MANAGEMENT & ACCOUNTING REVIEW

Volume 16 No. 2
December 2017

CONTENTS

1 Does Social Risk Management Matter? Influencing Factors and Their Link to Firms' Financial Performances
Tamoi Janggu, Yussri Sawani, HaslindaYusoff, Faizah Darus and Mustaffa Mohamed Zain

17 Corporate Social Responsibility Practices among the Smes in Malaysia – A Preliminary Analysis
Norhafizah Norbit, Anuar Nawawi and Ahmad Saiful Azlin Puteh Salin

41 Ethical Values, Integrity and Internal Controls in Public Sector Organisations: A Developing Country Perspective
Philip Ayagre and Julius Aidoo-Buameh

59 A Review on Computer Technology Applications in Fraud Detection And Prevention
Rafidah Zainal, Ayub Md Som and Nafsiah Mohamed

73 Detecting Accounting Anomalies Using Benford's Law: Evidence from the Malaysian Public Sector
Nooraslinda Abdul Aris, Rohana Othman, Muhamad Anas Mohd Bukhori, Siti Maznah Mohd Arif and Mohamad Affendi Abdul Malek

101 Integrated Reporting and Financial Performance: Evidence from Malaysia
Luk Pui Wen and Angeline Yap Kiew Heong

131 The Role of Intra-Organizational Factors in Accounting Information System Effectiveness
Shamsudeen Ladan Shagari

157 Malaysian Code of Corporate Governance and Tax Compliance: Evidence from Malaysia
Mohd Taufik Mohd Suffian, Siti Marlia Shamsudin, Zuraidah Mohd Sanusi and Ancella Anitawati Hermawan

181 Sustainability and Accountability of Social Enterprise
Nur Hayati Ab Samad, Roshayani Arshad, Siti Haliza Asat and Nawal Kasim

203 The Usefulness of Financial Statement Reporting by Charitable Companies Limited by Guarantee in Malaysia
Ahmad Saiful Azlin Puteh Salin, Muhammad Faiz Tumiran and Anuar Nawawi

231 Public Sector Accountability – Evidence from the Auditor General's Reports
Juliana Shariman, Anuar Nawawi and Ahmad Saiful Azlin Puteh Salin

259 A Comparative Analysis of Intellectual Capital Disclosure Practices between Malaysia and Indonesia
Zuraida Mohamad Noor, Amrizah Kamaluddin and Erlane K Ghani

Malaysian Code of Corporate Governance and Tax Compliance: Evidence from Malaysia

Mohd Taufik Mohd Suffian[a], Siti Marlia Shamsudin[a], Zuraidah Mohd Sanusi[b] and Ancella Anitawati Hermawan[c]
[a]Faculty of Accountancy, Universiti Teknologi MARA, Tapah Campus, Perak
[b]Accounting Research Institute (ARI), Universiti Teknologi MARA
[c]Department of Accounting, University of Indonesia

ABSTRACT

In many countries, the governments rely heavily on tax revenue to finance the government expenditures. In Malaysia, 78.8% of the source of revenue is from tax revenue and mainly contributed by the corporate income tax. The past literature has documented that good corporate governance could increase the firm's performances as well as tax compliance. Malaysia published its own code of corporate governance in March 2000 and revised it in 2007, 2011 and 2012. Recently, in April 2016, the Security Commission released the recommended MCCG 2016. Thus, judging from the importance of maintaining tax collection, this paper aims to examine the importance of corporate governance in ensuring tax compliance among public listed companies in Malaysia. This study finds that corporate governance does influence tax compliance and multiple directorships is the most significant in influencing tax compliance.

Keywords: *MCCG, tax compliance, corporate governance*

ARTICLE INFO

Article History:
Received: 9 August 2017
Accepted: 12 October 2017
Available online: 31 December 2017

INTRODUCTION

In Malaysia, tax contributes the highest source of revenue in developing the economy and is the most reliable source of government spending. According to the 4th quarter of the Malaysian Economic Report 2015 published by the Malaysian Treasury Department, the total tax revenue collected in 2015 was RM44.1 billion which constitutes 78.8% of total revenue of the federal government. The tax revenue in Malaysia is derived from two sources, which are direct taxes (stamp duties, income tax from individuals, corporate income taxes and petroleum taxes) and indirect taxes (GST, import duties, excise duty and export duty). In 2015, the total tax revenue from the direct taxes was RM28.4 billion which made up of 23.8% from total tax revenue while the indirect taxes was RM15.7 billion which was equivalent to 56.2% from total tax collection. Direct taxes are collected by the Inland Revenue Board of Malaysia (IRBM) while indirect taxes are collected by the Royal Custom and Excise Department. In Malaysia, the Goods and Services Tax (GST) was implemented on 1 April 2015 at a rate of 6% and will replace the current sales and services tax regime. The decision of the government to change its system to GST has significant implications and is an interesting economic issue in Malaysia. It is therefore important for the government to ensure a prudent taxation policy in order to maintain and improve its global competitiveness and to attract domestic and foreign investors.

