

Users' Perceptions on Tax Disclosure in Malaysian Companies Annual Reports

Noraza Mat Udin*

Senior Lecturer, Tunku Puteri Intan Safinaz School of Accountancy (TISSA-UUM), Universiti Utara Malaysia, Kedah, Malaysia

Nurul Afza Abd Rashid

Lecturer, Seri Iskandar MARA Professional College, Perak, Malaysia

Abstract

The annual report is a document that provides key information for stakeholders to understand a company's performance to enable them to make decisions. This paper reports the results of an exploratory study on users' perceptions of the importance of tax disclosure, current state of tax disclosure and usefulness of more tax disclosure in the annual reports of listed companies in Malaysia. A survey questionnaire was used for data collection through the convenience sampling technique which elicited 207 usable questionnaires for analysis. Respondents include professionals, tax officers, management executives, academics and post-graduate students attending a tax seminar. The findings show that users of annual reports agree that the tax disclosure section is an important part in the annual report and more tax information must be disclosed. They believe that tax disclosure is beneficial in facilitating decision-making and assisting tax authorities in handling tax audits. Users also perceive that tax disclosure is limited, too technical to be interpreted and agree that more tax disclosure would be useful for stakeholders to comprehend companies' tax matters. This study recommends more research on tax disclosure to be conducted, including examining the disclosure behaviour of companies from various industries in Malaysia.

Keywords: Tax disclosure; Annual report; Users; Perceptions.



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1. Introduction

The annual report is a document that provides key information for stakeholders to understand a company's performance and position. The annual report is freely available and accessible to stakeholders, such as business partners, customers, media, suppliers, non-governmental organisations, investors, academics, researchers and the public (Ernest and Young, 2013). Stakeholders and/or users can refer to different types of information in the annual report to make economic decisions appropriate to their needs. The annual report of a company also presents financial performance through its financial report and disclosures of financial and tax matters section.

Specifically, corporate financial accounting scandals, such as the case of Enron, in the beginning of the millennium, have given rise to a renewed interest in corporate tax disclosure. When Enron collapsed, news coverage revealed that this company and other fraudulent corporations had reported enormous financial accounting profits to their shareholders but little taxable income to the government. Hence, the interest in public disclosure of tax information sprang from the notion that large corporations were engaged in too much tax sheltering, and that this is a symptom of a greater problem in the business ethics of the corporate environment (Benshalom, 2014). Indeed, anecdotal evidence suggesting a connection between corporate fraud and aggressive tax planning has motivated academics and policymakers to reconsider tax disclosure as a way to monitor corporate governance and to limit tax avoidance activities (Benshalom, 2014).

However, disclosure of tax information in the annual report is limited and some of the users have difficulty in understanding tax information as it lacks detailed explanation (Morgant, 2006). This paper reports the findings of an exploratory study which examines users' perceptions of tax disclosure in the annual report of Malaysian companies in terms of: (i) the importance of tax disclosure; (ii) the current state of tax disclosure; and (iii) the usefulness of more tax disclosure in the annual reports.

This study finds that users perceive the tax disclosure section as an important part in the annual report and more tax information must be disclosed. They believe that tax disclosure is beneficial in facilitating decision-making and assisting tax authorities to handle tax audits. Users also perceive that tax disclosure is limited, too technical to be interpreted and agree that more tax disclosure would be useful for stakeholders to comprehend companies' tax matters. The rest of this paper is organised into several sections: Section 2 presents the literature review, Section 3 explains the methodology of this study, Section 4 discusses the results and findings and Section 5 provides the conclusion of this study.

2. Literature Review

2.1. Annual Reports of Malaysian Companies

The primary purpose of the annual report is to reflect accountability, particularly to shareholders. One of the elements in the companies' annual reports is the financial report. It is prepared and disclosed by companies as a channel to provide information about the financial performance and position of the company to the interested stakeholders. The information provided in the financial report is one of the ways the directors explain how the companies have performed throughout the financial year. It also explains how the directors have executed their

duties and provides useful information to the stakeholders, especially shareholders who have invested in the company.

Other information found in the annual report includes material framed by statutory and regulatory requirements articulated in the Companies Act 2016 and Bursa Malaysia Securities Berhad (Bursa Malaysia) listing requirements, including directors' report, corporate governance report, financial report and auditor's report on the financial report. Additional non-compulsory reporting which supports good corporate governance is normally reflected in the report from the chairman and the chief executive of the company (Arjoon, 1999).

