



Board diversity and tax planning in the context of Malaysian listed firm

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1. Introduction

Taxes have broadly been assumed to be a motivating factor in many firms' decisions, and this aspect has received significant attention in past literature (Hanlon & Slemrod, 2009; Landolf, 2006; Lanis & Richardson, 2011). One of the main reasons for this is the increasing complexity of tax regulations and the changing tax landscape in many countries. As tax laws become more intricate and subject to change, firms must devote more resources to ensure compliance and optimise their tax strategies. Investors may perceive ineffective tax planning as a missed opportunity to increase earnings and shareholder value (Henderson Global Investors, 2005). Tax planning can increase firms' after-tax profits and improve investors' investment returns.

Board diversity, comprising individuals from different gender, ages, educational backgrounds, ethnicity, and independent directors, has the potential to enhance company performance across various metrics such as sales, profitability, tax planning, liquidity, solvency, and more. In Malaysia, there has been an increase in the percentage of women occupying positions on board directors, which has been recognized as a successful diversity policy (Abdullah, Ismail, & Nachum, 2012). Tax planning is essential in organisations because it minimises the expenditure on firm taxation and helps in achieving financial and personal goals. It is advisable to seek expert advice to protect the company's wealth by reducing taxes. Through comprehensive tax-planning services and compliance, it is recognised that effective planning can alleviate the tax burden (Ilemona & Sunday, 2022). Diversity of thought may inspire greater open-mindedness in the boardroom such as to facilitate problem-solving and adopt greater creativity and innovation. It also lessens the risk of group thinking, where board members prioritize consensus over recognising realistic ideas or options for the organisation (Kruys, 2017).

The importance of board diversity in firms is on the rise, which raises awareness among shareholders, officers, and directors regarding decision-making and other processes, such as tax planning, within the organisation. This, in turn, contributes to the effective efficient execution of strategic functions. Firms or organisations can implement a self-assessment system (SAS) for their tax planning. Under the self-assessment system, income accruing in or derived from Malaysia must be computed for tax payable by honestly declaring taxable income, filing tax return forms, and promptly paying taxes. Under the system, a tax return form is considered a notice of assessment (Fatt & Khin, 2011).

2. Literature Review

2.1. Corporate Taxation

Corporate financial decision-making on taxation is crucial in organisations. According to Graham (2003), taxes are affected by several corporate decisions and impose a cost on the company as they indirectly affect tax performance. In addition, corporations are permitted to lower their taxable income generated by certain essential and ordinary business expenses. In order to reduce tax expenses, companies can decrease provisions for employee compensation, such as salaries, health insurance, various types of compensation, and annual bonuses. Besides, in terms of taxable income, they can lower premiums, business travel expenses, bad debts, interest expenditures, expurgate taxes, fuel taxes, and sales tax. Furthermore, management can utilize tax planning strategies to reduce business income, including tax arrangements fees, legal services, bookkeeping, and marketing costs. There has been a growing concern about finding alternatives to lessen the firms' tax burden, which has prompted previous studies to examine effective tax rates (Armstrong, Blouin, & Larcker, 2012; Dyreng, Hanlon, & Maydew, 2010; Minnick & Noga, 2010). The objective to reduce tax expense has been referred to by various terms and labelled as tax avoidance, which encompasses any action aimed at reducing taxes (Desai & Dharmapala, 2006; Dyreng et al., 2010).

2.2. Board diversity and Tax Planning

Corporate governance has been shown to influence corporate taxation, thereby affecting the sensitivity of revenue to change tax rates. For example, challenges in managing the board and the implementation of sound corporate governance practices can impact tax rates and revenue. Besides, if the management system is unproductive where income can be easily distracted, an increase in the tax rate will result in lower revenue (Desai, Dyck, and Zingales (2007). Furthermore, Erle (2008) and Hartnett (2008) stated that corporate governance components are interconnected with internal and external parties such as principal shareholders, directors, board, managers, the public, and others. The responsibility for tax affairs within any company or organisation lies with its board of directors, who must act prudently to safeguard the interest of shareholders and stakeholders.

2.3. Gender Diversity

According to Heminway (2007), the trustworthiness of various stakeholders in the firm is influenced by the richness of diversity, and women tend to make a positive contribution due to their overall well-functioning considerations towards the board. Regarding taxation, females are more likely to be acquiescent in tax-reporting decision-making and experimental tax setting than males (Baldry, 1987). Previous research has emphasized the impact of communicating information regarding formal sanctions or moral appeals to taxpayer morality within diversified boards, as compared to the control group (Kaplan, Newberry, & Reckers, 1997).

