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Drivers of Tax Planning Among Small and Medium Enterprises (SMEs) in the Manufacturing Sector

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ABSTRACT

Tax planning is a critical aspect of financial management for small businesses in Kedah, Malaysia. However, many SMEs struggle with it due to the tax system's complexity, frequent changes to tax regulations and laws, and the lack of tax understanding among small business owners. Acknowledging this predicament, this study examines drivers of tax planning among small and medium enterprises (SMEs) in the manufacturing sector using the Resource-Based View (RBV) theory. An online survey method was employed to collect data, yielding 158 responses. The findings reveal that tax fairness, tax penalties, and tax incentives are significant drivers of tax planning among manufacturing SMEs. On the other hand, tax knowledge was not significantly related to tax planning. This study enhances the understanding of tax planning among manufacturing SMEs. It highlights the need to create a fair tax environment, effective tax penalty systems, and provide tax incentives to encourage tax planning in this sector.

Keywords: *Small and Medium Enterprises (SMEs), Tax Planning, Tax Knowledge, Tax Incentives, Tax Fairness, Tax Penalties*

1.0 INTRODUCTION

Small and medium-sized enterprises are pivotal in economic development, contributing significantly to Gross Domestic Product (GDP) and employment opportunities (DOSM,2024). For example, SMEs in Malaysia accounted for 37.4% of the nation's GDP (SME Corp, 2022). Moreover, in 2020, they employed 7.32 million individuals in Malaysia, representing 48% of the total workforce (OECD, 2022). As for the state of Kedah, this sector contributed approximately RM 8.55 billion to the state's GDP in the first quarter of 2022, which enabled the sector to be one of the drivers for economic development (Invest Kedah, 2022).

Despite their crucial role in helping to develop the economy, SMEs face various challenges that hinder their growth and sustainability (Fuzi & Noor,2024). One of them is tax planning, which poses significant difficulties to these enterprises. Frequent changes in tax policies and the growing complexity of new regulations create challenges for small businesses to stay compliant (Saad, 2014). SMEs often lack the in-house expertise and funds to navigate these complexities effectively. As a result, they must manage this issue with limited resources, making tax planning a formidable task (Twum et al., 2020). Consequently, many SMEs in Malaysia neglect tax planning activities, resulting in missed opportunities for tax savings (Abdul-Jabbar & Pope, 2008). Unfortunately, the inability to distinguish between tax planning, tax evasion, and tax avoidance among small businesses undermines the potential of tax planning as a legitimate tax-saving strategy (Nyk, 2016).

Acknowledging the challenges SMEs encounter in complying with tax laws and regulations, which can lead to financial losses and legal consequences (Nik Mohd Rashid et al., 2017), this paper investigates the drivers of tax planning among SMEs in Kedah's manufacturing sector. The state of Kedah offers a compelling case because of its significant contribution to Malaysia's industrial economy (MIDA,2024), yet this aspect remains underrepresented in the literature. Also, there is a scarcity of research investigating specifically tax behaviour among SMEs in Kedah, representing a clear gap in the regional literature (Noor et.al.,2020).

This paper makes three contributions to the literature. First, the findings identify the factors associated with tax planning among manufacturing SMEs in Kedah, a key economic sector contributing to the state's GDP. As of 2024, Kedah's and Malaysia's economies continue to rely heavily on the manufacturing industry. Kedah secured RM31.9 billion in the first half of 2024, placing it among the top states in Malaysia for attracting investments. These investments comprise a sizeable portion of the RM160 billion in total authorized investments in Malaysia during this time frame, including investments in the primary, manufacturing, and service sectors. Manufacturing is essential to Kedah's growth and development, especially in high-value regions like Kulim (MIDA,2024). Furthermore, it was reported that Malaysia's manufacturing industry will boost the state's economic trajectory by contributing RM560.51 billion in value added by 2024 and employing 4.87 million people. Domestic demand and a projected recovery in the electronics sector are predicted to support development in the near term, despite global problems, including weak exports in 2023.

