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CORPORATE TAX AVOIDANCE: DETERMINANTS OF EFFECTIVE TAX RATE (ETR) OF MULTINATIONAL CORPORATIONS IN MALAYSIA

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MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)
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CORPORATE TAX AVOIDANCE: DETERMINANTS OF EFFECTIVE TAX RATE (ETR) OF MULTINATIONAL CORPORATIONS IN MALAYSIA

By

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ABSTRACT

Corporate tax collection is the highest contributor to the revenue for the Malaysian Government as compared to other direct taxes. Likewise, multinational corporations’ (MNCs’) contribution in terms of corporate taxes in generating the government’s tax revenues is also significant particularly for the developing countries including Malaysia. Although there is an increase in the totals collection of direct taxes over the years, the Inland Revenue of Malaysia (IRBM) is concerned with the issue of the tax avoidance as the number of the tax defaulters is on an increasing trend.

Thus, this study attempts to examine the determinants of MNCs tax avoidance by looking at their effective tax rates (ETRs). This study utilized the tax return form data from the IRBM to model the effective tax rates (ETRs) of the MNCs in Malaysia, as a proxy of the tax avoidance. The findings suggest that MNCs in Malaysia can be associated with the tax avoidance since their ETRs are below the statutory tax rates (STRs) as stipulated under the Income Tax Act 1967. The results also suggest firm’s size, profitability, extensiveness of foreign operation, capital intensity and leverage are the determinants of the tax avoidance of MNCs in Malaysia. However, this study does not provide evidence on the significant influence of sector effect and location of the holding company on MNCs’ tax avoidance in Malaysia.

Keywords: corporate tax avoidance, effective tax rates, multinational corporations, Malaysia.
ABSTRAK

Kutipan cukai korporat adalah penyumbang tertinggi kepada hasil kerajaan Malaysia herbanding dengan cukai langsung yang lain. Disamping itu, sumhangan dari cukai korporat syarikat multinasional dalam menjana hasil cukai kerajaan juga penting terutamanya kepada negara-negara membangun termasuk Malaysia. Walaupun terdapat peningkatan dalam jumlah kutipan cukai langsung, Lembaga Hasil Dalam Negeri Malaysia (LHDNM) memandang serius isu pengelakan cukai kerana bilangan pengelak cukai herdasarkan bilangan kes audit yang diselesaikan semakin meningkat.


Kata kunci: pengelakan cukai korporat, kadar cukai berkesan, syarikat multinational, Malaysia.
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TABLE OF CONTENT

CERTIFICATION OF THESIS WORK ................................................................. iii
PERMISSION TO USE ................................................................................... iv
ABSTRACT ..................................................................................................... v
ABSTRAK ....................................................................................................... vi
ACKNOWLEDGEMENT ................................................................................... vii
TABLE OF CONTENT ................................................................................... viii
LIST OF TABLE ............................................................................................ xi
LIST OF ABBREVIATIONS ............................................................................. xii

CHAPTER ONE: INTRODUCTION ................................................................. 1
  1.0 Introduction ............................................................................................ 1
  1.1 Background of the Study ....................................................................... 1
  1.2 Problem Statement ............................................................................... 5
  1.3 Objectives of the Study ......................................................................... 8
  1.4 Significance of the Study ....................................................................... 8
     1.4.1 Policymaker ..................................................................................... 10
     1.4.2 Tax Administrator ........................................................................... 11
     1.4.3 Corporations ..................................................................................... 12
  1.5 Scope of the Study ................................................................................. 12
  1.6 Organisation of the Study ...................................................................... 14

CHAPTER TWO: LITERATURE REVIEW ....................................................... 15
  2.1 Introduction ............................................................................................ 15
  2.2 Overview of Corporate Taxation in Malaysia ........................................ 15
     2.2.1 Legislation ...................................................................................... 19
     2.2.2 Tax Avoidance Provision and Rules ............................................... 21
  2.3 MNCs in Malaysia .................................................................................. 23
  2.4 Tax Avoidance ........................................................................................ 24
     2.4.1 Effective Tax Planning ................................................................. 25
     2.4.2 Tax Avoidance among MNCs ....................................................... 26
  2.5 ETR as a Measure of Tax Avoidance ..................................................... 28
  2.6 Tax Avoidance Determinants and Development of Hypotheses .......... 31
     2.6.1 Firm’s Size .................................................................................... 32
2.6.2 Profitability ................................................................. 34
2.6.3 Extensiveness of Foreign Operation .................... 36
2.6.4 Capital Intensity .......................................................... 39
2.6.5 Leverage ................................................................. 41
2.6.6 Sector Effect .............................................................. 43
2.6.7 Location of Parent Company ................................... 45
2.7 Summary ........................................................................... 48