However, in Malaysia, there is no standard format or rules and regulations for annual reports which Malaysian companies must follow in preparing their report. The presentation of the annual report of the companies varies according to the size and the capability of the companies. Basically, there is a requirement that a company needs to disclose the company's performance as required by the Companies Act 2016 and Bursa Malaysia, but the format or the annual report presentation varies among companies. Furthermore, the annual report is also one of the ways the companies portray their corporate image to their stakeholders and at the same time, promote and attract new investors. It builds trust and confidence of the stakeholders in the company.

Sections 243 and 244 of the Companies Act 2016 stipulate that all companies are required to prepare the financial statement according to the approved accounting standards as specified in Section 2 of the Financial Reporting Act 1997. Further, section 257 of the Companies Act 2016 states that companies are required to circulate copies of financial statements and reports to its members while Section 259 specifies that companies have the duty to lodge financial statements and reports with the Registrar of the Companies Commission of Malaysia (CCM). As approved accounting standards in Malaysia, the Malaysian Financial Reporting Standards (MFRS) lists out rules and regulations for registered Malaysian companies to adhere to. In relation to tax reporting, companies are required to follow MFRS 112, which stipulates matters on the companies' income taxes and recognition of deferred tax assets for unrealised losses.

Essentially, financial reports included in the companies' annual report consist of financial statements for the current and previous financial periods, the notes to the financial statements, the directors' statement and statutory declaration. Four financial statements must be prepared and disclosed by companies: (i) statement of comprehensive income; (ii) statement of financial position; (iii) statement of changes in equity; and (iv) statement of cash flows.

2.2. Users' Perceptions of Annual Reports

Previous studies have discussed and contributed towards the literature on the perceptions of users of annual report. Much research has been undertaken on perceptions of various users of the quality of disclosure in the companies' annual reports. For instance, Zoysa and Rudkin (2010) evaluated the perceptions of various users of company annual reports in Sri Lanka on the usefulness of financial disclosures and found that users obtain information from annual reports on selling, holding and buying shares, which can assist them in decision-making. Even though the information provided in the annual report is inadequate, majority of the users in Sri Lanka use the annual report as a primary source of information for making decisions. Another study by Alattar and Al-Khater (2008) investigated the perception of five user groups of corporate annual reports in Qatar and found that users strongly agree to the usefulness of accounting information provided in the annual report as a primary source for investment decisions. Mirshekary and Saudagaran (2005) carried out a survey on seven different user groups in Iran and found that users depend more heavily on information obtained from the published annual report rather than on advice from stockbrokers, tips and rumours.

Users of annual report agree that balance sheet and the profit and loss account are perceived to be the most important section of the annual report (Zoysa and Rudkin, 2010). Different users in Iran have ranked the income statement, the auditors' report and balance sheet as the three most important elements in companies' annual report. However, the bank loan officer, tax officers and auditors group have a weak level of consensus about the importance of several information items in the annual report (Mirshekary and Saudagaran, 2005). Meanwhile, (Al-Razeen and Karbhari, 2004) examined the perception of five major user groups (individual investors, institutional investors, creditors, government officials and financial analysts) in Saudi Arabia. Similar to Zoysa and Rudkin (2010), they found that the balance sheet and income statement are the most important sections of the annual report. However, the board of directors' report was found to be the least popular for most of the Saudi user groups.

Users in Qatar agree that the balance sheet and the profit and loss account is an important section in the annual report, but they found that government publications, newspapers and magazines are more important sources as the information is up-to-date, useful and easy to access (Alattar and Al-Khater, 2008). In this modern technological era, many of the users obtain information from online annual reports (Rowbottom and Lymer, 2010). In the United Kingdom (UK), employees, professional investors and creditors are found to be the most frequent group of users of the online annual report (Rowbottom and Lymer, 2010). They believe that the online annual report allows the users to obtain information more efficiently.

The regulation of Malaysian companies' financial reporting is prescribed by the Companies Act 2016, the MFRS and the Bursa Malaysia listing requirements. Ghazali (2010) investigated the importance and usefulness of corporate annual reports in Malaysia and the difference in perceptions between users and preparers. Findings from the study are that the preparers (chief financial officers) of the annual report rank the annual report as the most important source of corporate information; while users (investment analysts) rank the annual report as the second most important after visit to companies as the users need to have more timely and relevant information about the company (Ghazali, 2010). In addition, they found that annual reports help the users to evaluate a company's

performance while for the preparers, they feel that the annual report is useful to them to compare performance of companies.

