MOWNR	-		-		-		0.343	**(2.03)** **
UNC*BCOMS	-		-		-		-0.527	(-1.37)
Cons	-0.129	**(-2.70)** ***	-0.134	**(-2.81)** ***	-0.128	**(-2.41)** **	-0.151	**(-2.73)** ***
N	-	858	-	858	-	858	-	858
Wald chi2	15#	**120.82*** **	19#	**104.05*** **	19#	**131.29*** **		**128.88*** **

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics. * 5%, ** 2.5%, *** 1% respectively.
degree of freedom

Table 8.11 indicated that all results of all models are in accord with the primary outcomes suggesting that the absence of GRTH, LEVE and CAPNT variables have no effect on tax disclosure-tax planning relationship. The results as well proposes that the deleted

variables (GRTH, LEVE and CAPNT) have an impact on PD, in which interested parties suppose that PD is interpreted by the tax planning related factors, i.e. GRTH, LEVE and CAPNT.

8.8.4 Linearity Tests

Linearity presumes that there is a linear association between the dependent variable and the independent variables during which modification in the dependent variable is related to the independent variables. Whether the standard deviation of the residuals is less than the standard deviation of the dependent variable , linearity is not a problem, from a numerical perspective (Hair *et al*., 2013). Moreover, from a graphical perspective, in an area of residuals versus predicted values or an area of the observed against anticipated values, the points have to be symmetrically circulated around a horizontal line in the previous area or a diagonal line in the latter area. Consequently, for this study, the linearity assumption is met for all of the models.

8.8.5 Reclassification of Unclassified Reconciliation Items

Two separate tests were conducted to examine the sensitivity of the association between tax disclosure and the components of tax saving to the categorisation of unclassified items (UNC). As discussed in Chapter Seven the UNC represented effective tax rate reconciliation items that could not be classified beneath the other two groups (PD and TDF) due to the possibility that the interested parties may perceive them to be categorised under more than one group. This was done for the purpose of the robustness of the

classifications. UNC categories were also separately regressed as TDF and PD. The results of the first test re-categorisation of UNC as PD and the second test re-categorisation of UNC as TDF are reported in Table 8.12. Generally, the outcomes are in line with the primary regression outcomes that show a significant association between tax disclosure and PD. This indicates that the coefficient valuation of the components are robust upon the re-categorisation of the unclassified items, i.e. either unclassified items (UNC) are considered as temporary differences (TDFUNC) or permanent differences (PDUNC), or are rejected for estimation aims. Nevertheless, regarding corporate governance with interaction variables and components of tax saving, PDUNC*MOWNR is found to be not harmonious with the primary outcomes of PD*MOWNR, i.e. when UNC is re-categorised as PD, in which the association seems to be positively significant compared to the primary outcome that suggests insignificant association of PD*MOWNR. Moreover, TDFUNC*MOWNR interaction variable is found to be inconsistent with the initial result of TDF*MOWNR, i.e. when UNC is re-categorised as TDF, in which the association is positively significant compared to the primary findings that seems to be insignificant. This indicates indifferent interested parties' assessments on the structure of corporate governance and that the coefficient valuation is robust.

Table 8. 12

Reclassification of Unclassified Items with CG Interaction Variables

DV=TD	UNC as PD		UNC as TDF	
	Coefficient	**z-statistic**	**Coefficient**	**z-statistic**
PD	-	-	**-0.0433**	**(-2.23)** **
TDF	-0.0440	(-1.65)	-	-
FTR	-0.0897	(-1.32)	-0.0856	(-1.23)
TLOS	0.0717	(1.24)	0.0638	(1.16)
PDUNC	-0.0525	(-1.01)	-	-
TDFUNC	-	-	-0.0571	(-1.11)
MOWNR	0.0173	(0.67)	0.0177	(0.68)
BCOMS	-0.0255	(-0.56)	-0.0221	(-0.49)
FSIZ	**0.0473**	**(4.92)** ***	**0.0478**	**(5.06)** ***
EM	0.0767	(1.29)	0.0745	(1.26)
LEVE	-0.0257	(-0.87)	-0.0322	(-1.10)
CAPNT	-0.00359	(-0.29)	-0.00441	(-0.36)
DIVID	-0.00156	(-0.83)	-0.00184	(-0.96)
GRTH	-0.000686	(-0.14)	0.000456	(0.09)
INDPROD	**0.132**	**(7.78)** ***	0.138	**(7.79)** ***
CONSUM	**0.118**	**(5.90)** ***	**0.125**	**(5.98)** ***
CONSTR	**0.0959**	**(4.16)** ***	**0.101**	**(4.31)** ***
TRADSERV	**0.108**	**(7.05)** ***	**0.113**	**(7.08)** ***
TECHNO	**0.120**	**(5.54)** ***	**0.127**	**(5.69)** ***
PROPERT	**0.0906**	**(5.84)** ***	**0.0977**	**(5.99)** ***
PLANT	**0.102**	**(4.60)** ***	**0.107**	**(4.7)** ***
IPC	0.0127	(0.49)	0.0199	(0.71)
HOTELS	**0.0991**	**(4.46)** ***	**0.101**	**(4.97)** ***
PD*MOWNR	0.0416	(0.33)	-	-
PD*BCOMS	-0.0747	(-0.36)	-	-
TDF*MOWNR	-	-	0.0805	(0.68)
TDF*BCOMS	-	-	0.224	(0.98)
FTR*MOWNR	-0.0164	(0.02)	-0.0349	(-0.05)
FTR*BCOMS	1.653	(0.77)	1.421	(0.67)
TLOS*MOWNR	0.898	**(1.61)***	0.904	(1.56)
TLOS*BCOMS	-0.258	(-0.40)	-0.166	(-0.26)
PDUNC*MOWNR	**0.325**	**(2.08)** **	-	-
PDUNC*BCOMS	-0.539	(-1.42)	-	-
TDFUNC*MOWNR	-	-	**0.367**	**(2.3)** **
TDFUNC*BCOMS	-	-	-0.581	(-1.55)
Cons	**-0.147**	**(-2.60)*****	**-0.155**	**(-2.76)** ***
N	-	858	-	858
Wald chi2	31#	**131.14*** **	31#	**128.78*** **
R-sq	-	0.1863	-	0.1896

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics. * 5%, ** 2.5%, *** 1% respectively.

degree of freedom

8.8.6 Year Dummies and Annual Regressions

In order to examine the stabilization of the findings presented through time, the models were predestined over three annual regressions, 2010, 2011 and 2012. This procedure is suitable compared to other options, such as averaging the variables (Chen *et al.*, 2010), since this examination is purposed to supply additional understanding of interested parties' tax planning evaluation as an alternative to mitigating statistical worries of time series impact. The findings are presented in Table 8.13 to Table 8.16.