Secondly, identifying drivers of tax planning can aid SMEs in complying with the tax regulations. Understanding these factors may help SMEs optimise their tax liabilities. This can lead to significant cost savings and improved cash flow management. In other words, this will reduce the risk of non-compliance, which may cause penalties and legal issues. Improve tax compliance among SMEs, enhance their reputation, and foster trustworthy relationships with tax authorities.

Finally, the findings provide valuable insights to policymakers about problems SMEs face regarding tax planning. Thus, highlighting these factors may guide policymakers to take appropriate corrective actions to improve the current situation. Perhaps more tailored and effective tax policies could be designed. It needs concerted efforts from policymakers and SMEs to improve the current situation and work towards a better future that supports SMEs' development and sustainability.

The paper is structured as follows. First, a brief explanation of tax planning is provided. Secondly, the theoretical background and development of hypotheses are presented. Next, methods and results are discussed. Finally, the paper addresses the limitations and provides brief conclusions.

2.0 LITERATURE REVIEW

What is tax planning?

Tax planning involves adopting flexible and effective measures to manage and adjust the taxation of various production, business activities, and investment behaviours, while strictly complying with the laws and regulations of the country (Low, 2020; Chyz et al., 2021). Similarly, Sun et al. (2023) describe tax planning as a method of using tax laws to minimise the tax burden of taxpayers. It usually includes legal, financial and business arrangements to reduce the tax liability of a person or business. Tax planning allows taxpayers to legally avoid or delay paying taxes or pay them at a lower rate. Effective tax planning is an important component of sound financial management for a business (Iriyadi et al., 2019). Tax planning is critical for SMEs as it can significantly impact their financial health and sustainability.

Generally, the purpose of tax planning for SMEs is to improve efficiency, reduce costs, and help businesses maximise their profits. Therefore, effective tax planning means the ability to apply various tax regulations and incentives provided by the government (Iriyadi et al., 2019). By doing so, SMEs can take advantage of deductions, credits, and exemptions that will eventually help reduce their taxable income. However, this is not an easy process as it requires careful consideration of current and future income and expenses to optimise tax outcomes. On top of that, recent developments and digital transformation have somehow reshaped traditional tax planning strategies, forcing SMEs to stay at par with the technological and regulatory changes (Ezenagu,2021). Likewise, Lisowsky et al. (2022) highlight that small enterprises need to embark on more sophisticated tax strategies due to the current complexity of tax regulations.

Kamil (2015) posits that through tax planning, small businesses can improve the control and efficient use of funds, mitigate various financial risks, and effectively take advantage of tax incentives. This approach may assist financial departments in identifying tax management issues and enable tax payments to be made promptly. In short, tax planning is not only about reducing taxes but also reflects efforts to ensure that the business is financially sound and sustainable in the future. SMEs need to design strategic actions towards tax planning so that it will help SMEs navigate the complexities of tax regulations and they can optimise their financial performance.

Theory and Hypotheses

The Resource-Based View (RBV) theory is an economic theory used to analyse the impact of a company's resources and capabilities on its competitive advantage. The premise of this theory is that a firm's unique resources and capabilities are the key factors to achieve superior performance. The theory suggests that firms should identify and effectively manage their valuable, rare, inimitable, and non-substitutes resources to ensure sustainability. Similarly, Barney (1991) argues that a company can achieve a competitive advantage in the market if it has unique and irreplaceable resources and capabilities.

Thus, RBV theory is significant in investigating tax planning issues because it helps explain the firm's strategic approach to managing tax liabilities. From the lens of RBV theory, tax planning is how firms optimise their internal resources to enhance their tax efficiency while adhering to legal requirements. This approach will eventually improve their performance. For example, a company could reduce its tax liability in high-tax countries by shifting profits to subsidiaries located in low-tax countries. Previous studies reveal that companies with advanced accounting systems and tax knowledge can better manage financial information and thus engage in tax planning more easily (Sun et al., 2023; Iriyadi et al., 2019; Musah et al., 2025).