2.4. Age Diversity

The harmful risks associated with sanctions have gained greater social significance in recent years, and older individuals tend to take them more seriously (Torgler, 2006). While previous research suggests that higher levels of tax compliance are generally associated with higher ages (Torgler, 2006), there are pros and cons to consider when having younger directors on the board. Younger directors bring fresh ideas and perspectives to the boardroom, while older directors contribute a wealth of knowledge. Eventually, as a result, having a greater number of young directors can lead to improved firm performance, indirectly impacting tax performance as young directors are more open to accepting the changes in new implementations within the company. In line

with earlier studies, Darmadi (2011) stated that a board with members below the age of 50, i.e., younger directors, has a positive impact on market performance. This is because older directors are less likely to oversee the management, specifically in company tax planning.

2.5. Educational Levels

According to Lewis (1982) and Torgler (2006), taxpayers with higher levels of education have a higher degree of tax compliance. Bhagat and Black (1999) also found a significant positive correlation between tax compliance and older age. In addition, the authors stated that an individual's level of education is based on their knowledge and intellectual ability. With their academic knowledge, directors can provide unique perspectives and innovative ideas to guide the management team. Thus, it is predicted that providing practical and positive advice to boards is an outcome of boards' diverse educational levels within the board, which ultimately leads to higher firm value, particularly in tax performance.

2.6. Board Size

Based on prior studies by Jensen (1993) and Lipton and Lorsch (1992), it has been argued that effective board monitoring can be achieved through smaller board sizes, which facilitates more efficient discussions and save time. Smaller groups tend to have more effective communication among members. Therefore, firms with smaller boards may have better monitoring capabilities, indirectly leading to improved tax planning by the management (Vafeas, 2000). Additionally, it has been suggested that larger board sizes are associated with a higher risk of financial statement fraud (Beasley, 1996; Pandya & Van Deventer, 2021).

2.7. Board Independence

There are strict rules on corporate governance outlined in The Sarbanes-Oxley Act of 2002, which emphasises the importance of independent directors in monitoring tax performance. Previous studies have shown that independent directors play a crucial role in reinforcing better tax performance, as they possess strong analytical and industrial expertise (Minnick & Noga, 2010). Besides, the board of directors holds the responsibility for fulfilling the tax commitments of the company and indirectly participating in tax planning policy (Erle, 2008). In addition, Beasley (1996) argues that differences in the context of board composition explain fraud, firm decisions, and other factors.

3. Research Methodology

3.1. Sample

The sample used for empirical testing consisted of the above 394 Malaysian Public Listed Companies, selected based on their market capitalisation over the period of 2014-2016. The study relied on secondary information obtained from the Bursa Malaysia website, annual reports, and DataStream. The aim of this study is to examine the relationship between board diversity and tax planning. Listed firms were chosen because of the availability of data, as these companies are required to disclose board of directors' information in their annual reports under the Malaysia Code of Corporate Governance.

Information on board diversity characteristics, such as gender diversity, age of directors, educational levels of directors, board size, duality, and board of independent directors, was collected manually from annual reports. The annual reports were available online on Bursa Malaysia's official website from 2014 to 2016. The data for sampled variables such as return on asset, effective tax rate, firm leverage, and other dependent variable were obtained from publicly available standardised financial databases like DataStream and Thomson Reuters.

3.2. Regression Model

In this study, a regression analysis was conducted to investigate the impact of board diversity on tax planning. The regression model incorporated explanatory and control variables that could influence tax planning. The model is formulated as follows:

Functional form:

$ETR = f(\text{Gender diversity, Age, Educational level, Board size, Independence of directors, Duality, Firm size, ROA, Firm leverage})$

Hence our function can be estimated under the following model:

$$ETR_{it} = \alpha_0 + \beta_1 GEN_{it} + \beta_2 AGE_{it} + \beta_3 EDU_{it} + \beta_4 BSIZE_{it} + \beta_5 INDEP_{it} + \beta_6 DUA_{it} + \beta_7 ROA_{it} + \beta_8 FSIZE_{it} + \beta_9 \beta LEV_{it} + \varepsilon_{it}$$

Where,

ETR = Effective tax rate.

α = Constant.

GEN = Gender diversity.

AGE = Age.

EDU = Educational level.