Magera *et al.* (2007) found that financial analysts and fund managers in the UK perceive that listed companies' disclosure items in the profit and loss account and cash flow statement sections are the most important and useful for investment analysis. Myburgh (2001) focused on evaluating the perceptions of the users and the compilers of the annual report in South Africa on the importance of voluntary disclosure. The study suggests that compilers and auditors should identify what is perceived to be useful decision-making information in terms of user needs. They suggested that the companies add more non-financial information. The study also suggests that an effective disclosure policy of the annual report is necessary for the benefit of the users. However, the preparers of annual reports need to avoid an overload of financial disclosure and publish a separate supplementary or summarised report that can serve the needs of the various stakeholders (Myburgh, 2001).

In India, most of the companies do not disclose information items that are perceived by users of financial information as being significant under the financial highlight section of the annual report (Chatterjee, 2008). Chatterjee (2008) suggested that in order to make the financial highlight section of the annual report more useful, companies need to disclose information that is perceived to be significant by the users, especially investors. This will enhance the usefulness of the section and the annual report through the provision of the information needed by the users. Chatterjee (2008) stated that companies in India are not aware of users' needs in the annual report as they are more focused on trying to manage public impression by giving more attention to other section favoured by users in the annual report. Thus, the study suggests that companies need to obtain and disclose information based on local and foreign investors as a step to further improve legitimacy, consider the right of these investors and facilitate the disclosures required by them.

Based on the previous studies, many researchers have discussed the users' perception of the disclosures in the annual report. It has been shown that most of the users rely on the information provided in the annual report for decision-making. However, none of the studies has specifically discussed the perceptions of users of tax disclosure, i.e., disclosure related to companies' tax matters in the annual report.

2.3. Importance of Tax Disclosure

The annual report is important because it provides key information that enables stakeholders to understand a company's financial performance, its business model, strategies for future growth and key risks (Confidence, n.d.). Generally, information provided in a company's annual report comprises mandatory and voluntary disclosures. Mandatory disclosures must be complied with by the companies based on the Companies Act and MFRS while voluntary disclosures disclose additional information by companies in their annual reports. Thus, the level of disclosure is varied among companies.

Tax disclosure is regarded as an important aspect of the annual report as it is the way companies communicate the amount of tax that has been paid and their strategies and tax approaches. This would help to increase confidence of the stakeholders that companies have provided detailed tax information about the tax that has been paid to the tax authorities (Ernest and Young, 2013). In addition, companies are also encouraged to disclose non-financial information related to tax so as to communicate more effectively about their tax profile which may be relevant and useful to the users. Tax disclosure can also be used to enhance the business and increase shareholder value (Ernest and Young, 2013). A relevant and sufficient tax disclosure would reveal more information than what is currently available and users can understand tax related-activities in the companies (Benshalom, 2014). For example, disclosing segmental information relating to tax matters could signal transfer pricing strategies (Talha *et al.*, 2005). Tax policy could also be a major determinant of managerial financial reporting decision-making (Taylor *et al.*, 2011). Disclosing information about tax policy in the financial reports of companies is more useful and beneficial to help investors understand the tax situation of the company and provide public access to the information in the tax returns (Mgammal and Ku Ismail, 2015). Adequate tax disclosure in a country can also lead to a fairer tax system and more equitable tax. In addition, it can improve the business environment by attracting more companies to invest in that country whose tax disclosure by companies is transparent (Mgammal and Ku Ismail, 2015).

Further, tax disclosure would enable stakeholders to evaluate book tax differences (BTDs) (Comprix *et al.*, 2011). BTDs are the differences between income calculated under Generally Accepted Accounting Principles (GAAP), i.e., MFRS in Malaysia, and taxable income calculated in accordance with the income tax provisions to calculate companies' tax liabilities (Hanlon, 2005). The different objectives of financial accounting and tax accounting sometimes conflict, thus resulting in BTDs.

BTDs are also used to infer earnings management activities (Blaylock *et al.*, 2012). A study by Md Noor *et al.* (2011) on BTDs in Malaysian listed companies between the 2000 to 2004 period, found that large BTDs could signal tax planning activities. Large BTDs could also be an indicator of low-quality financial reporting (Hanlon, 2005). Due to the limited tax information, investors find difficulties to evaluate the BTDs that might signal earnings management (Blaylock *et al.*, 2012). Companies might also have the opportunity to engage in tax planning strategies and deceive their stakeholders of such activities due to limited tax disclosure by a particular company. Blaylock *et al.* (2012) also provided useful insights into how the BTDs could signal earnings management quality which can be derived from sufficient and relevant tax information and disclosure. For the purpose of this study, importance of tax disclosure refers to the ability of the tax information to enhance the business performance and increase stakeholders' value. Thus, it is hypothesised that tax disclosure is an important aspect in Malaysian companies' annual reports.

