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

MASTER OF SCIENCE
(INTERNATIONAL ACCOUNTING)
UNIVERSITI UTARA MALAYSIA
December 2016



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By
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ABSTRACT

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

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

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

ABSTRAK

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

Kajian ini dilaksanakan untuk mengkaji faktor-faktor penentu pengelakan cukai oleh syarikat multinasional dengan mengenalpasti kadar cukai efektif syarikat-syarikat tersebut. Kajian ini menggunakan maklumat horang nyata cukai yang dihantar kepada pihak LHDNM sebagai kaedah untuk mengukur kadar cukai herkesan syarikat multinasional di Malaysia. Hasil kajian menunjukkan bahawa syarikat multinasional di Malaysia boleh dikaitkan dengan aktiviti pengelakan cukai kerana kadar cukai berkesan yang dilaporkan adalah lebih rendah berbanding kadar cukai korporat yang dikenakan di bawah Akta Cukai Pendapatan 1967. Hasil kajian juga menunjukkan terdapat bukti yang signifikan bahawa saiz firma, keuntungan sebelum cukai, operasi asing, intensiti modal dan *leverage* adalah faktor yang mempengaruhi aktiviti pengelakan cukai syarikat multinasional di Malaysia. Walau bagaimanapun, hasil kajian tidak menunjukkan pengaruh yang signifikan oleh kesan sektor dan lokasi syarikat induk ke atas aktiviti pengelakan cukai syarikat multinasional di Malaysia.

Kata kunci: *pengelakan cukai korporat, kadar cukai berkesan, syarikat multinasional, Malaysia.*

ACKNOWLEDGEMENT

First and foremost, the highest gratitude to Allah for His gift of Grace, I finally managed to complete this research paper. Deepest appreciation to my beloved husband Azli bin Munani, for his patience and support throughout the journey to complete this research paper as well as MSc. International Accounting. Also, many thanks to my family and friends which always give me encouragement throughout the completion of this research paper.

I would like to express sincere appreciation to my supervisor, Dr Natrah Saad for her valuable assistance and guidance throughout the completion of this research paper. I humbly thank her for all the kindness and may Allah, the Almighty, rewards her for her helpfulness. Last but not least, thank you to all lecturers, colleagues, the management of Inland Revenue Board of Malaysia and all those involved directly or indirectly in assisting me to complete this research paper. Thank you so much.

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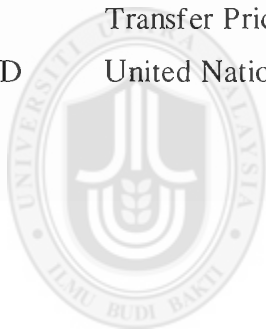


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LIST OF ABBREVIATIONS

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



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CHAPTER ONE: INTRODUCTION

1.0 Introduction

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

1.1 Background of the Study

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

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