Table 8. 13

Annual Regressions: Tax Disclosure and Tax Planning

DV=TD	2010	2011	2012	All
TP	0.0946	0.0388	0.0417	0.0533
	(3.56)***	(1.18)	**(2.49)****	**(3.81)*****
FSIZ	0.0469	0.0515	0.0447	0.0473
	(4.24)***	**(3.87)*****	**(5.65)*****	**(7.78)*****
EM	0.00305	0.128	-0.167	-0.00651
	(0.02)	(0.63)	(-0.98)	(-0.07)
LEVE	-0.0486	-0.102	-0.0684	-0.0711
	(-0.78)	**(-1.80)***	(-1.43)	**(-2.30)** **
CAPNT	0.000193	-0.00492	0.012	0.00362
	(0.01)	(-0.27)	(0.82)	(0.38)
DIVID	-0.00498	0.000646	-0.00385	-0.00291
	(-1.07)	(0.13)	(-0.82)	(-1.05)
GRTH	-0.00867	-0.00238	0.0244	0.00503
	(-0.58)	(-0.19)	**(2.12)** **	(0.67)
INDPROD	0.119	0.126	0.117	0.120
	(5.87)***	**(7.09)*****	**(7.26)*****	**(11.36)*****
CONSUM	0.105	0.111	0.110	0.109
	(4.6)***	**(4.99)*****	**6.03)*****	**(8.82)*****
CONSTR	0.0953	0.0879	0.0881	0.0913
	(3.93)***	**(3.62)*****	**(3.83)*****	**(6.81)*****
TRADSERV	0.104	0.102	0.0999	0.102
	(5.87)***	**(6.88)*****	**(7.34)*****	**(11.15)*****
TECHNO	0.116	0.112	0.103	0.111
	(4.87)***	**(4.37)*****	**(5.17)*****	**(8.2)*****
PROPERT	0.0732	0.0946	0.0775	0.0821
	(4.05)***	**(5.7)*****	**(4.91)*****	**(8.25)*****
PLANT	0.101	0.0862	0.100	0.0945
	(4.1)***	**(3.7)*****	**(4.12)*****	**(6.89)*****
IPC	-0.0254	0.035	0.00661	0.0072
	(-0.53)	1.83	0.26	(0.34)
HOTELS	0.0616	0.0906	0.102	0.0853
	(2.62)**	**(4.42)*****	**(5.57)*****	**(6.47)*****
Cons	-0.133	-0.164	-0.132	-0.138
	(-2.24) **	**(-2.31)** **	**(-2.92)** ***	**(-4.15)** ***
N	286	286	286	858
R-sq	0.212	0.166	0.202	0.18
adj. R-sq	0.165	0.117	0.154	0.163
F-statistic	**6.07*****	**7.77*****	**8.44*****	**16.66*****
	16#	16#	16#	18#

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics.
* 5%, ** 2.5%, *** 1% respectively. # degree of freedom

Table 8. 14

Annual Regressions: Tax Disclosure and Components of Tax Saving

DV=TD	2010	2011	2012	All
PD	-0.0863	-0.0241	-0.0282	-0.0419
	(-2.80)***	(-0.65)	(-0.89)	**(-2.22)****
TDF	-0.155	0.0187	0.0228	-0.0474
	(-2.98) ***	(0.3)	(0.57)	(-1.56)
FTR	-0.304	0.016	-0.183	-0.145
	(-1.71)	(0.14)	(-1.21)	(-1.65)
TLOS	0.0337	0.468	0.0982	0.206
	(0.55)	**(2.62)****	(1.05)	**(2.9)*****
UNC	-0.11	-0.170	0.0112	-0.0944
	(-1.21)	**(-2.30)****	(0.16)	**(-2.04)****
FSIZ	0.0455	0.0524	0.0448	0.0478
	(4.43)***	**(3.92)*****	**(5.61)*****	**(7.92)*****
EM	0.00825	0.0173	-0.181	-0.0361
	0.06	0.08	(-1.05)	(-0.38)
LEVE	-0.046	-0.107	-0.0684	-0.0755
	(-0.73)	**(-1.86)***	(-1.41)	**(-2.42)***
CAPNT	-0.000183	-0.0084	0.00817	0.000684
	(-0.01)	(-0.44)	(0.54)	(0.07)
DIVID	-0.0056	-0.000158	-0.00404	-0.00328
	(-1.16)	(-0.03)	(-0.86)	(-1.18)
GRTH	-0.00983	-0.00107	0.0202	0.00361
	(-0.65)	(-0.08)	**(1.72)***	(0.49)
INDPROD	0.134	0.127	0.124	0.129
	(5.8)***	**(6.54)*****	**(7.11)*****	**(11.12)*****
CONSUM	0.128	0.113	0.114	0.119
	(5.03)***	**(4.68)*****	**(5.81)*****	**(8.91)*****
CONSTR	0.114	0.0981	0.0898	0.102
	(4.16)***	**(3.57)*****	**(3.65)*****	**(6.88)*****
TRADSERV	0.122	0.104	0.105	0.110
	(5.9)***	**(6.62)*****	**(6.69)*****	**(10.86)*****
TECHNO	0.137	0.112	0.110	0.120
	(5.17)***	**(4.24)*****	**(5.08)*****	**(8.44)*****
PROPERT	0.0953	0.105	0.0837	0.0950
	(4.47)***	**(5.53)*****	**(4.62)*****	**(8.66)*****
PLANT	0.122	0.0836	0.103	0.103
	(4.4)***	**(3.52)*****	**(3.87)*****	**(6.94)*****
IPC	-0.0137	0.0387	0.0154	0.0159
	(-0.29)	**(1.71)***	(0.63)	(0.76)
HOTELS	0.0843	0.0876	0.105	0.0929
	(3.26)***	**(4.34)*****	**(5.28)*****	**(6.87)*****
Cons	-0.141	-0.169	-0.133	-0.147
	(-2.55)**	**(-2.34)****	**(-2.96)*****	**(-4.41)** ***
N	286	286	286	858
R-sq	0.235	0.218	0.202	0.192
adj. R-sq	0.177	0.159	0.142	0.171
F-statistic	**5.05*****	**6.59*****	**5.92*****	**12.55*****
	$20^{\#}$	$20^{\#}$	$20^{\#}$	$22^{\#}$

