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Tax avoidance among FBM KLCI Firms: Prevalence and sectoral trends

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Abstract---This study investigates the prevalence and sectoral differences of corporate tax avoidance among firms listed on the FBM KLCI from 2018 to 2022. Using the Cash Effective Tax Rate (Cash-ETR) as the primary measure, secondary data were collected from annual financial reports and analyzed through descriptive statistics and sectoral comparisons. The findings reveal that tax avoidance is pervasive, with average Cash-ETRs ranging from 16.8% to 17.9%, significantly lower than Malaysia's statutory tax rate of 24%. Sectoral analysis highlights higher levels of tax avoidance in the media, real estate, technology, and agriculture sectors, attributed to financial incentives and sector-specific policies. Despite regulatory efforts introduced in 2018 to reduce tax avoidance, firms continued to exploit available mechanisms, particularly during the COVID-19 pandemic. This study provides important empirical evidence on tax avoidance behaviors among Malaysia's top firms by market capitalization and offers practical insights for policymakers seeking to strengthen corporate tax compliance frameworks.

Keywords---Tax Avoidance, Cash-ETR, FBM KLCI, Sectoral Analysis.
GEL Code : H26, G32, M41.

1. Introduction

In the global financial landscape, the prevalence of tax avoidance practices has led to a robust academic debate over its implications. Some scholars argue that effective tax avoidance enhances firm value by conserving cash flows and maximizing after-tax income, thereby benefiting shareholders (Ariff &

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Hashim, 2014). Conversely, others caution that aggressive tax strategies may signal poor corporate governance or increased risk, potentially reducing firm value over time (Siew Yee et al., 2018).

Within Malaysia, the issue of tax avoidance is particularly pertinent due to the country's dependence on corporate income tax as a major source of revenue. Publicly listed firms, especially those in the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI), play a prominent role in the national economy and are expected to exemplify sound financial and ethical practices. However, studies suggest that many Malaysian firms continue to engage in tax avoidance activities, influenced by governance structures, political affiliations, and audit quality (Sulaiman et al., 2019; Tee et al., 2022). These practices raise concerns about long-term sustainability and value creation for stakeholders.

Despite growing scholarly attention, the extent of tax avoidance practices among firms listed in the FBM KLCI remains insufficiently understood. While prior studies have acknowledged the presence of corporate tax avoidance in Malaysia, comprehensive insights into its prevalence within FBM KLCI firms are still limited. Furthermore, much of the existing research has focused on general firm behavior rather than explicitly addressing how widespread tax avoidance practices are among Malaysia's largest listed companies.

Furthermore, the existing literature in the Malaysian context has largely focused on overall firm behavior, with limited emphasis on sectoral or temporal variations. Few studies have disaggregated tax avoidance patterns by industry, leaving a gap in understanding how different economic sectors within the FBM KLCI contribute to or mitigate such practices (Ariffin, 2012; Mohanadas et al., 2021). Additionally, there is a lack of research examining how these practices evolve over time, particularly in response to regulatory changes or shifts in corporate governance norms.

This study aims to address these gaps by investigating the prevalence and impact of tax avoidance across sectors and over time among FBM KLCI firms. By doing so, it seeks to clarify whether such practices serve as a strategic advantage or a potential liability in the pursuit of sustainable firm value. To guide this investigation, the study addresses the following research questions:

1. Do firms listed in the FBM KLCI engage in tax avoidance practices?
2. Do tax avoidance practices vary across different sectors within the FBM KLCI?

Research Objectives

This study focuses exclusively on firms listed in the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) and aims to:

1. Determine the prevalence of corporate tax avoidance practices among FBM KLCI-listed firms.
2. Identify and compare the levels of tax avoidance across different sectors represented in the FBM KLCI.

Significance of the Study

This study is significant as it provides focused insight into the prevalence of tax avoidance among Malaysia's most influential firms by market capitalization and liquidity—the firms listed in the FBM KLCI. By identifying sectoral differences and patterns in tax behavior, the research offers practical value to investors seeking transparency, regulators aiming to improve tax compliance, and corporate stakeholders striving for better governance. It also contributes to academic discourse by addressing a gap in Malaysian tax literature, offering empirical evidence specific to the country's leading firms and sectors.

2. Literature review and hypothesis development

Several previous studies and research have addressed the prevalence of corporate tax avoidance practices, highlighting the various factors that influence tax decision-making. In terms of sector specificity, in 2003, Yin conducted a study focusing on companies listed on the S&P 500 Index. The primary objective was to assess the effective tax rates (ETRs) of these companies from 1995 to 2000 to identify variations in tax avoidance practices across different industry sectors. The results revealed a consistent decline in the effective tax rates of the companies in the sample, falling from 28.85% in 1995 to 24.20% in 2000, representing a significant decrease of 16% (an increase in tax avoidance). Furthermore, the study highlighted sector-specific trends, with significant declines observed in eight of the ten industrial sectors studied. Specifically, the information technology sector experienced the largest decline, with a 43.8% drop in its effective tax rate (ETR) from 27.81% in 1995 to 15.62% in 2000. The telecommunications sector also showed a significant decline in its effective tax rate, reaching 26.4%, equivalent to a decrease of 10.78 percentage points over the same period (Yin, 2003).