2.4. Current State of Tax Disclosure

Stakeholders are interested to understand the impact of the company's taxes on its business and on the community. Specifically, stakeholders would want to know how tax impacts the business strategy of the company. They deserve to know whether or not the company's tax approach has increased shareholder value and its contribution to the nation (Elgood, 2006). In fact, stakeholders want detailed information about taxes paid by the company, the company's tax strategy and how that strategy is managed by the board and the executive management (Elgood, 2006).

Although tax disclosures are mandatory disclosures by virtue of MFRS 112 in Malaysia however, the extent of the current disclosure is not known. Devos and Zackrisson (2015) examined tax disclosure in Australia and Norway and claimed that tax disclosure in the financial report is still limited. They believed that more tax information disclosed by companies in the financial report would be useful to the regulators to monitor corporate governance, to promote tax compliance and to improve the functions of financial markets. The study also indicates that companies that disclose more tax information are perceived as practising good tax policy which is good for the companies' reputation and users.

Benshalom (2014) claimed that limited tax disclosure might be a signal that companies are engaged in tax sheltering transactions as they report different income figures to tax authorities via tax returns and in the financial report. Information, such as penalties paid to the tax authorities, the amount of money saved through authorised tax minimisation strategies and the level of investment, are amongst controversial information of companies that engage in tax sheltering transactions (Benshalom, 2014). Nevertheless, these items are hardly reported as tax disclosure information in financial reporting, which is believed to be controversial to companies but significant information to stakeholders.

Disclosing more information would be more intrusive and expensive for companies (Benshalom, 2014). The management of companies is reluctant to disclose more tax information as it is costly and to some extent, exposes their tax planning behaviour. Companies only disclose tax information as required by law. However, with the limited tax information, users have limited access to information on companies' tax strategy relevant to decision-making. Some companies take the initiative to voluntarily disclose more tax information to users. But, the information provided is too technical to be understood by non-tax people (Oortwijn, 2013). Tax information in the annual report is often seen as a black box that discloses minimal information about the business (Elgood, 2006). Companies' tax information is said to be lengthy and complicated, thus causing confusion about a company's accounting and tax practices and other related activities (Mgammal and Ku Ismail, 2015).

Benshalom (2014) suggested that tax information provided by companies should be "translated" into a format that is easier to read and comprehend. For that reason, it is important that the presentation of tax disclosure be made more effective through a set of simple procedures. Ylönen and Laine (2015) found that despite companies claiming to have full commitment to accurate and transparent communications in their corporate social responsibility (CSR) statement, they have made only limited disclosures on taxation while issues on tax planning, tax risks and tax compliance have been omitted completely. They also asserted that companies that genuinely subscribe to values, such as transparency, accountability and open communications, will have to take more seriously the need to disclose comprehensive and understandable information about their tax policies. However, previous research on corporate sustainability and CSR reporting has shown that voluntary disclosures published by business entities tend to focus more on impression management than on providing a transparent account of activities Ylönen and Laine (2015). In line with the discussions of tax disclosure in other tax regimes therefore, this study hypothesises that the current state of tax disclosure in Malaysian companies' annual reports is limited and difficult to comprehend.

2.5. Usefulness of More Tax Disclosure

Of late, more countries are calling for executive management, the board and the audit committee to be more involved in tax issues. The UK has been particularly active in this movement and has proposed that large businesses disclose their tax strategy in their annual reports. Almost two-thirds of the Financial Times Stock Exchange (FTSE) 100 businesses now voluntarily disclose more tax information, such as tax policies, tax principles and tax payment information. This shows that the tax profession has entered into a new era of heightened transparency which demands more tax information to be disclosed in the annual report.

In order to achieve high level of tax transparency reporting in future, a growing number of companies need to disclose their tax strategy, tax planning approaches, risks and target effective tax rates (Ernst and Young, 2015). By having more tax disclosure, it might be perceived that the company has a strong ethical stance towards its social responsibility in paying tax. This is particularly important as investors need to evaluate the reputational and tax risks of their investments in the company to gain confidence (Confidence, n.d.).

