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

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

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


Kata kunci: pendedahan cukai, perancangan cukai, tadbir urus korporat, komponen penjimatan cukai, kadar cukai berkesan
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In the name of Allah, the Most Gracious and Most Merciful

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<td>CAPNT</td>
<td>Capital intensity of company</td>
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<td>Deferred tax asset</td>
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<td>Industry dummy of company</td>
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<td>Managerial ownership</td>
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<td>Malaysian Trades Union Congress</td>
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<td>NOLs</td>
<td>Net operating loss (es)</td>
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<td>OECD</td>
<td>Organization of Economic Cooperation and Development</td>
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<td>Publish What You Pay</td>
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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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