Based on the nature of ownership, the U.S. Government Accountability Office (GAO) conducted a study in response to previous reports that revealed discrepancies in the reporting of tax liabilities between foreign-controlled corporations (FCCs) and U.S.-controlled corporations (USCCs). Concerns arose that FCCs might avoid taxes by shifting income to countries with lower tax rates. The objective was to compare the tax liabilities of foreign-controlled and US-controlled corporations, including the number of companies reporting zero liabilities, for the period from 1996 to 2000.

The 2004 GAO report revealed varied results for tax liabilities between foreign-controlled and US-controlled corporations during those years. While the majority of companies reported no tax liabilities, the study found a higher proportion of foreign-controlled corporations in this category than US-controlled corporations. However, for larger corporations, the results were the opposite, with a higher proportion of US-controlled corporations reporting no tax liabilities. Additionally, a higher proportion of US-controlled corporations reported tax liabilities of less than 5 percent of their gross income, particularly among larger corporations. The report also highlighted that foreign companies reported a lower tax liability per $1,000 of gross revenue than non-foreign companies, with a similar pattern observed among large companies (U.S. General Accounting Office, 2004).

Richardson et al. (2015) findings for financially constrained companies are consistent with economic theory, whereby companies have an incentive to engage in tax avoidance when the marginal benefits exceed the marginal costs. Indeed, when companies experience financial distress, the benefits of tax avoidance outweigh its costs. This suggests that companies in difficult economic conditions facing resource constraints are more likely to improve their financial position through tax avoidance, a rational behavior in the face of financial constraints. Based on a sample of 203 Australian listed companies covering the period 2006–2010, the results showed that financial distress is significantly and positively related to tax avoidance. More importantly, the association between financial distress and tax avoidance has been amplified by the global financial crisis.

Similarly, Edwards et al. (2015) investigated the relationship between financial constraints and the accumulation of cash savings through tax avoidance, assuming that increased financial constraints lead firms to increase internally generated cash through tax avoidance strategies. The results revealed a direct relationship between increased financial constraints and firms' increased reliance on tax avoidance. Significant increases in constraints coincide with a decline in firms' effective cash tax rates, ranging from 3.00 to 5.14 percent. This decline in effective tax rates corresponds to a ratio of operating cash flows ranging from 2.87 to 4.82 percent.

In contrast, Alexander and Pisa's (2021) study shows that firms increase their effective cash tax rate by two percentage points when faced with refinancing constraints. The researcher argues that firms facing financial constraints and needing to refinance from credit markets tend to prioritize regaining access to these markets when economic conditions are unfavorable, over maximizing their cash flows through tax avoidance practices.

The prevailing consensus among economists assumes that the economic impact of corporate taxes extends beyond shareholders, as they share the burden with employees and consumers. In this context, Dyreng et al. (2020) developed a model that serves as a theoretical framework that incorporates various factors that influence the relationship between the distribution of the economic burden of taxation among different groups in society and the extent of corporate tax avoidance. Their empirical analysis revealed that firms in which shareholders bear a larger share of the tax burden tend to engage in less tax avoidance.

Regarding the role of executives and economic factors in influencing corporate tax practices, Dyreng et al. (2010) conducted a study examining the influence of top executives on tax avoidance practices. Using a dataset that tracked the movements of 908 executives across firms over time, their findings indicated that executives played a significant role in determining the level of tax avoidance undertaken by their firms. Executives contributed to an approximately 11 percent increase in effective tax rates when moving between the top and bottom quartiles (the top quartile represents the most influential executives, while the bottom quartile consists of the least influential executives.

Compensation provided to executives plays a role in determining levels of tax avoidance. Economic theory suggests that companies should compensate CEOs when the expected tax savings exceed the additional compensation they request. Gaertner (2014) studied the relationship between CEO compensation structures and effective tax rates. The study aimed to understand how CEOs are compensated with tax incentives and whether this compensation structure affects a company's tax practices. The study's results showed a negative relationship between compensation, taking into account its tax implications, and effective tax rates. The average total tax savings for a company through the use of after-tax incentives was $18.75 million, significantly higher than the average cost associated with incorporating after-tax incentives into CEO compensation, which amounted to approximately $790,000. This implies that CEOs who receive compensation or bonuses that are influenced by the company's after-tax profitability may adopt tax practices that lead to lower effective tax rates.

Wang and Yao (2021) also addressed the conflict of interest arising from the separation of ownership and control of a company. Their study focused on listed companies in China from 2013 to 2018, which were classified as state-owned and non-state-owned holding companies. The results showed a significant positive relationship between executive cash bonuses, stock incentives, and tax avoidance in non-state-owned holding companies. However, in state-owned holding companies, there was no statistically significant relationship between executive cash bonuses and corporate tax avoidance, while stock incentives had a significant negative relationship with tax avoidance.

Several studies on the prevalence of tax avoidance practices in Malaysia also provide insights into the tax behavior of companies listed on Bursa Malaysia. For example, Sulaiman et al. (2019) focused on tax avoidance practices using tax incentives and corporate restructuring identified during tax audits and investigations. Referring to documented cases resolved by the Inland Revenue Board of Malaysia (IRBM), the IRBM revealed that these practices resulted in over RM2 billion in tax liabilities for the entities involved. These operations, including the establishment of shell companies, contributed to significant untaxed income. The research concluded that companies in Malaysia exploit preferential tax regimes, legal loopholes, and employ complex transactions to avoid taxes. This evidence demonstrates the prevalent nature of tax avoidance practices in the Malaysian context.

