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Corporate Social Responsibility (CSR) Disclosure and Tax Planning: A Study on Malaysian Listed Companies

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Abstract

CSR Disclosure is widely practiced for effective decision making and top management of tax planning in a business. The main objective of this research is to determine the CSR disclosure influence on tax planning in Malaysia listed companies as well as examine the relationship between tax planning and other factors influencing such as profitability, company size, leverage, effective tax rate (ETR) and book tax differences (BTDs). A sample of 557 companies from Malaysia's listed companies for the period of 2014 to 2016 was collected and analysed. After controlling such as profitability, company size and leverage the regression results display tax planning has positive relationship respectively in BTDs. The first impact of polices makers is companies may use CSR activities to avoid negative impact irresponsibility engaging tax planning. Second, tax incentives given to public companies reduce Malaysia's government burden to support the public and promote companies' growth.

Keywords: society, tax incentive and disclosure

1. Introduction

Companies' efforts to boost societies welfare are described by Corporate Social Responsibility (CSR). CSR has become one of the focus in this economic era, which forces companies to develop and apply CSR for community duty and activities to stay in the market. This is due to CSR stress by consumers, governments, non-government organizations, and other shareholders. At the same time, it also positively improves companies' image and relationship with customers, shareholders and other stakeholders. Malaysia's government intends to encourage CSR activities by providing tax incentives not only to publicly traded companies but also to non-profit organisations that participate in CSR activities.

If a company does not incorporate CSR into its business, it will be rejected in this society. In addition, tax planning has become necessary for companies and their stakeholders, government and customers. Reductions in tax are favourable to shareholders because they will increase their wealth in companies. However, government are worried that tax planning by companies will reduce government's earnings are needed for other social reasons like training programmes for workers, programmes for the disabled and social assistance, and so on. Moreover, the customers stress the tax payments to know whether the company is responsible and pays its fair share~~s~~ to society. Therefore, CSR and tax planning should have a significant impact on society's wellbeing and economic growth.

Graph 1 shows the government expenditures and direct corporate taxes in Malaysia from 1999 to 2017. This graph shows that the government is less dependent on the corporate income tax (CIT) starting in 2014 and it gradually decreases until 2017. This is due to the fall in income tax collected while government expenditures rose by years. The introduction of goods and services (GST) could be one of the reasons why the government is less reliant on corporate income tax. Graph 2 shows Malaysia among countries that levy a high CIT above the average across ASEAN countries in 2017. This led to tax competition among the regions, which made the government under pressure to reduce CIT by non-government organizations (NGOs)~~,~~ to encourage more outside investors to invest in Malaysia.