

MALAYSIAN TAX POLICY AND CORPORATE TAX BURDENS: AN INDUSTRY ANALYSIS

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Abstract

This study examines corporate income tax burdens, specifically known as corporate effective tax rates (ETRs) of Malaysian listed companies during the new tax regime. The Malaysian tax system had undertaken a major tax reform whereby corporate taxpayers are subject to the current year assessment and self assessment system, effective from the year 2000 and 2001 respectively. Thus, the goal of this study is to compare the tax rate effectively experienced by each company within and across the sectors, with the corporate statutory tax rate (STR) or official tax rate (OTR) for the financial years from 2000 to 2004. Corporate ETRs take into consideration the tax reductions that resulted from special tax provisions, such as, changes in tax laws and tax incentives which cause corporate ETRs to diverge from the STR. Using a micro-backward looking approach from a sample of 3432 firm-years of Malaysian public listed companies from ten sectors, the study found variability of corporate ETRs between companies in the same sector and also across sectors. The statistical results provided evidence that the average ETR for all sectors fall below the STR of 28%. The study found that companies from hotel sector experienced lowest ETRs with an average ETR of 9%. Meanwhile, companies from construction sector experienced highest ETRs with an average ETR of 26%. The divergence of corporate ETRs from the STR ranged from 2% to 19% during the period 2000 to 2004. The difference between corporate ETRs and the STR provides evidence on the pervasiveness of tax incentives provided by the government to certain selected activities or industries. Hence, the variability of corporate ETRs implied that the equity and neutrality principles of the present tax system are being challenged.

Keywords: effective tax rates, statutory tax rate, new tax regime, tax incentives and Malaysian public listed companies.

1. INTRODUCTION

Malaysia has experienced several phases of tax reforms due to tax competitions globally. The objectives of the tax reform are to promote competitiveness, as well as, to enhance equity and neutrality in the tax system (Barjoyai, 1993; Khoo, 2004; Janssen, 2005). Tax competition is defined as the improvement of a country's national economy by lowering the tax burden imposed on taxpayers in order to increase the competitiveness of domestic business and to attract foreign direct investments (Pinto, 1998 cited in Buijink, Janssen and Schols, 2000, p.5). An increase in corporate tax competition will lead the government to lower effective levels of corporate taxation to attract companies (Buijink et al., 2002). Thus, an examination of corporate income tax burdens is important for understanding the impact of a tax policy on the cost of doing business. As income taxes represent one of the costs of doing business, corporate income tax rates may affect corporate financing and investment decisions. Hence, policymakers, practitioners and academics acknowledge the importance of tax policy in determining the inflow and outflow of capital and the economic growth of a country (Molloy, 1998; Kandel, 2001; Plesko, 2003; Desai, Dyck and Zingales, 2003).

The tax competition strategy can be achieved either by amending the corporate tax laws, such as lowering the statutory tax rate (STR), or by providing tax incentives to specific sectors, for example, investment tax credit and pioneer status. However, the general tax competition's strategy of lowering the corporate income tax rate will reduce companies' effective tax rates (ETRs), thus, will have negative impact on the government revenues (Buijink et al., 2002). On the other hand, the specific tax competition strategy of providing tax incentives to certain economic activities will only benefit certain companies. The specific tax incentives would increase inequitable tax treatment as some companies will pay lower effective tax rates as other companies. Hence, specific tax incentives would influence companies' investment decisions and was considered undesirable by EU Finance Ministers (Buijink et al., 2002).

In Malaysia, the tax system is used as a mechanism to achieve the economic growth. Changes in tax laws and provision of tax incentives in a form of reduction in the statutory tax rate, exemptions, deductions and exclusions will be reflected in the corporate tax burdens. Thus, the effective tax rate is the measurement of companies' actual tax burdens, which is determined by dividing company tax expense to pretax accounting income reported in the financial statements. Hence, ETR is used to measure the impact of changes in the tax policy on companies' tax burdens (Molloy, 1998), and it has been an important measure of corporate tax burdens for policymakers and academic researchers for several decades (Zimmerman, 1983).