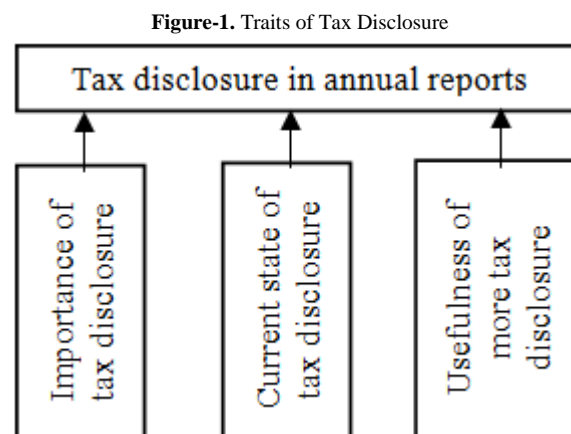
More tax disclosure might also contribute to a quality financial statement (Kubick *et al.*, 2015). Companies that disclose more tax-related matters are actually accepting the concept of tax transparency due to the actions taken to give stakeholders a better quality insight into their corporate tax profile (Ernst and Young, 2013). However, it is important that the published information is clear to avoid the risk of misinterpretation, especially if the reader does not possess sufficient knowledge of the tax environments in which the multinational companies operate. For example, many countries provide special incentives when a company undertakes significant capital investment in infrastructure or plant and machinery. The tax paid in a year for significant investment may be reduced as a result of these incentives designed by governments to encourage investment for the mutual benefit of the company and the local economy (Confidence, n.d.).

In addition, disclosing more tax information actually helps the tax authority to reduce tax administration cost. A study by [Langenmayr \(2017\)](#) suggests that the government needs to promote voluntary disclosure to companies as this increased net tax revenue as administrative cost might be reduced. This is because the administrative cost of penalising tax evaders could be higher than the cost that a tax evader incurs when preparing voluntary disclosures ([Langenmayr, 2017](#)). Nevertheless, more tax disclosure may violate confidentiality, create confusion with regards to transparency, provide too much power to the Federal government and may have unintended behavioural responses, such as, increasing the cost of doing business ([Devos and Zackrisson, 2015](#)). If companies disclose the entire tax return, it may reveal confidential information or private business information to the competitors, might harm companies and give the advantage to competitors ([Yeagle, 2012](#)). Furthermore, a few reporting companies believe that too much segmental disclosure, especially in geographic segments, may cause competitive advantages and harm their performance ([Talha et al., 2005](#)). Financial transparency and voluntary disclosure are among the pillars of good corporate governance ([Chakroun, 2013](#)). By having more tax disclosure, it might portray the quality of the companies' management and at the same time, may risk the companies especially to rivals. Thus, tallying the type and the extent of information required by stakeholders may assist companies in delivering relevant and useful tax information. Thus, it is hypothesised that more tax disclosure in Malaysian companies' annual reports is useful.

3. Methodology

3.1. Research Design and Data Collection

This study adopts a cross-sectional research design where the data collection is done at a single point in time to examine three traits related to tax disclosure, i.e., the importance of tax disclosure, current state of tax disclosure and usefulness of more tax disclosure in the annual reports as shown in [Figure 1](#). Data was obtained through a survey questionnaire distributed at a Tax Seminar organised by the Inland Revenue Board of Malaysia (IRBM) in 2016. This method of data collection was chosen in order to get high response rate and convenience samples are suitable for exploratory research ([Sekaran, 2003](#)); ([Mat Udin and Mohd Suberi, 2016](#)). In addition, this mode of data collection could save time as all respondents from different backgrounds have gathered in one place at a particular point in time. The participants of the seminar represent users of financial reports in Malaysia.



3.2. Questionnaire Design

As this is an exploratory study, the questionnaire was self-developed based on the literature related to the objectives of this study. The questionnaire is divided into two sections. Section A seeks to identify the respondents' demographic background, comprising four questions on age, gender, occupation and number of years in the organisation and frequency of assessing/using tax information in the annual report. In section B, 22 items are employed to obtain users' perceptions of the importance of tax disclosure, current tax disclosure and the usefulness of more tax disclosure in the annual report. Respondents were asked to rate their perceptions using a Likert scale. Items in section B are shown in [Table 1](#):

Table-1. Users' Perceptions of the Importance of Tax Disclosure, Current State of Tax Disclosure and Usefulness of More Tax Disclosure

No.	Item	Article
1.	B1	Annual report is the main source of a company's tax information available to stakeholders. (Confidence, \n.d)
2.	B2	Tax disclosure section is an important part to be disclosed in the annual report. (Services, 2013)
3.	B3	Tax disclosure can be used to enhance the business and increase shareholder value. (Ernest and Young, 2013)
4.	B4	Tax information disclosed in companies' annual report is limited. (Elgood, 2006) (Ylönen and Laine, 2015)
5.	B5	Tax information in the annual report is (Elgood, 2006)

