

The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.



**THE QUALITY OF TAX REPORTING BY COMPANIES IN MALAYSIA: THE ROLE  
OF TAX AGENT**

**By**

**NORAZEAN BINTI AHMAD**



**Thesis Submitted to**

**Tunku Puteri Intan Safinaz School of Accountancy**

**Universiti Utara Malaysia,**

**In Partial Fulfilment of the Requirement for the**

**Master of Science (International Accounting)**

**March 2023**



**Kolej Perniagaan**  
*(College of Business)*  
**Universiti Utara Malaysia**

**PERAKUAN KERJA DISERTASI/KERTAS PENYELIDIKAN/KERTAS PROJEK**  
*(Certification of thesis / dissertation)*

Kami, yang bertandatangan, memperakukan bahawa  
*(We, the undersigned, certify that)*

NORAZEAN BINTI AHMAD (829362)

calon untuk Ijazah MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)  
*(candidate for the degree of)*

telah mengemukakan tesis / disertasi yang bertajuk:  
*(has presented his/her thesis / dissertation of the following title):*

THE QUALITY OF TAX REPORTING BY COMPANIES IN MALAYSIA: THE ROLE OF TAX  
AGENT

seperti yang tercatat di muka surat tajuk dan kulit tesis / disertasi.  
*(as it appears on the title page and front cover of the thesis / dissertation).*

Bahawa tesis/disertasi tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan, sebagaimana yang ditunjukkan oleh calon dalam ujian lisan yang diadakan pada:  
*(That the said thesis/dissertation is acceptable in form and content and displays a satisfactory knowledge of the field of study as demonstrated by the candidate through an oral examination held on:*

Pengerusi Viva : \_\_\_\_\_ Tandatangan  
*(Chairman for Viva) (Signature)*

Pemeriksa Dalam : \_\_\_\_\_ Tandatangan  
*(Internal Examiner) (Signature)*

Tarikh:  
*(Date)*

Nama Pelajar  
(Name of Student) : NORAZEAN BINTI AHMAD (829362)  
\_\_\_\_\_

Tajuk Tesis / Disertasi  
(Title of the Thesis / Dissertation) : THE QUALITY OF TAX REPORTING BY  
COMPANIES IN MALAYSIA: THE ROLE OF TAX  
AGENT  
\_\_\_\_\_

Program Pengajian  
(Programme of Study) : MASTER OF SCIENCE (INTERNATIONAL  
ACCOUNTING)  
\_\_\_\_\_

Nama Penyelia/Penyelia-penyelia  
(Name of Supervisor/Supervisors) : ASSOCIATES PROF. DR. NOR ZALINA BINTI MOHAMAD YUSOF  
\_\_\_\_\_

Tandatangan

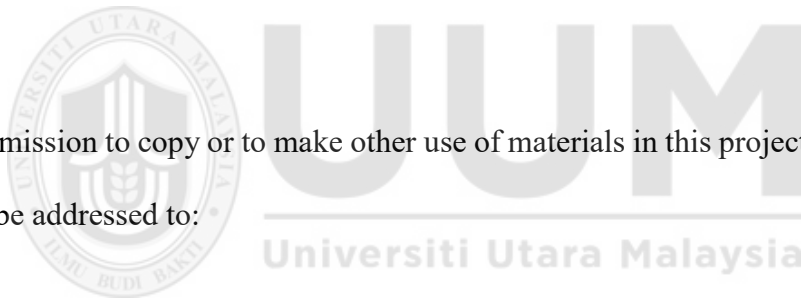


UUM  
Universiti Utara Malaysia

## **Permission to Use**

In presenting this project paper in fulfilment of the requirement for a postgraduate degree from Universiti Utara Malaysia, I agree that the University's Library may make it freely available for inspection. I further agree that the permission for copying this project paper in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor(s) or, in their absence, by the Dean of Tunku Puteri Intan Safinaz Graduate School of Accounting. It is understood that any copying, publication, or use of this project paper or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my project paper.

Request for permission to copy or to make other use of materials in this project paper, in whole or in part, should be addressed to:



**Dean of Tunku Puteri Intan Safinaz School of Accounting**

**UUM College of Business**

**Universiti Utara Malaysia**

**06010 UUM Sintok**

**Kedah**

## Abstract

The objective of this study is to investigate the quality of tax reporting by companies in Malaysia. Three aspects of investigation were included in the situation of tax planning practices by companies in Malaysia from the perspective of tax computation prepared by tax agents appointed by companies for the years of assessment 2017, 2018 and 2019. Then, it was followed by identifying some clues of the characteristics of the tax agents that probably came from the Big 4 or non-Big 4 tax agent companies. Lastly, this study would ascertain the issues of audit frequently found that would be the triggered items for tax administrators in choosing companies for audit. Via the Theory of Ethics, the adoption of ethics values by tax agents in every decision made upon conducting its profession was explored especially in maintaining the quality of its tax reporting and the character from its professionalism. Data was collected from the internal data of IRBM and convenience sampling was used for the interviews to support the data collected. The results indicated poor quality of tax reporting in terms of the increase in tax adjustment after audit for the three consecutive years. The results also showed that the direct mediation of Big 4 and non-Big 4 tax agent companies in tax avoidance which, correspondingly indicated the poor quality of tax reporting. Results indicated issues on Sales, Purchases and Expenses were the most frequent issues in audit. The adoption of Theory of Ethics is similar to Deontological and Utilitarian theories which indicate that a non-Big 4 tax agent will take the risk of not reporting the actual performance of the company. When taxpayers seek experts in reducing their tax liabilities, tax authorities should focus more on its audit regime to reduce tax avoidance and hence increase revenue collections. The study has limitations in terms of the small scale of sampling and information provided is not up to date. Possible further studies should focus more on other ethics theories and other possible factors towards tax reporting quality.

## Abstrak

Objektif kajian ini adalah bertujuan untuk menyiasat kualiti dalam pelaporan cukai oleh syarikat di Malaysia. Tiga aspek siasatan melibatkan situasi amalan perancangan cukai oleh syarikat dari perspektif penyediaan pelaporan cukai oleh agen cukai yang dilantik bagi tahun taksiran 2017, 2018 dan 2019. Kajian ini diikuti dengan mengenalpasti ciri-ciri agen cukai yang terlibat yang berkemungkinan terdiri dari empat rangkaian perkhidmatan profesional terbesar di dunia dan firma biasa. Akhir sekali, semakan ke atas isu audit yang sering kali menjadi isu dalam penyelesaian audit sebagai item yang dicituskan oleh pentadbir cukai dalam memilih syarikat untuk semakan audit. Melalui Teori Etika, pendekatan nilai-nilai etika oleh agen cukai dalam membuat keputusan terhadap pengendalian profesi dan karakter terutama dalam pelaporan cukai diterokai. Data diperolehi dari maklumat dalaman Lembaga Hasil Dalam Negeri Malaysia (LHDNM) dan Pensampelan Secara Kebetulan digunakan. Keputusan kajian menunjukkan pelaporan cukai pada tahap kualiti rendah dari segi jumlah pindaan cukai selepas audit meningkat tiga tahun berturut-turut. Keputusan juga menunjukkan penglibatan agen cukai secara langsung oleh syarikat agen cukai dari empat rangkaian perkhidmatan profesional terbesar di dunia dan firma biasa bersepadan dengan pengelakan cukai yang membawa kepada pelaporan cukai yang berkualiti rendah. Keputusan kajian menunjukkan kekerapan isu audit adalah Jualan, Belian dan Perbelanjaan. Pengambilan Teori Etika oleh agen cukai firma biasa mirip kepada Teori Deontologikal dan Teori Utilitarianisme berisiko yang tidak melaporkan prestasi sebenar syarikat. Apabila pembayar cukai berusaha mengurangkan tanggungan cukai, pihak berkuasa perlu memberikan lebih tumpuan kepada rejim audit untuk menangani pengelakan cukai justeru meningkatkan kutipan pendapatan. Limitasi kajian adalah dari segi persampelan berskala kecil dan maklumat terkini yang tidak dikemaskini. Fokus kajian selanjutnya boleh ditumpukan kepada lain-lain teori etika dan faktor yang berkaitan dengan kualiti pelaporan cukai.

## Acknowledgement

Special thanks and honour to my supervisor, Associate Professor Dr. Nor Zalina Binti Mohamad Yusof for her great assistance and support for this study to be completed. With her expertise and attention towards the completion of this research inspired my work throughout the period.

Many thanks to the director, senior executive and co-workers of IRBM for their assistance, invaluable intuition, encouragement and constructive criticism in the course of my attempt upon completion this project paper.

The wisdom and liberality of everyone involved in making this research into a reality and aided me from making errors is highly appreciated; the present of mistakes if any in this research would be my responsibility.





## List of Tables and Figures

Table 1.1: Federal Government Revenues 2019-2021 .....	1
Table 1.2: Tax Audit Company's Cases Resolved by IRBM.....	4
Table 4.1: Number of Active Files, Targeted Files and Audited Files .....	26
Table 4.2: Comparison Between Active Files and Audited Files.....	27
Table 4.3: Number of Company's Cases Audited and Total Tax Adjustments.....	28
Table 4.4: Total Number of Cases for Companies Audited by IRBM .....	29
Table 4.5: Number of Cases Audited Contributed by Wilayah Persekutuan Putrajaya .....	30
Table 4.6: Comparison between Tax Payable Reported and Tax Payable Audited for Audited Companies in Wilayah Persekutuan Putrajaya .....	30
Table 4.7: Issues of Audit on Tax Audit Activities Resolved in Wilayah Persekutuan Putrajaya .....	31
Table 4.8: Items and Percentage of Issues Contributed to Audit Findings.....	32
Table 4.9: Audit Cases Resolved by Wilayah Persekutuan Putrajaya....	<b>Error! Bookmark not defined.</b>
Table 4.10: Average Percentage of Cases Resolved in 2017 with Audit Findings and Total Adjustments .....	33
Table 4.11: Average Percentage of Cases Resolved in 2018 with Audit Findings And Total Adjustments .....	33
Table 4.12: Average Percentage of Cases Resolved in 2019 with Audit Findings And Total Adjustments .....	34
Table 4.13: Tax Agents' Characteristics Based on Tax Audit Resolved in Wilayah Persekutuan Putrajaya .....	35

Table 4.14: Participants' Demographic Description.....36

Figure 4.1: Portion Number of Cases for Companies Audited in 2019.....29



## List of Abbreviations

ALC	Audit Field for Company
AMC	Desk Audit for Company
ATO	Australian Tax Office
CCM	Multinational Branch
CEO	Chief Executive Officer
CIK	Special Industry Branch
IRBM	Inland Revenue Board of Malaysia
LHDNM	Lembaga Hasil Dalam Negeri
MAICSA	Chartered Secretaries and Administrators
RM	Ringgit Malaysia
SAS	Self-Assessment System
YA	Year of Assessment