The dispersion of the corporate ETR from the statutory tax rate began to decline in 1980s and continued at least until 1995 because of increased international pressure for tax competition (Slemrod, 2004). One of the driving forces behind the tax reform in the 1980s was the concern that many large companies were not paying their fair share of taxes (Spooner, 1986). In US, evidence that tax burdens vary across corporate taxpayers due to tax incentives provide to certain activities has prompted long standing public concern as to whether these taxpayers pay their fair share of taxes (Wilkie and Limberg, 1993). The divergence of corporate ETRs from the statutory tax rate raises an issue of inequality and non-neutrality in the tax system (Nicodeme, 2001). Neutrality of taxation refers to possible differences in effective tax treatment across business sectors. Thus, specific tax incentives and special tax treatments can create non-neutrality in taxation.

Many studies on corporate ETRs have been conducted in US, EU, Australia, Japan, China and India to assess the fairness of the corporate income tax system (Zimmerman, 1983; Gupta and Newberry, 1997; Kim and Limpaphayom, 1998; Feeny, Harris and Gillman, 2002; Buijink et al., 2002; Janssen, 2005). However, no prior studies have specifically address this issue during the era of new tax regime in Malaysia. Thus, the goal of this research is to address the shortcoming. Using a micro-backward looking approach, the objectives of this study are: (1) to examine the level of corporate effective tax rates of publicly listed Malaysian companies during the new tax regime 2000 to 2004; and (2) to examine the divergence of corporate effective tax rates from the statutory tax

rate which is fixed at 28% during the years 2000 to 2004. Therefore, the research questions address in this study are:

- (1) What is the level of effective tax rate of companies listed on Bursa Malaysia during the years 2000 to 2004?*
- (2) To what extent does the corporate effective tax rate diverge from the statutory tax rate during the years 2000 to 2004?*

The remainder of this paper is structured as follows. Section two discusses prior literature on corporate ETRs. Section three describes the research design and data collection used in the study. Section four analyses the findings of the study and the conclusion is presented in section five.

2. PREVIOUS RESEARCH

Prior studies have examined the variability of corporate effective tax rates using company-level data (micro data), such as Gupta and Newberry (1997), Kim and Limpaphayom (1998), Feeny et al. (2002), Buijink et al. (2002), Derashid and Zhang (2003) and Janssen (2005). Prior literature stated that there are two types of empirical research on corporate ETR i.e. marginal ETR and average ETR. The marginal ETR is a forward looking approach which measures the rate of tax to be paid on an additional unit of income from a specific investment project (Spooner, 1986). It is used to investigate the effect of taxation on investment decisions. On the other hand, an average ETR is a backward looking approach which measures the overall tax burdens of a company. Specifically, it expresses the rate of tax paid on the entire income (Shevlin, 1999). Further, the Multistate Tax Commission (2003) identified two factors that account for the decline in corporate ETRs. First, changes in the tax policy in the form of rate deduction, use of tax credits and incentives. Second, tax planning activities undertaken by companies.

Previous ETR studies are designed to measure whether or not an industry is paying an amount of income taxes that is higher or lower than other industries (Spooner, 1986). There is a growing public concern that an increase in tax incentives granted to particular sectors of the economy had benefited companies from certain sectors more than others. For example, Derashid and Zhang (2003) examined the impact of industrial policy on companies' ETRs from 1990 to 1999, and provided evidence that tax incentives are provided by the Malaysian government to selected companies and sectors in order to promote economic and social goals. In another study, Buijink et al. (2002) made a comparative study on European Union 25 member countries. The findings indicated that companies in mining and construction sectors faced lower ETRs, while, companies in the manufacturing, wholesale and retail trade sectors faced higher ETRs. In addition, differences in corporate ETRs are also due to accounting and tax practices that are industry-specific (Brown, 2006). Therefore, measuring corporate ETRs across industries would provide evidence on the impact of tax policy on corporate ETRs.

In another related study, Kim and Limpaphayom (1998) analyzed the financial statements-based ETR measures for Hong Kong, Korea, Malaysia, Taiwan and Thailand (emerging economies) from 1975-1992. The findings suggest that the government used tax policies to achieve its overall economic objectives. Further, the findings reaffirmed that the main objective of the tax systems in developing economies is to promote economic and social goals. As a result, companies in certain strategic industries may receive more tax benefits than those in other industries. The study had raised important issues related to the government's effectiveness in implementing and integrating its economic and tax policies. Additionally, Kandel (2001) examined the tax policy of a less-developed country i.e. Nepal. The author reported that Nepalese policymakers had reduced the statutory tax rate and provided various tax incentives with a view of increasing private investment. The findings provided evidence that there was a change in effective tax burden borne by corporations in Nepal due to changes in different tax incentives.