Ariffin (2012) also examined the phenomenon of tax avoidance in Malaysia, focusing specifically on industry affiliations. The study, which used cross-sectional time series estimation and Tobit estimations, confirmed the importance of industry affiliations in explaining tax avoidance levels. Kholbadalov (2012) investigated the relationship between tax avoidance and the cost of debt and whether institutional ownership affects this relationship. The researcher conducted tests on a sample of 110 companies listed on Bursa Malaysia between 2005 and 2009. The results indicated a negative relationship between tax avoidance and the cost of debt. This suggests that engaging in tax avoidance activities can lead to a lower cost of corporate debt, which implies that the tax effects of tax avoidance can serve as a substitute for debt.

Abdul Khalid et al. (2021) examined the causal factors contributing to tax avoidance in Malaysia. Recognizing the role corporate taxes play in Malaysian government revenue, the study aimed to address the challenges posed by the increasing practice of tax avoidance. The sample included 260 Malaysian public companies from various economic sectors listed on Bursa Malaysia. Using multiple regression analysis, the study identified three firm characteristics—total assets, leverage, and sales growth—as key determinants that influence the level of tax avoidance among the sampled firms.

Santoso et al. (2020) also investigated the ethical dimensions of corporate behavior by examining the relationship between CSR disclosure and tax avoidance in Malaysian firms. Their study showed that firms with socially irresponsible practices tend to engage in significant tax avoidance. This finding is consistent with that of Wahab et al. (2022) who adopted new institutional theory to explore the phenomenon of misalignment between CSR initiatives and actual practices or behaviors in 52 listed companies in Malaysia. The results showed no relationship between CSR and tax avoidance. This suggests that firms may not view tax avoidance as an ethical issue; that is, they embrace CSR activities for symbolic or reputational reasons without truly integrating them into their business operations. Moving to investigate politically connected companies, Tee et al. (2022) examined the relationship between these companies and tax avoidance practices, taking into account the influence of managerial and institutional ownership, using data from Malaysian listed companies from 2002 to 2018. The results showed that politically connected companies, particularly those with ties to the government, had higher rates of tax avoidance. Further analyses revealed that the association was stronger in companies with higher shares of managerial and institutional ownership.

Internationally, (Kasim and Saad (2019) examined the determinants of tax avoidance practices in multinational companies operating in Malaysia. By analyzing effective tax rates (ETRs), the researchers found evidence suggesting that multinational companies engaged in tax avoidance, as effective tax rates were lower than statutory tax rates. The main determinants influencing the tax avoidance behavior of multinational corporations (MNCs) were firm size, profitability, foreign operations, capital intensity, and leverage.

In summary, a diverse body of studies indicates the prevalence of tax avoidance practices and the impact of industry affiliations on corporate tax behavior. The negative relationship between tax avoidance and the cost of debt also suggests that firms in Malaysia may view tax avoidance as a viable alternative to debt financing, supporting the prevalence of such practices. Based on this empirical evidence, the following hypothesis can be formulated:
H_1: Tax avoidance is prevalent in companies listed on the FBM KLCI, given that the average cash effective tax rate (Cash-ETR) is lower than the statutory tax rate.
H_2: The prevalence of tax avoidance differs across sectors within the FBM KLCI, as reflected by variations in average Cash-ETR between sectors.

3. Methods

This chapter outlines the methodology adopted to examine the prevalence of tax avoidance among non-financial firms listed on the FTSE Bursa Malaysia KLCI (FBM KLCI). The primary focus of this part of the study is to measure the level of tax avoidance using two established indicators: the Cash

Effective Tax Rate (Cash-ETR) and the Current Effective Tax Rate (Current-ETR). This chapter details the research design, data sources, sample selection, variable measurement, and methods of analysis used to achieve the study's objectives.

3.1 Research Design

The study adopts a quantitative, descriptive design, relying on numerical and financial data to explore tax avoidance trends. The approach is suitable for identifying patterns and variations in tax behavior across firms and sectors using measurable financial indicators. The primary goal is to assess the extent to which firms listed on the FBM KLCI engage in tax avoidance activities, as indicated by their effective tax rates compared to the statutory tax rate in Malaysia, which was consistently 24% throughout the period under study.

3.2 Study Period and Scope

The study covers a five-year period from 2018 to 2022. This time frame was selected to capture:

- The impact of **regulatory changes** in Malaysia in 2018 aimed at reducing tax avoidance.
- The effect of **COVID-19** and associated economic stimulus measures from 2020 to 2022.
- Recent trends in tax planning behavior under economic uncertainty.

The scope is limited to non-financial firms due to the distinct tax treatment and financial structures of banks and insurance companies, which could bias the results.

3.3 Study Population

The population comprises all firms listed on the FBM KLCI, which includes the 30 largest and most liquid public companies on Bursa Malaysia [Look to the table (3.3.1)]. After excluding financial firms, a sample of 24 non-financial firms from 12 different sectors was selected for analysis. These firms were chosen because they represent a diverse range of industries and have complete, publicly available financial data over the five-year period.

