

UNIVERSITI TEKNOLOGI MARA

**THE EFFECT OF CORPORATE
GOVERNANCE MONITORING
MECHANISMS ON TAX
AVOIDANCE: THE INTERACTION
ROLE OF BOARD DIVERSITY**

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ABSTRACT

Taxes serve as the primary source of revenue for many nations, facilitating budgetary augmentation and supporting national development. Taxation fulfils several functions as it can beneficially influence a nation's investment, education, social and economic development. Tax authorities require support regarding tax non-compliance, which hinders tax administration and collection. Tax avoidance, a category of tax non-compliance, refers to a company's strategy for lawfully minimising its tax burden by utilising loopholes in tax legislation to limit its tax responsibility. Tax avoidance occurs when a firm employs a certain tax approach with the expectation that the tax practices would evade legal scrutiny; nonetheless, such actions are precarious if the tax tactics are deemed illegal. Despite the application of corporate governance principles in listed companies, the issue of corporate tax revenues in Malaysia continues to be a significant concern to most nations, as they represent a substantial amount of the government's total income collection. Effective governance procedures may therefore provide better monitoring of tax avoidance by Malaysian businesses, enhancing their integrity and aligning with the country's SDG agenda. Nonetheless, there are relatively few studies that integrate good governance techniques into common governance mechanisms for tracking tax avoidance, especially in Malaysia, an emerging nation. This study examines the influence of corporate governance mechanisms (corporate social responsibility, ownership structures, executive incentives, and audit quality) on tax avoidance. In addition, this study also examines the interaction effect of the presence of women on the board and board tenure on the relationship between corporate governance mechanisms and tax avoidance. This study uses secondary data from the annual reports of the listed companies on the Bursa Malaysia FTSE top 100 companies from 2018 to 2022 (five years). The data for this investigation are analysed using STATA software. The findings of this study show that there is a statistically significant negative relationship between CSR and tax avoidance. This study also demonstrates that the Presence of women on the board strengthens the positive relationship between foreign ownership and tax compliance (i.e., higher effective tax rates). Similarly, longer board tenure exacerbates the negative relationship between CSR and ETR (i.e., higher tax avoidance).

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CHAPTER 1

INTRODUCTION

1.1 Background of the study

Taxes are the primary source of revenue for most nations and play a crucial role in financing national development. Taxation plays multiple functions as it can positively influence the country's investment, education, social and economic development Osho et al. (2020). These functions play a crucial role in implementing new strategies that sustain the country's economic prosperity and maintain stable economic performance (Taha et al., 2010). Significant tax revenues are needed for countries with developing economies, including Malaysia, to ensure the nation's development and engagement are smooth and effective at the national and international levels (Neog & Gaur, 2020).

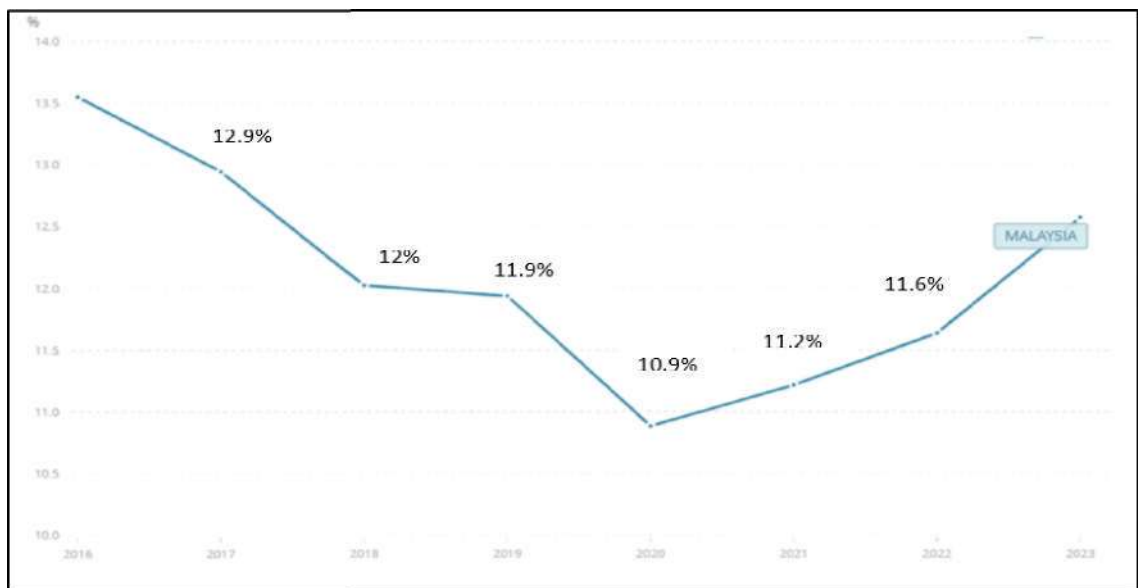


Figure 1.1: Malaysia Tax Revenue: % of GDP

Source: <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?end=2023&locations=MY&start=2016&view=chart>

However, the ability of taxation to fulfil these functions is significantly threatened by tax avoidance practices, which erode the tax base and reduce the government's revenues, thereby limiting public spending on essential areas such as