Thus, providing tax incentives to specific sectors create issues of non-neutrality and inequity of the tax system. The issue of neutrality of the tax system is important because if the statutory tax rate is the same for all companies, the different techniques to determine the tax base imply the intervention of elements which may prove to be more beneficial for some groups of companies (Nicodeme, 2001). Further, variability of income tax burdens across companies is also used to suggest that the tax system is inequitable and subsequently, justify for tax reform (Gupta and Newberry, 1997; Halperin and Sansing, 2006). Thus, the perceptions of corporate income tax burdens do influence the legislative process (Amerkhail, Spooner, and Sunley, 1988).

Previous studies tended to focus on whether corporations were paying their fair share of corporate tax burdens relative to their 'economic' income (McGill and Outslay, 2002). Analysis of ETR is important to both tax policymakers and accounting researchers in assessing the impact of tax laws on corporate tax burdens (Kern and Morris, 1992). The assessment of the corporate tax burden on existing capital is particularly relevant to tax policy questions concerning equity and neutrality in the tax system with the aim of analyzing investment incentives and related tax policy (Wagnon, 2004). Therefore, this study provides tax policymakers information for future tax reforms in Malaysia.

2.1 Definition of Corporate Effective Tax Rate

Financial accountants define corporate ETR as income tax expense for financial reporting purposes divided by pretax accounting income (Sansing, 2004). Income tax expense is a pretax accounting income less permanent differences between financial accounting income and taxable income, multiplied by the statutory tax rate. Alternatively, the corporate ETR is defined as the current portion of the income tax expense divided by pretax income. This approach exclude the deferred income tax expense, which is the product of the statutory tax rate and the difference between accounting income and taxable income due to differences in the definition of accounting and taxable income. For example, differences in the calculation of depreciation.

Corporate ETR is determined by two elements, that is, corporate tax base (i.e. the taxable income) and the statutory tax rate which is fixed by the government at 28% (the the period under study i.e. 2000 to 2004). Thus, if the statutory tax rate remains constant, the variation of corporate ETR should be due to the tax base, which is the taxable income. Rationally, companies would opportunistically utilize tax incentives provided by the government to reduce its income tax burdens. Thus, the tax strategic actions undertaken by the companies are reflected in its income tax burdens, i.e. companies' tax expense as reported in the financial statements. Since ETR compare the current tax liability generated by taxable income to pretax accounting income based on Generally Accepted Accounting Principles (GAAP), thus, ETR measures the proficiency of a corporation to reduce its current tax liability relative to its pretax accounting income. As a result, ETR reflects the relative tax burden across companies (Manzon and Plesko, 2002; Hanlon and Shevlin, 2005). Additionally, Spooner (1986) reported that ETR studies based on financial statements were useful for designing tax policy that was directed towards evaluating the effect of tax incentives used in combination by various sectors.

2.2 Corporate Tax System in Malaysia

In line with the global tax reforms, Malaysia has restructured its tax system in order to have a more competitive and attractive tax system for investors. The tax reforms undertaken in Malaysia emphasized more on the corporate taxpayers as corporate tax revenue generates about seventy percent of total income tax revenue. Despite growth, revenue generation and other economic objectives, the tax reform is intended to reduce the cost of doing business (Barjoyai, 1993). Among the strategies of the tax reforms are the reduction in the corporate statutory tax rate from forty percent in 1988 to twenty-six percent in 2008, and further reduced to twenty-five percent in 2009. This is in line with the reduction of the income tax rates by US government and other countries. The statutory tax rate of twenty-six percent (as of 2008) is considered competitive as compared to ASEAN and other countries as reported in Table 1.

Table 1: Corporate Statutory Tax Rate

Countries	*Statutory Tax Rates as of 2002	**Statutory Tax Rates as of 2008
OECD	32%	27%
EU Countries	33%	23%
Latin America Countries	30%	27%
Asia-Pacific Countries	31%	28%
Singapore	25%	18%
Thailand	30%	30%
Indonesia	30%	30%
China	33%	25%
Malaysia	28%	26%

Source: KPMG Survey *2002 and **2008

At the same time, specific tax incentives are provided by the government to promote certain sectors or activities in Malaysia. For the purpose of tax incentives, the sectors are categorized into manufacturing, trading, agricultural, tourism, research and development, education, communications, utilities and transportation, high technology and multimedia, service, waste recycling sector and special incentives for promoted areas (MIA, MIT & MICPA, 2004). The tax incentives offered by the government are in the form of pioneer status, investment tax allowance, reinvestment allowance, double deduction of expenses, abatement of adjusted income, export allowance, infrastructure allowance, industrial adjustment allowance, exemption of import duties and sales tax and group relief.