In Malaysia, all companies are required to declare and calculate their taxable income by using the self-assessment system (SAS). The primary objective of SAS implemented in Malaysia is to improve the level of voluntary compliance, reducing administrative costs and simplifying the assessment system (Isa, 2014). The impact of SAS has shifted more responsibilities to the taxpayers in ensuring the filing of accurate returns, and proper keeping of records for audit purposes. It also encourages better understanding of other income tax legislations so as to avoid penalties. Accordingly, some literature supports that knowledge is crucial and plays a significant role in enhancing compliance behaviour. If a taxpayer has insufficient knowledge, it may result in inaccurate tax returns and hence lead to non-compliance. Some studies argue that the complexity of a tax system may also influence non-compliance. According to Isa (2014), most companies are able to prepare their financial records based on the accounting standard but could not prepare their tax computation based on tax laws.

Difficulty in understanding the system would discourage a taxpayer from acquiring sufficient tax knowledge resulting in continuous non-compliance.

Tax compliance behaviour is an area of concern to tax policymakers in the world as non-compliance will significantly affect revenue collections, thereby, causing losses to the government (Isa, 2014). Non-compliance could also result in severe reputation damage and financial consequences as a result of increased penalties and tax liabilities to the companies. Therefore, it is imperative to find ways to increase tax compliance as it will increase tax collection. Tax compliance can be defined as complying with the tax rules and regulations, which encompasses the filing, reporting and payment of tax. Tax non-compliance can be divided into tax avoidance and tax evasion. According to Norshamimi & Noor (2012), tax planning is synonymous to tax avoidance, as it is done within the provisions of the Income Tax Act which benefits the stakeholders in the form of tax burden reduction. However, if done aggressively, tax avoidance becomes tax evasion.

In Malaysia, numerous studies have been done to examine the relationship between corporate governance and firm performance. Most studies support the notion that good corporate governance will lead to high performance. A company with high performance tends to comply with all the laws and regulations set by the authorities. Moreover, a company with high performance cares about their reputation and would want to develop a good brand name leading to better credibility as a player in the market. By practising sound corporate governance, it could enhance tax compliance as effective tax governance frameworks could be established in line with the overall governance framework. Currently, limited studies have been done on the relationship between corporate governance and tax compliance specifically in Malaysia. Prior studies in Malaysia used effective tax rate (ETR) as a measure of tax compliance (Shamsudin & Noor, 2012). Thus, this study aims to fill in the gap by examining whether MCCG 2012 influenced tax compliance in public listed companies in Malaysia for the period after the revised MCCG 2011 (2012 – 2014). This study focuses on the internal mechanism of the corporate governance such as board size, board independence, multiple directorships and CEO duality. The remainder of this paper is structured as follows: the second section is the literature review followed by the research method and hypotheses development. The next section is the discussion of empirical results, and the last section is the conclusion and limitation of the study.

LITERATURE REVIEW

Corporate Governance in Malaysia

The Asian Financial Crisis in 1997 – 1998 had influenced the development of the corporate governance in many South-east Asian countries including Malaysia. Corporate scandals that happened in several countries such as Enron and Adelphia in the US, Satyam in India and Port Klang Free Zone (PKFZ) in Malaysia have brought the attention of many parties to brainstorm to curb these fraud cases from reoccurring. Among the remedial actions that arise from these incidences are the introduction of Sarbanes-Oxley Act in US and the Malaysian Code of Corporate Governance (MCCG) in Malaysia. Many countries have started to realise the importance of having sound corporate governance to create a conducive environment for corporate sectors to be efficient and to sustain growth. In the current global business environment, a company faces intense scrutiny from the government and regulatory bodies. In order to survive in these circumstances, many countries have developed their own coordinated strategy to minimise the impact on the company and stakeholders. In Malaysia, the financial crisis in 1997 has highlighted the weaknesses in corporate governance shown by the failure of numerous companies during and after the crisis. Consequentially, efforts were made to rectify and improve the corporate governance system.

Corporate governance can be defined as the structures and processes for the direction and control of companies. In general, corporate governance deals with the relationship between management, the board of directors, shareholders and stakeholders, and how companies are managed and controlled. By practising good corporate governance, it will help in the ability of the company to sustain and enhance its performance. In March 2000, Malaysia introduced the Malaysian Code of Corporate Governance (MCCG 2000). However, the compliance with the code is not mandatory. MCCG targets public listed companies on Bursa Malaysia which requires the preparation of financial statements based on the recommendations in MCCG. MCCG focuses on the main amendments aimed at strengthening the roles and responsibilities of the board of directors and audit committee and ensuring that they discharge their duties effectively (MCCG, 2000). To ensure corporate governance principles are aligned with the current business

practices and market developments, the code was revised in 2007, 2011 and 2012. In April 2016, the Security Commission released the proposed draft of the MCCG 2016. The latest MCCG 2016 set out four principles namely, supporting board leadership and effectiveness, safeguarding the integrity of financial and corporate reporting, managing risks to preserve and create value, and strengthening the relationship with shareholders.

In corporate governance, the role of directors can be divided into several areas. Among the areas are board size, board independence, multiple directorships and CEO duality.

CEO Duality

The CEO Duality is a serious issue as it is related to the agency cost. According to Jensen (1993), a CEO cannot monitor the board distinct to his personal interest. A study in Tunisia found that the governance guide of good practices, in the interest of efficiency recommends a separation between the functions of the Chairman of the board and the Chief Executive Officer (CEO). If however, CEO Duality is chosen, it is recommended that the board justifies to the shareholders the reasons why the choice was made based on the corporate governance guide.