Table (3.3): Study Sample

Stock Code	Firms Name	Sector Activity	No
AAGB MAIN	Axiata Group Bhd	communications	1
HARISAN MAIN	The Star Media Group Bhd	Media	1
IPEG MAIN	IJM Corporation Bhd	Constructions	1
GENTING MAIN	Genting Bhd	consumer entertainment	2
GENTINGM MAIN	Genting Malaysia Bhd	consumer entertainment	
INVOLUCAS MAIN	Involve Capital Bhd	Technology	2
MYEG MAIN	MYEG Services Bhd	Technology	
MAYBANK MAIN	Malayan Banking Berhad	Financial services	-6
CIMB MAIN	CIMB Group Holdings Bhd	Financial services	
PUBLIC MAIN	Public Bank Bhd	Financial services	
LPI MAIN	London Life Pacific Insurance Berhad	Financial services	
RHBCAP MAIN	RHB Bank Bhd	Financial services	
UOBKH MAIN	UOB Kay Hian Holdings Bhd	Financial services	
BHPET MAIN	Boustead Plantations Bhd	Agriculture	2
SIME MAIN	Sime Darby Plantation Bhd	Agriculture	
SIMEPLB MAIN	Sime Darby Property Bhd	Real estate	1
HARTA MAIN	Boustead Holdings Bhd	diversified	1
TNB MAIN	Tenaga Nasional Berhad	Public facilities	1
KLK MAIN	Kuala Lumpur Kepong Berhad	Consumer Products and Services	6
MAXIS MAIN	Maxis Bhd	Consumer Products and Services	

NESTLE MAIN	Nestle Malaysia Bhd	Consumer Products and Services	
BATAS MAIN	BATA (Malaysia) Bhd	Consumer Products and Services	
PPB MAIN	PPB Group Bhd	Consumer Products and Services	
TOP GLOV MAIN	Top Glove Corporation Bhd	Consumer Products and Services	
IOICORP MAIN	Ioi Corporation Berhad	Industrial products and services	5
PRESS METAL MAIN	Press Metal Aluminium Holdings Bhd	Industrial products and services	
BEM MAIN	Berjaya Energy Bhd	Industrial products and services	
TAMINCO MAIN	Taminco Bhd	Industrial products and services	
BHANGI MAIN	Bangi Aluminium Bhd	Industrial products and services	
PETGAS MAIN	Petronas Gas Bhd	Oil and gas	1
Total number of Firms listed in the index			**30**
Total number of financial Firms			**6–**
Total number of Firms in the population			**24**

Source: Prepared by the researcher based on https://topforeignstocks.com

3.4 Data Collection

Data were gathered from two main sources:

- Annual financial statements and reports published on the firms' official websites and Bursa Malaysia's portal. These documents provided figures for total tax expense, cash taxes paid, and pre-tax earnings.
- Yahoo Finance, which was used to cross-check financial information. Only audited and published financial statements were used to ensure the reliability and consistency of the data.

3.5 Measurement of Tax Avoidance

Tax avoidance was measured using **two standard** proxies from existing literature:

- **3.5.1 Cash Effective Tax Rate (Cash-ETR)**

$$\text{Cash-ETR} = \frac{\text{Cash Taxes Paid}}{\text{Pre-tax Income}}$$

This ratio reflects the actual cash paid to tax authorities relative to a firm's earnings. A lower Cash-ETR compared to the statutory rate suggests a higher level of tax avoidance.

- **3.5.2 Current Effective Tax Rate (Current-ETR)**

$$\text{Current -ETR} = \frac{\text{Current Tax Expense}}{\text{Pre-tax Income}}$$

This measure is based on the current portion of the tax expense, excluding deferred tax adjustments. Like Cash-ETR, a lower Current-ETR indicates greater tax minimization efforts.

These measures are widely accepted in empirical research as reliable indicators of corporate tax avoidance behavior.

3.7 Sectoral Classification

To explore differences across industries, each firm was classified according to its sector, following Bursa Malaysia's industry classification system. Average Cash-ETR and Current-ETR were computed per sector to assess which industries exhibited the strongest tax avoidance behavior over the period studied.

3.8 Data Analysis Techniques

The data analysis was conducted in three main steps:

1. **Descriptive Statistics**: Means, minimums, and maximums of Cash-ETR and Current-ETR were calculated to describe the general tax behavior of the firms.

2. **Comparison with Statutory Tax Rate**: The effective tax rates were compared with the statutory corporate tax rate of 24% to detect evidence of tax avoidance.
3. **Sector-Level Analysis**: Sector averages were compared to identify industries with higher or lower tendencies toward tax avoidance. Visual aids such as bar charts and tables were used to highlight variations.

4. Results

This section presents the most important descriptive statistics to provide a detailed overview of the characteristics of the study variables using tables and graphs. It also objectively reports the results of hypothesis testing, paving the way for a detailed discussion of these results in the next section.

4.1.1 Descriptive Statistics

A descriptive statistical analysis was conducted to obtain an overview of the primary characteristics of the variables studied and included in the research model. The analysis includes mean values, minimum values, maximum values, and standard deviations. The analyzed data variables included firm value, earnings management, tax avoidance, firm size, firm age, financial leverage, return on assets, return on equity, earnings per share, and sales growth. Table 4-1 presents the results of the descriptive statistical analysis.