It is the government policy to promote tourism industry in Malaysia. Tourism is the second important sector and contributor to the economic growth. Thus, various tax incentives are provided by the government to promote tourism industry, such as, exemption from statutory income. However, no specific tax incentive is provided to the construction sector except special allocation in a form of subsidy. For example, in Budget 2004, the government had provided RM976.90 million for construction of low-cost public housing projects and living quarters for the government staff (MIA, MIT & MICPA, 2004).

Further, the income tax base has been narrowed down due to changes in the scope of tax charge from modified territorial basis to derivation basis. This means that income from foreign activities will no longer be taxable in Malaysia (except for specialize industries such as shipping, airlines, insurance and banking). Additionally, other changes to the tax system, such as the expansion of double deductions of expenses and accelerated capital allowances had also contributed to the reduction in the tax base.

3. RESEARCH DESIGN

3.1 Measurement of Corporate Effective Tax Rate

The measurement of corporate ETR is important for understanding the impact of a particular country's tax policy on corporate actual tax burdens (Molloy, 1998). There are various methods of measuring the corporate ETR, whereas, the numerator is the measure of a company's tax liability and the denominator is the measure of its income (Shevlin and Porter, 1992). The common measurements that have been used by previous researchers in ETR studies are reported in Table 2.

Table 2
Effective Tax Rate (ETR) Measures

No	Numerator	Denominator
1	Income tax expense	Pretax income
2	Income tax expense	Net sales
3	Income tax expense less deferred tax expense	Pretax income
4	Income tax expense less deferred tax expense	Operating cash flow
5	Income tax expense less deferred tax expense	Earnings before interest and tax

This study follows the measurement used by previous researchers such as Leaby (1990), Rego (2003), Feeny, Harris and Gilman (2002) and Buijink et al. (2002). The corporate ETR is computed using an accrual-based ETR model i.e. total tax expense divided by pretax income.

3.2 Sample Selection

A study on company's ETR using the micro-backward looking approach requires the measurement of ETRs at the company's level of data. Thus, the sample used in this study is extracted from Thomson data stream and Thomson one-banker. The data are collected from the period 2000 to 2004, the period where corporate taxpayers are subject to current year assessment (effective from the year 2000) and self-assessment system (effective from the year 2001). The sample consists of companies from ten sectors listed on the main and second board of Bursa Malaysia as presented in Table 3. Companies with non-industrials template are removed. These include banks, insurance companies, trust and other financial companies. The analysis is based on a full panel sample i.e. data available for at least one year which produced 3432 firm-years.

Table 3
Data Availability for Full Panel Sample 2000 to 2004

No	Sectors	Total	2000	2001	2002	2003	2004
1	Industrial products	1050	181	215	217	217	220
2	Consumer products	584	79	109	125	135	136
3	Trading and services	834	135	161	173	179	186
4	Properties	441	76	85	90	94	96
5	Plantation	191	34	38	39	40	40
6	Constructions	187	30	35	39	40	43
7	Infrastructure	34	4	6	8	8	8
8	Technology	55	11	11	11	11	11
9	Hotel	30	6	6	6	6	6
10	Mining	26	4	5	5	6	6
	Firm-years	3432	560	671	713	736	752

3.3 Data Filtering

The sample data used in this study include companies with negative pretax income (operating losses) and negative tax expense (tax refund). Following Gupta and Newberry (1997) and Buijink et al. (2002), the data are filtered as follows: (1) ETR of companies having negative pretax income and negative tax expense which produced positive ETR are recoded as '0'; (2) companies with negative ETR are recoded as '0'; and (3) companies with an ETR above 100% are recoded as '100'. The data filtering is necessary as ETRs do not have economic meaning whenever its denominator i.e. pretax income is zero or negative (Wilkie and Limberg, 1993).