Sharma (2004) supported the existence of a relationship between CEO Duality and the likelihood of financial statement fraud. Furthermore, Klein (2002) found a negative association between duality and performance. Currently, Minnick and Noga (2010) found that firms offering duality in the CEO position have less tax management and higher tax expenses. Based on the arguments above, this study hypothesises:

H1: Duality is negatively associated with Tax Compliance.

Multiple Directorships

Multiple directorships refers to the situation where directors sit on more than one board (Haniffa & Hudaib, 2006). A director can either be an active director or a compliant director. If they are successful in performing their role in either one, they are more likely to build a reputation and win additional directorships (Rowe & Sivadasan, 2014). For instance, active

directors who provide high-quality management oversight are more likely to attain extra directorships, while compliant directors who are willing to allow greater management discretion are also likely to receive additional directorships. Directors who have multiple directorships are believed to lead companies to better tax compliance. Having multiple directorships will benefit the companies in many ways (Richardson, 1987). First, they serve as an influential source of information; and second, they serve as a mechanism for control. Nevertheless, multiple directorships also provide some drawbacks. First, a good corporate governance has nothing to do with multiple directorships (Dooley, 1969; Mariolis, 1975). It is also seen as a means for inter-corporate collusion and inter-organisational elite co-optation and cooperation (Allen, 1974 & Useem, 1984).

Multiple directorships are favourites in UK companies as they will provide directors with wider experience, allow personal development and the attainment of new ideas and improve business contacts (Ward, 1998). In the case of Malaysia, Haniffa and Cooke (2002) also supported the finding made by Ward (1998). They found that multiple directorships are common among non-executive directors and it may be valuable for companies as they will help directors to be more aware of their responsibilities as well as widening their experience and knowledge of business activities, especially in the case of Malaysia where many such directors are perceived as incompetent (Othman, 1999). Based on the arguments above, this study hypothesises that:

H2: Multiple directorships is positively correlated with Tax Compliance.
Board independence

After the collapse of Enron and Arthur Andersen way back in 2001, the US Government introduced a new reform which is Sarbanes-Oxley Act 2002, to mitigate the occurrences of fraud. It establishes strict new rules regarding corporate governance and assumes that firms with outside directors are more efficient in observing management. Prior researchers have focused on the effects of board composition on corporate performance. However, much attention was given to the question of how board characteristics can have an influence on corporate tax planning (Khaoula & Mohamed Ali, 2012).

The composition of the board of directors is a critical feature in establishing a board; thus, it should guarantee that the board attends to the mutual interests of all shareholders. Minnick & Noga (2010) indicate that independent directors can strengthen tax management because they can offer valuable knowledge and background from their personal industry and experience. A study done by Lanis & Richardson (2011) showed that a board with a higher percentage of outside directors leads to increase effectiveness in monitoring the function of the board. In other words, companies with more efficient control of management are less likely to be involved in corporate fraud; and indirectly will mitigate the non-executive directors to engage in this type of behaviour due to little incentive to do it (Yermack, 2004). Due to that, this study hypothesises:

H3: The board's independence is positively correlated with Tax Compliance.

Board Size

The board size is one of the most important elements in corporate governance. According to Abeysekera (2010), the efficiency and effectiveness of that the board members share to fulfil their responsibilities are affected by the size of the board. The international guidelines have mentioned the importance of the board characteristics since it will reflect on good corporate governance. For many years, the board composition and structure have received much attention (Bennedsen et al., 2008; Cheng, 2008). Many risks may affect the business such as the changes in regulations, political and technologies and economic conditions. The board is not only responsible for approving the company's strategies and monitor the mitigation strategies taken to minimise risks, but also have a major responsibility towards the company for the company to achieve their goal congruence.

Large board size does not guarantee the efficiency of the company (Mak & Kusnadi, 2005). It is because the agency problem may take place when the board becomes too big due to directors' free riding and most importantly the board has become a lesser part of the management. On another note, a large board may influence the board easier (Cheng, 2008: Ozdemir & Upneja, 2012). CEO will use their power for their own benefits

rather than the shareholders' interest. The board composition will influence the tax planning of the company. Since the result is still mixed, there is a need to study the relationship between the board size and Tax Compliance. The board size is represented by the number of the members of the board. Based on the discussion above, it is hypothesised that:

H4: Board size is positively associated with Tax Compliance.

Corporate Governance and Tax Compliance

The Malaysian Government has put greater effort toward the development of tax system. Taxes are significant issues for all countries in the world especially for Malaysia because one of the primary revenues for the Government is generated from tax. It is also an important element for companies as it represents the significant amount of profit of the company (Ozdemir & Upneja, 2012). For that reason, many companies are very careful in planning their taxable income in order to minimise the tax liabilities. Tax planning is synonymous to tax avoidance (Sabli & Noor, 2012). In order to reduce tax liabilities, tax avoidance will be included in tax planning calculation. The company may enjoy tax shelters or tax savings if they are efficiently managing their tax planning. Based on a study done by Sartori (2009), he found that tax planning will increase resulting in tax saving when there is an increase in tax rate. Desai & Dharmapala (2007) have stated several reasons why a company does tax planning. Among them is for the shareholders to get a higher dividend in which the managers would probably act to reduce the tax burden and maximise the profit after tax (Sartori, 2009). However, when the interest of the shareholders is not in line with the managers, the purpose of tax planning would become an opportunistic behaviour of managers. The managers tend to be involved in aggressive tax planning to increase the value of the company and the bottom line is as they would be rewarded with high remunerations.