Table (4.1.1): Descriptive statistics for study variables

Variables	N	Std	Mean	Max	Min
Cash-ETR	120	0.118311153	0.17444	0.04086	0.41578
Current-ER	120	0.116184753	0.1763	0.04126	0.41578
Valid N (listwise) 120					

Table (4.1.1) shows that the absolute value of the average cash-effective tax rate and the current effective tax rate as measures of tax avoidance are (0.174, 0.176) respectively, i.e. (17.4%, 17.6%). This indicates that, on average, companies included in the FBM KLCI index not only engage in tax avoidance activities, but also exhibit high levels of tax avoidance compared to the statutory tax rate of 24% (especially Cash-ETR = 17.4%) during the study period. The standard deviation is (0.118, 0.116) respectively, with the lowest value being (-0.416, -0.415) and the highest value being (-0.041, -0.041) respectively.

4.1.2 Results of Testing the First Hypothesis

To test the first hypothesis (**H_1**), which states that "tax avoidance is practiced by companies listed on the FBM KLCI, given that the average cash effective tax rate (Cash-ETR) is lower than the statutory tax rate," a descriptive statistical analysis was conducted on the effective tax rates (Cash-ETR and Current-ETR) over the study period. Table (4-2) provides key descriptive statistics for the Cash-ETR and Current-ETR [see also Figure (4-1)]. Over the period from 2018 to 2022, the average values for both Cash-ETR and Current-ETR showed a dynamic pattern, indicating potential shifts in tax avoidance practices. Between 2018 and 2020, a significant decline in average values was observed, with the Cash-ETR declining from -0.177 to -0.168 and the Current-ETR declining from -0.178 to -0.170. This period reflects an increase in tax avoidance practices.

Subsequently, from 2020 to 2021, this trend reversed, with both the Cash-ETR and Current-ETR seeing their average values increase (from -0.168 to -0.178 for the Cash-ETR and from -0.170 to -0.179 for the Current-ETR). This shift suggests a potential decline in tax avoidance practices during this timeframe. However, in 2022, there was another decline in the averages, with the Cash-ETR declining to -0.175 and the Current-ETR declining to -0.177. This pattern suggests another increase in tax avoidance practices during the recent period.

It is worth noting that the average of these values is lower than the statutory tax rate of 0.24 (24%), confirming the presence of a pattern of tax avoidance practices in the sample during the study period. These results confirm the prevalence of tax avoidance practices among firms listed on the FBM KLCI Index on Bursa Malaysia over the study years, and therefore it can be concluded that Hypothesis **H_1 is accepted**.

Table (4.1.2): Descriptive statistics for the effective cash and current tax rate (2018-2022)

	2018		2019		2020		2021		2022	
	Current-ER	Cash-ETR	Current-ER	Cash-ETR	Current-ER	Cash-ETR	Current-ER	Cash-ETR	Current-ER	Cash-ETR
Mean	-0.178	-0.177	-0.177	-0.175	-0.17	-0.168	-0.179	-0.178	-0.177	-0.175
Std	0.12	0.122	0.125	0.127	0.115	0.118	0.116	0.118	0.113	0.115
Min	-0.046	-0.048	-0.045	-0.045	-0.041	-0.041	-0.051	-0.054	-0.053	-0.056
Max	-0.381	-0.386	-0.416	-0.416	-0.363	-0.363	-0.362	-0.362	-0.348	-0.348

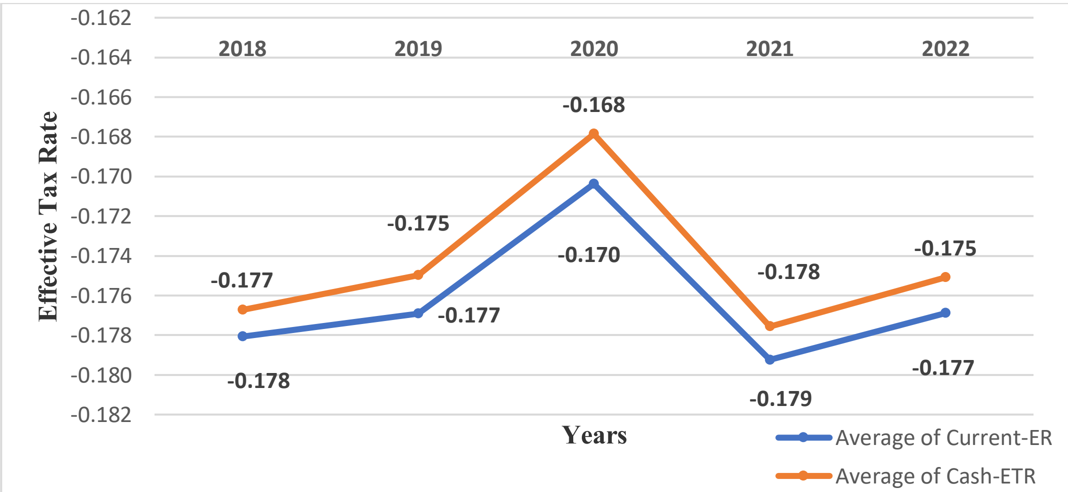

Figure (4.1.2): A graph showing the prevalence of tax avoidance practices in the FBM KLCI Index (2018-2022)
Source: Prepared by the researcher based on Excel

Standard deviations (Std) also reveal the degree of variation in tax avoidance practices. For both Cash-ETR and Current-ETR, the standard deviation values indicate relatively stable patterns over the five-year period, with minor fluctuations. Examining the minimum values for the tax avoidance measures provides additional insight, with the lowest values for Cash-ETR and Current-ETR ranging from -0.041 to -0.056 and from -0.041 to -0.053 (Taminco Bhd), respectively.