4. FINDINGS

4.1 Descriptive Statistics and Univariate Analysis

The descriptive statistics and the univariate analysis are presented in Tables 4 to 7 and the distributions of the corporate ETRs for various sectors are depicted in Diagrams 1 to 12.

4.4.1 Distribution of Corporate ETRs

The distribution of corporate ETRs based on the filtered sample is reported in Table 4. The measurement of ETR is based on tax expense divided by pretax income as reported in the consolidated financial statements. The study found that for the period 2000 to 2004, about 32% of public listed companies reported zero ETRs, 19% companies reported ETRs between 1% to 20% , 24% of companies reported ETRs between 20% to 30% and 25% of companies reported ETRs above 30%. Gupta and Newberry (1997) classified ETR into three categories as follows: (1) ETR less than 10% was classified as low; (2) ETRs between 10% to the top statutory tax rate was classified as normal; and (3) ETRs above the statutory tax rate was classified as high.

Table 4

Distribution of Corporate ETRs for the period 2000 to 2004

ETR Range	N	%
0%	1098	32%
1% - 20%	672	19%
20% - 30%	825	24%
30% - 50%	605	18%
50% - 99%	164	5%
100%	68	2%
Firm-years	3432	100%

4.4.2 Descriptive Statistics

Table 5 tabulates descriptive statistics for the full sample from 2000 to 2004. This study found that companies' ETRs vary across sectors and its fall below the statutory tax rate (STR) of 28%. Hotel sector reported the lowest ETR mean of 9% and ETR median of 0%. Meanwhile, the construction sector reported the highest ETR mean of 26% and ETR median of 28%. Diagram 1 depicts the ETR mean for the ten sectors during the five years from 2000 to 2004. Diagram 2 depicts the annually ETR mean for all sectors for five years from 2000 to 2004. Additionally, Diagrams 3 to 12 depict the distribution of annual ETRs for each sector from 2000 to 2004 as follows: 1) Diagram 3 - Industrial product sector; 2) Diagram 4 – Trading and services sector; 3) Diagram 5 – Plantation sector; 4) Diagram 6 – Consumer products sector; 5) Diagram 7 – Properties sector; 6) Diagram 8 – Construction sector; 7) Diagram 9 – Infrastructure sector; 8) Diagram 10 Hotel sector; 9) Diagram 11 – Technology; and 10) Diagram 12 – Mining sector.

Table 5
Descriptive Statistics of Corporate ETRs for the period 2000–2004

No	Sectors	N	Mean	Median	Std. Dev.
1	Industrial Products	1050	16	11	21
2	Consumer Products	584	20	20	19
3	Trading and Services	834	23	22	24
4	Properties	441	22	25	21
5	Plantation	191	22	23	18
6	Construction	187	26	28	21
7	Infrastructure	34	15	23	15
8	Technology	55	15	9	20
9	Hotels	30	9	0	16
10	Mining	26	15	6	20
	Firm-years	3432			

