UNIVERSITI TEKNOLOGI MARA

AN INVESTIGATION ON FACTORS INFLUENCING CORPORATE TAX PLANNING AMONG PUBLIC LISTED COMPANIES IN MALAYSIA

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ABSTRACT

Introduction: Corporate Tax Planning (CTP) is a critical aspect of financial management in publicly listed companies, particularly in Malaysia, where it significantly influences the transparency and quality of financial statements. CTP strategies are employed by businesses to optimize reported income and minimize tax liabilities. However, these strategies, if unregulated, can lead to creative accounting practices. This study focuses on the extent and influencing factors of CTP activities among Malaysian publicly listed companies across seven industries.

Objectives: The research aims to evaluate the prevalence of CTP activities and identify the determinants affecting them in these companies. It also examines the impact of these factors on CTP across different industries within the Bursa Malaysia.

Methodology: Using secondary data from 135 companies listed on the Bursa Malaysia from 2016 to 2021, this study analyses 810 firm-year observations. The data, sourced from the Thomson One Datastream database, are examined through Fixed Effect and Random Effect regression methods. The research is bifurcated into two segments: assessing CTP across industries and identifying influencing factors such as Capital Allowance (CAPINT), Leverage (LEV), Financial Distress (FDR), and Audit Quality (AQ).

Results: The study reveals varying CTP, with the property industry exhibiting the highest. CAPINT and LEV significantly influence CTP, while FDR and AQ do not. These findings align with Agency Theory, which suggests that managers may engage in CTP to align their interests with those of shareholders, and Tax Planning Theory, which posits that companies strategically plan their tax obligations to maximize shareholder value.

Conclusion: This research underscores the importance of understanding the dynamics of CTP within the framework of Agency and Tax Planning Theories. It offers insights for stakeholders in complex sectors to monitor and regulate CTP practices, ensuring compliance and maintaining the integrity of financial reporting.

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CHAPTER 1
INTRODUCTION

1.1 Research Background

A corporate tax, known as corporation tax or company tax, is a direct tax imposed on the income or capital of corporations and similar legal entities. The tax is often levied at the national level; however, it may also be applied at state or local levels in certain countries. Corporate taxes can be categorised as either income tax or capital tax, depending on the specific characteristics of the tax. The main goal of corporate tax is to earn government revenue by levying taxes on the profits accumulated by companies. The tax rate differs among countries and is frequently calculated as a percentage of the corporation's net income or capital. Corporate tax rates may vary between local and overseas corporations.

Several countries have tax regulations that obligate companies to pay taxes on their global earnings, irrespective of the source of income. Nevertheless, several countries implement territorial tax systems, where corporations are solely obligated to pay taxes on the income generated within the boundaries of the country. Corporate tax in Malaysia is a form of direct taxation that is levied on both resident and non-resident corporations that earn income within the country. The corporate income tax rate is depending on the classification of the company. There exists significant variation in corporate tax rates across different countries, whereby certain country is commonly referred to as tax havens owing to their comparatively lower tax rates. The reduction of corporate taxes can be achieved through various mechanisms such as deductions, government subsidies, and tax loopholes. Consequently, the effective corporate tax rate, which refers to the rate at which an organisation ultimately pays taxes, tends to be lower than the statutory rate.

The collection of corporate tax constitutes a significant portion of government revenue, as highlighted by, (Sritharan & Salawati, 2019). Corporate income tax is a tax that corporations must pay on their profits. Its aim is to provide money for the government's social and political goals. Indeed, corporate tax serves as a significant revenue stream for the Malaysian government. As presented in Organisation for Economic Co-operation and Development (OECD), the total amount of direct tax