

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

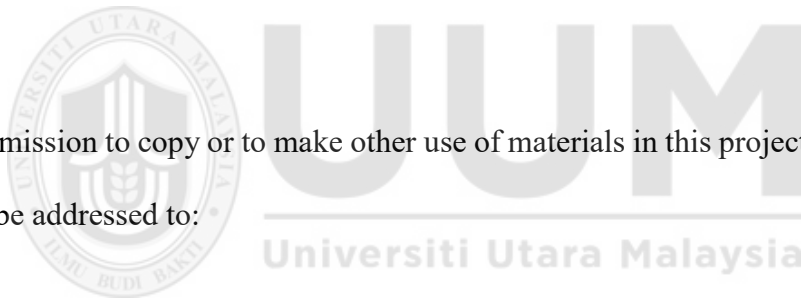


UUM
Universiti Utara Malaysia

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.... Error! Bookmark not defined.	
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

CHAPTER 1	1
Introduction	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
CHAPTER 2	10
2.0 Literature Review	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
CHAPTER 3	222
3.0 Research Methodology	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
CHAPTER 4	25
Findings and Results	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
CHAPTER 5	41
5.1 Discussions.....	41
5.2 Conclusion.....	43
6.0 References	45



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

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.
- 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.