Diagram 1: ETR for All Sectors 2000 - 2004

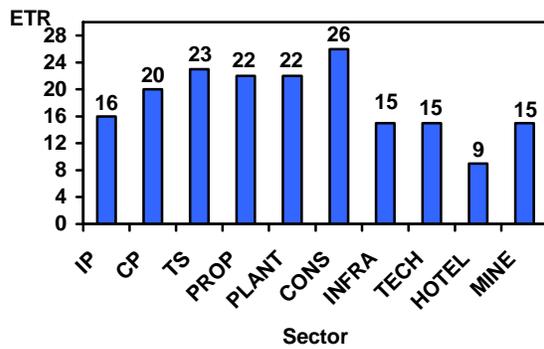


Diagram 2: All Sectors

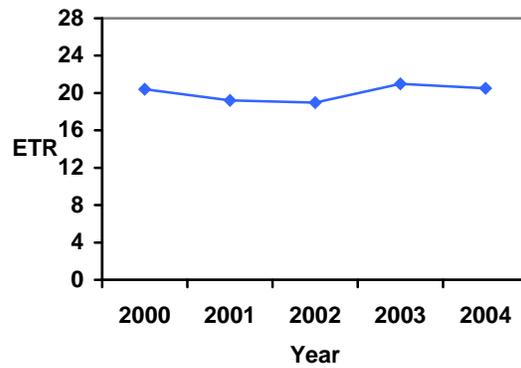


Diagram 3: Industrial Products Sector

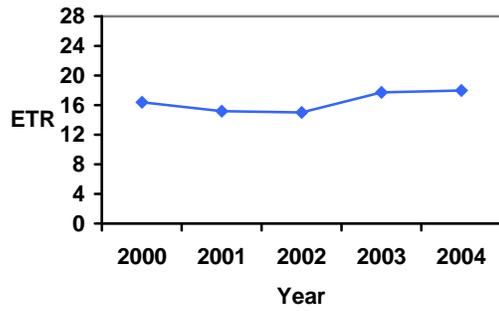


Diagram 4: Trading and Services

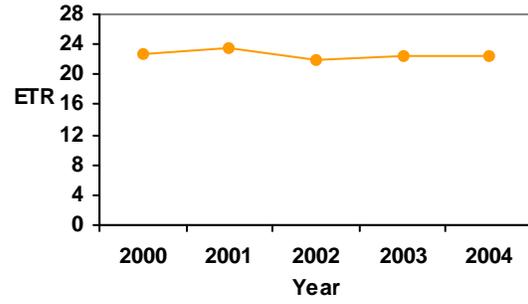


Diagram 5: Plantation Sector

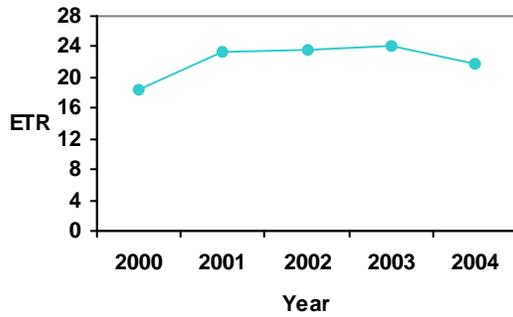


Diagram 6: Consumer Products Sector

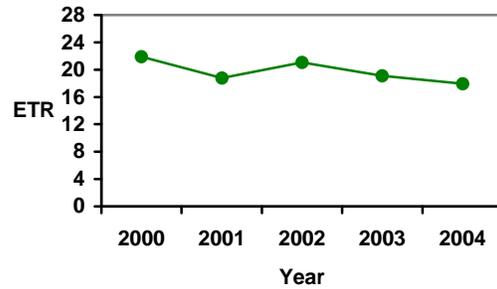


Diagram 7: Properties Sector

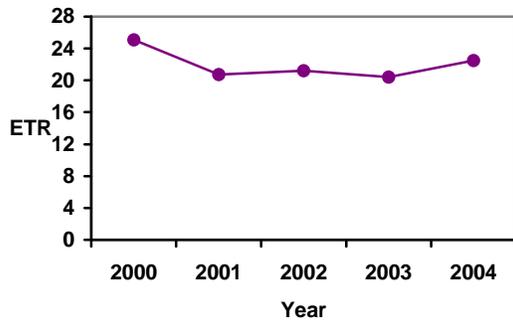


Diagram 8: Construction Sector

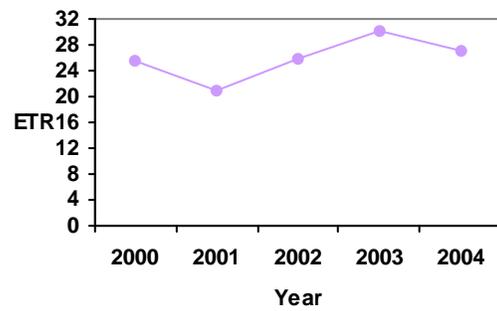


Diagram 9: Infrastructure Sector

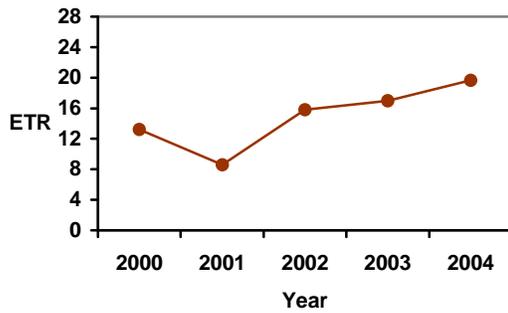


Diagram 10: Hotel Sector

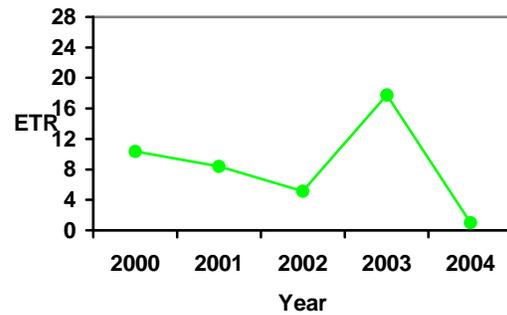


Diagram 11: Technology Sector

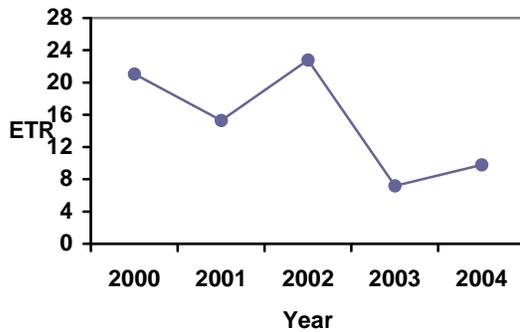
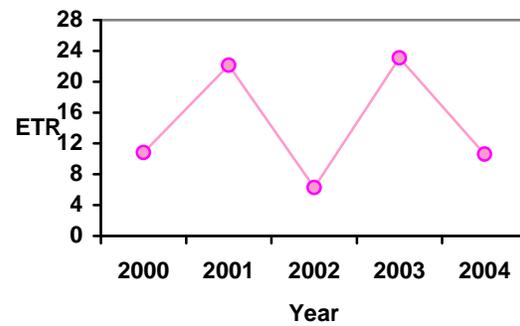


Diagram 12: Mining Sector



4.2 The Divergence of Corporate ETRs

Table 6 reports the divergence of corporate ETRs from the statutory tax rate during the period 2000 to 2004. The pattern of ETRs and the divergence of corporate ETRs from the statutory tax rate (STR) provide evidence that changes in tax policy had benefited certain companies more than others. The divergence of ETR mean from the statutory tax rate (which is fixed at 28%) ranges from 2% for the construction sector and 19% for the hotel sector. Meanwhile, the divergence of ETR median from the statutory tax rate ranges from 0% for the hotel sector to 28% for the construction sector.

Table 6
The Divergence of Corporate ETRs for the period 2000-2004