Similarly, Saad (2012) indicates that companies with high-quality human resources and management teams can engage in tax planning more effectively, leading to greater tax savings. On the other hand, if a company does not have the necessary resources and capabilities, it may choose not to engage in tax planning (Nik Mohd Rashid et al., 2017). These empirical findings illustrate the RBV theory whereby those companies that have a large amount of resources will have better opportunities to benefit from external opportunities such as government tax incentives.

Tax knowledge refers to individuals' and businesses' degrees of awareness and understanding of the tax system (Hantono, 2021) and significantly impacts individuals and businesses. It encompasses many issues, such as understanding tax policies, tax types, tax rates, tax procedures, and tax declarations. It is claimed that tax knowledge is not only related to tax compliance and tax planning of individuals and businesses but also to the growth of national tax revenue and improvement of the tax system (Twum et al., 2020). Among the factors claimed to affect tax knowledge are education level, personal economic status, tax expertise, tax complexity, publicity, and education (Maseko, 2014).

Due to the crucial influence of tax knowledge on taxpayers, those lacking this knowledge prefer to seek professional tax services (Loo & Ho, 2005). Earlier studies indicated that tax knowledge is one of the factors influencing tax planning. A deficiency in tax knowledge fosters mistrust and negative attitudes toward taxes, whereas having a thorough understanding of taxes is related to positive outcomes (Ramutumbu, 2016). In a similar vein, Palil (2010) reveals that tax knowledge significantly influences tax compliance and planning for both individuals and businesses. Lacking tax knowledge may hinder the ability to interpret tax regulations accurately and thus will lead to errors in tax declarations and payments. To make things worse, this lack of knowledge may increase the risk of tax violations and expose businesses to legal consequences such as payment of penalties (Mohamad et al., 2016). Based on previous studies, tax knowledge is essential for tax planning. Therefore,

Hypothesis 1: There is a significant relationship between tax knowledge and tax planning.

Giving tax incentives to companies is one of the common methods used by governments or policymakers to encourage and promote specific economic activities to achieve goals such as economic growth, job creation, and industrial upgrading. For instance, in Malaysia, the PRIHATIN stimulus package was introduced to support SMEs. This tax incentive package encompasses financial supports such as low-interest loans, corporate entity guarantee schemes, and the deferral of tax and loan payments (Medina, 2020). Besides, around the globe, various other incentives were employed to alleviate the burden of businesses in paying taxes and encourage compliant behaviours (Luger & Bae, 2005; Leong et al., 2020). These incentives include reducing tax complexity (Tran-Nam et al., 2016), reducing statutory tax rates (Bachas et al., 2019), and reducing compliance costs (Harju et al., 2019). As claimed by Andriansyah et al. (2021), tax incentives play a crucial role in encouraging taxpayers to comply with tax regulations. Moreover, they posit that tax incentives can be advantageous in attracting foreign direct investment (FDI).

On the other hand, findings from (Abdul-Jabbar & Pope, 2008) contradicted the aforementioned claims. They argued that most tax incentive measures are mutually exclusive, which may lead to increased complexities of tax laws and compliance costs. Klemm & Parys (2012) support this argument by emphasising that introducing tax incentives in developing countries may impose a significant financial burden on the government. The government may need to bear unnecessary administrative costs if it is not well planned. Also, it remains uncertain how effectively tax incentives promote investment and the extent of value they could offer. Due to inconclusive results of previous findings, the following hypothesis is developed:

H2: There is a significant relationship between tax incentives and tax planning.