		difficult to understand.	(Oortwijn, 2013)
6.	B6	Tax information disclosed in the annual report is not detailed.	(Morgant, 2006)
7.	B7	Tax disclosure is beneficial in facilitating decision-making.	(Ernest and Young, 2013)
8.	B8	Treatment of tax affairs should be disclosed as mandatory disclosure in the annual report.	(Morgant, 2006)
9.	B9	Detailed information on tax affairs should be disclosed to give accurate information about the companies.	(Elgood, 2006)
10.	B10	More tax information needs to be published to avoid the risk of misinterpretation.	(Elgood, 2006) (Morgant, 2006)
11.	B11	I believe that more tax information disclosed by a company will enhance company performance.	(Ernest and Young, 2013)
12.	B12	A company that discloses more tax information is a company that has a strong ethical stance towards social responsibility.	(Ylönen and Laine, 2015)
13.	B13	I believe that tax disclosure helps tax authorities in handling their tax audits.	(Langenmayr, 2017)
14.	B14	The cost of tax administration by tax authorities can be reduced if more tax information is disclosed in the annual report.	(Oortwijn, 2013)
15.	B15	I believe more disclosure of tax information is beneficial to stakeholders.	(Ernest and Young, 2013)
16.	B16	I believe that more tax disclosure will provide more valuable information to stakeholders.	(Elgood, 2006)
17.	B17	I believe more disclosure of tax information would indicate that the company has good corporate governance practices.	(Chakroun, 2013)
18.	B18	By disclosing more tax information, the tax authority can increase its efficiency in providing services to taxpayers.	(Morgant, 2006)
19.	B19	Tax disclosure is believed to increase tax-payer compliance.	(Devos and Zackrisson, 2015)
20.	B20	I believe that more meaningful tax disclosure is necessary to give investors and other stakeholders a better understanding of a company's tax practices.	(Elgood, 2006)
21.	B21	Tax disclosure contributes to the creating of quality financial statements.	(Kubick <i>et al.</i> , 2015)
22.	B22	I believe that the MASB should have rules on disclosing more tax information voluntarily by companies.	(Talha <i>et al.</i> , 2005)

3.3. Pilot Test

Before the questionnaire was distributed to the respondents, a pilot test was conducted to ensure the questionnaire is reliable and the research can be successfully conducted with validity and accuracy. The aim of the pilot test is to identify and eliminate ambiguities, to improve the readability of the questions, to make sure that the measurement scales are correctly used and to ensure the questionnaire is properly structured (Mo Alhaj, 2016). A total of 30 questionnaires were distributed to academics, accountants and IRBM officers. The result for the reliability test indicates that all items measured in the questionnaire are highly reliable with Cronbach's Alpha of 0.954, which is considered good for the instrument used in this study. Therefore, the questionnaire developed in this study is reliable and can be distributed to the respondents.

4. Results and Findings

4.1. Usable Questionnaires and Respondents' Profile

A total of 250 questionnaires were distributed and returned after the seminar session ended. Out of 250 questionnaires, only 212 could be used, giving a response rate of 84.8%. The response rate is considered appropriate and valid for cross-sectional study as it exceeds the threshold of 30% (Sekaran and Bougie, 2009). However, five of the questionnaires were incomplete. Therefore, only 207 questionnaires were usable for analysis. Out of 207 respondents, 162 (78.3%) are female while the remaining respondents (45 or 21.7%) are male. The highest number of respondents are aged 30 to 40 years with a total of 106 (51.2%), followed by respondents aged 20 to 30 years with

a total of 68 (32.9%). Others are respondents aged 40 to 50 years, totalling 27 (13.0%) and above 50 years (6 or 2.9%).

Table-2. Respondents' Profile (n=207)

	Category	Frequency	Percentage (%)
Age	20 – 30 years	68	32.9
	31 – 40 years	106	51.2
	41 – 50 years	27	13.0
	51 years and above	6	2.9
	Total	207	100
Gender	Male	45	21.7
	Female	162	78.3
	Total	207	100
Occupation	Students	9	4.3
	Academic staff	28	13.5
	IRBM officers	52	25.2
	Professionals	97	46.9
	Management executives	21	10.1
	Total	207	100
Organisation Tenure	< 1 year	10	4.8
	1 – 5 years	70	33.8
	6 – 10 years	48	23.2
	11 – 15 years	43	20.8
	16 - 20 years	10	4.8
	>20 years	26	12.6
	Total	207	100

How often do you access/use tax information in the annual report?

	Frequently use	35	16.9
	Almost every time	48	23.2
	Occasionally	93	44.9
	Almost never	18	8.7
	Never use	13	6.3
	Total	207	100

As shown in Table 2, majority of the respondents are professionals which represent 46.9%, followed by 25.2% IRBM officers, 13.5% academics and the rest are management executives and students. Respondents with one to five years of working experience are the highest respondents for this study with a total of 70 or 33.8%. Meanwhile, respondents with six to 10 years of working experience constitute 23.2% and 20.8% tenure between 11 to 15 years, 12.6% tenure for more than 20 years and 4.8% for both 16 to 20 years and less than one year of working experience. In terms of the frequency of accessing and using tax information in the annual reports, out of 207 respondents, 93 (44.9%) respondents occasionally access tax information from the company annual report, 48 (23.2%) access almost every time and 35 (16.9%) frequently access and use tax information from the annual reports. Meanwhile, only about 15.0% of the respondents almost never and never use tax information from annual reports

4.2. Reliability and Validity Analysis

Table 3 shows the result of reliability analysis using Cronbach's alpha value. The reliability value is at 0.930 which indicates that the items are considered good and thus, suitable to be analysed.