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics.
* 5%, ** 2.5%, *** 1% respectively.
# degree of freedom

Table 8. 15

Annual Regressions: Tax Disclosure and Corporate Governance

DV=TD	2010	2011	2012	All
TP	0.188	0.0772	0.0483	0.0917
	(4.81)*	**(2.26)**	**(2.06)**	**(5.01)***
MOWNR	0.0159	0.0527	0.015	0.0252
	(0.46)	(1.44)	(0.51)	(1.34)
BCOMS	0.0905	0.0728	-0.0118	0.0402
	(1.17)	(0.8)	(-0.15)	(0.86)
FSIZ	0.0506	0.0598	0.0446	0.0503
	(3.95) *	**(3.86) ***	**(4.48) ***	**(7.04)***
EM	0.0281	0.122	-0.164	-0.00257
	(0.21)	(0.61)	(-0.96)	(-0.03)
LEVE	-0.0443	-0.113	-0.069	-0.0739
	(-0.70)	**(-2.01)**	(-1.43)	**(-2.39) *
CAPNT	-0.00346	-0.00656	0.0124	0.00193
	(-0.19)	(-0.35)	(0.84)	(0.2)
DIVID	-0.00564	0.000242	-0.00339	-0.00303
	(-1.25)	(0.05)	(-0.68)	(-1.09)
GRTH	-0.0056	0.0013	0.0245	0.00644
	(-0.38)	(0.11)	**(2.12)**	(0.88)
INDPROD	0.123	0.118	0.116	0.119
	(6.71) *	**(6.56) ***	**(6.85) ***	**(11.37)***
CONSUM	0.107	0.102	0.109	0.106
	(5.12) *	**(4.64) ***	**(5.76) ***	**(8.77)***
CONSTR	0.0930	0.0753	0.0854	0.0856
	(3.91) *	**(2.84) ***	**(3.63) ***	**(6.23)***
TRADSERV	0.105	0.0934	0.0990	0.0993
	(6.65) *	**(6.21) ***	**(6.95) ***	**(11.09)***
TECHNO	0.116	0.105	0.102	0.108
	(5.16) *	**(4.15) ***	**(4.83) ***	**(8.19)***
PROPERT	0.0700	0.0870	0.0764	0.0789
	(4.2)*	**(4.99) ***	**(4.71)***	**(7.88)***
PLANT	0.108	0.0798	0.0989	0.0933
	(4.75)*	**(3.49) ***	**(4.06)***	**(7.03)***
IPC	-0.0339	0.0221	0.00614	0.000554
	(-0.78)	1.06	0.23	(0.03)
HOTELS	0.0604	0.0873	0.101	0.0834
	(3.12)*	**(4.21)***	**(5.59)***	**(6.64)***
TP*MOWNR	0.407	0.0431	0.0079	-0.101
	(-3.29)*	(0.2)	(0.07)	(-1.16)
TP*BCOMS	-0.419	-0.470	-0.121	-0.314
	(-1.41)	**(-2.03)**	(-0.56)	**(-2.14)**
Cons	-0.162	-0.213	-0.132	-0.158
	(-2.31)	**(-2.55)**	**(-2.35)**	**(-4.00) ***
N	286	286	286	858
R-sq	0.245	0.186	0.203	0.189
adj. R-sq	0.188	0.124	0.143	0.167
F-statistic	**6.42***	**6.59***	**6.81***	**15.32***
	20[#]	20[#]	20[#]	22[#]

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics.
* 5%, ** 2.5%, *** 1% respectively.
# degree of freedom

Table 8.16

Annual Regressions: Tax Disclosure, Components of Tax Saving and CG

DV=TD	2010		2011		2012		All	
	Coef	z-statistic	Coef	z-statistic	Coef	z-statistic	Coef	z-statistic
PD	-0.119	**(-2.67) *****	-0.0797	**(-1.94)***	-0.0277	(-0.71)	-0.0716	**(-2.90)*****
TDF	-0.207	**(-2.72) *****	0.0305	(0.37)	-0.0265	(-0.50)	-0.0753	**(-1.89)***
FTR	-0.36	(-1.39)	0.0654	(0.42)	-0.105	(-0.64)	-0.149	(-1.33)
TLOS	0.0215	(0.27)	0.309	**(2.53)****	0.122	(1.01)	0.137	**(2.17)****
UNC	-0.121	(-0.84)	-0.226	**(-1.93)***	0.0592	0.65	-0.0931	(-1.43)
MOWNR	-0.0107	(-0.29)	0.0484	(1.36)	0.0153	(0.53)	0.0156	(0.85)
BCOMS	0.0752	(1.03)	0.0591	(0.67)	-0.0609	(-0.89)	0.0162	(0.38)
FSIZ	0.0496	**(3.8) *****	0.0643	**(4.1)*****	0.0432	**(4.46)*****	0.0515	**(7.08)*****
EM	0.0277	(0.2)	0.0361	(0.16)	-0.186	(-1.04)	-0.0154	(-0.16)
LEVE	-0.0438	(-0.67)	-0.123	**(-2.05)****	-0.0606	(-1.19)	-0.0751	**(-2.38)****
CAPNT	-0.0000127	(-0.00)	-0.0113	(-0.57)	0.00423	(0.27)	0.000687	(0.07)
DIVID	-0.00622	(-1.21)	-0.000157	(-0.03)	-0.00324	(-0.64)	-0.00277	(-0.99)
GRTH	-0.00586	(-0.39)	-0.00605	(-0.46)	0.0176	(1.43)	0.00524	(0.73)
INDPROD	0.140	**(5.67)*****	0.127	**(6.31)*****	0.128	**(6.58)*****	0.133	**(10.9)*****
CONSUM	0.134	**(5.12)*****	0.115	**(4.64)*****	0.113	**(5.22)*****	0.123	**(8.88)*****
CONSTR	0.119	**(3.97)*****	0.0836	**(2.86)*****	0.0853	**(3.22)*****	0.101	**(6.48)*****
TRADSERV	0.125	**(5.7)*****	0.104	**(6.4)*****	0.104	**(6.05)*****	0.112	**(10.35)*****
TECHNO	0.140	**(5.01)*****	0.112	**(3.92)*****	0.117	**(4.67)*****	0.125	**(8.19)*****
PROPERT	0.0990	**(4.25)*****	0.113	**(5.81)*****	0.0830	**(4.16)*****	0.0982	**(8.35)*****
PLANT	0.130	**(4.48)*****	0.0910	**(3.8)*****	0.103	**(3.66)*****	0.108	**(7.09)*****
IPC	-0.0166	(-0.36)	0.0349	(1.34)	0.0162	(0.58)	0.0157	(0.73)
HOTELS	0.0909	**(3.47)*****	0.0954	**(4.22)*****	0.106	**(5.11)*****	0.0976	**(7.28)*****
PD*MOWNR	0.279	(1.6)	0.437	**(1.8)***	0.0744	(0.21)	0.251	(1.65)
PD*BCOMS	0.112	(0.28)	0.208	(0.49)	-0.194	(-0.40)	0.15	(0.6)
TDF*MOWNR	0.227	(0.76)	-0.176	(-0.46)	0.345	(0.95)	-0.00362	(-0.02)
TDF*BCOMS	0.626	(0.66)	0.251	(0.24)	0.258	(0.26)	0.535	(0.9)
FTR*MOWNR	-1.373	(-0.78)	-0.859	(-0.75)	-0.787	(-0.42)	-0.8	(-0.82)
FTR*BCOMS	5.799	(0.83)	1.446	(0.44)	0.125	(0.02)	2.829	(0.92)
TLOS*MOWNR	0.48	(1.02)	4.685	**(4.53)*****	-0.303	(-0.40)	0.966	(1.32)
TLOS*BCOMS	-0.311	(-0.24)	-5.695	**(-4.53) *****	0.233	(0.07)	-0.669	(-0.70)
UNC*MOWNR	0.23	(0.49)	-0.314	(-0.88)	0.794	(1.58)	0.205	(0.88)
UNC*BCOMS	0.166	(0.19)	1.302	(1.1)	-2.588	**(-2.48)****	-0.258	(-0.45)
Cons	-0.172	**(-2.40)****	-0.246	**(-2.84) *****	-0.124	**(-2.24)****	-0.174	**(-4.27)*****
N		286		286		286		858
R-sq		0.247		0.296		0.22.3		0.205
adj. R-sq		0.152		0.207		0.125		0.172
F-statistic	32#	**3.86*****	32#	**5.82*****	32#	**3.88*****	34#	**8.64*****