Another essential element for tax compliance is the perceived fairness of the tax system (Alm et al., 2016; Alkhatib et al., 2019). Fairness refers to the norm of conduct that is either just or, at the very least, understandable and acceptable (Sikayu et al., 2022). Similarly, Kassa (2021) states that the equality of tax collection procedures, laws, and enforcement is what tax fairness means. Fairness in the tax system is a complex issue that encompasses various dimensions. These dimensions include distributive fairness, which examines the fairness of the allocation of tax burdens and benefits; procedural fairness, which evaluates the fairness of the processes used to enforce tax laws; government or programme fairness, which assesses the equity of policies and programmes that affect the taxation; retributive fairness, which considers the penalties for non-compliance; vertical fairness, which concerns the fairness of tax burdens across different income groups; horizontal fairness, which examines the fairness of tax burdens among taxpayers in similar situations; and individual fairness, which focuses on the equitable treatment of tax burdens for specific individuals in the tax system (Gilligan & Richardson, 2005; Saad, 2012). In Malaysia, tax authorities follow principles of fairness and reasonableness in taxation, ensuring that taxpayers bear their tax obligations in proportion to their tax liabilities and personal financial circumstances, free from discrimination or privilege (Mohd Faizal & Palil, 2015).

Previously, Leap & Bidin (2020) mentioned that the likelihood of tax evasion is highest when taxpayers perceive the tax code as unfair. Interestingly, Mukhlis et al. (2015) posit that a more equitable tax system can promote economic growth. Taxes ought to be reasonable and equitable for all taxpayers, recognising that not everybody can afford to pay the same rates (Abate, 2019). Moreover, the ability of SME owners to pay equitable tax rates influences the long-term sustainability of tax fairness (Rantelangi & Majid, 2017). Thus, the following hypothesis is developed:

H3: There is a significant relationship between tax fairness and tax planning.

Tax penalties are punitive measures that tax authorities impose on taxpayers who violate tax laws and regulations during the tax payment process (Saad, 2012). These penalties include fines, delayed payments, asset seizures, and even imprisonment (Kamil, 2015). The penalties ensure that taxpayers fulfil their tax obligations and act as a deterrent to encourage compliance with tax laws (Palil, 2010). Tax penalties were shown to impact taxpayer compliance significantly (Gunarso, 2016; Oladipupo & Obazee, 2016). Although tax penalties have been claimed to influence compliance behaviour, they are just part of broader tools employed by authorities to ensure compliance (OECD, 2022).

Taxpayers may make errors due to insufficient tax knowledge. However, when penalised, they tend to become more aware of their mistakes and improve their understanding and compliance with tax laws and regulations (Mukasa, 2011). Tax penalties serve to encourage taxpayers to be cautious and strengthen comprehension and compliance with tax regulations. Hence, the following hypothesis is proposed:

H4: There is a significant relationship between tax penalties and tax planning.

3.0 METHODOLOGY

Sample and procedure

This study applied the positivist ontology and quantitative methodology. The Federation of Malaysian Manufacturers (FMM) list was used as the sampling frame for this study. The most recent statistics do not specifically break out the overall number of manufacturing SMEs in Kedah. Nonetheless, Kedah is linked to a sizable number of SMEs, making up to 920,624 firms in Malaysia's overall SME ecosystem. Approximately 48,894 SMEs in Kedah across all industries are manufacturing SMEs, which account for 5.3% of all SMEs in the country. Since Kedah has a robust manufacturing sector, especially in electronics and electrical equipment, a sizable percentage of this number is probably made up of manufacturing SMEs (MIDA,2024).

Data collection was carried out using online surveys. Initially, an invitation email was sent to each SME, briefing them on the objective of the research and requesting them to participate as respondents. Upon their agreement, an online survey was emailed to the owners or financial personnel of SMEs.

The minimum sample size was determined by applying a G-Power analyser, a widely used application software to determine sample size and conducting power analysis in scientific investigations. Based on G-Power analysis using a 95% confidence interval with a 0.05 probability error and having four predictive variables, the study needs a minimum of 129 observations. However, to ensure an adequate response rate, online questionnaires were emailed to 272 business owners or financial personnel of SMEs in the manufacturing sector located in the state of Kedah. Out of the 272 online surveys, 158 were received, resulting in a 58.09% response rate, which is considered sufficient.