4.1.3 Results of Testing the First Hypothesis

To test the second hypothesis which relates to the prevalence of tax avoidance practices by sector, the average effective tax rates of the sectors included in the index were analyzed by industrial affiliation [see Table (4.1.3.1) and Figures (4.1.3.1) and (4.1.3.2)] from 2018 to 2022. Table (4-3) shows the average

Cash-ETR and Current-ETR values, where values less than the statutory tax rate of 0.24 indicate tax avoidance practices in the sectors included in the index over the study years.

Table (4.1.3): Average effective cash and current tax rate by sector

	2018		2019		2020		2021		2022	
Sectors	**Cash-ETR**	**Current-ETR**	**Cash-ETR**	**Current-ETR**	**Cash-ETR**	**Current-ETR**	**Cash-ETR**	**Current-ETR**	**Cash-ETR**	**Current-ETR**
Media	-0.076	-0.073	-0.07	-0.07	-0.061	-0.061	-0.093	-0.089	-0.096	-0.093
Property	-0.081	-0.078	-0.081	-0.081	-0.076	-0.074	-0.076	-0.071	-0.066	-0.062
Technology	-0.122	-0.08	-0.117	-0.074	-0.123	-0.086	-0.149	-0.097	-0.154	-0.1
Plantations	-0.157	-0.078	-0.15	-0.075	-0.159	-0.08	-0.175	-0.087	-0.179	-0.088
Diversified	-0.203	-0.203	-0.205	-0.205	-0.273	-0.273	-0.262	-0.262	-0.248	-0.248
Construction	-0.293	-0.293	-0.295	-0.295	-0.289	-0.289	-0.293	-0.293	-0.287	-0.287
Public Utilities	-0.293	-0.293	-0.295	-0.295	-0.289	-0.289	-0.293	-0.293	-0.287	-0.287
Telecommunications	-0.318	-0.316	-0.326	-0.326	-0.297	-0.295	-0.309	-0.307	-0.299	-0.297
Oil & Gas	-0.286	-0.281	-0.216	-0.216	-0.235	-0.23	-0.353	-0.248	-0.216	-0.211
Consumer Leisure	-0.418	-0.208	-0.413	-0.207	-0.231	-0.215	-0.204	-0.201	-0.413	-0.206
Industrial Products & Services	-0.281	-0.139	-0.228	-0.129	-0.2	-0.124	-0.238	-0.131	-0.341	-0.132
Consumer Products & Services	-0.182	-0.185	-0.185	-0.184	-0.195	-0.182	-0.188	-0.186	-0.187	-0.185

Source : Prepared by the researcher based on Excel

Over the years of the study, it was found that most sectors practiced tax avoidance over the period from 2018 to 2022, but four sectors exhibited the lowest average Cash-ETR and Current-ETR values. For example, the media sector's average Cash-ETR range was -0.076 to -0.096, indicating consistent efforts to minimize tax payments relative to pre-tax income over the years observed. Similarly, in the real estate sector, the range was -0.078 to -0.066, indicating sustained tax avoidance strategies in this industry. Moving on to the technology sector, the average Cash-ETR range was -0.122 to -0.154, reflecting a decline in tax avoidance practices. Finally, the agriculture sector's range was -0.157 to -0.179, indicating a decline in tax avoidance activities. Similarly, the average Current-ETR values for these sectors followed similar trends. These sectors appear to be more prone to and prevalent in tax avoidance practices, as they consistently maintained average Cash-ETR and Current-ETR values below the statutory tax rate (24%), indicating continued engagement in tax avoidance strategies throughout the period studied, therefore it can be concluded that Hypothesis **H_2 is accepted**.

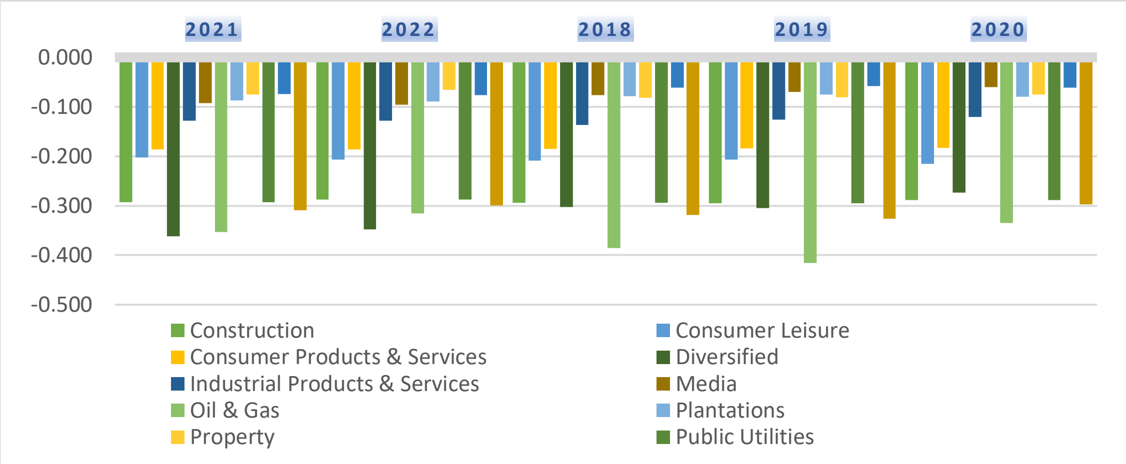

Figure (4.1.3): A graph showing the prevalence of Cash-ETR tax avoidance practices by sector in the FBM KLCI (2018-2022)
Source: Prepared by the researcher based on Excel