## Table of Contents

<b>CHAPTER 1</b> .....	1
<b>Introduction</b> .....	1
1.0 <i>Background of the Study</i> .....	1
1.1 <i>Motivation of the Study</i> .....	3
1.2 <i>Problem Statement</i> .....	6
1.3 <i>Research Questions</i> .....	8
1.4 <i>Research Objectives</i> .....	8
1.5 <i>Significance of the Study</i> .....	8
1.6 <i>Scope of the Study</i> .....	9
<b>CHAPTER 2</b> .....	10
<b>2.0 Literature Review</b> .....	10
2.1 <i>Tax Administrator</i> .....	10
2.2 <i>Tax Agent</i> .....	12
2.3 <i>Tax Gap</i> .....	14
2.4 <i>Tax Avoidance</i> .....	15
2.5 <i>Aggressive Tax Avoidance</i> .....	16
2.6 <i>Items Frequently Used for Tax Avoidance</i> .....	17
2.7 <i>Quality Measure in Tax Reporting</i> .....	17
2.8 <i>The Ethics Theory</i> .....	18
2.9 <i>Summary of Literature Review</i> .....	21
<b>CHAPTER 3</b> .....	222
<b>3.0 Research Methodology</b> .....	222
3.1 <i>Proposition Development</i> .....	222
3.2 <i>Ethics Theory</i> .....	23
3.3 <i>Sampling Techniques</i> .....	23
3.4 <i>Data Collection Techniques</i> .....	23
3.5 <i>Data Analysis Techniques</i> .....	24
3.6 <i>Questionnaires' Preparation</i> .....	24
3.7 <i>Summary of Research Methodology</i> .....	24
<b>CHAPTER 4</b> .....	25
<b>Findings and Results</b> .....	25
4.0 <i>Introduction</i> .....	25
4.1 <i>Data Analysis and Results</i> .....	25

4.1.1 Internal Data of IRBM .....	25
4.1.2 Interviews .....	35
4.1.2.1. The Main Purpose of Tax Audit .....	36
4.1.2.2. The Role of Tax Agents .....	37
4.1.2.3. The Tax Audit Issues.....	39
4.1.2.4. The Nature of Tax Reporting .....	39
<b>CHAPTER 5</b> .....	<b>41</b>
5.1 Discussions.....	41
5.2 Conclusion.....	43
<b>6.0 References</b> .....	<b>45</b>



# CHAPTER 1

## Introduction

### 1.0 Background of the Study

Tax is essential for a government in every country to generate revenues to finance the government's expenditure. This includes expenditure to provide, improve and maintain public infrastructure for instance, public roads, schools, public services, hospitals, emergency services and welfare programmes. In Malaysia, the Inland Revenue Board of Malaysia (IRBM) and the Customs Department are the authorised bodies that are responsible to collect direct taxes and indirect taxes respectively. This study will focus mainly on the collection of direct taxes.

Direct taxes comprise of income tax of individuals and corporate taxpayers, petroleum taxes, and real property gain taxes (SMEinfo, 2021). Table 1.1 indicates the revenues collected by IRBM in three consecutive years from 2019 until 2021.

Table 1.1: Federal Government Revenues 2019-2021

Component	RM Billion		
	2019	2020	2021
Direct Tax	134.72	115.11	131.87

When collecting revenues, it is crucial for the government to create a tax system to make it fair and equitable to all. An effective tax system will help the government in many ways especially towards the compliance of tax declarations and collections. More income taxes can be collected for the good of all citizens if the country's company owners fulfil the obligations that come with being taxpayers (Bardai, 2021). The introduction of Self-Assessment System (SAS) by the Inland Revenue Board of Malaysia (IRBM) in 2001 and electronic filing in 2003 for corporate taxpayers mainly aimed to increase voluntary compliance in accordance to tax laws and regulations. SAS relinquished the task of assessing tax by officials by which, the task is now being transferred to taxpayers' responsibility

in assessing tax including paying the correct amount. However, most of the ordinary taxpayers only have little knowledge in regards to tax law and regulations. Therefore, seeking for assistance from experts for instance tax advisors or tax agents is the best solution to comply with the tax regulations. Tax experts are expected to uphold the provisions of the tax law in addition to acting in their clients' best interests (Manaf, 2013). Tax agents relatively serve as a go-between the taxpayers and the taxing authority. They should act diligently in reporting income taxes on behalf of their clients while serving the tax authority. On top of that, tax agents must be able to present tax reporting up to the standard required by the tax authority. Interpreting tax law precisely, follow guidelines, advice taxpayers accordingly, accuracy in technical and tax calculation are the aspects that determine the level of quality of tax agents. In other words, it can be summarised as the requirement of the level of education or knowledge, experience and professional conduct of tax agents. These qualities in reporting income taxes are important in ensuring tax compliance as a whole and consequently increase tax collection.

The increase in tax collection is one of the indicators to the increase in tax compliance. For tax compliance, all income must be reported (Alm, 1991, as cited by Khalid, M.Y.A., et al (2021)). However, there are incomes not reported by taxpayers or tax agents, which does not comply with the tax rules and regulations. An example of tax non-compliance is tax avoidance. The basis of tax avoidance is to avoid paying high tax liability by utilising relief, incentive provided and taking advantage at the loopholes of tax law. The methods and techniques employed to lessen the amount of tax due appear to take advantage of the restrictions contained in the tax laws and regulations (Khalid et. al, 2021).

This study aims to investigate the quality of tax reporting submitted by companies in Malaysia. Furthermore, three aspects of investigation included the situation of tax planning practices by companies in Malaysia from the perspective of tax computation prepared by tax agent appointed by companies for the years of assessment 2017, 2018 and 2019. This can be identified through the

significant differences between tax payable reported and tax payable adjusted by tax authority. This is followed by identifying some clues to the characteristics of the tax agents that probably come from the Big 4 or non-Big 4 tax agent companies. Lastly, ascertaining the issues of audit frequently found that will be the triggered items for tax administrators in choosing companies for audit. In addition, by using the Theory of Ethics, the adoption of ethics principles by tax agents in every decision made upon conducting their profession is explored especially in maintaining the quality of tax reporting and the character from its professionalism.

This paper is organised into five chapters. Chapter 1 discusses the problem statement, research questions, research objectives, significance of the study and the scope of the study. Chapter 2 will discuss the literature review related to problem statement and Chapter 3 will discuss the research methodology. Findings and results will be demonstrated in Chapter 4 and Chapter 5 is the conclusion of this study.

### *1.1 Motivation of the Study*

Tax gap and the leakage of tax collection in Malaysia can be the causes of increase in tax auditing activities. The government needs to make sure that individuals and companies report their taxes voluntarily and pay taxes accordingly by conducting tax audit as a tool to generate revenues for the country. Basically, for companies, taxes are prepared and reported by tax agents appointed to represent and act on behalf of them. In respect of tax avoidance, actual tax receipts have been far lower than what was projected for them (Salehi et, at., 2020). Based on Salehi's study, the performance of a company through tax reported is not actual and therefore tax avoidance appeared, hence the tax authority needs to conduct tax audit to decrease the tax gap and increase tax collection. Deduction in expenses, relief and incentives provided by government are generally the main items that can reduce tax liability. The government has to provide guidelines for them to follow in claiming those deductions. However, in other situations, tax agents are bound to clients' needs, which relates to the agent-principle conflicts. According to Palil et. al, (2022) despite the fact that



their tax planning might be against the law at present, companies significantly rely on tax agents to reduce their annual tax incidence. It is also possible that there are still mistakes or low awareness for the tax agents to follow the guidelines, in fact, they have the intention to manipulate the requirement and advise their clients according to their own opinion and judgement. Only experts and experienced tax agents have the knowledge and courage to give such opinion. This action is called tax avoidance, whereby taxpayers plan to avoid paying taxes by doing tax planning legally. However, aggressive tax planning can lead to tax evasion which is illegal. Aggressive tax planning is a means of increasing or accelerating tax relief in ways not intended by legislators, according to Universiti Tun Abdul Razak's Prof. Emeritus Dr. Barjoyai Bardai (Bardai, 2021). Tax avoidance as a term that can be easily abused, with activities of extreme avoidance termed as aggressive tax planning. According to IRBM's Chief Executive Officer (CEO) Datuk Seri Dr. Sabin Samitah's keynotes in a National Tax Conference 2018, the tax authorities are looking into the matter (Samitah, 2018). He added that "We are addressing the issue of aggressive tax planning by initiating an aggressive audit programme, investigation and forensic audit work".

*Table 1.2: Tax Audit Company's Cases Resolved by IRBM*

Year	Number of Cases
2016	161,477
2017	178,583
2018	171,198
2019	230,144

Based on the statistics shown in Table 1.2, there was an increase in the number of cases audited from year 2016 to year 2017. However, from year 2017 to 2018, the number of cases resolved decreased slightly. However, it hiked up to 134% for the year 2019 compared to 2018. The increase of the number of cases audited from tax audit activities might show that a serious situation is happening throughout the year pertaining to tax avoidance and evasion issues. In spite of IRBM'S effectiveness in its tax audit activities, the statement made by IRBM'S CEO as stated earlier is

supported by the facts illustrated in the table above. IRBM is urged to tighten its audit regime in pursuing tax avoiders to reduce the tax leakage.

With the implementation of Self-Assessment System (SAS), the responsibility of assessing the return form has been shifted to taxpayers and promoting voluntary compliance where the return forms will be accepted as it is. Although the taxpayers are given the opportunity to do tax planning, somehow, tax agents seem to be the right people to take the challenge to assist them. Many factors influence tax agents' appointment which includes the complexity of tax system, little tax knowledge, competency and other tax laws compliance requirements. The complexity of a tax system, such as multiple laws to be complied with, as in the process of filing income tax to the person in charge of income tax return, lack of clarity of the terms and overlapping foreign tax system are factors leading to increasing cases of tax planning in taxation system (Abdul Hamid, 2004).

Tax agents appointed by taxpayers, primarily from the business sector, are for advice and the management of their tax matters. Tax agents are important in improving taxpayers' tax compliance due to changes in global tax position. Asher and Rajan (2001) stated that the globalisation process has changed accounting firms' level of services, such as audits and guarantees, financial advice, tax planning and administrative and compliance methods. The researchers agreed that tax agents played a role in tax planning. According to Bardai (2022), no businessperson in their right mind is going to conduct a business unless they pay the least amount of tax possible. There is nothing wrong with a company setting up their business so that they can pay the least amount of tax. This is defined as doing something that actively pushes the limits of what the law allows, stretches the meaning of words in the law to find loopholes, dresses up an arrangement to make it look like something else, or arranges finances to pay as little tax as possible. Bardai (2022) added that normally, this is done in three basic ways, namely reducing taxable income, increasing deductions and taking advantage of tax credits.

A preliminary interview has been conducted from the viewpoint of tax auditors of IRBM to identify the issues of tax avoidance from the tax-planning point of view. Respondents agreed that tax agents indeed take the advantage of deduction, relief and incentives, which is the allowable expenditure to reduce the total income. Nevertheless, some of these calculations made by tax agents have to be revised by the tax auditors in arriving the adjusted income. Issues arise when the actual expenses are not allowed; either partly or fully not allowed that have been deducted in the calculation due to the terms and conditions not met by the government's requirement. Over again, tax agents seem to be involved in making mistakes whether with or without intention in respect of tax avoidance, consequently affect the quality of the tax reporting.

## 1.2 *Problem Statement*

In the context of ethical values and principles practices by tax agents in its tax reporting, many aspects have to be considered especially the ethics principles in public relation. One aspect is the ability to influence taxpayers concerning the reporting of their income and expenditures. For the Western Australian tax agents, the scope and influence of ethical issues in the field is important (Marshall et. al, 1998). Therefore, tax agents play important role whether to comply or to exploit the tax law. In return, it will mirror their ethical values in their profession. On the other hand, tax audit activities carried out by IRBM shows non-compliance from tax agents in terms of tax avoidance. Apparently, there is a conflict in the ethical values in tax agent's decision-making. They have to decide whether to act in their client's interest or their own interest and at the same time to abide with the law and regulations. In additions, The Code of Ethics for Tax Agents published by the Malaysian Inland Revenue Board (MIRB), states that since tax agents represent their clients, they have to provide the best possible services for their clients. Furthermore, while safeguarding the interests of their clients, they too have to support the interests of the government and the country (Malaysian Inland Revenue Board, 2012). In this agent-principle conflict, wise decision is needed

in conducting their professionalism to fulfil both parties' interests hence, showing the level of quality in their tax reporting.