Numbers in brackets symbolize cross-section clustered Eicker-Huber-White adjusted z-statistics. * 5%, ** 2.50%, *** 1% respectively.

degree of freedom

In examining the annual association between tax disclosure and tax planning the results indicate that the initial regression results on the positive association are applicable in 2010 and 2012. In 2011, the association becomes insignificant (see Table 8.13). These contradict results supported Cavana *et al*. (2001) argument of balanced panel data as it is a more sensitive measurement of the modifications that could occur between points in time. Moreover, Table 8.14 reports the result of examining the annual associations between tax disclosure and components of tax saving. The primary findings on the negative significant association between PD are valid in 2010. In 2011 and 2012, the association becomes insignificant. The coefficients of TDF are also found to be negative and significant, but only in 2010. In this regard, the FTR are found to be insignificant throughout the period. On the contrary, the coefficients of TLOS are found to be positive and significant, but only in 2011. The annual results in respect of UNC indicate a negative and significant relationship with tax disclosure, but only in 2011. The inconsistent results may due to the Malaysian business environment, the outcomes created by using a panel dataset are more robust, consistent, and stable to enable a generalisation of the population, so that it is more meaningful and representative (Baltagi, 2013; Gujarati, 2015).

In terms of the annual direct associations between tax disclosure and corporate governance variables (MOWNR and BCOMS), the primary findings on the insignificant relationship between tax disclosure and both MOWNR and BCOMS are applicable throughout the period. Regarding the relationship between tax disclosure, tax planning and corporate governance with interaction variables, the findings indicate a negative and significant association between tax disclosure and TP*MOWNR, but only in 2010. Moreover, the association between tax disclosure and TP*BCOMS interaction variable is found to be

negative and significant, but only in 2011 (Table 8.15).

Table 8.16 reports the annual regression results of the relationship between tax disclosure, component of tax saving and corporate governance with interaction variables. The primary panel regression findings on the negative and significant associations between PD are applicable in 2010 and 2011. In 2012, the association is still negative but it is insignificant. Additionally, the findings show a negative and significant association between tax disclosure and TDF but only in 2010. Moreover, the results show an insignificant relationship between tax disclosure and both component of tax saving, namely: FTR and TLOS throughout the three years. In relation to the association between tax disclosure and UNC, the results report a negative and significant association, but only in 2011.

By taking into account the moderating impact of CG, the findings show a positive relationship between tax disclosure and PD*MOWNR in 2011. The findings also indicate a positive and significant association between tax disclosure and the interaction variable TLOS*MOWNR but only in 2011. On the contrary, the results show a negative and significant relationship between tax disclosure and TLOS*BCOMS only in 2011. In this context, the annual findings of the association between tax disclosure and UNC indicate a negative and significant association only in 2012. Finally, the annual results in all models indicate consistent positive and significant associations between tax disclosure and two control variables: FSIZ and industry dummy (INDS). There are eight sectors of the control variable industry dummies measurement that are positively significant. Overall, this means that the findings of the research concerning tax disclosure, tax planning and corporate governance must be explained with consideration of the time difference impact.

8. 9 Conclusion

This chapter discussed and presented the findings derived from the analyses of the influence of tax planning and corporate governance on tax disclosure by testing the models that have been developed in Chapter Seven. This chapter began with explanations of influential observations and outliers. Then, the chapter discussed the ways of choosing the model of the study, which consisted of three subsections presenting the choices between random effect and pooled OLS regression, fixed effect and random effect models and random effects results. The discussion continued with consideration of the heteroscedasticity and multicollinearity tests in the following sections of this chapter. The next section presented an explanation of the descriptive statistics to give an understanding of the sample's characteristics. The chapter then continued with the multivariate results, which consisted of three subsections presenting the outcomes from the analysis of the association between tax disclosure and tax planning, tax disclosure and corporate governance and between tax disclosure, tax planning and corporate governance. Then the chapter continued with consideration of the discussion of results. Some further tests have been undertaken in the next section in order to consider the sensitivity of the findings towards alternative options for testing of the variables.

This study, which seeks to examine the association between tax disclosure and tax planning while at the same time considering corporate governance as a moderating effect, found that tax planning have a positive effect on the level of company tax disclosure. Furthermore, the component of tax saving (PD and TDF) is also found to be associated with tax disclosure, implying that interested parties have a negative perception of the

firms' capability in following long-run tax planning, but in contrast to this, the TLOS component of tax saving was found to be positively associated with tax disclosure. Moreover, the components of tax saving, the PD component of tax saving, TDF component of tax saving, TLOS component of tax saving, were found to outweigh the other components of tax saving in tax disclosure and tax planning assessment. With regards to the effect of corporate governance control, there is limited evidence that CG factors (e.g. managerial ownership and board compensation) have a moderating impact on the tax disclosure-tax planning association, but there is evidence that CG factors have a moderating influence on the tax disclosure-components of the tax saving relationship. The TLOS*MOWNR and UNC*MOWNR interactive variables were found to outweigh the other interactive or moderating variables in this association.