- BSIZE = Board size.
- INDEP = Board independence.
- DUALITY = Duality.
- ROA = Performance.
- FSIZE = Firm size.
- LEV = Firm leverage.
- ϵ = Standard normal, randomly assigned error term.
- i = Companies.
- t = Time.

3.3. Measurement of Variables

Measurement of variables stated in the Table 1:

Table 1. Measurement of variables

Variables	Description	Measurement
Effective tax rate (ETR)	Aggressive tax planning through permanent book-tax differences	ETR = total tax expense/Pre-tax income
Gender (GENDER)	Percentage of female directors	The ratio of female directors to the total number of directors.
Age (AGE)	The average age of directors on the board	Diversity in age = Age /Total number of directors
Educational level (EDU)	Percentage of directors with each of the highest degree level	Educational level =Edu /Total number of directors
Board size (BSIZE)	Board composition	Total number of directors
Board independence (INDEP)	The proportion of the independent directors	Board independence = outside directors /Size of the board
Duality (DUA)	CEO holds the position of chairman	Dummy variable is equal to 1 if the CEO also holds the position of chairman of the board and zero otherwise.
Firm size (FSIZE)	Assets that particular company has	Size = log ₁₀ (total assets)
Return on assets (ROA)	Return on assets	The ratio of net profit to total assets.
Firm leverage (LEV)	Leverage	Long-term debt divides to total assets.

Table 2. Descriptive statistics.

Variable	Minimum	Maximum	Mean	Std. deviation
ETR	-9.324	284.800	4.241	14.865
GENDER	0.000	50.000	1.971	6.784
AGE	36.556	74.600	57.531	5.118
EDU	0.000	1.000	0.318	0.269
BSIZE	4.000	14.000	7.370	1.920
INDEP	0.000	83.333	9.414	19.316
DUALITY	0.000	1.000	0.194	0.395
FSIZE	4.385	8.123	5.889	0.645
ROA	-0.052	0.573	0.05	0.006
LEV	0.000	0.998	0.258	0.195

4. Findings and Discussion

4.1. Descriptive Statistics

The table above shows the descriptive analysis of board diversity characteristics and all control variables of firms listed on the Bursa Malaysia from 2014 to 2016. The data were collected and analysed from the annual report. Tax planning is proxied by the effective tax rate (ETR), measured by total tax expense divided by pretax income. The table shows that the mean ETR is 4.24%. The minimum ETR is at -9.323 percent, and the maximum is 284.8 percent. Table 2 shows that the mean for Gender (GENDER) is 1.971 in the sample firms. The range of women on board is 0 to 50 percent. It shows that the standard deviation value is larger than its mean because the average female on board appointed in firms is 6.78 percent. The board independence (INDEP) value ranges from a minimum value of 0 to 83.33 percent of the board. The mean value that shows the average of independent directors on the board equals 9.414 percent. The standard deviation figure has a higher value than the mean of 19.3091. Meanwhile, the firm size (FSIZE) is measured by the natural logarithm of total assets value and has an average value of 5.8887, a minimum of 4.3854, and a maximum of 8.1234. The standard deviation is 0.6453. The mean value of return on assets (ROA) is 0.005. It means the average value ROA measured by the ratio of net profit to total assets equals 5%. The mean value of leverage (LEV) is 0.258 or 25.8%, which is measured by long-term debt divided by total assets.

Table 3. Pearson correlation.

Variable		ETR	GENDER	AGE	EDU	BSIZE	BINDEP	DUALITY	FSIZE	ROA	FLEV
ETR	Pearson correlation	1									
	Sig. (1-Tailed)										
GENDER	Pearson correlation	0.410**	1								
	Sig. (1-Tailed)	0.000									
AGE	Pearson correlation	0.040	-0.025	1							
	Sig. (1-Tailed)	0.096	0.193								
EDU	Pearson correlation	0.494**	0.434**	-0.002	1						
	Sig. (1-Tailed)	0.000	0.000	0.472							
BSIZE	Pearson correlation	-0.061*	-0.058*	0.030	-0.080**	1					
	Sig. (1-Tailed)	0.023	0.024	0.152	0.003						
INDEP	Pearson correlation	0.696**	0.567**	-0.002	0.717**	-0.149**	1				
	Sig. (1-Tailed)	0.000	0.000	0.476	0.000	0.000					
DUALITY	Pearson correlation	-0.038	-0.091**	-0.114**	-0.053*	-0.058*	-0.026	1			
	Sig. (1-Tailed)	0.109	0.001	0.000	0.035	0.024	0.185				
FSIZE	Pearson correlation	-0.100**	-0.087**	0.236**	-0.031	0.402**	-0.161**	-0.083**	1		
	Sig. (1-Tailed)	0.001	0.001	0.000	0.144	0.000	0.000	0.002			
ROA	Pearson correlation	0.030	-0.108**	0.130**	-0.067*	0.055*	-0.065*	0.020	0.193**	1	
	Sig. (1-Tailed)	0.160	0.000	0.000	0.011	0.031	0.013	0.250	0.000		
FLEV	Pearson correlation	-0.079**	-0.085**	0.018	-0.122**	0.133**	-0.162**	-0.164**	0.363**	0.038	1
	Sig. (1-Tailed)	0.005	0.002	0.273	0.000	0.000	0.000	0.000	0.000	0.101	