Adjustment for tax and mistakes normally happen in furnishing tax return by taxpayers or tax agents. However, adjustment for the reason of aggressive tax planning by tax agents is a concern. Small attempts of tax avoidance can become larger if they are not stopped from the start. Tax agents are professional in their profession. In tax planning, the credibility and report will be tarnished if tax administrators of violation of law caught them.

To what extent this situation happens is a serious risk to the government in generating revenues for future. As recommended by Palil's (2022) study, the researcher suggests that the key components of creating a solid tax system will help limit the circumstances that permit tax evasion for future development. However, despite of a good tax system, the government still needs to do so much audit activities that could increase government spending to cover the wrongdoings by tax agents who are supposed to assist the government in collecting revenues. For instance, more officials have to be hire and they have to be well-equipped with audit strategies by attending trainings to increase their knowledge and expertise in all aspects. Those elements stated earlier may lead to the increase in tax auditing by the IRBM. In the new era, IRBM is supposed to have a better way in collecting taxes other than enforcing the tax audit to increase its effectiveness and efficiencies. The role played by tax agents are especially important in assisting the government to reduce the leakage of revenues and to reduce government spending on tax enforcement. Good quality of tax agents in tax reporting is the prime aspect that a tax agent needs to pursue and maintain.

Generally, the actions taken by tax agents whether to comply or not to comply with tax law and regulations, their decisions to avoid or evade taxes and to report income and expenditure accordingly are influenced by the ethics and principles embedded in oneself. Every decision taken with the right principles of ethics will then shows the level of quality of tax agent in tax reporting. Despite this,

hardly any studies have investigated these issues. The implication of not addressing these issues may increase poor tax reporting in abusing tax law undetected, consequently increase leakage in the collection of country's revenues.

### *1.3 Research Questions*

1.3.1 How serious is the situation of tax planning according to tax activities carried out in Malaysia?

1.3.2 What are the characteristics of tax agents in tax reporting?

1.3.3 What items they normally used to manipulate tax calculation?

### *1.4 Research Objectives*

1.4.1 To study the situation of tax planning based on tax activities done by tax administrator, the Inland Revenue Board Malaysia (IRBM).

1.4.2 To study the characteristics of tax agents in preparing tax reporting.

1.4.3 To study items that are usually involved in manipulating tax calculation in minimising tax liabilities.

### *1.5 Significance of the Study*

1.5.1 The study is able to spring awareness for the government in the tax auditing activities that have been increasing year by year that probably come from the tax avoidance practices by companies with the assistance of tax agents and can be observed through the level of quality in every tax reporting.

1.5.2 This issue could cause a serious risk to the government in generating revenues for future. The evidence from the study can be used for legislators to focus on strategies to confront the tax avoidance issues and the integrity of tax agents in its tax reporting.

1.5.3 The study is able to observe the characters of a tax agent that has been practicing tax avoidance aggressively. Therefore, it is a sign for the authorities to upgrade the enforcement in reviewing and considering a tax agents' licence to end the continuity for any wrongdoings.

### *1.6 Scope of the Study*

This study will cover data extracted from the IRBM for the years of assessment of 2017, 2018 and 2019. The data will be based on the number of companies/corporate taxpayers being audited where tax adjustments have been made for the three consecutive years and the tax agents' involvement will be revealed from the information in filing return forms. Companies included in the data will be companies that have their files located and under the supervision in the area of Wilayah Persekutuan Putrajaya, formerly known as Cheras Branch, Wangsa Maju Branch and Bangi Branch. In addition, managers and auditors of IRBM involved in auditing will be interviewed to support the data collected from IRBM and to confirm the act of tax agents in tax planning for violation the law.



## CHAPTER 2

### 2.0 Literature Review

#### 2.1 Tax Administrator

Tax auditing is performed by the tax administrator, as in the case of Malaysia, the Inland Revenue Board Malaysia (IRBM) is responsible to collect taxes for the country to fund government expenditures. As a separate statutory board, IRBM is more flexible and has autonomy in its administration prior becoming one of the government's sectors under the Ministry of Finance.

People typically will be glad to hand over their tax money, but only if they believe that the money is being put to good use by the government (Ortega et al., 2016, as cited in Nory et al., 2022). This is in accordance with the idea of reciprocity, which can be conceptualised as a social convention in which good deeds are compensated by good deeds performed by others (Nory et al., 2022). As the revenues increase, taxpayers also expect the services provided increase as a whole. This may include improvement of health facilities, securities, transportation and many more.

Since 2006, IRBM has introduced the e-filing system to improve its tax filing returns system and improve tax collection. It enables the organisation to become more efficient in its day-to-day operations and the processing of activities regarding the filing of tax returns (Ambali, 2009). The study also added that electronic filing, also known as e-filing, allows taxpayers and tax practitioners to submit their income tax returns by adopting technologies rather than using the traditional methods such as mail or in-person visits to tax offices. It is possible that this will, in the long run, simplify the process of tax filing and payment.

According to Blaufus et al.'s (2020) study which tested on the efficiency and the compliance in collecting taxes and reporting income, they can be increased by having a good communication between a company's tax auditors and tax administrators. Assessing the company's tax auditors'

work by the tax administrators on the grounds of auditing will make the work of a tax collector easier and eventually lead to the compliance by the company in future. Therefore, Blaufus et al. (2020) suggested that with the additional information supplied by the auditor of the company to the tax authorities, there is no need for auditing as the company's audited accounts is prepared in accordance to the accounting's standard and tax regulations. Thus, there will be improvement in tax efficiency and a reduction in hiring tax auditors in the future, as all companies comply with tax reporting. By having this additional information, it may encourage companies to report the truth and disclose their financial statements accordingly. In countries like Canada and the United States of America in particular, private companies show that they place an importance in adhering their countries' taxation law by voluntarily opting for an audit of their financial statements. The obligations for auditors to share their information with tax auditors could improve the efficiency of tax audits (Blaufus et al., 2020). However, in Malaysia, this situation has yet to happen. Internal auditors of companies always work silently and they will try hard to hide their accounts' information especially for tax purposes.

According to Bardai, (2021) "No businessperson in his right mind is going to engage in commercial dealings unless it is on the basis of paying the least amount of tax that is involved. There is absolutely no reason why a firm should not organise their business in such a way as to pay the least amount of tax possible". "In most cases, this can be accomplished by the use of three fundamental strategies, namely the lessening of taxable income, the raising of allowable deductions, and the utilisation of available tax credits." (Bardai, 2021). Therefore, in combating tax avoidance, tax auditing activities should be increased.

The avoidance of corporation taxes is the primary concern of governments around the world because corporate taxes are the primary and most significant source of government revenue. The Malaysian government is starting to take the practice of avoiding paying taxes very seriously. The Civil



Investigation Division of the IRBM is responsible for conducting investigations to address both deliberate and unintentional fraudulent tax returns, the purpose of which is to evade payment of tax.

Those taxpayers who had been audited in the past were more likely to comply with the requirements than those who were being audited for the first time (Bagdad et al., 2017). The researchers also stated that the frequency of audit is the tax gap factor for tax compliance in Malaysia. The result indicates that the frequency of audit reduces tax gap effectively. This is indicated as one of the reasons of the increase of tax auditing activities performed by the tax authorities and to monitor tax agents in tax reporting.

## 2.2 *Tax Agent*

Accounting companies, being entrepreneurial organisations, have complemented their traditional trade of providing accounting and auditing services by diversifying into a number of other products and services. This is done in addition to selling accounting and auditing services. They have developed organisational structures and strategies to sell tax avoidance schemes to corporations and wealthy individuals (Sikka et al., 2005). Having an accounting firm in preparing a company's final accounts is a concern by the top management for the aggressive planning of tax avoidance.

The retention of clients, the satisfaction of customers, and the promotion of business values that boost profits are prioritised in accounting firms, along with the maximisation of private profits and the promotion of competitive individualism. (Barrett et al., 1998, as cited in Sikka et al., 2005). Since the accounting firm is a profit-based company, the satisfaction and the customers' concern on tax liabilities are the most important matter. It is considered an entrepreneurial skill to gain an advantage over a competitor in order to make more money, almost regardless of the cost, and this is especially true in environments where competitive pressures link promotion, status, profits, markets, and niches with meeting business targets (Sikka et al., 2004, as cited in Sikka, 2005).

Apart from accounting firms that pursue client satisfaction in preparing the financial statement, the opportunity to serve clients for tax planning is also included in the role of a tax agent. In general, tax agents are required to accurately assess the level of risk that their customers are prepared to incur, and they are expected to judge what kinds of activities constitute appropriate risk minimisation (Murphy, 2004). Therefore, an agent may judge something that may be considered as high risk by a taxpayer (Murphy, 2004).

Tax professionals have the skills to assist their customers in taking advantage of chances for tax non-compliance, in addition to the fact that they remove a significant number of the informational and computational obstacles that stand in the way of proper tax compliance (Murphy, 2004). Here, tax agents can play dual role since they have a kind of unique knowledge of tax law role whether to exploit or enforce of the law (Klepper et al., 1991, as cited in Murphy, 2004).

Tax avoidance is a global issue. Countries around the world including Malaysia are facing this situation too. The Australia Tax Office (ATO) has ongoing enforcements to oversee intense activities among those who devise, promote, market, and participate in such activities despite the strategies that have been put in place to combat the rise of aggressive tax planning (Murphy, 2004).

As far as IRBM's concern, addressing this issue is important to show the seriousness of how the government losses income from taxes.

Despite various ways of combating the issues, the results from by Blaufus's (2020) study clearly indicated that the interactions by the accounting firms with the tax authorities can increase tax compliant and therefore reduce tax avoidance and evasion. Here, the role of the accounting firms and tax agents are crucial in preparing and conducting tax audit. Their professionalism will decide whether to avoid or to comply with the tax legislation. Not many studies have been conducted to foresee the profile of the aggressiveness of these tax agents and whether they really contributing to the tax avoidance. Somehow, according to Collins et al. (1990), as cited in Murphy's (2004) study, the researchers concluded that about 70% of the people in their sample employed tax agents to

submit an accurate return, but only 25% of the people indicated that reducing their tax due was their primary purpose.

Previous study indicates that not only tax agent but accounting firm too will deliberately contribute to the tax avoidance because taxpayers aggressively hire them for their professionalism to satisfy taxpayers' needs. Accounting firms have been trying to capitalise on their technical expertise by developing new goods and adjacent industries, such as the sale of tax avoidance methods (Sikka & Willmott, 1995a, as cited in Sikka et al., 2005). The result of that tax avoidance can be classified as using their professionalism intentionally in tax avoidance or tax avoidance because of decision or judgement in interpretations of tax law and regulations. Many studies were conducted on items that are popular or are regularly being audited by the tax authorities for the purpose of tax avoidance. However, not many studies were conducted on the profile of the tax agent that agrees to take the responsibility legally in avoiding taxes. Therefore, this study is going to focus on this research gap of tax avoidance mainly in Malaysia.