Measures

Validated measurements from previous studies were applied to form the online questionnaire for this study. Each measurement utilised a five-point Likert scale ranging from "strongly disagree" to "strongly agree". The online questionnaire is divided into three sections. Section A consists of six demographic questions of the respondents. Section B consists of five items to measure tax planning, with a sample statement being "I pay my taxes without thinking of how to reduce them". The five items were used by Twum et al. (2020).

Section C is designed for the measurement of the independent variables. A five -items of tax knowledge scale previously used by Twum et al. (2020) was adapted to measure tax knowledge. A sample item is "I am educated on the various rights and responsibilities regarding tax issues". Tax incentives were measured using a four-item scale (Anggraeni & Daito, 2022), including a sample item such as "I was aware of Malaysian government tax incentive policies". As for tax fairness (Saad,2012) and tax penalties (Mohdali et al., 2014), a four-item scale was used to measure each of these independent variables. A sample item for tax fairness is "I received fair value from the government in return for my income tax paid", while for tax penalties, a sample item is "I am aware of the type and extent of penalties and risks that exist for income tax evasion in Malaysia".

4.0 RESULTS AND ANALYSIS

The demographic profile of respondents is shown in Table 2.

Table 2: Demographic Information

Demographic Items	Categories	Frequency	Percentage (%)
Gender	Male	99	62.7
	Female	59	37.3
Age	20-29	37	23.4
	20-39	41	25.9
	40-49	57	36.1
	50-59	17	10.8
	60 or above	6	3.8
Ethic	Malay	55	34.8
	Chinese	51	32.3
	Indian	44	27.8
	Others	8	5.1
Education Level	SPM	48	30.4
	STPM	20	12.7
	Diploma or Degree	52	32.9
	Master's Degree or PhD	6	3.8
		32	20.3
Annual Sales of Business	Less than 50,000	21	13.3
	50,001 – 60,000	40	25.3
	60,001 – 70,000	59	37.3
	70,001 – 80,000	25	15.8
	80,001 or above	13	8.2
Position	Owner	62	39.2
	Manager	29	18.4
	Others	67	42.4

The results presented in Table 2 below primarily display the gender distribution of the respondents in this study. Therefore, there is a significant difference between male and female respondents. Out of a total of 158 respondents, male respondents accounted for 62.7%, with a total of 99 individuals, while female respondents accounted for 37.3%, with 59 individuals. Overall, the study's respondents were predominantly male. The respondents' age is divided into five different age groups. The most significant age group is the 40-49 age range, accounting for 36.1% of the total sample. The second-largest age group is the 30-39 age range, comprising 25.9% of the respondents. In comparison, the other three age groups are as follows: 20-29 years old, accounting for 23.4%; 50-59 years old, accounting for 10.8%; and 60 years and above, accounting for 3.8%. The respondents' ethnicity is divided into four different groups. Malay is the most significant ethnic group, accounting for 34.8% of the total sample. The second largest is Chinese, comprising 32.3% of the respondents. In comparison, the other two are Indian, accounting for 27.8%; and Others, accounting for 5.1%.

From the table, out of the 158 respondents, 52 of them hold a diploma or degree, accounting for 32.9% of the total. The second-largest group of respondents is those with SPM qualifications, with 48 respondents, making up 30.4% of the total. The third category is "Others," consisting of 32 respondents, representing 20.3% of the total. The remaining educational backgrounds of STPM and master's degree or PhD have 20 and 6 respondents, respectively. This corresponds to 12.7% for STPM and 3.8% for a master's degree or PhD. The final survey results show that a total of 59 respondents had an annual sales amount between RM 60,001 - RM 70,000. This represents 37.3% of the total sample. The second highest category is RM 50,001 - RM 60,000, with 40 respondents. This indicates that 25.3% of the respondents have an annual sales amount within that range. Furthermore, out of the 158 respondents, 25 of them reported their annual sales to be RM 70,001 - RM 80,000, accounting for 15.8% of the total. The remaining two categories consist of 21 respondents with annual sales below RM 50,000 and 13 respondents with annual sales of RM 80,001 or