Note: **. Correlation is significant at the 0.10 level (1-Tailed) and *. Correlation is significant at the 0.05 level (1-Tailed)

4.2. Correlation of Variables

The Pearson Correlation unveiled the correlation matrix of the variables used in this research, estimating the vital relationship and the significance of bivariate connections among the variables. Table 3 shows that the ETR is positively correlated with GENDER, EDU, and INDEP at a 10% significant level. ETR is negatively correlated with FSIZE and FLEV at a 10% significant level. ETR is also negatively correlated with BSIZE at a 5% significant level. GENDER is positively correlated with EDU and INDEP at a 10% significant level. Gender is negatively correlated with DUALITY, FSIZE, ROA, and FLEV at a 10% significant level. Gender has also negatively correlated with BSIZE at a 5% significant level. AGE has a negative correlation with DUALITY at a 10% significant level. In contrast, AGE positively correlates with ROA and FSIZE at the same significant level. EDU negatively correlates with DUALITY and ROA at a 5% significant level. EDU is also negatively correlated with DUALITY at a 5% significant level. However, EDU positively correlates with INDEP at a 10% significant level. BSIZE is negatively correlated with INDEP and DUALITY at 10% and 5% significant levels. FSIZE and FLEV negatively correlate with INDEP at a 10% significant level. INDEP also has a negative correlation with ROA. DUALITY negatively correlates with FSIZE and FLEV at 10% significant levels. Finally, FSIZE positively correlates with ROA and FLEV at a 10% significant level.

Table 4. Model summary.

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.690 ^a	0.476	0.471	10.814

Note: a. Predictors: (Constant), GENDER, AGE, EDU, BSIZE, INDEP, DUALITY, FSIZE, ROA, FLEVERAGE.
 b. Dependent variable: ETR

4.3. Model Summary

Table 4 presents the Model ETR: Gender, Age, Educational Level, Board Size, Board Independence, and Duality with the control variable Firm Size, Return on Assets (ROA), and Firm Leverage (FLEV), with an R Square value of 0.476. This infers that the six-independent variables account for 47.6% of the variance in the ETR in the model. The adjusted R-square value, which takes into account the number of observations, is calculated to be 0.471, indicating that the variables in the model can explain 47.1% of the variation in the ETR when considering the degree of freedom. The remaining 52.9% of the variation is not accounted for in this equation.

Table 5. Results of multiple regression analysis.

ANOVA ^a						
Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	108761.019	9	12084.558	102.9028	0.000 ^b

Note: a. Dependent Variable: ETR
 b. Predictors: (Constant): GENDER, AGE, EDU, BSIZE, INDEP, DUALITY, FSIZE, ROA, FLEVERAGE

4.4. Results of Multiple Regression Analysis

The Anova Statistics for regressions were conducted to analyse the independent and control variables, showing the overall regression analysis of the data as shown in Table 5 using SPSS. The results indicate a significant effect of GENDER, AGE, EDU, BSIZE, INDEP, DUALITY, FSIZE, ROA, and FLEVERAGE on ETR at the $p < 0.05$ level.

Table 6. Effect of board diversity on tax planning.