Table-3. Reliability Analysis (n=207)

Reliability Statistics

Cronbach's Alpha	Number of Items
.930	22

Table 4 shows the computation of correlation matrix used to determine the appropriateness of the factor-analytic model in order to establish the validity of the instrument used in this study.

Table-4. Factor Analysis (n=207)

Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy.		0.904
Bartlett's Test of Sphericity	Approx. Chi-Square	3263.579
	df	351
	Sig.	.000

The results show that the Bartlett's test of Sphericity is significant and that the KMO measure of sampling adequacy is far greater than 0.6. Thus, these constructs are acceptable for further analyses for this study.

Further, [Table 5](#) below reports the Rotated Component Matrix in factor analysis to interpret categories or factors of all items measured in this study. From the analysis, all items listed could be categorised into three groups; however, four items appear in two categories, i.e., items B16, B21, B17 and B7, and so, the items were included in the group with higher value. The three groups are named as the users' perception on the importance of tax disclosure (G2), current state of tax disclosure (G3) and usefulness of more tax disclosure (G1).

Table-5. Rotated Component Matrix (n=207)

Items	Components		
	G1	G2	G3
B12	.811		
B15	.797		
B10	.776		
B16	.763	.368	
B13	.760		
B9	.759		
B18	.748		
B20	.745		
B21	.728	.351	
B11	.716		
B17	.711	.364	
B8	.692		
B19	.657		
B22	.637		
B14	.608		
B2		.816	
B3		.779	
B1		.696	
B7	.371	.451	
B6			.855
B4			.732
B5			.720

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalisation.

a. Rotation converged in five iterations.

4.3 .Importance of Tax Disclosure

The importance of tax disclosure is a component used to measure whether or not users perceive tax information in the annual report as important to them. [Table 6](#) shows the mean of the items used to assess this component.

Table-6. Users' Perceptions of the Importance of Tax Disclosure (n=207)

No.	Items	Mean
1.	Tax disclosure section is an important part to be disclosed in the annual report (B2)	4.05
2.	Tax disclosure can be used to enhance the business and increase shareholder value (B3)	3.93
3.	Annual report is the main source of a company's tax information available to stakeholders (B1)	3.87
4.	Tax disclosure is beneficial in facilitating decision-making (B7)	3.82

As presented in [Table 6](#), the mean scores for items B2, B3, B1 and B7 are 4.05, 3.93, 3.87 and 3.82, respectively. The mean values for all items are more than 3.5, which means that the respondents perceive tax disclosure in a company's annual report as important. Specifically, the respondents agree that tax disclosure is an important part to be disclosed in the annual report (B2). Respondents also agree that tax disclosure can be used to enhance the business and increase shareholder value (B3). In addition, respondents agree that the annual report is the main source of a company's tax information available to stakeholders (B1). Further, tax disclosure is also perceived as beneficial in facilitating decision-making (B7). Overall, this study finds that respondents perceive tax

disclosure as an important part in the annual report. This result is consistent with the suggestion by [Mgammal and Ku Ismail \(2015\)](#) that disclosing information about tax in the annual report is important for the users to understand the company's tax situation. Respondents also perceive that tax disclosure in the annual report is the main source of a company's tax information available to stakeholders. These findings are consistent with the previous studies that have claimed that users obtain information from the annual report as the main source of information to make their decisions ([Zoysa and Rudkin, 2010](#)); ([Alattar and Al-Khater, 2008](#)); ([Mirshekary and Saudagaran, 2005](#)). In addition, respondents believe that tax disclosure can be used to enhance the business and increase shareholder value besides being beneficial in facilitating decision-making. This notion is supported by ([Benshalom, 2014](#)) and ([Ernest and Young, 2013](#)). Based on the findings, most respondents agree on the importance of tax disclosure in the Malaysian companies' annual report.

4.4. Current State of Tax Disclosure

[Table 7](#) shows the mean of the items used to assess users' perceptions on current tax disclosure in the annual reports. This component refers to whether or not tax information in annual reports is appropriate information and understandable.