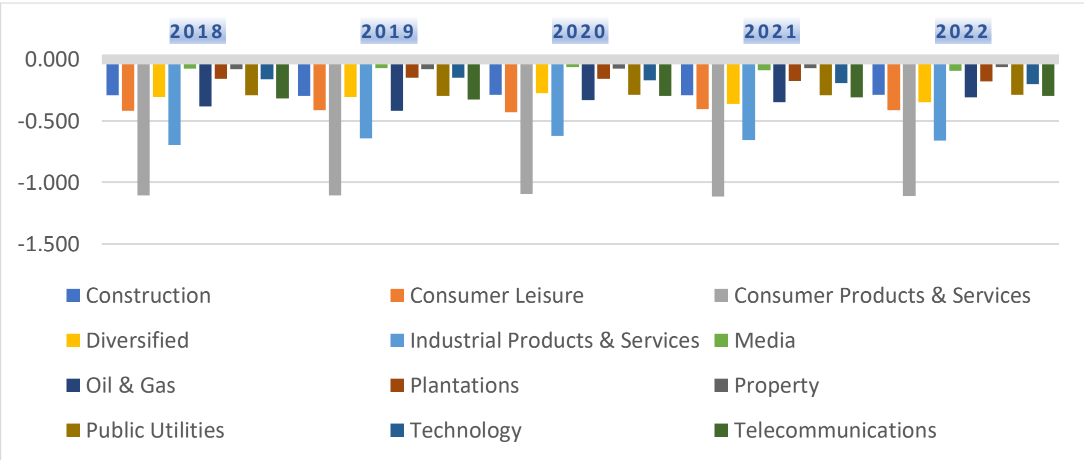

Figure (4.1.4): A graph showing the prevalence of Current-ETR tax avoidance practices by sector in the FBM KLCI (2018-2022)
Source: Prepared by the researcher based on Excel

5. Discussion

5.1 Discussion of the Tax avoidance is prevalence in firms listed on the FBM KLCI

The average cash effective tax rate (Cash-ETR) ranged between 16.8% and 17.9% over the study years (2018-2022), which is significantly lower than the statutory tax rate of 24%. This indicates that companies listed on the FBM KLCI on Bursa Malaysia engage in tax avoidance. % These findings are consistent with those of (Abdul Khalid et al., 2021; Kasim & Saad, 2019; Razali et al., 2019; Tee et al., 2022; Wahab et al., 2022; Widuri et al., 2020).

This confirms the existence of a pattern and tendency toward tax avoidance among companies listed on the FBM KLCI of Bursa Malaysia. Despite the 2018 amendments to the Malaysian tax laws to address loopholes aimed at strengthening efforts to combat aggressive tax avoidance, as well as cooperation with international tax authorities, companies have demonstrated a continued tendency toward tax avoidance practices.

This may reflect a strategic response by companies to economic uncertainty and their ability to adapt to regulatory changes to improve their tax positions by taking advantage of the economic stimulus packages provided by the Malaysian government during the COVID-19 period. The findings indicate that, regardless of regulatory and legal amendments, the tendency toward tax avoidance has remained an integral part of the financial strategies of Malaysian companies.

The prevalent tax avoidance practices among companies listed on the FBM KLCI can be explained by various motivations that motivate companies to engage in such strategies. First, tax avoidance is a way for companies to reduce their tax liabilities, allowing them to maximize their profits for reinvestment and also to signal to investors the competence of their management team. Second, tax avoidance may be motivated by a desire to enhance financial flexibility and maintain competitiveness (as the most liquid companies on Bursa Malaysia). By reducing their tax burdens, companies can allocate funds effectively, ensuring their financial resilience to weather economic uncertainties, especially in light of the COVID-19 pandemic, which has posed an economic crisis.

Furthermore, tax avoidance practices may stem from responding to shareholder expectations and demands to increase the value of dividends. Finally, companies may engage in tax avoidance as a competitive strategy to conform to industry standards. These combined motivations may contribute to explaining the tax avoidance practices of these companies during the study period, shedding light on the multiple considerations that influence companies in managing their tax liabilities.

5.2 Discussion of Tax Avoidance Prevalence by Sector

The results of analyzing the average effective tax rates by sector included in the FBM KLCI index on the Bursa showed the prevalence of tax avoidance practices in most of these sectors, particularly the media, real estate, technology, and agriculture sectors. The prevalence of these practices in these sectors during the period from 2018 to 2022 can be attributed to a combination of financial motives and sector-specific dynamics. First, the economic situation and regulatory environment during the study period may have motivated companies in these sectors to adopt tax avoidance strategies. The outbreak of the COVID-19 pandemic in 2019, which was characterized by economic uncertainty and government incentives, likely influenced companies' tax behavior by taking advantage of available incentives to overcome economic challenges, despite regulatory changes in 2018 aimed at addressing loopholes in the tax law.