CHAPTER NINE

CONCLUSIONS, RECOMMENDATIONS AND CONTRIBUTIONS

This study has been carried out to examine the association between tax disclosure and tax planning whilst at the same time considering the moderating effect of corporate governance on that relationship. It supplies empirical evidence that robustly underpins the hypotheses associated with interested parties' tax planning evaluation. Nevertheless, the evidence in some areas supports the argument on the significance of corporate governance mechanisms to that evaluation. As a summary of this study, this chapter concentrates on summary of discussing the results and contributions, its limitations, and recommendations for future study. The chapter starts with a short synopsis of this study, followed by a summary of the hypotheses. The chapter then continues with summary of the outcomes of the hypotheses examined. In illustrating the contributions of this research, the following section concentrates on these aspects of the contributions: theoretical, empirical and practical. The subsequent section discusses the limitations of the findings and in turn supplies suggestions for further future research.

9.1 Study Overview

The literature review in Chapter Two illustrates the objectives and reasons relating to the implications of tax disclosure in order to give a better understanding of corporate tax disclosure. Tax disclosure is a comparatively new area of company reporting research. One of the major difficulties in researching this topic is the limitation of previous

literature. Briefly, by meaning, boosting disclosure means that some information that is now confidential becomes public. Nevertheless, it is believed that there is no structural impediment to forgoing the confidentiality of this information, and hence the situation should be made on a basis of whether or not there are overriding advantages. This situation has been found to be convincing and we can look forward to the subsequent stride of considering the best place for tax disclosure and the information about its implementation (Lenter *et al*., 2003).

In Chapter Three the literature shed light on the concept of tax planning activities, and also the objectives and reasons for managers and companies to conduct tax planning activities. Essentially, the primary motivations for undertaking tax planning are the expected financial benefits. In particular, the core objective of tax planning activities is to raise the after tax return if managers are working in the best interests of shareholders, whilst also attaining company objectives. This should be after considering the possible costs and advantages of such activities. These activities are not solely affected by the perceived risks or advantages, but also rely on some other factors such as corporate governance.

In Chapter Four the literature review considered the magnitude of CG mechanisms in restricting the owners-managers conflict. The efficiency of the CG mechanisms in mitigating the clashes between managers and holders have been analysed in this study based on two general categories: internal and external mechanisms. This disagreement, in tax planning, is also about managerial opportunism in following the tax planning activities. This managerial opportunism is a moral hazard issue that occurs due to the

information asymmetry of tax planning activities between the managers and the shareholders.

As a result, as illustrated in Chapter Five, tax planning can raise the interested parties' wealth, but interested parties may negatively assess the tax planning activities. Consequently, corporate governance practice is expected to raise interested parties' confidence in managers undertaking tax planning activities. Moreover, several studies have found that good corporate governance behaviour is not essentially viewed by interested parties as an efficient mechanism for guaranteeing that the managers are implementing tax planning to enhance interested parties' wealth (Hanlon & Slemrod, 2009). This is because of interested parties' worries about managers' interests in undertaking tax planning and is also connected to ex-post previous year evaluation effects. In this context, tax planning could be evaluated from a shareholder's and other interested parties' perspective by using ETR information, because the ETR reflects tax planning activities (Abdul Wahab & Holland, 2012). Previous researchers documented the relationship between interested parties valuation and tax planning (Atwood & Reynolds, 2008; Frank *et al*., 2009). Hanlon and Slemrod (2009) argue that interested parties i.e. shareholders' fears are associated to the insight that a management which is aggressive with reference to taxation might also be offensive with respect to its dealings with shareholders.

This study firstly examined the association between tax planning and tax disclosure, whilst also considering the role of corporate governance as a moderating impact. After controlling for company-specific characteristics (for instance: firm size, dividends and

industry sector), the study began by investigating the association between tax disclosure and tax planning, before examining how corporate governance may moderate the association. Based on the argument that corporate governance could affect interested parties' insight on tax planning, this study additionally examined whether corporate governance moderates the aforementioned association. Moreover, to examine the nature of the associations founded on components of tax saving, this study examined the association between tax disclosure and the individual components of tax saving, and then tested whether the association is moderated by CG mechanisms. The summary of the results will be discussed in the following section.

9.2 Hypotheses and Findings Summary

This section summarises the hypotheses that have been produced and developed in Chapter Six and the results that have been derived from the methodology depicted in Chapter Seven. Moreover, to answer the research questions addressed in Chapter One, this part also briefly discusses the results that have been elaborated in Chapter Eight.

9.2.1 Hypotheses

The hypotheses in Chapter Six are based on three sections: first, tax disclosure and tax planning, second, tax disclosure and corporate governance and third, tax disclosure, tax planning and corporate governance. Because there is no earlier Malaysian literature on the directions of the associations, the hypotheses were developed exclusive of any predicted direction. Even though there is the U.K. and the U.S. literature in the field of

this research, the conflicting results amongst those researches (Desai & Dharmapala, 2009; Abdul Wahab & Holland, 2012) make any new results hard to forecast. In this context, the hypothesised variables in every hypothesis tested are presented in Table 9.1.

Table9.1
Concerned Variables in Hypotheses

Objective	**Hypot -heses**	**Tested Variable (Abbreviation)**	**Expect -ed Sign**	**Finding of Hypotheses Examining**	**Results Table (Chapter8)**
To investigate the association between the level of corporate tax disclosure and the extent of corporate TP.	H_1	Tax planning (TP)	+/-	Supported: Positive association between Tax disclosure and TP	Model 1 Table 8.6
To investigate the association between the level of corporate tax disclosure and the extent of PD component of tax planning.	$\mathbf{H_{1a}}$	Permanent differences (PD)	+/-	Supported: Negative relationship between Tax disclosure and PD	Model 2 Table 8.6
To investigate the association between the level of corporate tax disclosure and the extent of TDF component of tax planning.	$\mathbf{H_{1b}}$	Temporary differences (TDF)	+/-	Supported: Negative relationship between Tax disclosure and TDF	Model 2 Table 8.6
To investigate the association between the level of corporate tax disclosure and the extent of FTR component of tax planning.	$\mathbf{H_{1c}}$	Foreign tax rates differentials (FTR)	+/-	Not Supported	Model 2 Table 8.6
To investigate the association between the level of corporate tax disclosure and the extent of the TLOS component of tax planning.	$\mathbf{H_{1d}}$	Tax losses (TLOS)	+/-	Supported: Positive relationship between Tax disclosure and TLOS	Model 2 Table 8.6