### 2.3 Tax Gap

Prior studies concluded that one of the factors that contribute to tax gap is the difference between the income taxable reported by taxpayers and income taxable audited by tax authorities (Bagdad et al., 2017). According to the information shown in Table 2.2 earlier, the total of the additional tax and penalties imposed are the tax gap that are being recovered by audit activities. This indicates that tax avoidance is being actively utilised by taxpayers or their appointed tax agents but not intelligently.

Additionally, according to Bagdad et al., (2017), the tax gap can be broken down into three main categories of non-compliance. First, underreporting is a term used to refer to the amount of tax income that is not collected because tax payers who filed their tax returns did not disclose the full amount of taxes that they owed. Second, underpayment is the term used to refer to the discrepancy between the total amount of tax that was declared and the total amount of tax that was paid for tax

returns that were properly filed. Third, non-filing is a term used to describe the amount of income that the government is missing as a result of eligible taxpayers not submitting their tax returns. Consequently, tax revenues will be decreased and there will be an increase in tax audit activities. As for the non-filing eligible taxpayers, this is the main challenge for IRBM to overcome. Newly appointed CEO of IRBM, Datuk Mohd Nizom Sairi stated in the press conference on Op Saji, “We found that companies had not reported proper sales amount as well as did not file their taxes”. However, with the tax audits and investigations, as well as the introduction of SAS and the voluntary disclosure programmes, IRBM managed to recover the tax gap at the stipulated period (The Malaymail, 2022). IRBM should take further action aggressively in combating these non-compliance taxpayers in respect of tax avoidance and tax evasion.

#### *2.4 Tax Avoidance*

Taxes are fundamental and they are the source of income to the governments all over the world. They are the obligatory contributions made by the private sector, which includes both individuals and corporations, to the treasury of the government for the purpose of governance, development, and the provision of infrastructure amenities for the welfare of the people living in the country. (Yahaya et al., 2020)

It is the biggest challenge for individuals and corporations as the tax is a significant cost deducted from the distributable profit. Tax must be complied accordingly for the government to cater the expenditure for the well-being of its citizens. However, not only in Malaysia, countries around the world are facing the same problem where paying taxes are being avoided by individual and corporation taxpayers since it is legal to tax law. Businesses are seeking for ways, both legitimately and illegally, to reduce the amount of taxes they have to pay (Pasca, Dedy & Tuti, 2018, as cited in Yahaya et al., 2020). Tax avoidance, which is the focus of the current research, refers to the ethical and moral practice of paying a lower amount of tax or no tax at all (Oyebanji & Oyebanji, 2017, as

cited in Yahaya et al., 2020). According to Napitupulu (2019) a taxpayer may be considered to be engaging in tax avoidance when they make an effort to reduce or eliminate their tax liability while maintaining compliance with all applicable tax regulations. According to Kraft and Lopatta (2016), as cited in Salehi et al., (2020) their study demonstrated that the sole thing that impacts audit fees is the voluntary tax gap, and that tax expense has an effect on tax avoidance.

### 2.5 *Aggressive Tax Avoidance*

The term "aggressive tax avoidance" is synonymous with tax planning, tax avoidance, tax mitigation, tax minimisation, and tax shelters. This is because all of these strategies aim to reduce a taxpayer's tax liability while adhering to the legal and ethical requirements imposed by the relevant tax authorities. (Badertscher, Katz & Rego, 2011; Armstrong, Blouin & Larcker, 2012; Ogbeide & Iyafekhe, 2018, as cited in Yahaya et al., 2020).

According to Hanlon and Heitzman (2010), as cited in Yahaya (2020), tax avoidance was commonly understood as the lowering of explicit tax burdens. They defined tax avoidance as "a continuum of tax planning strategies where something like municipal bond investments is at one end (lower explicit tax, perfectly legal), whereas terms such as 'non-compliance', 'evasion', and 'aggressiveness' would be closer to the other end of the continuum." Tax planning is a term that refers to the activities that businesses engage in to try to minimise their tax payments through the use of aggressive tax planning operations and tax avoidance (Chen et al., 2010, as cited in Yahaya et al., 2020). It is agreed that tax avoidance can be done and can be planned intentionally to reduce the tax payable. This will definitely benefit the company as it can save the cost and reflects a good profit to its shareholders and investors. Despite the fact that tax aggressiveness is beneficial to the company and the shareholders in the form of tax savings, there is a possibility that there will be large costs associated with it that are not related to taxes (Annuar et al., 2014, as cited in Yahaya, 2020).

The term aggressively can be seen when it is well planned by a corporation to reduce its taxable income through increasing deductions and taking advantage of tax credits. No matter how big or small the company is, there are chances of tax avoidance, whether aggressively or non-aggressively. As large companies have a power advantage over smaller ones, both economically and politically, this makes them more likely to engage in aggressive tax avoidance strategies. (Hoi et al., 2013, as cited in Yahaya, 2020). According to Murphy's, (2004) study, the results indicated that taxpayers who seek out and have an aggressive tax agent are slightly younger, earn more, and have lower levels of education than taxpayers who do not seek out and have an aggressive tax agent. This may include new companies run by younger individuals who would seek for tax planning other than individual taxpayers. The concept of "tax avoidance" itself is easy to be misused, and acts that include the avoidance of taxes to an extreme degree are referred to as "aggressive tax planning" (Bardai, 2021).

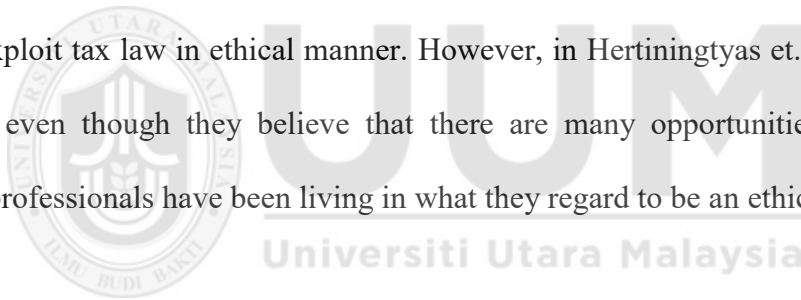
## 2.6 *Items Frequently Used for Tax Avoidance*

In Malaysia, as for individual taxpayers, IRBM allows eligible taxpayers to claim certain deductions and adjustments of income. For example, a relief of medical expenses and insurance that covers life and medical. However, the burden of proving it depends on the genuine supporting documents to qualify for the deductions. Consequently, for companies, they are eligible for tax incentives, tax exemption and expenses deductions incurred by the business. For instance, taxpayers have to make use of the expenditure in order to offset it against their income, as well as a technique for businesses to offset their losses against their profits (Bagdad et al, 2017).

## 2.7 *Quality Measure in Tax Reporting*

The Audit of the Accounts of a Certain Category of Persons Carrying on a Business or Engaged in a Profession is covered by Section 44AB of the Income Tax Act, 1961. Thus, every business will

be audited for tax purposes. A tax audit is the process of examining and verifying a taxpayer's financial records to ensure that they are in compliance with income tax laws. In tax reporting substances, cases that have gone through audit or investigation with no tax adjustment by IRBM is considered as excellent in quality in its tax reporting. It seems like there is no attempt of avoidance, evasion or mistakes done by tax agents. Quality in general, is defined by the Oxford Dictionary as the benchmark by which something is evaluated in comparison to other items of a similar nature or the level of excellence of something. Thus, the increase of tax audits carried out by IRBM every year will most probably indicate poor quality in tax reporting that needs tax adjustment. Nevertheless, tax reporting accomplished by Big 4 companies may not have a poor quality since they possess high level of knowledge, competencies and professional in its conduct as compared to non-Big 4. To a certain extent this statement is accurate, since neither Big 4 nor non-Big 4 has the opportunity to exploit tax law in ethical manner. However, in Hertiningtyas et. al.'s (2021) study, they found that even though they believe that there are many opportunities for them to act unethically, tax professionals have been living in what they regard to be an ethical atmosphere.



## 2.8 *The Ethics Theory*

There must be a good relationship between taxpayers and tax agents in performing their respective responsibilities. Their communications and management must be in common in producing a reliable tax reporting as agreed by both parties. Tax agents, as professional practitioners may be holding on Public Relation Ethics Theory to gain public trust and create a positive impact on their clients in facing challenges in terms of communications and managements in their professions.

As public relations professionals, like other professionals, have the power to tremendously help (or injure) their clients as well as significantly impact stakeholders and society at large, public relations ethics are extremely essential. A public relations practitioner is more likely to be trusted if they behave ethically and professionally. They will be referred to as having integrity since they exude a

certain sense of goodness, honesty, and dependability. A good reputation is fundamentally based on being ethical and professional. Organisations should work to incorporate ethics into their operations since it affects expectations from both the professionals and the general public. The ultimate purpose of ethical behaviour is to earn the trust of the public. Examples of ethical core values include honesty, courtesy, morality, sincerity, transparency, respect, integrity, accuracy, credibility, trustworthiness, health, and sustainability (Abdullah et.al, 2022). According to Palil et. al., (2022) in this circumstance, tax morality becomes the dominant element, and aggressive tax planning results from either an internal factor of tax agents or from their deliberate decision to engage in tax planning. Generally, there are philosophical approaches to ethical reasoning, which consist of Deontological Ethics, Utilitarian Ethics and Virtue Ethics.

The Deontological Method focuses on an action's ethical "rightness" or "wrongness" relative to other actions. This is universal principles that distinguish between moral and unethical behaviour control actions. According to Palil et al., (2022), in this circumstance, tax morality becomes the dominant element, and aggressive tax planning results from either an internal factor of tax agents or from their deliberate decision to engage in tax planning. In tax reporting situation, this principles are important in decision making whether to choose right or wrong action in their reporting that later would reveal their morality. Generally, being honest in tax reporting is a sign of doing the right thing.

Another theory of ethics is the Utilitarian Theory. The focus of utilitarianism is on the outcomes of an action of right from wrong. In utilitarianism, what matters is achieving the greatest good for the largest possible number of individuals, which aims to maximize overall happiness, well-being, and welfare, in other words, its aim is to increase the level of net utility. It requires us to look beyond self-interest and to examine impartially the interests of all those affected by our activities since it insists on adding up the benefits and harms of everyone. In tax situation, pure judgment is crucial in determining what to be reported and how rules and regulations are explained by tax agent to the



client. The consequences from this cause of action will affect taxpayers and tax agents aggregately. Therefore, the existence of any loopholes in tax regulations may give rise to the chance of tax avoidance and evasion that can reduce tax liability to bring happiness to the client and tax agent as receiving payment handsomely.

According to the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA), tax agents are supposed to not only provide the finest advice to their clients, but also to instil in them the importance of paying their taxes as required by law. This is similar to Deontological Ethics. In addition, tax agents also need to inform their clients the implications of any wrongdoings towards taxpayers and tax agents. Thus, this is related to the utilitarianism ethics. However, there are situations where tax agents are forced by clients' desires in minimising tax liability. According to a previous study, in respect of the payments received, clients are looking for tax refund in return, from the cost of using tax agents (Walpole, 2009). The researcher also stated that, in his previous study in the case of Australia, tax experts are obliged to provide their clients with high quality guidance. Certainly, in pursuant to the code of ethics tax agents have to advise their clients accordingly, but sometimes they have to act at their clients' best interest. This circumstance involve integrity, which is the act of being honest and morality principles is applicable. In the absence of integrity, the quality of tax agents is jeopardised. Having said that, both tax agents and taxpayers should practice these ethics accordingly.

