

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

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By

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**Thesis Submitted to
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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 turut menyumbang 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 CPAs
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

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