Table 9.1 (continued)

To investigate the association between the level of corporate tax disclosure and the companies' CG conduct.	**H_2**	Corporate governance variables (MOWNR & BCOMS)	+/-	Not Supported	Model 3 Table 8.8
To investigate whether the relationship between the level of corporate tax disclosure and the extent of tax planning activities is moderated by CG conduct.	**H_3**	Interactive or Moderating variables (TP*MOWNR & TP*BCOMS)	+/-	Not Supported	Model 4 Table 8.8
To investigate whether the relationship between the level of corporate tax disclosure and the extent of PD component of tax planning is moderated by companies' CG.	**H_{3a}**	Interaction or Moderating variables (PD*MOWNR & PD*BCOMS)	+/-	Not Supported	Table 8.9
To investigate whether the relationship between the level of corporate tax disclosure and the extent of TDF component of tax planning is moderated by companies' CG.	**H_{3b}**	Interaction variables (TDF*MOWNR & TDF*BCOMS)	+/-	Not Supported	Table 8.9
To investigate whether the relationship between the level of corporate tax disclosure and the extent of FTR component of tax planning is moderated by companies' CG.	**H_{3c}**	Interaction variables (FTR*MOWNR & FTR*BCOMS)	+/-	Not Supported	Table 8.9
To investigate whether the relationship between the level of corporate tax disclosure and the extent of TLOS component of tax planning is moderated by companies' CG.	**H_{3d}**	Interaction variables (TLOS) and (TLOS*MOWNR & TLOS* BCOMS)	+/-	Partially Supported: positive relationship between TD and the interaction variable TLOS*MOWNR	Table 8.9

The sample used to examine the aforementioned hypotheses consists of all non-financial companies listed on the Bursa Malaysia from 2010 to 2012. The criteria that were applied reduced the sample size to 888 observations. After the screening process for the year periods, the cases of multivariate outliers were detected in Chapter Eight for all the study's models selected. Consequently, the final balance identified a sample of 858 observations to be eligible for inclusion in the analysis of all models. These panel datasets excluded influential observations and outliers.

9.2.2 Summary of the Findings

The findings of this study provide insights about the importance of tax planning activities from companies' points of view. In particular, firms are found to positively value tax planning activities. This indicates that tax planning is seen as a source of companies' wealth creation as the results show that there is an association between the tax disclosure and the extent of tax planning and this relationship is highly significant. This positive association is also found to be significantly associated to the TLOS component of tax saving (TLOS) but has a negative relationship associated to the permanent differences component of tax saving (PD) and temporary differences component of tax saving (TDF). In term of the nature of companies and interested parties' evaluation of different components of tax saving, the hypothesis examined demonstrates that the valuation impact between significant PD, TDF and TLOS) and the other insignificant components (FTR and UNC) are diverse from one another, proposing various perceived risks and advantages between PD, TDF and TLOS and the other components, FTR and UNC. The two components, FTR and UNC, conversely, are not significantly different from one

another, signifying no reversing evaluation influence between these components.

Examination of the implications of CG mechanisms on the aforementioned tax disclosure- tax planning associations showed the lack of a significant coefficient related with any of the interactive variables. This makes it hard to understand the nature of the association. The hypothesis that predicted the presence of a direct influence of corporate governance on tax disclosure is not supported. Moreover, the interactive or moderating variables (TP*MOWNR and TP*BCOMS) that have been utilized to test whether the association between tax disclosure and tax planning is conditional upon the strength of a firm's corporate governance are not significant.

Ten interaction variables have been incorporated to test whether the association between tax disclosure and components of tax saving is conditional upon the power of a firm's CG characteristics. The results indicate that the moderating effects of the corporate governance proxy on TLOS and unclassified components are conditional upon the power of the managerial ownership. The tax disclosure appeared to be positively and significantly associated with TLOS upon the insertion of TLOS*MOWNR as an interactive variable, but insignificant upon the inclusion of TLOS*BCOMS as an interactive variable. Furthermore, tax disclosure was also found to be positively and significantly related with UNC*MOWNR as an interactive variable.

When examining the sensitivity of the results, the outcomes were also examined for the robustness and strength of the model specification utilizing OLS-effect estimators. The findings from the OLS-effect estimation concluded it to be qualitatively comparable with the random effect estimation. Moreover, the absence of tax planning related factors

(GRTH, LEVE and CAPNT) have no effect on tax disclosure-tax planning association. In this context, to capture the probable for contradictory evaluation impacts on the classification of the unclassified tax reconciliation items, additional tests were performed by reclassifying UNC, as PD and as TDF. Equally, tests point out that the primary findings of the primary models of the tax disclosure-components of tax saving association are robust in respect of the reclassification of the unclassified items. Furthermore, annual regressions were conducted taking into account the variants of the examined relationships over time. The outcomes show that the panel regressions results differ over time because there is a time difference impact on the associations and the different models are not completely proportionate as a whole.

9.3 Contributions

This section explains the contributions of this study, methodologically and theoretically, and the practical and policy implications. With regards to this study, the methodological contributions are associated with the concentrate of the sample and measures of tax disclosure. Moreover, the theoretical contributions concentrated on the importance of this study as far as signaling theory, the Scholes-Wolfson framework, the agency theory and assessment of significant literature. The policy and useful implications focused on the contributions to academic researchers, authorities and managers on the logic of corporate tax disclosure, tax planning activities reporting, and interested parties' concerns about tax planning activities.

Methodologically, this study contributes through its sample chosen. The sample of this

study included non-financial publicly-traded firms that are registered in the Bursa Malaysia. Since there is a lack of prior researches testing the association between tax disclosure and tax planning in anywhere, as the U.K. and the U.S. studies investigated the relationship from the side of tax planning only, this study contributes to the literature by displaying empirical evidence on the association in the Malaysian environment. To the researcher's knowledge, this is the first study that tests the association between tax disclosure and tax planning. This contribution is important for the body of knowledge, as the tax legislation and implementation varies between the U.S., the U.K. and Malaysia. The variation comprises a various rank of aggressiveness on the part of the tax authorities in reducing the extent of tax evasion and avoidance amongst big businesses (Hampton, 2005; Freedman, Loomer, & Vella, 2015). Likewise, the variations in the legislation between the U.K. and the U.S. and Malaysia are also appropriate when considering the concept of corporate governance law. For example, in the U.S. corporate governance is legislated by the Sarbanes-Oxley Act 2002, in which corporate governance misconduct is subject to imprisonment penalties and fines. On the contrary, in the U.K. corporate governance legislation is covered by common law regulations and is based on "explain and comply" (Dowdney, 2005).

