CASE STUDY: THE CORRELATION BETWEEN TAX DISCLOSURES WITH THE LEVEL OF ACCEPTANCE OF TAX GOVERNANCE IN MALAYSIA

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UNIVERSITI UTARA MALAYSIA

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ABSTRACT

Due to the introduction of Tax Corporate Governance Framework, it has widen up the corporate governance scope for a company. It is because the stakeholders will consider the compliance of tax governance crucial which can affect the reputation and financial performance of the company in the long run. There has been limited research which study the correlation between tax disclosure and the level of acceptance of tax governance in Malaysian companies. Thus, this research paper used the quantitative methodology and content analysis to analyse the top 30 listed companies in Malaysia. The research into the level of tax transparency, which pertains to the TCGF, involves three key steps. The comparisons are segregated into three categories, high, mid and low level of tax transparency. From the results, stakeholders would have a better comprehensions regarding tax disclosure items of each companies. Further in depth studies should be conducted as tax strategy evaluation could contribute to tax fairness and responsible tax practices for companies. Lastly, all this collective effort may potentially influence tax policy discussions and regulatory changes towards more sustainable tax practices.

Keywords: Tax Corporate Governance Framework, Content Analysis, Tax Disclosure, Tax Transparency

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ABBREVIATION

SAS	:	Self-Assessment System
CG	:	Corporate Governance
TCGF	:	Tax Corporate Governance Framework
IRBM	:	Inland Revenue Board of Malaysia
TGF	:	Tax Governance Framework
BOD	:	Board of Directors
AC	:	Audit Committees
GCFO	:	Group Chief Financial Officer
OECD	:	Organizations for Economic Co-operation and Development
BEPS	:	Base Erosion and Profit Shifting

DEFINITION OF KEY TERMS

Corporate Governance	:	Corporate governance is refer that "comply-or-explain" structure delivers both flexibilities as well as to assess compliance. (Orihara & Eshraghi, 2022).
Tax Corporate Governance Framework	:	The purpose of this Tax Corporate Governance Framework ("TCGF") is to provide a description of the IRBM's expectations about the Tax Corporate Governance procedures and structures that should exist in the context of an organization. It gives a set of recommendations for applying tax risk administration approaches and handling tax risks. (*INLAND REVENUE BOARD of MALAYSIA (as at 11 April 2022) TAX CORPORATE GOVERNANCE FRAMEWORK*, n.d.)
Tax Disclosure	:	Tax Disclosure rules which are applicable during the tax year require any taxpayer that contributes, straight or indirectly, in a "listed transaction" and any firm taxpayer that participates in "other reportable transactions" to file a disclosure statement as part of the taxpayer's return (Mgammal et al., 2018).
Tax Transparency	:	Tax Transparency describe the results or the state achieved by tax disclosure, either on mandatory or voluntary basis that able to increase the recipients' knowledge. (Müller et al., 2020)

CHAPTER 1

INTRODUCTION

1.0 Background of the Study

In Malaysia, the total direct tax revenue that was collected in 2020 was 115.11 billion Malaysian Ringgit (*Malaysia: Direct Tax Revenue | Statista*, 2023). Tax revenue has been one of the major revenues for the country. The tax authority has been collecting tax under the Income Tax Act 1967, Petroleum Income Tax Act 1967, Real Property Gains Tax Act 1976, and Labuan Offshore Business Activity Act 1990 (Abdul Wahab et al., 2017). As our country is using the self-assessment system ('SAS'), the taxpayers must compute their own tax liability and file the tax return within the stipulated period. The taxpayers are required to provide sufficient documentations to prove on the tax submission return whenever there is a tax audit occurrence. Hence, it is quite essential that organizations ought to possess certain level of knowledge to assess their own tax accurately and to reduce the scenarios of tax avoidance. Tax avoidance has been defined as corporation undergoing certain activities by creating a "net operating loss" and using a different calculation for the outstanding amount (Desai & Dharmapala, 2005). This process is contradictory with the agency theory and put the companies in a situation where the organization is violating the law and is not acting ethically. Consequently, this could result in the organization being susceptible to tax penalties.

Corporate governance (CG) is relatively important for organizations to "comply-or-explain" (Orihara & Eshraghi, 2022). Hypothetically, the "comply-or-explain" structure delivers both flexibilities as well as to assess compliance. Even with the promotion by numerous organizations, very little is known about the level of acceptance for tax governance in Malaysia although the expectation is that listed companies will have a more effective CG in place. It is also proven that the Malaysian authority has shown significant effort to improve the

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Appendix 1:

Responsible taxation reporting criteria
1. Does the report mentioned the tax issues to the stakeholders?
2. Does the materiality analysis include tax issues, either explicit or as part of, for example, economic and financial performance or business integrity
3. Does the report include a description of tax policy (or similar, such as tax management or tax strategy)?
4. Does the tax policy mention tax heavens?
5. Does the tax policy mention transfer pricing?
6. Are tax issues mentioned in connection with risks?
7. Does the report mention regarding on the tax practices or reporting?

Sources: (Branco et al., 2023)