Having said that, tax planning is closely related to the tax compliance. As revenue increases, there is also an increase in non-tax compliance which will impact the authority. As the Malaysian Government relies heavily on tax revenue, non-compliance tax activities will affect the governmental and social welfare projects. According to Jabbar and Pope (2009), tax compliance is where the tax reporting requirements such as timely tax return submission

and accurate income and deduction are in accordance to the tax laws. On the other hand, non-tax compliance happens when companies deliberately disregard tax requirements and fail to meet their tax obligations. Among the type of non-tax compliance in Malaysia are, the failure to submit a tax return, understatement of income, overstatement of deductions and failure to pay assessed taxes by the due date. The primary effect of non-tax compliance is the upsurge in compliance costs. They will be fined and charged with a heavy penalty if the company is found overstating deductions if and when the tax authority is able to detect such activity. Additionally, the reputation of the companies will be tarnished as the shareholders will start to have bad impressions on how respective managers manage the company.

The establishment of Malaysian Code of Corporate Governance (MCCG) way back in 2001 was mainly to strengthen the rules and regulations for companies to follow in order to reduce the number of fraud cases. It covers many aspects of the business and therefore it has become very useful for the companies in establishing their policies and procedures. Consequently, it will protect the interest of the stakeholders. The tax environment has to be changed in overcoming the compliance issue (OECD, 2009). Good corporate governance is closely related to tax. The issue of tax can be controlled together with sound governance (Shamsudin & Noor, 2012). The management must take into consideration the tax matter seriously (Desai & Dharmapala, 2006). In MCCG, it was mentioned that the management is entirely responsible for the practise of appropriate corporate governance practices. Previously, the management will respond to tax matters only when tax evasion occurs. However, the function of the management is over and above in responding to issues on tax liabilities. They have to be involved in all other tax issues (Sartori, 2009).

Corporate governance has contributed a lot in managing the company more efficiently and effectively, especially so after the financial crisis. It can help the company sustain in the industry. For example, the way the company manages the tax matters will influence the financial matter. Hence, there is a need for good governance practices in order to create a better business environment. In practice, the role in managing the company’s tax affairs and strategies has become more significant for the management and it is no longer in the hands of tax agents wholly (OECD, 2009). Tax issues are not small issues. It has a significant effect on the company’s profitability. Thus,

it has to be handled carefully with appropriate tax planning and strategies because it could give a long term effect on the profitability of the company. Therefore, the standard of corporate governance and the awareness of the management can be increased in order to reduce tax risks.

The business will be more transparent by having good corporate governance, and as a result, it will mitigate the management to divert the income to somewhere else. The bottom line for having sound corporate governance is, it will give a positive impact on the tax compliance issue. In other words, the greater the transparency level, the greater the tax compliance is. According to Sartori (2009), the conflict of interest between shareholders and managers are also aligned, which reduces the agency costs. It is supported with the collapse of giant corporations such as Enron and Adelphia due to the lack of transparency and poor corporate governance. Hence, when the company's operation is well managed with enough transparency, it will then increase the confidence of the tax authorities. As a result, the tax authorities will conduct less tax audit. Furthermore, Smatrakalev (2006) found that the tax aggressiveness and tax avoidance strategies can be reduced through strong enforcement of the tax authority in which would result in the increase in transparency.

RESEARCH METHODOLOGY

Research Framework

Below is the research framework developed specifically for the purpose of this study:

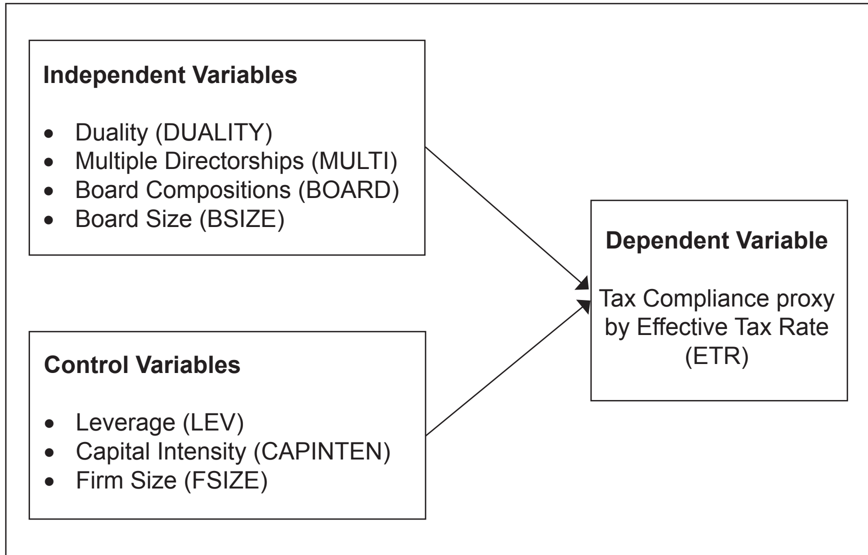

Figure 3.1: Research Framework of Corporate Governance and Tax Compliance of Top 100 Companies based on Market Capitalization