In this context, the Malaysian Code of Corporate Governance (MCCG 2012) adopted new recommendations and structures encompassing the blueprint issued by the Malaysian Securities Commission in 2012 and sections of the previous 2007 Code. The MCCG was established formally in March 2000 and was derived broadly from the recommendations of the Cadbury (1992) report and the report of Hampel (1998) in the U.K. (MFCCG, 2000; Du Plessis *et al.*, 2014; Bursa Malaysia, 2015). Nevertheless, the Malaysian

business environment is various from that in the U.K. in many ways and the application of several of these references may be controversial. For example, there is a high focus of ownership in Malaysia (e.g. OECD, 1999; Haniffa & Hudaib, 2006). The recommendations set out in the MCCG are prescriptive in nature beneath four primary parts, under the section of the best practices compliance is voluntary in Malaysia, however companies are obliged to state in their annual reports the extent of their compliance, with a clarification for any departure (Wahab, How, & Verhoeven, 2007). Consequently, by concentrating on the Malaysian sample, this study indirectly tests interested parties' awareness and perception of the Malaysian corporate governance legislation.

This study contributes to the methodology on the method of tax disclosure measures. In measuring tax disclosure, this study, by reference to IAS 12 and earlier associated studies, such as Abdul Wahab and Holland (2012), disaggregated the total tax saving into five components: PD, TDF, FTR, TLOS and UNC. This was interpreted in detail in Chapter Seven. By categorising the tax reconciliation items into the components, this study supplies a better depiction of the interested parties' assessment of the tax disclosure level. This refined tax disclosure measure allowed the researcher to examine whether interested parties (e.g. shareholders) make a diverse assessment of each component of tax saving. While previous studies on components of tax saving have been performed by researchers (e.g. Boatsman *et al.*, 2002; Hanlon, 2005; Atwood & Reynolds, 2008; Bauman & Shaw, 2008) concentrate only on one selective component, this study is various as it does not concentrate merely on one particular component. This is obviously displayed by Table 7.3 of Chapter Seven.

In this context, this study used incentive compensation and managerial ownerships as proxies of corporate governance conduct. The reasons and explanations behind this were set out in Chapters Four and Five and the review literature that focused on the association of tax planning and corporate governance with tax disclosure. With reference to other corporate governance variables and corporate governance proxy conduct by this study, it should be noted that some CG variables overlap each other in terms of their function and some have no variance between companies; for example, duality, non-executive composition and existence of committees in the board. The mechanisms focused upon in this study (compensation and managerial ownership) are those that have been used by previous taxation literature (Desai & Dharmapala, 2006; Desai & Dharmapala, 2009). Therefore, consistent with taxation literature, these variables are sufficient and practical to the research setting.

In addition to methodology, this study likewise contributes to the knowledge base for the procedure of determination of CG variables. In the connection of this study, earlier studies have specifically detailed the corporate governance proxy, for instance, institutional ownership (Desai & Dharmapala, 2009). Furthermore, bearing in mind that CG mechanisms may replace each other (Ho & Wong, 2001), specifying the corporate governance measure in this procedure produces the estimation findings that have controlled the frequency of the functions of CG mechanisms. Consequently, it can be complemented that this study contributes to the literature of tax governance by proposing data decrease processes in deciding CG general mechanisms to represent firms' corporate governance behaviour.

Theoretically, the signaling theory (Spence, 1973), the Scholes-Wolfson framework (Scholes, 2009) and agency theory (Jensen & Meckling, 1976) are the three major theories that support the hypotheses' development. This research contributes to the theories by including an additional understanding of the contribution or otherwise of corporate governance and tax planning from the side of interested parties' tax disclosure evaluation in the Malaysian environment.

As interpreted in Chapter Two, tax disclosure is a new field and there is a dearth of empirical studies that have tested this discipline. In such circumstances, signaling theory is the most appropriate and relevant theory that can explain this context. Moreover, this theory highlighted a clear argument on tax disclosure, as presented in Chapter Two, compared with the other theories explained. As outlined in Chapter Three, Scholes (2009) explain that the Scholes-Wolfson tax planning framework proposes three significant principles in tax planning decisions: a multilateral approach (concern must be given to all contracting parties), all costs, and all taxes. These standards are significant in accomplishing efficient tax planning objectives that is to raise the return after tax. By applying the framework, this research contributed to the theory with additional empirical results and analysis to sustain the framework. The findings of this research demonstrate the worry of interested parties about the tax planning activities implemented by managers. This gives additional empirical evidence on the magnitude of the contracting parties in tax planning, especially in Malaysia. Consequently, the analysis and outcomes add additional understanding and empirical evidence to the theory.

This research contributes to the understanding of agency theory by supplying empirical

evidence of the managers-owners contradict suggestion in interested parties' tax planning evaluation, especially in the Malaysian setting. There are prior related tax planning studies that give evidence about managers-owners interests contradict hypothesis. The studies, nevertheless, concentrate just on the U.S. and the U.K. settings (e.g. Desai & Dharmapala, 2009; Hanlon & Slemrod, 2009; Wilson, 2009; Abdul Wahab & Holland, 2012). Moreover, as mentioned above, the Malaysian corporate governance and taxation legislation differ from those of the U.K. and the U.S. taxation and corporate governance legislation and this can contribute to variations in interested parties' perception between countries. Consequently, it can be concluded that this study extends the understanding of corporate governance in tax disclosure and tax planning assessment from the Malaysian firms' perspective.

In addition to the aforementioned theories, this research also contributes to value related literature, as it practices a valuation related approach in the analyses. It supplies more empirical evidence on companies' and interested parties' tax disclosure and tax planning assessment, especially in Malaysia. This study found that companies consider the extent of tax planning activities in determining the tax disclosure. Comparable evidence was also found between tax disclosure and the PD component of tax saving, the TDF component of tax saving, and the TLOS component of tax saving and as well as the moderating influence of corporate governance between tax disclosure and the TLOS component of tax saving. Derived from the over discussions, this study contributes to the theories by expanding the general knowledge on tax disclosure, tax planning and corporate governance relationship. This study found empirical evidence that supported not only signaling theory, the Scholes-Wolfson framework and agency theory, but

furthermore the evaluation of relevant literature as well as other theories that have been explained in Chapters Two, Three and Four, respectively.