Second, Ariffin (2012, pp. 12-13) notes that certain sectors, including the aforementioned, have been granted tax incentives in Malaysia to promote economic and social objectives, such as enhancing competitiveness, supporting technology, protecting local products, promoting exports, and creating jobs. These incentives include deductions and exemptions for leading sectors, exemptions on investment and profit reinvestment, and the possibility of claiming a higher-than-usual depreciation rate on certain qualifying capital assets. Specifically, the technology sector is vital to achieving Malaysia's Vision 2020, which focuses on national science and technology to drive economic development, improve quality of life, and ensure national security in the 21st century. The Malaysian government has prioritized science and technology in building a more innovative and vibrant economy as part of its Vision 2020 policy objectives.

The media, real estate, and technology sectors have specific characteristics and advantages that potentially contribute to their propensity for tax avoidance. Media companies, driven by the dynamic nature of their operations and diversified revenue streams, can strategically utilize these resources in tax planning to improve their financial position. The real estate sector offers tax reduction opportunities by exploiting loan interest deductions and depreciation methods to spread asset costs over time. Real estate companies may choose to organize themselves as real estate investment trusts to benefit from preferential tax treatment. Transfer pricing strategies help allocate income and expenses across international operations, while transactional tax planning allows companies to arrange deals with minimal tax consequences.

Meanwhile, the technology sector, characterized by international operations and a high intensity of research and development, may benefit from international tax structures and innovation-related tax benefits to reduce their tax base. Industries with international operations, such as technology, often face complex international tax frameworks, opening the way for these companies to design international transaction strategies, such as transfer pricing, as well as exploit differences between jurisdictions (countries) to optimize their tax positions. The focus on research and development in the technology sector also allows companies to take advantage of tax incentives designed to encourage innovation, providing another means of reducing tax liabilities.

6. Conclusion

This study has explored the pervasiveness of tax avoidance among companies listed on the FBM KLCI of Bursa Malaysia over the period from 2018 to 2022, with particular emphasis on how sector-specific dynamics and economic factors influence corporate tax behavior. The results reveal a clear trend of tax avoidance, with the Cash-ETR significantly lower than the statutory tax rate of 24%, indicating that companies actively engage in tax avoidance strategies. Despite regulatory changes in 2018 aimed at curbing such practices, companies continued to use tax avoidance as a tool to maximize profits, enhance financial flexibility, and maintain competitiveness, particularly during the economic uncertainty posed by the COVID-19 pandemic.

Summary of Findings

- ❖ **Overall Tax Avoidance**: The average Cash-ETR ranged from 16.8% to 17.9% across the study years, reinforcing the widespread engagement in tax avoidance practices among companies listed on the FBM KLCI. This suggests that, regardless of the Malaysian government's efforts to strengthen tax enforcement, companies have adapted by exploiting legal loopholes and responding to economic uncertainties.
- ❖ **Sector-Specific Trends**: The study also highlighted that certain sectors, particularly media, real estate, technology, and agriculture, exhibited higher rates of tax avoidance. The prevalence of tax avoidance in these sectors can be attributed to financial incentives, sector-specific dynamics, and government policies designed to promote economic development through tax benefits. For example, the technology sector, driven by its importance in national policies like Vision 2020, benefits from tax incentives aimed at fostering innovation, while the real estate sector makes use of loan interest deductions and depreciation strategies.
- ❖ **Motivations for Tax Avoidance**: The primary motivations behind tax avoidance include reducing tax liabilities to maximize reinvestment potential, maintaining competitiveness, and fulfilling shareholder demands for higher returns. The COVID-19 pandemic acted as a catalyst, with companies leveraging economic stimulus packages to improve their financial positions.

Recommendations:

Enhanced Tax **Regulation and Enforcement**: Given the continued prevalence of tax avoidance, it is crucial for the Malaysian government to strengthen regulatory frameworks to close existing loopholes and improve enforcement mechanisms. This could include more stringent monitoring of tax avoidance schemes and aligning tax incentives with broader economic goals.

Sector-Specific Policy Adjustments: Policymakers should consider tailoring tax policies to address the unique dynamics of different sectors, particularly those prone to aggressive tax planning. For instance, the technology and media sectors may require more focused oversight on transfer pricing and R&D-related incentives.

Corporate Transparency and Governance: Companies should be encouraged to adopt more transparent tax practices and disclose their tax strategies. This could enhance investor confidence and promote corporate social responsibility, reducing the reliance on aggressive tax avoidance techniques.

Limitations

While this study provides valuable insights into the prevalence of tax avoidance, it has some limitations. The research focuses solely on the period from 2018 to 2022, and the findings may not fully capture long-term trends or the impact of future regulatory changes. Additionally, the study examines only firms listed on the FBM KLCI, which may not be representative of all firms in Malaysia. A broader sample including firms from different stock indices could offer a more comprehensive understanding of tax avoidance practices across industries.

Future Research

Future studies could extend this research by exploring the long-term effects of tax avoidance on firm value and the potential role of corporate governance in mitigating aggressive tax practices. Further research could also examine the impact of evolving global tax regulations, such as the OECD's Base Erosion and Profit Shifting (BEPS) initiatives, on tax avoidance strategies in Malaysia. Investigating the relationship between tax avoidance, earnings management, and firm performance in various economic contexts, particularly post-pandemic, would also provide valuable insights into corporate behavior in a rapidly changing global tax landscape.

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