As illustrated in Figure 3.1 above, the theoretical framework shows the interaction between corporate governance and tax compliance of Top 100 companies based on market capitalization. The dependent variable (DV) is tax compliance proxy by the effective tax rate (ETR). According to Lanis & Richardson (2011), they used ETR to measure tax compliance and tax planning. In their study, ETR is measured by using the tax expenses divided by profit before tax (PBT). Deferred taxes are excluded in the calculation of tax expenses. However, for the purpose of this study, ETR is measured using tax expenses divided by earnings before interest and tax (EBIT) (Lanis & Richardson, 2011). There are three main independent variables in this study, namely, duality (DUALITY), multiple directorships (MULTI), board composition (BOARD), and board size (BSIZE). According to Minnick

and Noga (2010), the selection of independent variables is specifically for corporate governance components, while the control variables in this study are leverage (LEV), capital intensity (CAPINTEN), and firm size (FSIZE). These control variables are common variables being used by other researchers in their study (Lanis & Richardson, 2011; Gupta &Newberry, 1997 & Derashid & Zhang, 2003).

The main objective of this study is to examine whether the elements of corporate governance will influence the tax compliance of the company. Thus, based on Figure 3.1, this study is intended to contribute to the new knowledge of the existing tax compliance and corporate governance that will be useful for the other scholars.

Sample Collection

This study uses the secondary data which is the most commonly used method because of its suitability and easy to be applied due to time constraint. The financial data are collected from Datastream Thomson Reuters while for corporate governance elements, the annual reports are analysed. This study focuses on the Top 100 companies based on market capitalization as at December 2014. The three years period from 2012 to 2014 was adopted in this study. Initially, a total of 300 companies were chosen. However, due to unavailability of data and outliers, the final sample was only 227 companies.

Research Model

The regression model as per below is established in conducting this study.

$$ETR = \beta 0 + \beta 1DUALITY + \beta 2MULTI + \beta 3BOARD + \beta 4BSIZE + \beta 5LEV + \beta 6CAPITEN + \beta 7FSIZE$$

Where:

ETR	=	Effective tax rate proxy for Tax Compliance, calculated by tax expenses divided with earnings before interest (EBIT).
DUALITY	=	Dichotomous with 1 if the chairman is also the chief executive officer (CEO) of the company and 0 otherwise
MULTI	=	The proportion of directors on the board of (%) the company having at least one additional directorship in another company to total number of directors on the board.
BOARD	=	Board composition; the proportion of non-executive directors (NEDs) to total number of directors on the board of the company.
BSIZE	=	Board size is represented by the total number of directors on the board of the company.
LEV	=	Leverage is calculated by dividing the total debt with the total asset.
CAPITEN	=	Capital intensity is calculated by dividing the amount of property, plant and equipment (PPE) with the total asset.
FSIZE	=	Firm size is signified by the log total asset.

FINDINGS & ANALYSIS

Descriptive Analysis

Table 4.1 provides the descriptive statistic in a clear and understandable way about all the variables used in the current study. It presents the full samples of eight variables used in the analysis over the three-year period. It reports the minimum, maximum, mean and standard deviation of each variable. The first variable is effective tax rate (ETR). The minimum and maximum of ETR are -0.59 and 8.56 respectively. Meanwhile, the mean and standard deviation of ETR are 0.27 and 0.786 respectively. In Malaysia, the statutory rate for a company is 25%. ETR is the percentage of the taxable income that companies effectively pay tax. Therefore, based on the average sample of this study, which is 27%, reflects that most companies in Malaysia have high income, thus pay more tax.

There are four independent variables in this study which are CEO Duality (DUALITY), multiple directorships (MULTI), board composition (BOARD), and board size (BSIZE). The minimum and maximum of DUALITY are 0.00 and 1.00 respectively, while the mean and standard

deviation are 0.06 and 0.24 respectively. The MCCG 2012 recommends that the CEO and chairman positions should be separated. Therefore, the total sample indicates that 6% of the companies did not comply with the recommendation as the same individuals held the position of chairman and CEO of the company. The next independent variable is multiple directorships. The minimum and maximum of MULTI are 0.00 and 1.50 respectively; while, the mean and standard deviation are 0.69 and 0.26 respectively. In Malaysia, mostly there are seven directors on board that hold directorship in other companies. Then, the third independent variable is board composition (BOARD). The minimum and maximum of BOARD are 0.00 and 1.00 respectively, while the mean and standard deviation are 0.46 and 0.12 respectively. The sample indicates that there are at least four independent directors on the board which comply with the MCCG requirement, which means that the company must have at least one-third of independent directors on the board. The last independent variable is board size (BSIZE). The minimum and maximum of BSIZE are 4.00 and 16.00 respectively. In the meantime, the mean and standard deviation are 8.92 and 2.09 respectively. Based on mean, the average board size in Malaysia is nine which implies that Malaysian companies have larger board size.