above. The results show that they represent 13.3% and 8.2% of the total, respectively. Out of the 158 respondents, 62 of them are small business owners, representing 39.2% of the total. Additionally, 29 respondents hold managerial positions in their respective small-scale enterprises, accounting for 18.4% of the total. The remaining category is labelled as "Others" and consists of 67 respondents, making up 42.4% of the total.
Cronbach's Alpha was calculated to confirm the reliability of the measures. Table 3 summarises the Cronbach's Alpha values for each variable.

Table 3: Reliability Analysis

Variables	Number of Items	Cronbach's Alpha
Tax Planning (TP)	5	0.913
Tax Knowledge (TK)	5	0.879
Tax Incentives (TI)	4	0.930
Tax Fairness (TF)	4	0.921
Tax Penalties (TPP)	4	0.883

Cronbach's alpha values constructed should be equal to or greater than 0.6 for the items in the construct to be considered reliable. All constructs demonstrate reliability coefficients exceeding this standard. Specifically, tax planning, tax knowledge, tax incentives, tax fairness, and tax penalties exhibit strong internal consistency with Cronbach's alpha values of 0.913, 0.879, 0.930, 0.921, and 0.883, respectively.

Table 4: Pearson Correlation

		TP
Tax Planning (TP)	Pearson Correlation	1
	Sig (2-tailed)	
	N	158
Tax Knowledge (TK)	Pearson Correlation	0.752**
	Sig (2-tailed)	0.000
	N	158
Tax Incentives (TI)	Pearson Correlation	0.735**
	Sig (2-tailed)	0.000
	N	158
Tax Fairness (TF)	Pearson Correlation	0.785**
	Sig (2-tailed)	0.000
	N	158
Tax Penalties (TPP)	Pearson Correlation	0.774**
	Sig (2-tailed)	0.000
	N	158

***Correlation is significant at the 0.01 level (2-tailed)*

The relationship between two variables is generally considered high when the r value is larger than 0.7. Based on Table 4, there is a highly positive relationship between the dependent variable (Tax Planning) and the independent variables (Tax Knowledge, Tax Incentives, Tax Fairness, and Tax Penalties). The values are 0.752, 0.735, 0.785 and 0.774, respectively.

Table 5: Coefficients Results

		Unstandardized Coefficients		
Model		B	Std. Error	Sig
1	(Constant)	0.458	0.206	0.028

Tax Knowledge (TK)	0.063	0.098	0.523
Tax Incentives (TI)	0.165	0.077	0.033
Tax Fairness (TF)	0.340	0.084	<0.001
Tax Penalties (TPP)	0.326	0.097	<0.001

a. Dependent Variable: Tax Planning (TP)

Based on Table 5, a regression equation is developed as follows:

$$\text{Tax Planning} = \beta_0 + \beta_1 TK + \beta_2 TI + \beta_3 TF + \beta_4 TPP + \mathcal{E}$$

$$\text{Tax Planning} = 0.458 + 0.063TK + 0.165TI + 0.340TF + 0.326TPP + \mathcal{E}$$