In addition to the ethics theories, IRBM in its Code of Ethics for Tax Agent established on the concepts of honesty, accountability, transparency, efficiency and social responsibility. Marshall et. al. (2010) reveals that confidentiality is the most critical ethical problem for Big 4. This is followed by issues with providing clients with inaccurate advice and technical competency. As for the awareness in conducting tax matters on behalf of its clients, tax agents under Big 4 abide by these ethical principles.

Tax compliance has risen since the introduction of Self-Assessment System. This success has to do with parties involved that IRBM relied on and one of the parties include the role of tax agents. However, in conducting the duties, Murphy (2004), reveals that previous studies among Big 4 tax agents, prepared returns are more likely to be non-compliant. Thus, loss in tax revenues increased due to non-compliant made by tax agent. Nevertheless, this non-compliant reporting was initiated by the tax agent or taxpayer in question. Apparently, ethical principles cannot guarantee that a decision will be made in accordance with them, nor can they provide direction for ranking when the principles appear to be at odds with one another. Instead, they just highlight factors that should be taken into account while making decisions.

## 2.9 *Summary of Literature Review*

Many studies indicated that the role played by tax agents are important in ensuring tax compliance and the success of tax collections as a whole. Tax agents as the mediator between taxpayers and tax authorities act at its best interest in tax avoidance and at the same time adhere to tax laws. Various studies show that some tax agents' companies are always good in tax reporting but some studies show that they are likely to be non-compliant. This study will expose the cause of tax avoidance in a different perspective using the Theory of Ethics by exploring the quality in tax reporting and the character of tax agents in its practices.

## CHAPTER 3

### 3.0 Research Methodology

#### 3.1 Proposition Development

This study will investigate the quality of tax agent in tax reporting for companies in Malaysia through three aspects to learn about the cases audited by the Inland Revenue Board of Malaysia (IRBM), in the area of Wilayah Persekutuan Putrajaya, Malaysia and the tax gap between the reported taxable income and audited taxable income for three consecutive years, 2017, 2018 and 2019. The three years' analysis is expected to indicate the audited cases performed by IRBM, the amount of tax liabilities computed by companies' tax agents, the revised amounts audited by tax auditors, the character of the tax agencies and the items that often become the audit issues. The results will show that the level of seriousness of tax planning by which, the existence of tax adjustment based on tax audit activities carried out by IRBM. In addition, it will also indicate the level of tax awareness and compliance among corporate taxpayers in Malaysia. Thus, this will give a hint to the government and tax administrators in particular of the need to strengthen the tax audit structure to reduce tax avoidance, consequently reduce the tax gap.

The analysis from the cases audited will also indicate the tax agents responsible for tax reporting on behalf of the corporation in filing tax return forms. These tax agents involved directly to the companies in assessing and computing the tax. Meanwhile, data from the interviews will support the characters of tax agents who conducted the auditing and computing tax for corporations in depth. Thus, the tax agents' character will be revealed. Furthermore, the data also will point out the reasons behind the involvement of these parties, since tax planning is legal and tax agents are experts in dealing with it. The difference in tax reported and tax adjustment after audit would be significant in determining the quality of tax reporting and the character of tax agents. Thus, tax administrators would be aware of the contribution of the tax agents in assisting their clients in reporting the tax liabilities.

Data from the audited cases will highlight the items that are frequently audited as the issues for the tax revised. This will be the triggered items for the tax auditors in choosing and detecting audit issues. Tax auditors will be able to save time and cost in dealing with the tax agencies and reduce government expenses.

### *3.2 Ethics Theory*

In this study, ethics will be the measuring tool to be applied by tax agents in every decision they made in conducting their role. Ethics are frequently reduced to tools or guiding concepts that aid professionals in making challenging judgements. However, people are seldom asked to describe how ethical principles guide their own behaviour, the behaviour of others, or how they assist people in making moral decisions. The ultimate objective is to demonstrate that significant judgements can be morally directed, given that decision-makers are aware that other decision-makers have ethical preferences as well and are frequently prepared to disregard ethics for expediency. Two approaches of ethics theories are discussed, Utilitarian Theory and Deontological Theory to see whether by applying those theories would affect the quality of tax reporting.

### *3.3 Sampling Techniques*

In this study, convenience sampling is chosen to support the data collected earlier. Personnels of the Inland Revenue Board Malaysia (IRBM) are most likely agreed to be interviewed as they possess the knowledge and experience in the field and well-informed in the phenomenon. Approximately eight to ten respondents will be interviewed to answers all the research questions.

### *3.4 Data Collection Techniques*

To measure tax audit activities by the number of audited cases, the tax payable, tax adjusted payable and the items that are often be the audit issues, the number of audited cases resolved is extracted from the internal data of IRBM, from year 2017, 2018 and 2019. Meanwhile, interviews will be conducted on one-to-one basis with tax audit managers and tax auditors that will be the targeted

respondents in relation to the cases audited. The focus of the interviews will be on the nature of tax reporting prepared by tax agents and the character of tax agents that could be among Big 4 or non-Big 4 tax agents' companies. Approximately eight to ten tax audit managers and tax auditors will be interviewed.

### *3.5 Data Analysis Techniques*

To evaluate and illustrate the data gathered, the data of the three consecutive years obtained from IRBM will be analysed manually using Microsoft Excel. Data collected from the interviews will be gathered and analysed accordingly through text analysing, grouping data and reviewing the recorded interviews.

The use of Theory of Ethics will be one of the techniques in analysing the level of quality tax reported by tax agents.

### *3.6 Questionnaires' Preparations*

Data will be collected from the interviews by employing the unstructured questionnaires. Managers and auditors will be interviewed to gain some insights to support the data collected from the internal sources.

### *3.7 Summary of Research Methodology*

In conclusion, the research methodology consists the components of propositions, data sampling, data collection and data analysis in this study will be identified and will be done accordingly.

## **CHAPTER 4**

### **Findings and Results**

#### 4.0 Introduction

In this chapter, the findings and results from the data collected will be analysed and interviews are discussed. This includes descriptive analysis from the internal data of IRBM collected and face-to-face interviews from respondents selected within IRBM's auditors and audit managers. Descriptive analysis is a type of data research that aids in explaining, demonstrating, or helpfully summarising data points in order for patterns to emerge that will satisfy all of the data's requirements. It is the process of detecting patterns and links in data that is both recent and historical.

#### 4.1 Data Analysis and Results

##### 4.1.1 Internal Data of IRBM

Internal data extracted from the data supplied by the Operational Department, IRBM. All data collected referred to the companies' files, cases, assessments of reported income and assessments of income after audit took place. The information gathered were related to the companies' files in Malaysia that have been audited for year 2017, 2018 and 2019. However, this study aims to focus on issues related to normal audit activities without investigations on audit activities. The Wilayah Persekutuan Putrajaya Branch, formerly known as three different branches in the Klang Valley, which consists of Bangi Branch, Cheras Branch and Wangsa Maju Branch was chosen for the data sample.

Table 4.1 presents the number of active files, the number of files targeted to be audited and number of files audited for companies' files for the year 2017, 2018 and 2019. Every year, active files increased gradually. Throughout 2017 to 2019, the number of active files increased from 137,749 files to 142,850 files and subsequently a total of 150,543 files were registered. Out of these active files, IRBM targeted 57.90%, 53.86% and 66.06% number of files of companies to be audited in the

respective years. Nevertheless, the total number of files audited far exceeded from the targeted percentage which was 75.49% in the year 2017, 75.96% and 88.99% in the year 2018 and 2019 respectively. This result shows that audit activities is significant with the number of audited cases which increases every year.

*Table 4.1: Number of Active Files, Targeted Files and Audited Files*

<b>Year of Assessment</b>	<b>Number of Active Files</b>	<b>Number of Targeted Files</b>	<b>Percentage of Targeted Files (%)</b>	<b>Number of Files Audited</b>	<b>Percentage of Files Audited (%)</b>
2017	137,749	79,759	57.90	103,988	75.49
2018	142,850	76,936	53.86	108,506	75.96
2019	150,543	99,444	66.06	133,965	88.99

Source: Internal Data of Operational Department, IRBM

Active files comprised files that are newly registered, consist of potential files with threshold income below tax and current active files which transactions of assessments and payments actively incurred from time to time. Table 4.2 presents the comparison between active files and audited files. The number of active files increased by 5,101 with the percentage of increment of 3.70% from year 2017 to year 2018. Subsequently, the number increased by 5.39% from year 2018 to year 2019 with the total increment of 7,693 active files. Meanwhile, the number of files audited also indicated an increment from year 2017 to year 2018 by 4.34%. The percentage of an increase in active files did not have much difference with the audited files. However, the increment of audited files compared to active files showed a significant increment of five times from the year 2018 to year 2019. The huge difference indicated that audit activities were obviously active during the three years. This is in line with the launching of Special Voluntary Disclosure Programme (SVDP) on November 3, 2018 until 30 September 2019 as announced by the Minister of Finance in Budget 2019. In this programme, taxpayers were given the opportunity to declare the correct and full income and pay as reported within the stipulated period together with the reduction of penalty rates. In addition, IRBM

would accept information that voluntarily disclosed in good faith. However, tax computation would be checked to ensure the accuracy of the voluntary disclosure made. The purpose of the programme was to facilitate taxpayers to come forward to voluntarily declare their income and to increase taxpayers' awareness, education and tax compliance. Obviously, taxpayers took this opportunity as they could benefit from the lowest penalties imposed and agreed for the programme's continuity in future (Hamid et al., 2022). The programme succeeded with a great percentage of increment in the number of files audited as stated in Table 4.2.

*Table 4.2: Comparison between Active Files and Audited Files*

Year of Assessment	Number of Active Files	Percentage of Increment (%)	Number of Files Audited	Percentage of Increment (%)
2017	137,749	0	103,988	0
2018	142,850	3.70	108,506	4.34
2019	150,543	5.39	133,965	23.46

Source: Internal Data of Operational Department, IRBM

Table 4.3 presents the total number of cases for companies audited with the total tax adjustment in Ringgit Malaysia (RM) due for the year 2016, 2017, 2018 and 2019 respectively. It is important to note that the number of cases indicated in this study is excluded from investigative cases. The cases were referred to the year of audit conducted for the respective years. From the year 2016, 2017, 2018 and 2019, the number of cases audited were increasing which also indicated the increase of number of companies audited, except for the year 2018, which was slightly decreased by 7,254 cases. The number of total adjustments increased every year from the year 2017 and the subsequent years. However, the most significant year is in the year 2019 with the increment of 174% of total adjustment for audited cases compared to the previous year. As stated earlier, the increment was due to SVDP that occurred during that year.



From the data collected, the total of tax adjustment increased every year. From the year 2016 to year 2017, the increment of tax adjustment was RM2,906,332,125.22. Subsequently, year 2017 to year 2018 indicated an increment of tax adjustment of RM1,546,371,705.58 and for the year 2018 to 2019, the data showed an increment of RM6,061,713,542.10 tax adjustment. Hence, this result indicates that tax avoidance and tax evasions appeared strongly in the first place of taxpayers' or tax agents' intention in their tax reporting. Through this programme, they took the chance to declare their unreported income to avoid higher penalties that could be imposed by IRBM if they were caught during the audit.