The control variables can be divided into three, which are leverage (LEV), capital intensity (CAPITEN), and firm size (FSIZE). The minimum and maximum of LEV are 0.00 and 60.19 respectively. Meanwhile, the mean and standard deviation are 21.88 and 16.65 respectively. The mean is distributed quite far from the maximum. Hence, most of the sample companies are using less debt in financing their investment and daily operation costs. The reason could be due to the capability of these companies in generating its own finance because these sample companies are the top 100 companies based on market capitalization in Malaysia. Next, the minimum and maximum for capital intensity (CAPITEN) are 0.00 and 2.06 respectively, while, the mean and standard deviation are .40 and .28 respectively. The last control variable is firm size (FSIZE). The minimum and maximum are 2.58 and 6.66 respectively; whereas, the mean and standard deviation are 3.90 and .86 respectively. The size of the sample firms are slightly higher than the minimum, which indicates that most of the firms are small size.

Table 4.1: Descriptive Statistic from 2012 – 2014

	Minimum	Maximum	Mean	Std Deviation
ETR	-0.59	8.56	0.27	0.79
DUALITY	0.00	1.00	0.062	0.24
MULTI	0.00	1.50	0.6935	0.26
BOARD	0.00	1.00	0.4580	0.12
BSIZE	4.00	16.00	8.92	2.09
LEV	0.00	60.19	21.88	16.65
CAPITEN	0.00	2.06	0.40	0.28
FSIZE	2.58	8.66	3.90	0.86

Variables definitions are as follows:

ETR is a tax expense divided by Earnings before Interest and Tax (EBIT); DUALITY is the CEO Duality in a company; MULTI is a multiple directorships in a company; BOARD is a board composition; BSIZE is board size; LEV is the firm leverage measured as total debts divided by total asset; CAPITEN is capital intensity measured as fixed asset divided by total asset; FSIZE is firm size measured as log total asset.

Pearson Correlation

Table 4.2 presents the correlation matrix for the dependent and independent variables in this study. This test is conducted to identify the degree of the correlation exists between the explanatory variables. In general, there are three types of relationship between the variables which is either positive relationship, negative relationship and zero relationship. If the relationship is positive, it means to increase or decrease in one variable is followed by a corresponding increase or decrease in the other variables, meanwhile for negative relationship, increase or decrease in one variable is not followed by other variables. However, when the correlation is zero, increase in one variable is not associated with other variables.

Based on the correlation result, only MULTI and FSIZE are correlated with ETR. There is a positive correlation between MULTI and ETR and it is significant at 1 %. ETR is the measurement for tax compliance. Therefore, the more a person holds multiple directorships in a company, it implies a higher tax compliance. It can be said that when a person holds many

directorships in many companies, they tend to be stricter in adhering to comply with the tax law. Next, FSIZE is positively correlated with ETR at 5%. The correlation result implies that the larger the size of the firm, the higher the tax compliance.

Table 4.2: Pearson Correlation from 2012 – 2014

	ETR	DUALITY	MULTI	BOARD	BSIZE	LEV	CAPITEN	FSIZE
ETR	1							
DUALITY		1						
MULTI	-.180**	.060	1					
BOARD	.024	.211**	.186**	1				
BSIZE	.056	-.268**	-.011	-.373**	1			
LEV	.002	.009	-.079	.031	-.105	1		
CAPITEN	.092	-.127	.034	.039	-.015	-.062	1	
FSIZE	.133*	.185**	-.291**	.033	-.157*	.369**	-.061	1

**. Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Variables definitions are as follows:

ETR is a tax expense divided by Earnings before Interest and Tax (EBIT); DUALITY is the CEO Duality in a company; MULTI is a multiple directorships in a company; BOARD is a board composition; BSIZE is board size; LEV is the firm leverage measured as total debts divided by total asset; CAPITEN is capital intensity measured as fixed asset divided by total asset; FSIZE is firm size measured as log total asset.

Multiple Regression Analysis

Table 4.3 explains the multiple regression analysis conducted to examine the relationship between corporate governance and tax compliance. The adjusted R-squared is 0.034 which indicates that only 3.4% of the variation in tax compliance can be explained by the overall explanatory variables in this study. Meanwhile, the F Value is 2.135, and it is significant at 5%. The significant results produced by ANOVA test indicate that the explanatory variables used have the impact on the tax compliance. There are four hypotheses tested in this study. Firstly, the CEO duality has the positive but insignificant relationship with tax compliance. The positive relationship supports that when the CEO and the chairman are the same individuals, it could lead to high tax compliance. However, since the result is not significant, hypothesis 1 is rejected.

The next variable is multiple directorships. Out of all the independent variables, only multiple directorships is significant. Thus, hypothesis 2 is accepted. The positive relationship between multiple directorships and tax compliance implies that the higher the number of multiple directorships, it would lead to high tax compliance. The result is consistent with the past studies. For instance, Richardson (1987) supports that by having multiple directorships, it will benefit the company in many ways. Cook and Wang (2011) further support that multiple directorships are favourites in UK companies as they will provide directors with wider experience, allowing personal development and the attainment of new ideas and improve business contacts. In the case of Malaysia, Haniffa and Cooke (2002) also support that multiple directorships are common among non-executive directors, and it may be valuable for companies as they will help directors to be more aware of their responsibilities as well as widening their experience and knowledge of business activities, especially in the case of Malaysia where many such directors are perceived as incompetent (Othman, 1999). As for board independence, it has the positive but insignificant relationship with tax compliance. Even though the result is insignificant, the positive relationship between board independence independent directors indicates that by having independent directors on the board, it could lead to high tax compliance. The next variable is the board size. The result does not support H4 since there is no relationship between board size and tax compliance. Hence, H4 is rejected.