No	Sectors	N	ETR Mean	STR – ETR Mean (% of STR)	ETR Median	STR – ETR Median (% of STR)
1	Industrial Products	1050	16	12 (43%)	11	17 (61%)
2	Consumer Products	584	20	8 (29%)	20	8 (29%)
3	Trading and Services	834	23	5 (18%)	22	6 (21%)
4	Properties	441	22	6 (21%)	25	3 (11%)
5	Plantation	191	22	6 (21%)	23	5 (18%)
6	Construction	187	26	2 (7%)	28	0
7	Infrastructure	34	15	13 (46%)	23	5 (18%)
8	Technology	55	15	13 (46%)	9	19 (68%)
9	Hotels	30	9	19 (68%)	0	28 (100%)
10	Mining	26	15	13 (46%)	6	22 (79%)
	Firm-years	3432				

4.3 Univariate Analysis

The statistical results for the univariate analysis are presented in Table 7. The results from the post-hoc tests indicate that at 1%-level, there is a significant different of ETR mean between companies in the same sector and between sectors during the five years 2000 to 2004, the *f-value* is 7.530 and the *p-value* is 0.000. This indicates that the income tax burdens are different between companies in the same sector and across sectors. Similarly, the statistical results also provide significant results for the divergence of corporate ETRs from the statutory tax rate, except for the construction sector, where the divergence of its ETR from the statutory tax rate is not statistically different.

Therefore, this study concludes that there is a significant difference of ETRs between sectors, whereby companies from the construction sector faced higher tax burdens and companies from the hotel sector faced lower tax burdens. Thus, the results are consistent with previous study carried out by Kim and Limpaphayom (1998) and Derashid and Zhang (2003).