*Table 4.3: Number of Company's Cases Audited and Total Tax Adjustments*

Year of Assessment	Company's Cases Audited	Total Adjustments (RM)
2016	161,477	3,642,037,668.25
2017	178,452	6,548,369,793.47
2018	171,198	8,094,741,499.05
2019	230,144	14,156,455,041.13

Source: Internal Data of Operational Department, IRBM

The data for audit activities for companies can be categorised by field audit (ALC), desk audit (AMC), field audit and desk audit for Multinational Branch (CCM), and Special Industry Branch (CIK). Data provided excluded cases and total tax adjustment for investigative files. Table 4.4 presents the total number of cases for companies audited by IRBM for the year 2017 to 2019. The total number of cases audited increased from the year 2016 to the year 2019 by 68,667 cases which was 42.50%. The category that contributed the most to the overall cases audited was from AMC, followed by ALC, AL CCM/CIK and the smallest contribution was from AMC CCM/CIK. Figure 4.1 illustrates the audit cases for the year 2019, extracted from Table 4.4.

Table 4.4: Total Number of Cases for Companies Audited by IRBM

Year of Assessment	Number of Companies Audited by IRBM (Cases)								Total (Cases)
	ALC	%	AMC	%	ALC CCM / CIK	%	AMC CCM / CIK	%	
2016	15,180	9.40	145,653	90.20	644	0.40	0	0	161,577
2017	15,069	8.44	162,542	91.08	504	0.28	337	0.19	178,552
2018	11,744	6.86	158,283	92.45	783	0.46	388	0.22	171,298
2019	35,787	15.55	192,565	83.67	797	0.35	995	0.43	230,244

Source: Internal Data of Operational Department, IRBM

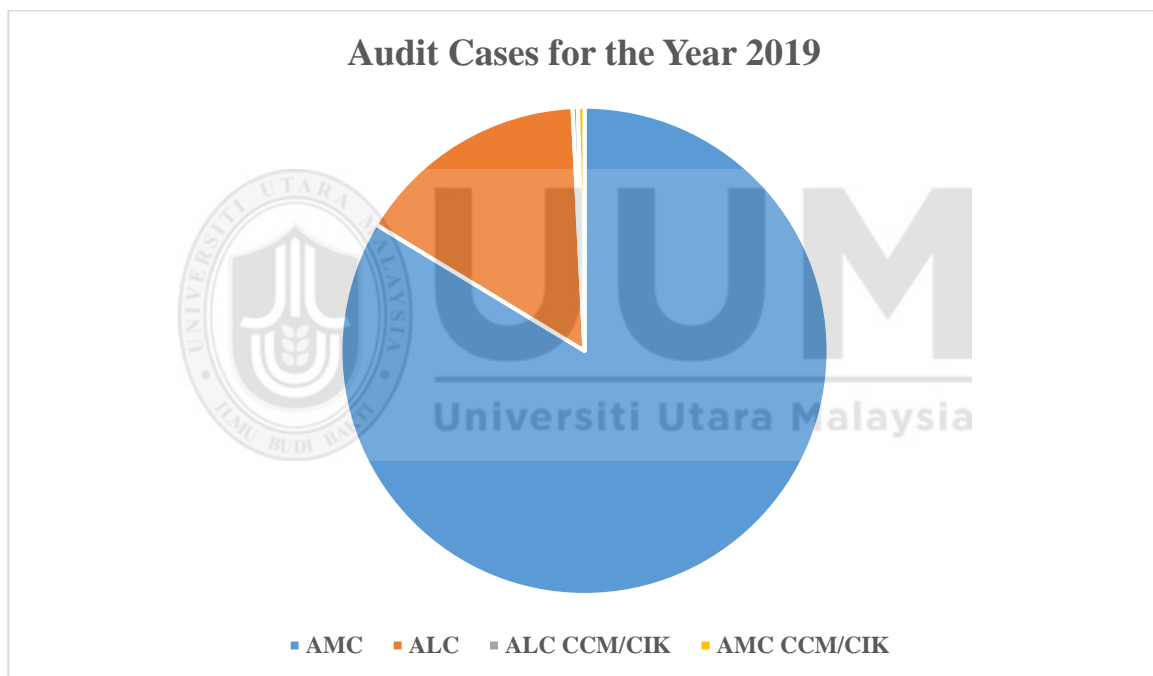


Figure 4.1: Portion Number of Cases for Companies Audited in 2019

Wilayah Persekutuan Putrajaya is one of the biggest branches among 15 branches that have roles in audit activities. Table 4.5 presents the number of cases audited contributed by WP Putrajaya for the year 2017, 2018 and 2019. Company cases audited by WP Putrajaya contributed 13.27% of the total cases audited by IRBM in the year 2019, 17.10% in the year 2018 and 15.56% in the year 2017. The number of audit cases increased from the year 2017 to the year 2018 by 1,506 cases which represented 15.56% to 17.10% of increment. Nevertheless, there was a moderate decrease of

percentage of cases audited which was 3.38% from 2018 to 2019. Despite of the decrease in the percentage of the cases audited, the total cases audited had gradually increased by 1,281 number of cases in 2019.

*Table 4.5: Number of Cases Audited Contributed by WP Putrajaya*

Year of Assessment	Number of Cases Audited	Number of Cases Audited by WP Putrajaya	Percentage of WP Putrajaya Cases Audited (%)
2017	178,452	27,762	15.56%
2018	171,198	29,268	17.10%
2019	230,144	30,549	13.27%

Table 4.6 demonstrates the comparison between tax payable reported and tax payable audited for audited companies in Wilayah Persekutuan Putrajaya Branch in the year 2017, 2018 and 2019. Data obtained shows the difference in tax payable reported and tax payable after audit took place every year. Year 2017 revealed a difference of RM409,794,510.25, whereas there was a difference of RM186,229,902.44 in 2018 and RM124,311,817.90 in 2019 respectively. Even though the difference shows a reduction of tax payable leakage within the three consecutive years, the percentage of leakage indicated were 78.50%, 94.10% and 103.84% in the year 2017, 2018 and 2019 respectively.

*Table 4.6: Comparison between Tax Payable Reported and Tax Payable Audited for Audited Companies in Wilayah Persekutuan Putrajaya*

Year of Assessment	Tax Payable Reported (RM)	Tax Payable After Audit (RM)	Tax Payable Leakage (RM)	Percentage of Leakage (%)
2017	522,020,142.69	931,814,652.94	409,794,510.25	78.50%
2018	197,912,204.08	384,142,106.52	186,229,902.44	94.10%
2019	119,710,797.78	244,022,615.68	124,311,817.90	103.84%

The most interesting part of this internal data findings are demonstrated in Table 4.7. Issues of audit that most tax auditors found are Sales Underreported, Sales Over Reported, Purchases Over Claimed, Purchases Under Claimed, Expenses, Other Expenses and many mores such as Incentives Claimed and Capital Allowances. In this study, the issues are focused on the Sales, Purchases and Expenses as presented in the Table 4.7. The result indicated that Sales Under Reported contributed the most in the audit issues in every year of assessment (YA), followed by Expenses and Purchases Over Claimed. Sales Underreported is a serious substance omission of income in return of tax evasion, likewise for Purchases Under Reported. On the other hand, the issues of expenses apparently indicated the avoidance of high tax liability. In every YA, expenses and other expenses indicated the second highest and the highest in YA 2018 of the audit issues from the audit activities. Hence, expenses are among the easiest items that tax agents could possibly use for avoidance. These results are the issues that are generally used by taxpayers or tax agents in the means of tax avoidance and tax evasion.

In the case of Sales over Reported and Purchases under Claimed, tax agents are allowed to revise the tax reported accordingly if they completed supporting documents issued to the IRBM for further inspection.

*Table 4.7: Issues of Audit on Tax Audit Activities Resolved in Wilayah Persekutuan Putrajaya*

WP Putrajaya Branch	Audit Issues					
YA	Sales Under Reported (RM)	Sales Over Reported (RM)	Purchases Over Claimed (RM)	Purchases Under Claimed (RM)	Expenses (RM)	Other Expenses (RM)
2017	758,711,863	4,837,683	72,676,809	3,751,094	149,735,859	572,460,920
2018	693,700,074	7,703,380	90,960,584	12,065,089	99,883,169	837,128,627
2019	737,880,223	23,296,781	152,527,459	1,031,807	103,072,145	593,711,892

Based on the Table 4.8 below, the percentage of issues for the audit findings is presented in relation to the data illustrated in Table 4.7. For the purpose of tax avoidance, tax agents or taxpayers used Other Expenses as the tool. Based on the data, it contributed 37.05%, 49.19% and 37.99% in the year 2017, 2018 and 2019 respectively. This indicator is reasonably significant to the tax avoidance. Other Expenses include incentives and allowances that are not allowable or wrongly claimed in the year of the cases audited. However, as cited earlier, this data also shows a high capacity of tax evasion occurred when the percentage of Sales under Reported indicated 49.11%, 40.76% and 47.21% in the year 2017, 2018 and 2019 respectively. These results have proven that both issues are significant to become a reason of tax avoidance and tax evasion for companies in Malaysia as proposed, prepared and computed by tax agents to their clients.

*Table 4.8: Items and Percentage of Issues Contributed to Audit Findings*

YA	Audit Issues						
	Total Findings (RM)	Sales Under Reported (RM)	Sales Over Reported (RM)	Purchases Over Claimed (RM)	Purchases Under Claimed (RM)	Expenses (RM)	Other Expenses (RM)
2017	1,544,996,675	49.11%	0.31%	4.70%	0.24%	9.69%	37.05%
2018	1,701,903,985	40.76%	0.45%	5.34%	0.71%	5.87%	49.19%
2019	1,562,863,131	47.21%	1.49%	9.76%	0.07%	6.60%	37.99%

Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers are the Big 4 main players among tax agents for companies in Malaysia. The study is to identify whether tax audit cases resolved are related to Big 4 or non-Big 4 companies that could reflect the quality in tax reporting. Table 4.9 presented below shows the number of cases resolved by Wilayah Persekutuan Putrajaya Branch.

*Table 4.9: Audit Cases Resolved by Wilayah Persekutuan Putrajaya*

Year	Cases Resolved
2017	22,456
2018	21,960
2019	21,119
<b>Total</b>	<b>65,553</b>

A total of 65,553 number of cases resolved by Wilayah Persekutuan Putrajaya Branch was recorded for the year 2017, 2017 and 2019. Among this figure, 22,456 cases were resolved in 2017, 21,960 cases were resolved in 2018 and 21,119 cases were resolved in 2019.

