Effective Tax Rate Time Trends and its Determinants: Insight from the Corporate Taxpayer Utilising Reinvestment Allowance in Malaysia

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ABSTRACT

This study aims to provide evidence on the trend in corporate tax revenue from the application of time-trend analysis of effective tax rate (ETR) amongst corporate taxpayers in Malaysia who claimed reinvestment allowance (RA) over a decade between 2007 and 2016. This study chose these observation periods because the Malaysian corporate STR has been found to have gradually reduced from 27 per cent to 24 per cent between 2007 to 2016, whereby these changes somehow impacted the tax revenue. Taxpayers who used RA for tax planning pay low taxes over time, determined through tax return data. Then, the study intended to examine the relationships between certain tax attributes, namely, company’s profitability (ROA), the reinvestment allowance utilisation rate (RAUTI), type of corporate taxpayers (TPP), the book-tax gap (BTG) and how they associate to the trend in ETR. Reinvestment Allowance (RA) is renowned for being a corporate tax incentive in Malaysia to encourage investments in qualified projects through a tax deduction. An incentivised firm that pays low tax may not be engaging in fraudulent management, as generally assumed. However, it could have been due to tax avoidance strategies that can be observed through reduced or lowered effective tax rate (ETR) across ten years.

Keywords: Effective Tax Rates, Tax Avoidance, Reinvestment Allowance, Tax Incentive, Taxation