Based on Table 5, there are two independent variables: tax fairness and tax penalties, which have a significant relationship with tax planning. The p-value of tax fairness and tax penalties is < 0.001, which means tax fairness and tax penalties have a significant impact on the tax planning among small businesses. The p-value associated with tax knowledge is 0.523, which is greater than the conventional threshold of significance of 0.05. This suggests that tax knowledge does not have a significant relationship with tax planning in the context of this analysis. The p-value associated with tax incentives is 0.033, which is less than 0.05 but greater than 0.001. This suggests that tax incentive has a significant relationship with tax planning, but the significance is relatively weaker compared to tax fairness and tax penalties.
R-squared and adjusted R-squared are measures used to determine the strength of the relationship between the dependent variable and the independent variables. While there is a small discrepancy between R-squared and adjusted R-squared, it suggests that there is a low degree of overfitting of the independent variables in the model. The adjusted R-squared value ranges from 0 to 1, where a higher value indicates a better fit of the model to the data. Table 6 below shows an adjusted R-squared of 0.688, indicating that the model accounts for 68.8% of the fit to the data.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	0.834a	0.696	0.688	0.32404

a. Predictor: (Constant), Tax Knowledge (TK), Tax Incentives (TI), Tax Fairness (TF), Tax Penalties (TPP)
b. Dependent Variable: Tax Planning (TP)

Based on the Multiple Regression Linear analysis, tax fairness and tax penalties are essential for encouraging small businesses to make better tax preparation decisions. This shows that small businesses are more likely to engage in efficient tax planning and adhere to their tax duties if they believe the tax system is fair and they face suitable consequences for non-compliance. Previously, Alm et al. (2016) and Kassa (2021) found that the perceptions of procedural fairness are positively related to taxpayer attitudes and compliance decisions. Therefore, one of the important implications of the findings is that tax authorities in Malaysia need to improve the transparency in tax enforcement so that it could strengthen the perceived fairness of the system. These results underline the importance of a just and rigorous tax system in promoting small business tax planning behaviour. It is crucial to keep in mind that these results are based on a very small sample size and that a more thorough study will be required to confirm these results in the future. The detail is shown in Table 7.

Table 7: Hypothesis Summary

No	Hypothesis	Supported/ Not Supported
1	There is a significant relationship between tax knowledge and tax planning.	Not Supported
2	There is a significant relationship between tax incentives and tax planning.	Supported
3	There is a significant relationship between tax fairness and tax planning.	Supported
4	There is a significant relationship between tax penalties and tax planning.	Supported

5.0 LIMITATION AND CONCLUSION

This study is not without its limitations. First, the time constraint posed a challenge. The allowable period for data collection of one month is quite a challenge to get sufficient respondents, especially when the respondents were not highly engaged with this issue. Nevertheless, the online survey was employed to minimise the risk of getting a low response rate. Secondly, a small sample size is another limitation because the respondents of this study were limited to small businesses in the state of Kedah. In addition, the sample was drawn from the FFM directory and thus excludes SMEs that are not listed in the directory. Although the directory is a reliable source, it may not fully represent all groups of SMEs operating in Malaysia. As a result, this may have limited the possibility of generalising the findings.

The main goal of this study was to investigate the antecedents that influence tax planning among small businesses in the state of Kedah. The findings may have implications for the current policy. First, the government should improve the tax education initiatives among SMEs so that their financial literacy (Nyeko et al.,2024) and tax awareness (Ahmad et al., 2022) can be improved. Knowledgeable SME owners will have a higher tendency to participate in proactive and compliant behaviour (Palil,2010; Hantono,2021). Secondly, tax incentive programs must be transparent and widely communicated to stimulate participation among SMEs. Unclear incentives may diminish their effectiveness (Andriansyah et al.,2021; Medina,2020). Finally, simplifying compliance procedures and minimising red tape is a significant factor in reducing compliance costs for SMEs (Tran-Nam et al.,2016).

In conclusion, the findings of this study are aligned with the RBV theory, which stresses the importance of leveraging firm resources to gain a competitive advantage, including efficient tax planning (Musah et al., 2025). Future research should expand the study to other regions and industries to enhance the generalisability. A comparative study between a developed and developing country could also be explored to gain a better understanding of contextual differences in tax planning practices.

Declaration of Generative AI and AI-assisted technologies

This work was prepared with the assistance of Chatgpt to review and refine the sentences. The tool enabled the author(s) to analyse and edit the content, and they accept full responsibility for the final publication.

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