*Table 4.9: Average Percentage of Cases Resolved in 2017 with Audit Findings and Total Adjustments*

Big 4 Companies In 2017	Cases Resolved	Cases Resolved With Audit Findings	Percentage Cases Resolved With Audit Findings	Total Audit Adjustments (RM)
BIG 4 -1	82	8	10%	125,084,235.49
BIG 4 -2	122	12	10%	26,658,700.83
BIG 4 -3	57	5	9%	4,228,979.24
BIG 4 -4	121	12	10%	17,317,626.40
TOTAL	382	37	10%	173,289,541.96

*Table 4.10: Average Percentage of Cases Resolved in 2018 with Audit Findings and Total Adjustments*

Big 4 Companies In 2017	Cases Resolved	Cases Resolved With Audit Findings	Percentage Cases Resolved With Audit Findings	Total Audit Adjustments (RM)
Big 4 -1	91	7	8%	11,156,048.93
Big 4 -2	121	3	2%	623,088.29
Big 4 -3	59	1	2%	3,433,880.18
Big 4 -4	126	5	4%	3,218,587.61
Total	397	16	4%	18,431,605.01

*Table 4.11: Average Percentage of Cases Resolved in 2019 with Audit Findings and Total Adjustments*

Big 4 Companies In 2017	Cases Resolved	Cases Resolved With Audit Findings	Percentage Cases Resolved With Audit Findings	Total Audit Adjustments (RM)
BIG 4 -1	96	2	2%	6,416,775.54
BIG 4 -2	117	1	1%	1,794,373.44
BIG 4 -3	55	1	2%	867,975.52
BIG 4 -4	133	1	1%	78,988.74
TOTAL	401	5	1.5%	9,158,113.24

Tables 4.10, 4.11 and 4.12 present the average percentage of cases resolved with audit findings and total adjustments from Big 4 Companies. Cases resolved from Big 4 companies in auditing for the year 2017, 2018 and 2019 are 382 cases, 397 cases and 401 cases respectively. Out of the total number of cases, an average of 10%, 4% and 1.5% for the year 2017, 2018 and 2019 respectively were resolved with audit findings and adjustments of tax payable. This indicated a descending trend of Big 4 companies' cases with audit adjustments from the year 2017 until 2019. It was the same for the total adjustments from the audit findings. It also showed a descending trend of RM173,289,541.96 in 2017 to RM18,431,605.01 in 2018 and decreased further in 2019 to RM9,158,113.24. The total audit adjustment is quite significant since the number of cases resolved were not much, but this still contributes millions of Ringgit to the leakage of tax collection. Therefore, this gives an effect to the Big 4's reputation of presenting a poor tax reporting and tax avoidance.

Cases resolved apparently involved non-Big 4 companies that had the highest percentage compared to Big 4 companies and unrecorded tax agent companies for the respective years of 2017, 2018 and 2019, as presented by the Table 4.13. It contributed 76.43% in 2017, 72.64% in 2018 and 75.34%

in the year 2019. Meanwhile, cases resolved in relation to Big 4 companies only showed 1.70% in 2017, 1.81% and 1.90% for the year 2018 and 2019 respectively. Other than that, 21.86%, 25.56% and 24.66% of tax agents in regards to cases resolved in 2017, 2018 and 2019 respectively were from unrecorded tax agents. The unrecorded tax agents could be among the Big-4 or non-Big 4 companies. This result indicated that most of the audited cases resolved have a direct relationship between the non-Big 4 companies and their clients. However, it showed that the Big 4 tax agents' companies also existed with a small percentage in the audit cases resolved that indicates tax agents' contribution to the poor tax reporting and tax avoidance.

*Table 4.12: Tax Agents' Characteristics Based on Tax Audit Resolved in Wilayah Persekutuan Putrajaya*

Tax Agents	YA (2017)	Percentage (%)	YA (2018)	Percentage (%)	YA (2019)	Percentage (%)
Non-Big 4	17,165	76.43%	15,951	72.64%	15,912	75.34%
Big 4	382	1.70%	397	1.81%	401	1.90%
Unrecorded	4,910	21.86%	5,612	25.56%	5,207	24.66%
Total	22,457		21,960		21,119	

#### 4.1.2 Interviews

Participants consist of tax auditors and tax audit managers of Companies Audit Department of IRBM were interviewed for the collection of qualitative findings. The researcher aims to derive view and experience from participants towards the issues under this study and they expected to enrich the findings produced apart from the analysis of the data gathered provided by IRBM. Two out of seven participants were Tax Audit Managers and the remaining five were Tax Auditors. Both positions were from the tax audit company's department.

The participants' demographic is presented in Table 4.14. The participants comprised of six females and one male. The two tax audit managers are female, one male tax auditor and four female tax auditors. Among them, only one participant is from Others race and the rest are Malays. In terms of education background, all of the participants are Bachelor's Degree holders graduated from various



universities. The most important part is the working experience, one participant has worked for six to ten years, three participants have working experience within 11 to 15 years and another three participants have been working in the organisation for more than 16 years. Demographically, all managers and auditors participated in this study have enough working experience to present views and arguments from different perspectives.

*Table 4.13: Participants' Demographic Description*

<b>Gender</b>	<b>Number</b>	<b>Education Background</b>	<b>Number</b>
Female	6	Diploma	0
Male	1	Bachelor's Degree	7
		Master's Degree/PhD	0
<b>Race</b>		<b>Audit Working Experience</b>	
Malay	6	<5 years	0
Chinese	0	6-10 years	1
Indian	0	11-15 years	3
Others	1	>16 years	3

#### 4.1.2.1. The Main Purpose of Tax Audit

The introduction of Self-Assessment System (SAS) for companies in 2001 requires every company to complete and lodge tax return within the stipulated date every year. The IRBM's particular goals are to encourage voluntary compliance, decrease tax collection costs, and improve tax collection (Kasipillai, 2005, as cited in Abdul-Jabbar. H & Pope J, 2008). This is where the tax authority, IRBM has shifted the obligation of reporting income to taxpayers and accepts the reports as it is for the sake of Return Form due. In addition, taxpayers are responsible for tax compliance, computation and pay their taxes in accordance to tax laws. On the other hand, IRBM will then observe the true and fair view of the Return Form through audit activities, which is the main activity of IRBM.

Based on the interview results, all respondents had a common agreement that the return forms have to be audited to ensure taxpayers' compliance to tax law and pay the correct amount of tax liability. It is for the reason that the return forms may have errors or elements of avoidance or evasion of tax.

In practices, taxpayers or tax agents have the intention in adjusting the income and expenses of the business to get lesser tax liability. Respondents' comments are as follows:

“In the case of incomplete record, computation of tax payable relied on estimated figures and information given by director or accountant of the company, sometimes, tax agents will offer the amount taxpayers willing to pay.”

(Respondent 7, female, audit manager)

“During the pre-audit session tax agent was accidentally given another set of accounts which comprised of different statements of final accounts that reflected different amount of tax liability”

(Respondent 3, female, auditor)

The implementation of SAS has given tax agents the opportunity to select what to disclose rather than the actual income. Having different sets of accounts as commented by Respondent 3, showed that the tax agent honestly had the intention to avoid or evade tax. This unethical action has a connection with the Ethics Theory mentioned in Chapter 3's approach whereby this tax agent took the “wrong” action. This result supported the increase of tax audit resolved yearly with the solid issues of audit findings.

#### 4.1.2.2. The Role of Tax Agents

In the field of taxation, tax agents are professionals and experts to handle tax matters acting on behalf of their clients. According to Mohd Isa (2012), as cited in Hamid.S (2013), in Malaysia, a large number of corporate taxpayers rely heavily on tax agents to manage both their tax compliance and tax planning needs. Results from the interview showed that most respondents replied that tax agents normally would initiate tax planning and advice taxpayers based on taxpayers' willingness and agreement to the tax liability. Respondents' comments are as follows:

“I think that tax agents would advise taxpayers to do tax planning since they have the knowledge and expertise.”

(Respondent 2, female, auditor)

“In seeking to pay lesser tax, taxpayers would agree to tax agents’ advice.”

(Respondent 4, female, auditor)

However, there were respondents who claimed that taxpayers could be the first party to initiate tax avoidance. Respondents’ comments are as follows:

“Tax agents follow their clients’ desire to pay lesser tax.”

(Respondent 1, female, auditor)

“Tax agents are being paid to follow taxpayers’ needs.”

(Respondent 5, male, auditor)

Sometimes, tax agents were in a dilemma on whether to choose to practice on their own interest or to adhere to their clients’ desire in their tax reporting. Klepper et al., (1991) as cited in Murphy (2004), implied the fact of a dual role for tax agents. Tax agents can be both exploiters and law enforcers because they have specialised understanding of tax law. Klepper et al. (1991) contended that tax agents frequently uphold the law in clear cut circumstances. In these circumstances, they frequently suggest cautious tax minimisation techniques to guarantee compliance. In contrast, a tax agent is more likely to exploit the rules by promoting tax avoidance when presented with a complicated circumstance. Hence, tax agents have taken the “right” and “wrong” action in the practice of ethics theory.

#### 4.1.2.3. The Tax Audit Issues

In the real cases of audit, respondents revealed that audit issues normally found were sales, purchases, expenses and allowances based on business industries in particular. Some of the respondents' comments are as follows:

“For trading industries, issues that were normally found are non-allowable expenses such as depreciation of assets”.

(Respondent 3, female, auditor)

“Capital Allowances were wrongly claimed because they did not meet the requirements”

(Respondent 7, female, auditor)

Depreciation and capital allowances are popular in audit findings. Tax agents are supposed to act professionally and compute tax precisely. Both respondents above commented on the issues of depreciation and capital allowances. These are only simple issues, however, they can reflect the poor quality of tax reporting and consequently a reduce in tax collection if no serious actions were taken during tax audit.

#### 4.1.2.4. The Nature of Tax Reporting

During the interview, respondents were asked in regards to the nature of tax reporting by tax agents. Generally, all respondents agreed that tax agents prepared tax reporting in accordance to the audited report. However, some tax agents did not ask in depth every item related to tax purpose that could not take into account. Some agents further made adjustments based on their own interpretation and hence, over declare or under declare of some items occurred. A few respondents' comments are as follows:

“Tax agents will just follow what were already being reported in the audited account”.

(Respondent 3, female, auditor)

“The director of the company wanted a tax agent to report as desired by the director even though the tax agent advised not to report in such a way”.

(Respondent 3, female, auditor)

“Sometimes, during the audit sessions, for instance, when tax auditors found the issues in regards to the incentive, the tax agents will admit that they have mistakenly interpreted the tax law”

(Respondent 5, male, auditor)

IRBM has issued a number of Public Rulings to facilitate the interpretation of tax law. Lack of knowledge and education of tax agents while performing their responsibility will be the reason of poor judgement in tax law and as a result, for instance, allowance claimed will be not allowed since the terms and conditions of the claim did not match the requirements.



## CHAPTER 5

### Discussions and Conclusion

#### 5.1 Discussions

This study was conducted to investigate the quality of tax agents in tax reporting for companies in Malaysia. Three aspects of investigation included the situation of tax planning practices by companies in Malaysia from the perspective of tax computation prepared by tax agents appointed by companies for the years of assessment 2017, 2018 and 2019. This can be identified through the significant difference between tax payable reported and tax payable adjusted by the tax authority. This study was then followed by identifying some clues to the characteristics of the tax agents that probably came from the Big 4 or non-Big 4 tax agent companies. Lastly, ascertaining the issues of audit frequently found that will be the triggered items for tax administrators in choosing companies for audit. This study also emphasised another important aspect of the Ethics Theory in the actions conducted by tax agents.

From the results of data collected, the number of cases audited by IRBM showed an increased amount every year. The analysis also demonstrated that the different amount of tax payable reported and tax payable adjusted due to audit increased significantly every year. The difference may be associated with mistakes or manipulation of tax computation or audit issues found in tax audit activities. The mistakes or manipulation could be seen from the computation of tax reported by tax agents that were not accurate and there were elements of tax avoidance and evasion. Although tax avoidance is legal, however, the failure to hide or manage this expenses and allowances accordingly will then be a loss to taxpayers. The loss would be in the terms of additional tax charges and penalties of audit borne by taxpayers. Nevertheless, the introduction of SVDP has fortified the assumption of tax avoidance and evasion's existence whereby taxpayers simultaneously responded to the programmed aggressively. Subsequently, the results from the programme also indicated the huge difference in total of tax adjustment during that period. Hence, tax reported by the tax agents before

the programme took place was not accurate and had serious elements of tax avoidance and evasions. This result also demonstrated the poor tax reporting by tax agents. On the other hand, audit issues, for instance, under reported sales and over reported of purchases were the elements of tax evasion. The results from the data analysis also showed significant findings. This type of manipulation prepared by tax agents showed a poor quality of tax agent in tax reporting. Hence, these situations indicated the seriousness of tax planning resulted from the audit activities carried out by IRBM.