There are three control variables tested in this study. The leverage is positively and significantly associated with tax compliance. This reveals that a company with a higher leverage has high tax compliance. This is because when companies are carrying more debts, they are more conservative in their tax strategies, which leads to high compliance. The capital intensity indicates positive but no relationship with tax compliance. With regard to the firm size, the results showed that tax compliance is positively and significantly associated with firm size. The results supported that the larger the company, the higher the tax compliance. In general, large-sized firm has a greater likelihood of tax inspection. Thus, they spend more on tax compliance cost compared to small-sized firm. The overall findings are consistent with the other past studies which support that corporate governance does influence tax compliance.

Table 4.3: Regression Coefficient from 2012 – 2014

Variables	Results
ETR	0.508
DUALITY	0.233
MULTI	0.215**
BOARD	0.469
BSIZE	0.027
LEV	0.003
CAPITEN	0.185
FSIZE	0.065
R Square	0.064
Adjusted R^2	0.034
F Value	2.135*

** Significant at the 0.01 level
* Significant at the 0.05 level

Variables definitions are as follows:

ETR is a tax expense divided by Earnings before Interest and Tax (EBIT); DUALITY is the CEO Duality in a company; MULTI is a multiple directorships in a company; BOARD is a board composition; BSIZE is board size; LEV is the firm leverage measured as total debts divided by total asset; CAPITEN is capital intensity measured as fixed asset divided by total asset; FSIZE is firm size measured as log total asset.

CONCLUSION & RECOMMENDATION

In many countries, the primary goal of the government is to collect the taxes in accordance to the laws. Therefore, it is essential to ensure that the taxpayers comply with the tax regulations. The tax authorities have implemented various initiatives and strategies to administer and ensure that the correct tax is paid and to reduce to a minimum the incidences of non-compliance. In Malaysia, when the Security Commission issued Malaysian Code on Corporate Governance, it is expected to increase the tax compliance level among the Malaysian's companies. Therefore, this study investigates whether MCCG 2012 influences tax compliance in public listed companies in Malaysia. This study focuses on the internal mechanism of the corporate governance such as CEO Duality, multiple directorships,

board independence and board size. With regards to tax compliance, key management plays a major role in managing the tax planning in a company. Based on a total sample of 227 firms, the only significant finding is multiple directorships. When a company comprises of more directors with multiple directorships, it leads to high tax compliance. A director with multiple directorships tends to take more pro-active measures in reporting the tax information to minimise risk that is associated with non-compliance and regulatory penalties. Moreover, they also maintained an appropriate level of tax compliance knowledge and keep track on the current tax policy that could be vital in tax planning process.

Based on overall findings, this study suggests that corporate governance plays a major role and in relation to the tax compliance behaviour. Therefore, to achieve the high tax compliance level, it is important for the continuous development of the corporate governance codes and guidelines. Also, the role of the board of directors is also important as they demonstrate oversight of significant tax transactions. The limitation of this study is the small sample size and the main focus is only the top 100 companies. Therefore, future research should investigate further the governance mechanisms and widen the focus to a few industries because the results would lead to how the different industries' tax management strategies affect corporate governance. The government is responsible for implementing a clear, fair and appropriate taxation laws. Considering the crucial role played by the tax authorities in an efficiently functioning tax system, the findings of this study could provide an insight to the tax administrators on ways to keep on improving the tax policy so as to increase tax compliance and reduce tax evasion because non-compliance would result in lower government income.

ACKNOWLEDGEMENTS

We would like to thank the Accounting Research Institute (ARI) and the Research Management Institute (RMI), Universiti Teknologi MARA (UiTM), in collaboration with the Ministry of Education Malaysia (MoE) in providing support for this research project. We are indeed grateful for the grant, without which we would not be able to carry out the research. We would also like to express our highest gratitude to Zulkifli Mohd Ghazali, a Statistical Lecturer at UiTM, Tapah Campus, for helping us in our research.

REFERENCES

Abeysekera, I. (2010). The influence of board size on intellectual capital disclosure by Kenyan listed firms. Journal of Intellectual Capital, 11(4), pp. 504-518.

Allen, M.P. (1974), 'The Structure of Interorganizational Elite Cooptation: Interlocking Corporate Directorates,' American Sociological Review, Vol. 39, pp. 393–406.

Pfeffer, J., & Salancik, G. R. (2003). The external control of organizations: A resource dependence perspective. Stanford University Press.

Bennedsen, Morten, Hans Christian Kongsted, and Kasper Meisner Nielsen. "The causal effect of board size in the performance of small and medium-sized firms." Journal of Banking & Finance 32.6 (2008): 1098-1109.

Cheng, S. (2008). Board size and the variability of corporate performance. Journal of Financial Economics, 87, pp. 157-176.

D.O. Cook & H.B Wang, The informativeness and ability of independent multi-firm directors, Journal of corporate finance 17,2011, 108-121.

Desai, M.A. and Dharmapala, D. (2006). Corporate Tax Avoidance and High Powered Incentives. Journal of Financial Economics, 79, pp. 145-179.

Desai, Mihir A., Alexander Dyck, and Luigi Zingales. (2007) "Theft and taxes."Journal of financial economics 84, pp 591-623.