CHAPTER THREE: RESEARCH METHODOLOGY .................. 50
3.1 Introduction ................................................................. 50
3.2 Research Design .......................................................... 50
3.2.1 Research Population ............................................... 50
3.2.2 Sample Selection and Sample Size ......................... 52
3.3 Research Model ........................................................... 55
3.3.1 Explanation of Independent Variables .................... 56
3.3.2 ETR as a Measure of Tax Avoidance ....................... 58
3.4 Data Analysis ............................................................... 60
3.4.1 Descriptive Analysis ............................................... 60
3.4.2 Correlation Analysis ............................................... 61
3.4.3 Multiple Regression ............................................... 61
3.5 Summary ........................................................................... 61

CHAPTER FOUR: DATA ANALYSIS AND EMPIRICAL FINDINGS ...... 63
4.1 Introduction ................................................................. 63
4.2 Summary of Data ........................................................ 63
4.3 Descriptive Analysis .................................................... 65
4.3.1 Comparison of Mean ETR between Sectors ............. 69
4.3.2 Comparison of Mean between Location of Holding Company ...... 70
4.4 Correlation Analysis .................................................... 71
4.5 Regression Analysis .................................................... 72
4.6 Summary of the Hypotheses ........................................... 76
4.7 Summary ........................................................................... 77
LIST OF TABLE

Table 1-1: Corporate Tax Collection in Malaysia
Table 1-2: Additional tax collection on transfer pricing audit in Malaysia
Table 2-1: Tax Revenue and Composition of Direct Taxes
Table 2-2: Malaysian Resident Corporate Tax Rates
Table 3-1: Extraction of Information in Part N of Form C
Table 3-2: Summary of Sample Selection Procedure
Table 3-3: Research Model: Summary of Hypotheses
Table 3-4: Definition and Measurement of Variables
Table 4-1: Summary of Data
Table 4-2: Descriptive Statistics
Table 4-3: One Sample Test on the Deviation between Mean ETR and STR
Table 4-4: Distribution of ETR among MNCs in Malaysia in 2015
Table 4-5: Skewness-Kurtosis Tests
Table 4-6: Test of Normality – Shapiro-Wilk
Table 4-7: Descriptive Statistics – ETR by Sector
Table 4-8: Kruskal-Wallis Test – Mean ETR Comparison between Sectors
Table 4-9: Descriptive Statistics – ETR by Location
Table 4-10: Kruskal-Wallis Test – Mean ETR Comparison between Locations
Table 4-11: Spearman Rank Order (Correlation between dependent and independent variables)
Table 4-12: Collinearity Statistics
Table 4-13: Multiple Regression Results of the Model
Table 4-14: Summary of Hypotheses
## LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATP</td>
<td>Aggressive Tax Planning</td>
</tr>
<tr>
<td>BEPS</td>
<td>Based Erosion Profit Shifting</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>ETR</td>
<td>Effective Tax Rate</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>IRBM</td>
<td>Inland Revenue Board of Malaysia</td>
</tr>
<tr>
<td>MIDA</td>
<td>Malaysian Industrial Development Authority</td>
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<tr>
<td>MNCs</td>
<td>Multinational Corporations / Companies</td>
</tr>
<tr>
<td>MTB</td>
<td>Multinational Tax Branch</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for the Social Science</td>
</tr>
<tr>
<td>STR</td>
<td>Statutory Tax Rate</td>
</tr>
<tr>
<td>TPGL</td>
<td>Transfer Pricing Guidelines</td>
</tr>
<tr>
<td>UNTAD</td>
<td>United Nation Conference on Trade and Development</td>
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CHAPTER ONE: INTRODUCTION

1.0 Introduction

This study attempts to investigate the existence of the corporate tax avoidance among the multinational corporations (MNCs) in Malaysia by examining their effective tax rates (ETRs). This study also attempts to explain the factors influencing the corporate tax avoidance of these MNCs. This chapter is an introduction to the subjects focused in this study. The chapter begins with background of the study in section 1.1 and continues with problem statement in section 1.2. Then, follows by the research objectives in section 1.3, significance of the study in section 1.4, scope of the study in section 1.5 and finally the summary on the organisation of the overall study in section 1.6.

1.1 Background of the Study

Tax avoidance is commonly associated with the reduction of the tax liability by legal means of actions within the law. However, tax avoidance is against the spirit of the law because it lacks of economic substance and business purpose. The main motive of tax avoidance is tax saving (Salihu, Sheikh Obid & Annuar, 2013). The European Commission (EC) points out that tax avoidance is mostly associated with companies, rather than individuals. Companies that engage in tax avoidance will employ aggressive tax planning techniques such as exploiting any loopholes in the tax legislation to gain tax advantage from the mismatch between the country’s tax rules in order to minimise their tax burden and subsequently, avoid from paying their fair share of taxes (Economic Times, 2015).
The contents of the thesis is for internal user only
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