9.3.1 Policy and Practical Implications

The evidence found by this study has policy and practical knowledge implications for a minimum of three parties: authorities, researchers in academic field and decision-makers and firm managers. The authorities include legislators and regulatory agencies associated with taxation, financial reporting and corporate governance. The findings illustrate that the level of tax disclosure and the extent of tax planning activities in Malaysia is valuable because their relationship is positive and significant. This has general implications for diverse governance, tax policy and the law on firms' market value. As a result, tax disclosure and tax planning researchers, especially in the study that used Malaysian data, have to give careful consideration to the policy and practical variations in generalising the outcomes of literature of other countries' settings.

The research findings additionally have provided policy and practical implications for the authorities in respect of regulation and enforcement. Regarding taxation, the findings specify that there is a particular extent of tax planning activity within firms in Malaysia. According to Slemrod (2004), a high extent of tax planning occurring anywhere is something contrary to the public good. Thus, the results of this study propose that the tax authority in Malaysia must impose additional legislation to minimize the existing tax evasion and avoidance schemes and strategies.

The findings also demonstrate that the tax planning activities are not seen by interested

parties as wealth creation activities. The sample period is associated with the tax risk evaluation. This may involve optimistic implications of the evaluation from the interested parties' opinions. In this regard, they may be less probably to underpin tax planning by managers as it might be a guide to a "high risk" categorisation by the authorities. This thus may affect managers' decisions associated with tax planning, resulting in them concentrating on "tax assurance" as opposed to "aggressive tax planning" (SustainAbility, 2006).

The results provide a contribution to the policy and practical implications for corporate governance. The results indicate an insignificant impact of corporate governance on interested parties' tax planning assessment. If this indicates that the present CG practices or corporate tax disclosures are not sufficient to supply governance information to interested parties when evaluating moral hazard of managers in tax planning, the financial reporting authorities need reporting regulations and rules that require managers to be more transparent. On the contrary, if there is previously enough disclosure of corporate governance and tax information to allow users to measure tax planning, users may need to become more vigorous in restricting managers' moral hazard through tax planning activities. Disclosure of tax information is like disclosure of CG practices, as the findings of previous studies signify that users consider tax expense information in equity-pricing[10]. The authorities must also be concerned with whether the present disclosure requirements, especially on tax expenses, are satisfactory in supplying enough taxation information, especially tax planning information, to users.

The practical implications for company managers are more concerned with tax disclosure

[10] The amount for which one may sells or buys a share of common stock.

and transparency of tax planning information. The findings on the positive view of interested parties on tax planning activities in terms of tax disclosure may signify that an inadequate provision of tax planning information to interested parties may affect their activity. If this information has been taken into consideration by the managers in tax planning reporting as an asymmetry issue, the managers should make associated tax planning decisions with an attentiveness of the decrement influence on tax disclosure.

9.4 Recommendations for Future Study and Limitations

This section discusses the limitations of this study that have prevented generalisation of the findings. This part additionally illustrates recommendations for future study. Whilst the Malaysian data supplies deeper understanding of this research, there should be caution about generalising the findings to other countries with different legislation, economic factors, and practices. The capital market of Malaysia varies from other international markets in terms of the number of listed firms, size, and market evaluation. Nevertheless, this study's findings and policy implications can be expanded to other countries' economies where there are similarities. This study's limitations are linked to the methodology aspects, including the data collection and sample framework. The sample framework of this study was limited to non-financial Malaysian public listed firms. Thus, the results of this research may not be appropriate for generalisation to all types of firms. In spite of the above-mentioned limits, the outcomes of this study offer some indications and motivations for future studies.

The contradictory results between this study and other studies in this area may be a

product of the various policies and legislation between countries, in particular of corporate governance and taxation. Consequently, to verify this argument, a future study that compares and examines the issues from the viewpoint of different legislation and rules should be conducted. Moreover, as this study addresses the issue of the adequacy of tax disclosure in Malaysia, future studies have to consider the adequacy of recent tax disclosure requirements in providing significant tax related information to users and decision-makers in other countries. This matter should be studied from both corporate governance and taxation angles.

As explained in Chapter Three, this study considered tax planning activities as a combination of avoidance and evasion. However, to further examine related parties' tax planning assessment from the side of evasion, independently from avoidance, or vice versa, future studies have to examine this evaluation with regard to the lawful definitions of evasion and avoidance. Therefore, future research should concentrate on acquiring additional advanced proxies of invisible tax evasion and avoidance in order to assess their comparative evaluation implications. Moreover, as this study does not investigate whether the results are restrictive upon the tax implications for peer firms, studies could be conducted to decide whether there is any "infection" influence on other companies with similar characteristics, for instance within an exact industrial categorisation (Gleason, Jenkins, & Johnson, 2008).

9.5 Conclusion

This study contributes to the current knowledge by giving insights into the implications

for tax planning in relation to tax disclosure in the Malaysian context. Methodologically, it contributes to the existing literature by harmonising the tax disclosure measures in terms of components of tax saving involving PD, TDF, FTR and TLOS. From a theoretical side, this study contributes to the current theories by verifying that users are the party influenced whether positively or negatively, by the level of tax disclosure or the extent of tax planning activities within Malaysian firms. This study also provides confirmation of the lack of a controlling impact of corporate governance on the tax disclosure-tax planning relationship. The results also illustrate the policy and practical implications to academics, company managers and authorities in terms of disclosures of tax information, particularly tax expenses, corporate governance and effective tax rates reconciliation.

Furthermore, the limitations that have been discussed consist of limitations in the sense that the sample framework of this study is limited only to non-financial Malaysian public listed firms. Based on these limitations and the results concluded from the analyses, numerous recommendations for future studies have been suggested. The recommendations include comparison between countries, adequacy of disclosure cases, the legal side of avoidance and evasion, and "contagion" effects on interested parties' TP assessment. Consequently, with these suggestions, this study is expected to encourage future studies to engage themselves with this type of research, particularly with a view to supplying additional proof on related parties, such as shareholders' tax planning and tax disclosure assessment.

The most important conclusion that can be drawn from this study is that various

literature, theories and findings advanced in this study to explain why companies disclose information about their tax affairs and why companies engage in tax planning. The reasons behind that are related to the stage of economic development and regulations of the country under study. Perhaps the corporate governance code should be revised to become more suitable to the business of Malaysia environment. The authorities should also impose more tax legislations to minimize aggressive tax planning (evasion and avoidance) schemes and strategies.

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