Independent variables	Dependent variables: Tax planning	
	Coefficient	p-value
Constant	-1.416	0.764
GENDER	-0.130	0.096
AGE	0.100	0.158
EDU	2.908	0.121
BSIZE	0.244	0.201
INDEP	0.615	0.000
DUALITY	-0.279	0.751
FSIZE	-1.224	0.051
ROA	-0.038	0.298
FLEVERAGE	2.902	0.114

Note: $ETR = -1.416 - 0.13GENDER + 0.100AGE + 2.908EDU + 0.244BSIZE + 0.615INDEP - 0.279DUALITY - 1.224FSIZE - 0.038ROA + 2.902FLEVERAGE$

4.5. Multiple Regression Analysis

This study examined the relationship between various board diversity characteristics and corporate tax planning. Among the independent variables, Board Gender and Board Independence were found to be

significantly related to tax planning. The coefficient for Gender is -0.130. Table 6 shows a negative relationship between GENDER and ETR, with a significance level of 0.096. Based on the tested data, tax planning is inversely related to ETR. It can be concluded that a higher representation of women on board is associated with lower effective tax rates, indicating greater tax planning in the firm. This finding aligns with the notion that females are more likely to be compliant in tax-reporting decision-making and experimental tax setting than males (Baldry, 1987). Therefore, the greater female involvement on the board is linked to heightened awareness of tax planning.

As for Board Independence (INDEP), it exhibits a positive and significant correlation with ETR. The coefficient for Board Independence is 0.615, with a significance level is 0.000. Since ETR serves as a converse proxy for tax planning, a greater presence of independent directors on the board corresponds to reduced tax planning in the firm. Florackis (2008) stated that independent directors on the board need more information about the company to effectively monitor tax planning activities. This is attributed to the limited oversight and involvement of independent directors in the decision-making process concerning independent consideration in tax planning.

Firm Size (FSIZE), as one of the control variables, exhibits a significant negative relationship with the ETR at a significance level of 0.051 or a level of 5%. Since ETR is an inverse proxy for tax planning, larger firm sizes are associated with higher levels of tax planning. Consequently, large firms tend to have lower ETRs. This finding is consistent with previous findings by Porcano (1986), which suggests that large firms engage in more business activities and financial transactions, and provide greater opportunities to mitigate income taxes through tax planning strategies.

The other independent variables, namely board age (AGE), educational level (EDU), board size (BSIZE), and duality (DUALITY), have no significant relationship with ETR. It means that these independent variables have no significant relationship with tax planning. Similarly, the control variables, return on assets (ROA) and firm leverage (FLEVERAGE) have no relationship with ETR. This suggests that these control variables are not significantly associated with tax planning.

5. Conclusion and Implication of the Study

This study investigated the effect of board diversity on tax planning. The sample for this study consisted of 394 firms in Malaysia from 2014 to 2016. The regression analysis results show that gender significantly correlates with tax planning. Having females on the board positively influences tax planning strategies within the firm and increases awareness of minimising tax burdens. Women tend to be more aware of changes in tax planning ethics, potentially due to differences in moral development between men and women.

Besides, this study also found a significant relationship between board independence and tax planning, indicating that higher levels of board independence can improve tax practices. A well-monitored board with independent directors tends to result in lower effective tax rates for the firm. However, it is worth noting that the involvement of independent directors in tax planning decisions may be limited due to a lack of supervision and their lesser presence of independent consideration in tax planning.

Furthermore, the study revealed a significant positive relationship between firm size and tax planning. Large firms are more involved in business activities and financial transactions than small firms in tax planning management, which leads to more opportunities to avoid income taxes and more tax planning.

Other independent variables such as board age, educational level, board size, and duality have no significant relationship with tax planning. Control variables such as return on assets and firm leverage also have no relationship with tax planning.

This study holds significant implications for various stakeholders, such as companies, shareholders, stakeholders, and the government. It highlights the importance of diversity in board implementation towards company policies, which can lead to improved tax management performance. By implementing such policies, a company can increase its overall performance, specifically in the area of tax planning, benefitting both shareholders and stakeholders. This research also provides valuable insights for listed companies in Malaysia, urging them to consider enhancing their tax planning practices for their own advantage. In addition, the research offers guidance to investors, emphasizing the significance of diversity in tax planning and helping them make informed decisions when selecting companies to invest in.

The implementation of diversity as a government policy was not considered in this research, and the time constraints limited the scope of the study. Additionally, the availability of required information from DataStream was limited. The study relied on the use of the ETR proxy as a measure of tax planning due to the unavailability of actual tax planning data.

For future research, it is recommended to employ a larger sample size and extend the study period to ensure more robust and consistent data results. Researchers may also consider incorporating additional sources, such as reports from other organizations, to gather more comprehensive information on board diversity and the firm's tax planning practices. Moreover, exploring alternative data resources beyond annual reports and DataStream, such as the Inland Revenue Board of Malaysia or corporate tax planning companies in Malaysia, could provide valuable insights.

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