Derashid, C. and Zhang, H. (2003). Effective Tax Rates and the Industrial Policy Hypothesis: Evidence from Malaysia. Journal of International Accounting, Auditing and Taxation, 12, pp. 45-62.

Dooley, P.C. (1969), 'The Interlocking Directorate', The American Economic Review, Vol. 59, pp. 314–23.

Gupta, S. and Newberry, K. (1997). Determinants of the Variability in Corporate Effective Tax Rates: Evidence from Longitudinal Data. Journal of Accounting and Public Policy, 16, pp. 1-34.

Haniffa, R.; & Hudaib, M. (2006). Corporate governance structure and performance of Malaysian listed Companies. Journal of Business Finance & Accounting, 33(7) & 8, pp. 1034-1062.

Haniffa, R.M. (1999), 'Culture, Corporate Governance and Disclosure in Malaysia Corporations,'Unpublished PhD. Thesis (University of Exeter, UK).

Haniffa, R. M., & Cooke, T. E. (2002). Culture, corporate governance and disclosure in Malaysian corporations. Abacus, 38(3), 317-349.

Isa, K. (2014), 'Tax complexities in the Malaysian corporate tax system: minimize to maximise', International Journal of Law and Management, Vol 56, No 1, pp 50-56.

Jabbar, H. A.; & Pope, J. (2009). Tax attitudes and compliance among small and medium enterprises in Malaysia. New Zealand Journal of Taxation Law and Policy, 15(3), pp. 198-222).

Jensen, M. C. 1993, 'The Modern Industrial Revolution, Exit and the Failure of Internal Control Systems.' Journal of Finance, vol. 48, no. 3, pp. 831-880.

Khaoula, A. L. I. A. N. I., & Ali, Z. M. (2012). Demographic diversity in the board and corporate tax planning in American firms. Business Management and Strategy, 3(1), 72-86.

Klein, A, Audit Committee, Board of Director Characteristics and Earning Management, Journal of Accounting and Economics, Vol 33, No 3, pp. 375-400.

Lanis, R., & Richardson, G. (2011). The effect of board of director composition on corporate tax aggressiveness. Journal of Accounting and Public Policy, 30(1), 50-70.

Mak, Y. T., & Kusnadi, Y. (2005). Size really matters: Further evidence on the negative relationship between board size and firm value. Pacific-Basin Finance Journal, 13(3), 301-318.

Malaysian Code of Corporate Governance (MCCG) 2012. Kuala Lumpur: Securities Commission of Malaysia.

Mariolis, P. (1975), 'Interlocking Directorships and Control of Corporations: The Theory of Bank Control', Social Science Quarterly, Vol. 56, pp. 425–39.

Mariolis, Peter. "Interlocking directorates and control of corporations: The theory of bank control." Social Science Quarterly (1975): 425-439.

Minnick, K. & Noga, T. (2010), "Do Corporate Governance Characteristics Influence Tax Management?", Journal of Corporate Finance 16(5), Elsevier, 703-718

Norshamimi, S. & Noor, R.M. (2012), Tax planning and corporate governance. 3rd International Conference on Business and Economic Research (3rd ICBER 2012) proceeding. Bandung, Indonesia, pp. 1-25.

OECD (2009). Corporate Governance and Tax Risk Management. Forum on tax administration. O. f. E. C. –O. a. Development, pp.1-20.

Othman, A. (1999), 'High Level Committee Report on Corporate Governance,' The Securities Commission of Malaysia (Kuala Lumpur).

Ozdemir, O.; & Upneja, A. (2012). "Board structure and CEO compensation: evidence from US lodging industry". International Journal of Hospitality Management, 3, pp. 856-863.

Richardson, R.J. (1987). Directorship Interlocks and Corporate Profitability. Administrative Science Quarterly, Vol. 32, pp. 367–86.

Rowe, S. P.; & Sivadasan, P. (2014). Are all outside directors independent? A comparative study of active and compliant multiple directors.

Sabli, Nurshamimi, and Noor, R.M. "Tax planning and corporate governance." Internationalconference on business and economicresearch. Malaysia: Univercity Teknologi MARA (2012).

Sartori, N. (2009). Corporate governance dynamics and tax compliance. International Trade and Business Law Review, SJD Working Paper No. 1361895.

Shamsudin, S.M & Noor, R.M, (2012), 'Corporate Governance and Tax compliance: A study on Small Medium Enterprises (SMEs) in Malaysia, 2012 IEEE Symposium on Business, engineering and Industrial Applications, Bandung, Indonesia.

Sharma, P. (2004). An overview of the field of family business studies: Current status and directions for the future. Family Business Review, 17, 1-36.

Smatrakalev, Georgi. "Taxes and elections." Heterodox Views on Economics and the Economy of the Global Society 1 (2006): 93.

Useem, M. (1984), 'The Social Organization of the American Business Elite and Participation of Corporation Directors in the Government of American Institutions', American Sociological Review, Vol. 44, pp. 553–71.

Ward, M. (1998), 'Releasing Executive Directors for Outside Directorships-The Governance Implications', Corporate Governance: An International Review, Vol. 6, pp. 86–91.

Yermack, D. (2004). Remuneration, retention, and reputation incentives for outside directors. The Journal of Finance, 59(5), 2281-2308.