



Abstract

- This study aims to test hypotheses on factors that may **influence the tax non-compliance behaviour of Malaysian corporations.**
- The sample of this study comprises of 2,657 observations from 1,790 corporations which had been audited or investigated by the Malaysian tax authority within the period. These cases have been settled and finalised between 2002 and 2005. These audit and investigation data are in the form of cross sectional and panel data respectively. Overall, this research examines the non-compliance behaviour of **both Small and Medium-Sized Corporations (SMCs) as well as large corporations.**
- Using Tobit regressions, this study finds that the marginal tax rates, level of directors' ownership, book-tax-difference and level of efficiency are the major factors that influence the tax non-compliance behaviour amongst Malaysian corporations. The results also suggest that type of industry and gross profit margin are another two influencing factors to non-compliance behaviour.
- The study has also identified four contributing factors in non-compliance behaviour of SMCs i.e. marginal tax rates, level of directors' ownership, size and level of efficiency. On top of that, the book tax difference, gross profit margin and cash flow levels are also recognised as influencing factors in SMCs' tax non-compliance behaviour.
- Finally, the marginal tax rates variable is recognised as a very significant factor that influences tax non-compliance behaviour of both SMCs and large corporations.

Problem Statement

- The rate of increase in corporate tax is only 25 times between a period of 1970 to 1979 and 2000 to 2009 as reported by the Treasury of Malaysia (TOM) in 2009. The growth rate of corporate tax revenue was not in tandem with the collection of taxes on individuals.
- The amount of tax revenue collected in Malaysia is relatively very low as compared to developed countries. This suggests that there is a high number of corporations in Malaysia that are still underreported their income.

Research Questions

- What are the factors determining tax non-compliance behaviour of SMCs?
- Which of these factors are common to tax non-compliance behaviour of large corporations?
- What is the impact of tax audit and investigation on non-compliance behaviour of SMCs?
- What is the impact of tax audit and investigation on non-compliance behaviour of large corporations?

Objectives

- To determine the factors of tax non-compliance behaviour of SMCs
- To determine factor that are common to tax non-compliance behaviour of large corporations
- To study the impact of tax audit and investigation on non-compliance behaviour of SMCs
- To study the impact of tax audit and investigation on non-compliance behaviour of large corporations

Framework

Follows the models tested in Rice, 1992; Giles 1998; Chan and Mo, 2000 and Hanlon *et al.*, 2007, with another five additional variables – the degree of shareholders' ownership, degree of directors' ownership, cash flow, tax refund and reputation.

Corporate Tax Non-Compliance Behaviour

- H1 : Marginal Tax Rates
- H2 : Directors Ownership
- H3 : Ownership Concentration
- H4 : Private or Public
- H5 : Size
- H6 : Book-Tax-Difference
- H7 : Gross Profit Margin
- H8 : Net Profit Margin
- H9 : Cash Flow
- H10 : Efficiency
- H11 : Tax Refund
- H12 : Tax Refund Amount
- H13 : Tax Incentives
- H14 : Reputation
- H15 : Majority Control
- H16 : Foreign Ownership
- H17 : Industry
- H18 : Tax Preparer
- H19 : Basis Year

Methodology

- The main method of this research is quantitative. A qualitative research method is also included to form a triangulation approach. A triangulation approach is used with the empirical data from the tax authority and is supported by interviews with tax officers and tax agents who were former tax officers.
- Equation for the Proposed Model of Corporate Tax Non-Compliance Behaviour**

$$y_{it} = \alpha_0 - \beta_1 X \text{Marginal_Tax_Rates}_{it} - \beta_2 \text{Directors}'_Ownership_{it} + \beta_3 \text{Ownership_Concentration}_{it} + \beta_4 \text{Private_or_Public}_t - \beta_5 \text{Size}_{it} - \beta_6 \text{Book-Tax-Difference}_{it} - \beta_7 \text{Gross_Profit_Margin}_{it} - \beta_8 \text{Net_Profit_Margin}_{it} + \beta_9 \text{Cash_Flow}_{it} + \beta_{10} \text{Efficiency}_{it} - \beta_{11} \text{Tax_Refund}_t - \beta_{12} \text{Tax_Refund_Amount}_{it} - \beta_{13} \text{Tax_Incentives}_t + \beta_{14} \text{Reputation}_{it} - \beta_{15} \text{Majority_Control}_t + \beta_{16} \text{Foreign_Ownership}_{it} + \beta_{17} \text{Industry}_t + \beta_{18} \text{Tax_Preparer}_t + \beta_{19} \text{Basis_Year}_t + \epsilon_{it}$$

The dependent variable y , is defined as the ratio of unreported income over the total assets.

- With respect to interviews conducted on 22 officers of the IRBM and 4 tax agents who were former officers of the tax authority, the process was successful with keen interest shown by the participants and cooperation given by the tax authority itself.

Findings

- This study reveals the marginal tax rates and directors' ownership are the main factors that may explain the corporate tax non-compliance behaviour. Both are positively associated with non-compliance behaviour.

- However, it is important to highlight that size is also a major factor that determines the non-compliance behaviour of the SMCs. Besides that, efficiency is another significant factor that contributes to the non-compliance of the SMCs. The study has shown that efficiency has negative relationship with non-compliance behaviour.
- This study identifies that marginal tax rates, directors' ownership, gross profit and efficiency correlate positively with non-compliance behaviour. Thus, the rate of evasion will increase when the level of these four factors increases. In contrast, size and book-tax-difference correlate negatively with non-compliance behaviour.
- The findings show that marginal tax rates have a greater impact on non-compliance behaviour than other factors.
- Even though the quantitative test shows that marginal tax rates are very significant factors in corporate tax non-compliance behaviour, the qualitative test shows that only slightly more than 50 percent of tax officers agree with this finding. The reason given by the officers who view that marginal tax rates have no effect on tax non-compliance behaviour is due to the attitude which is the main factor of corporate tax non-compliance revealed in the qualitative test.
- The attitude of taxpayers who would prefer to focus more on the profit they will get at the end of the day, and the whole profit is presumably belonged to them and therefore, reluctant to depart from it are the reasons for non-compliance.

Conclusion

- From the tests conducted for this research on both quantitative and qualitative approaches, attitude, marginal tax rates, directors' ownership and tax knowledge are the main factors of corporate tax non-compliance.
- Book-tax-difference and efficiency may also influence non-compliance behavior where the former is negatively associated to that behavior and vice-versa to the latter.
- Besides marginal tax rates, directors' ownership and efficiency, size is also a significant factor to SMCs' non-compliance behavior which it is negatively associated with that behavior. For large corporations, profitability is a significant factor that associates positively with non-compliance behavior besides marginal tax rates.
- These determinants may be adopted into the audit or investigation framework in predicting the non-compliance behaviour of corporations in Malaysia.

Research Gap

- This study contributes to the literature as none of the studies before focus on SMCs.
- This study is the first that has ever been done on the ownership level of corporations with regard the tax non-compliance behaviour of SMCs.
- Future research may explore the discrimination against equity in the tax system and information available in the financial statement of a corporation which probably influence the behaviour of corporations towards the tax system.