Nevertheless, in terms of ethics theory application, tax agents are responsible to inform taxpayers of tax implications due to manipulation caught by tax authority. Tax agents, to safeguard their licence of service, must adhere to the code of ethics for tax agents' practices. Based on the interview results, respondents commented that tax agents were forced to follow taxpayers' desires in minimising tax liability just because they were being paid. In this scenario, a tax agent could take a cautious action by giving the finest advice to the taxpayers on the consequences. However, they still took the risk of not reporting the actual amount of tax payable hence, unethical decision was made from wrong to rightness. Unfortunately, this shows a poor quality of tax reporting by tax agent. This resulted an increment in audit activities where unethical principles practices by tax agents might the reason for tax planning.

As for the results of tax agent characteristics, the analysis showed little participation of Big 4 companies in audited cases carried out by IRBM. Even though the Big 4 companies possess high reputation and renowned in tax reporting, it is believed that mistakes in tax computation and practices of tax planning appeared to be small. However, their contributions to the tax collections in millions more or less effect tax gap. Eventually, this would become significant if no actions are taken to control them from the root. In another point of view, from the interview results, the respondents commented that new employees with no experience and less supervision by senior employees might cause some mistakes in some Big-4 companies. The results however, displayed a highly significant participation of non-Big 4 companies in audited cases carried out by IRBM. In

connection with the point previously mentioned, these non-Big 4 companies are not prominent and probably are new players that have just entered the industry. In the ethical point of view, this result is consistent with the study of Marshall et al., (1998), whereby the results from the division of respondents into tax agents and those hired by Big 4 companies do offer some, but not significant, empirical evidence for the idea that tax practitioners in the large public accounting firms perceive ethical difficulties in tax practice differently.

The results of audit issues frequently found in audited cases are sales, purchases and expenses. This result is in line with the study of Bagdad et al., (2017), that is the tax gap is largely influenced by five techniques: underreporting of sales, over claiming of purchases, over claiming of expenses, invalid capital allowances, and other strategies are amongst issues frequently found. The biggest contribution came from the under reported sales issues which obviously indicate tax evasion followed by expenses issues. This indicated that tax planning is seriously happening in this country and it is a sign of revenues collection leakage. Aggressive actions have to be taken to curb this situation.

## 5.2 Conclusion

In this study, upon receiving all data from IRBM and interviews conducted, some limitations seemed to appear. The data only covered one branch of IRBM in Klang Valley as a sample of the analysis. The data could be more accurate if samples are taken from every state in Malaysia. The issues on audited cases must be more itemised to see the triggered items precisely. It is difficult to determine the Big 4 and non-Big 4 participation in audited cases since both taxpayers and tax auditors did not update the tax agents' information in the IRBM's system. Therefore, the result is inaccurate and disputable. This study has proven that accuracy and honesty in tax reporting is crucial in determining the actual tax liability of taxpayers. To date, there are many ways to avoid paying taxes through a



proper tax planning. The voluntary disclosure programme completed by IRBM at some point succeeded, however, taxpayers seem only want and willing to pay what they want to pay and did not declare the actual and honest income. In this situation, tax audit carried out by IRBM seems to be able to combat and to disassemble the intention to avoid or evade tax by tax agents. Cautious and awareness of tax agents in their tax reporting must be upgraded to hold trust and positive perception from tax authority and public. However, IRBM needs to be well-equipped and dedicate all its sources that would increase the government expense as well. Not only IRBM but the government and tax agents too have to work together and support each other through the honest voluntary declaration.

Tax agents sometimes disregard their righteousness to please their clients' demands. Furthermore, they only prepare the tax report based on information that given by their clients. Hence, the adoption of ethics theory somehow assisted the researcher in determining the decisions taken by tax agents towards their quality in tax reporting. However, tax agents' role and the enforcement of the sanction of tax agents' licence needs to be looked in depth. In addition, the implications of code of ethics theory towards tax agents in this study on the taxpayers' practices and tax authority's practices are not examined and therefore, future studies can be conducted on these topics.

## 6.0 References

- Abdul-Jabbar, H., & Pope, J. (2008). The effects of the self-assessment system on the tax compliance costs of small and medium enterprises in Malaysia. *Austl. Tax F.*, 23, 289.
- Abdullah, Z, Mohamad, B., Syed, I, & Mohd Hasan, N.A. (2022), A Global Capability Framework for the Public Relations and Communication Management Profession: A Malaysian Perspective
- Ambali, A. R. (2009). E-government policy: Ground issues in e-filing system. *European Journal of Social Sciences*, 11(2), 249-266.
- Ann, A. H. (2021). <https://www.ecovis.com/global/newsletter-gst-in-malaysia-will-it-return/> . Retrieved from <https://www.ecovis.com>.
- Annuar, H. A., Salihu, I. A., & Obid, S. N. S. (2014). Corporate ownership, governance and tax avoidance: An interactive effect. *Procedia-Social and Behavioral Sciences*, 164, 150-160.
- Back Office Partners (2021). What to expect from your tax agent? Accounting Firm Johor Bahru. <https://www.backoffice.com.my/taxation/what-to-expect-from-your-tax-agent/>
- Bagdad, M. A., Noor, R. M., Hamid, N. A., & Abd Aziz, R. (2017). Factors affecting tax gap: Evidence from tax audit cases. In *Global Conference on Business and Economics Research* (pp. 150-156). Bangi: Universiti Putra Malaysia.
- Bardai, B. (2021). <https://www.thestar.com.my/starpics/2021/06/27/aggressive-tax-planning-in-msia>.
- Blaufus, K., Schöndube, J. R., & Wielenberg, S. (2020). Strategic interactions between tax and statutory auditors and different information regimes: implications for tax audit efficiency. Available at SSRN 3566897.

- Bornman, M., & Ramutumbu, P. (2019). A conceptual framework of tax knowledge. *Meditari Accountancy Research*.
- Burrelles (2022), By *Tressa Robbins* <https://burrelles.com/ethics-in-public-relations/>  
<https://iprm.org.my/wp-content/uploads/2022/03/Final-GCF-16-Feb-22.pdf>
- Centre, T. E. (2016). *Ethics Explainer: Deontology*. Retrieved from <https://ethics.org.au/ethics-explainer-deontology>.
- Hamid, N. A., Sanusi, S., Adzlan, M. A. N., Roslan, N. M., & Ayob, A. A. (2022). Reforming the Malaysian Tax System: The Effects of Special Voluntary Disclosure Programme (SVDP), Role of Inland Revenue Board Malaysia (IRBM), and Demographics of Taxpayers on Malaysian Tax Awareness. *Asian Journal of Accounting & Governance*, 18.
- Institute for Public Relations (2007). Ethics and Public Relations <https://instituteforpr.org/ethics-and-public-relations/> In the public relations discipline, integrity and forthright communication.
- Khalid, M. Y. A., Turmin, S. Z., & Palil, M. R. (2021). Understanding Corporate Tax Avoidance and the Causal Factors: Some Evidence from Malaysia. *International Journal of Academic Research in Accounting Finance and Management Sciences*, 11, 271-283.
- Marcoux, C. M. (n.d.). Ethical Theory: Overview. *The Journal Review Foundation of the Americas*. Retrieved from <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3544144>.
- Marshall, R. L., Armstrong, R. W., & Smith, M. (1998). The ethical environment of tax practitioners: Western Australian evidence. *Journal of Business Ethics*, 17, 1265-1279
- Marshall, R., Smith, M., & Armstrong, R. (2010). Ethical issues facing tax professionals: A comparative survey of tax agents and practitioners in Australia. *Asian Review of Accounting*, 18(3), 197-220.

- Murphy, K. (2004). *Aggressive tax planning: Differentiating those playing the game from those who don't*. *Journal of Economic Psychology*, 25(3), 307–329. doi:10.1016/s0167-4870(03)00011-4
- Napitupulu, I. H., Situngkir, A., & Edelia, A. (2019). Triggers of tax avoidance practices in Indonesia. *International Journal of Economics, Business and Management Research*, 3(11).
- Nory, N. S. S., Yasin, M. A. I., Alsagoff, S. A. S., & Bidin, R. (2022). A Case Study: Inland Revenue Board of Malaysia (IRBM) In Encouraging Malaysian to Pay Taxes.
- Page Center Training (2022), <https://www.pagecentertraining.psu.edu/public-relations-ethics/introduction-to-public-relations-ethics/introduction>
- Samitah, S. (2018). National Tax Conference 2018.
- Sairi, M. N. (2022). <https://www.malaymail.com/news/malaysia/2022/03/23/irb-says-it-found-elements-of-tax-evasion-amounting-to-rm200m-by-firms-rece/2049126>.
- Salehi, M., Tarighi, H., & Shahri, T. A. (2020). The effect of auditor characteristics on tax avoidance of Iranian companies. *Journal of Asian Business and Economic Studies*.
- Salihu, I. A., Obid, S. N. S., & Annuar, H. A. (2013). Measures of corporate tax avoidance: Empirical evidence from an emerging economy. *International Journal of Business and Society*, 14(3), 412.
- Sikka, P., & Hampton, M. P. (2005, September). The role of accountancy firms in tax avoidance: Some evidence and issues. In *Accounting forum* (Vol. 29, No. 3, pp. 325-343). Taylor & Francis

- SMEinfo. (2021). [https://www.smeinfo.com.my/managing-the-finance-of-your-business/understanding-tax/direct-tax-is-a,Inland-Revenue-Board-\(LHDN\)](https://www.smeinfo.com.my/managing-the-finance-of-your-business/understanding-tax/direct-tax-is-a,Inland-Revenue-Board-(LHDN)). Retrieved from <https://www.smeinfo.com.my>.
- Tagkalakis, A. O. (2013). Audits and tax offenders: recent evidence from Greece. *Economics Letters*, 118(3), 519-522.
- The Malaymail (2022). <https://www.malaymail.com/news/malaysia/2022/03/23/irb-says-it-found-elements-of-tax-evasion-amounting-to-rm200m-by-firms-rece/2049126>
- Walpole, M. (2009). Ethics and integrity in tax administration. *UNSW Law Research Paper*, (2009-33).
- Wecorporate (2021). How To Reduce Company Tax In Malaysia. <https://Wecorporate.Com.My/Guides/How-to-Reduce-Company-Tax-Malaysia/#claim>.
- What is Utilitarianism? - Definition & Theory. (2016, January 20). Retrieved from <https://study.com/academy/lesson/what-is-utilitarianism-definition-theory-quiz.html>.
- Wikipedia Ethical Relationship (2023) [https://en.wikipedia.org/wiki/Ethical\\_relationship:An\\_ethical\\_relationship\\_in\\_most,protection\\_of\\_each\\_other's\\_body](https://en.wikipedia.org/wiki/Ethical_relationship:An_ethical_relationship_in_most,protection_of_each_other's_body).
- Yahaya, K. A., & Yusuf, K. (2020). Impact of company characteristics on aggressive tax avoidance in Nigerian listed insurance companies. *Jurnal Administrasi Bisnis*, 9(2), 101-111.