Table 7
Statistical Results for the Divergence of Corporate ETRs

No	Sectors	N	ETR Mean		ETR Divergence	
			<i>f value</i>	<i>p value</i>	<i>f value</i>	<i>p value</i>
1	Industrial Products	1050	23.47	0.000	17.19	0.000
2	Consumer Products	584	19.29	0.000	7.72	0.000
3	Trading and Services	834	24.42	0.000	6.41	0.000
4	Properties	441	19.43	0.000	5.83	0.000
5	Plantation	191	15.79	0.000	3.55	0.000
6	Construction	187	15.92	0.000	0.85	0.395
7	Infrastructure	34	7.17	0.000	2.22	0.039
8	Technology	55	5.72	0.000	4.80	0.000
9	Hotels	30	2.85	0.008	6.49	0.000
10	Mining	26	3.25	0.004	2.57	0.019
	Firm-years	3432				

4.4 Additional Analysis

Additional analysis is examined using a balanced panel sample and an alternative measurement of ETR as a robustness check on the above empirical results. The empirical results discussed above have been determined using a full panel sample. A balanced panel sample requires observations for all years for each company in the sample. The balanced panel sample for 557 companies produced 2,785 firm-years for the sample period 2000 to 2004. Alternatively, the measurement of ETR is based on current-based ETR model i.e. current tax expense divided by pretax income. The measurement of a current-based ETR model considers only current tax expense of the company. Whereas, the first ETR measurement considers both current tax expense as well as deferred tax expense.

The descriptive statistic for a balanced panel sample and alternative measurement of ETR is reported in Table 8. The descriptive statistics produced similar results as the main findings reported earlier, whereby the highest ETR is faced by

companies from the construction sector and companies from hotel sector faced lower ETR.

Table 8: Descriptive Statistics for Balanced Panel Sample 2000–2004

No	Sectors	Firm-years	Mean	Median	Std. Dev.
1	Industrial Products	900	16	8	21
2	Consumer Products	395	20	20	21
3	Trading and Services	665	22	21	23
4	Properties	380	22	23	22
5	Plantation	170	23	23	19
6	Construction	150	27	29	20
7	Infrastructure	20	21	26	13
8	Technology	55	15	9	20
9	Hotels	30	9	0	16
10	Mining	20	16	6	22
	Total	2785			

5. CONCLUSIONS

This study examined corporate effective tax rates of companies listed on Bursa Malaysia for the period from 2000 to 2004 and the divergence of corporate effective tax rates from the statutory tax rate during the new tax regime, whereby companies are subjected to current year assessment and self assessment tax system. The research questions addressed in this study are (1) What is the level of effective tax rate of companies listed on Bursa Malaysia during the years 2000 to 2004? And (2) To what extent does the corporate effective tax rate diverge from the statutory tax rate during the years 2000 to 2004? The research questions addressed in this study are analyzed using consolidated financial statement of Malaysian public listed companies for the years 2000 to 2004, extracted from Thomson data stream and Thomson one-banker.

The analyses on the corporate income tax burdens for 3432 firm-years from 2000 to 2004 revealed that 32% companies reported zero ETRs, 19% companies reported ETRs

between 1% to 20%, and 24% companies reported ETRs between 21% to 30%. The average ETRs for sectors fall below the statutory tax rate of 28%. Thus, this scenario raises the issue of the fairness and the neutrality of the present tax system.

The results from this study suggest that the corporate effective tax rates differ considerably between companies within and across sectors during the period 2000 to 2004. The study found that hotel sector reported lowest ETR at 9%, as compared to other sectors and its ETRs diverged at about 19% from the statutory tax rate. Meanwhile, the construction sector reported highest corporate ETR at 26% and its ETRs diverged at 2% from the statutory tax rate. The difference between the ETR and the statutory tax rate can serve as an indication of the impact of tax policy and the provision of tax incentives provided to the specific sectors. One potential explanation is that the government through the tax system is promoting certain economic activities i.e. by providing specific tax incentives in the form of pioneer status, investment tax credits, reinvestment allowance and group relief. This scenario is consistent with similar studies carried out in other countries, such as, Gupta and Newberry (1997), Kim and Limpaphayom (1998), Feeny et al. (2002), Buijink et al. (2002) and Janssen (2005).

Finally, the variability of corporate ETRs implied that the equity and neutrality principles of the present tax system are being challenged. Thus, the pattern of corporate ETRs would assist the government in considering future tax reforms, especially in reviewing the present corporate statutory tax rate and in providing tax incentives to a particular economic sector. Therefore, future research should examine the effective tax rates between large and small companies and utilization of tax incentives in corporate tax planning activities.

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