Table-7. Users' Perceptions of Current State of Tax Disclosure (n=207)

No.	Items	Mean
1.	Tax information disclosed in companies' annual report is limited (B4)	3.77
2.	Tax information disclosed in the annual report is not detailed (B6)	3.57
3.	Tax information in the annual report is difficult to understand (B5)	3.20

[Table 7](#) shows the mean of items to measure users' perception of current tax disclosure. Based on the Table, the mean scores for items B4, B6 and B5 are 3.77, 3.57 and 3.20, respectively. The mean of the three items represent that the respondents agree that tax information disclosed in companies' annual report is limited (B4). Respondents also perceive that tax information disclosed in the annual report is not detailed (B6). In addition, respondents also perceive that tax information in the annual report is difficult to understand (B5). Most of the respondents agree that tax information disclosed in the company's annual report is limited and not detailed. This finding is consistent with the previous studied by [Devos and Zackrisson \(2015\)](#) which claims that tax disclosure in the financial report is still limited. [Ylönen and Laine \(2015\)](#) also agreed that companies only have limited disclosure on taxation and the issues on tax planning, tax risks and tax compliance are omitted completely. [Oortwijn \(2013\)](#) found that tax information provided in the annual report is too technical to be understood by non-tax people.

4.5. Usefulness of More Tax Disclosure

[Table 8](#) shows the mean of items to measure users' perceptions of the usefulness of more tax disclosure in the annual reports.

Table- 8. Users' Perceptions of the Usefulness of More Tax Disclosure (n=207)

No.	Items	Mean
1.	I believe that tax disclosure helps tax authorities in handling their tax audit (B13)	3.96
2.	I believe that the MASB should have rules on disclosing more tax information voluntarily by companies (B22)	3.94
3.	I believe that more tax disclosure will provide more valuable information to stakeholders (B16)	3.89
4.	Tax disclosure contributes to the creating of quality financial statements (B21)	3.88
5.	I believe that more meaningful tax disclosure is necessary to give investors and other stakeholders a better understanding of a company's tax practices (B20)	3.87
6.	Tax disclosure is believed to increase taxpayer compliance (B19)	3.81
7.	By disclosing more tax information, the tax authority can increase its efficiency in providing services to taxpayers (B18)	3.81
8.	I believe more disclosure of tax information would indicate that the company has good corporate governance practices (B17)	3.81
9.	I believe more disclosure of tax information is beneficial to stakeholders (B15)	3.81
10.	More tax information needs to be published as to avoid the risk of misinterpretation. (B10)	3.80
11.	A company that discloses more tax information is a company that has a strong ethical stance towards social responsibility (B12)	3.78

12.	Detailed information on tax affairs should be disclosed to give accurate information about the company (B9)	3.74
13.	Treatment of tax affairs should be disclosed as mandatory disclosure in the annual report (B8)	3.70
14.	I believe that more tax information disclosed by a company will enhance company performance (B11)	3.63
15.	The cost of tax administration by tax authorities can be reduced if more tax information is disclosed in the annual report (B14)	3.58

As presented in Table 8, the mean values for all items are more than 3.5 which represents that respondents agree to the usefulness of tax disclosure in the annual report. Item B13 shows the highest mean, i.e., 3.96 compared to other items. It indicates that the respondents agree that tax disclosure helps tax authorities in handling their tax audit. Item B22 with mean of 3.94 shows that the respondents agree that MASB should have rules on disclosing tax information more voluntarily by companies. This notion is supported by items B16 and B21 with mean values of 3.89 and 3.88, respectively, entailing that more tax disclosure will provide more valuable information to the stakeholders and contribute to a quality financial statement.

Respondents also agree that more meaningful tax disclosure is necessary to give investors and other stakeholders a better understanding of a company's tax practices, as shown by item B20 with mean value of 3.87. Items B19, B18 and B17 show the same mean value, i.e., 3.81, which indicates that the respondents believe that more tax disclosure increases taxpayers' compliance and the efficiency of tax authorities in providing services to taxpayers. In addition, more tax disclosure reflects that the company has good corporate governance practices.

Further, items B15 and B10 with the mean values of 3.81 and 3.80, respectively indicate that the respondents agree that more disclosure of tax information is beneficial to stakeholders and could prevent the risk of misinterpretation. In addition, item B12 with mean value of 3.78 shows that respondents agree that more tax disclosure reflects that the company has a strong ethical stance towards social responsibility. The respondents also agree that more tax disclosure is needed on tax affairs to give accurate information about the company (B9). Item C8 with mean value of 3.70 indicates that the respondents agree treatment of tax affairs in the annual reports should be disclosed as mandatory disclosure. The respondents also agree that more tax disclosure will enhance company performance (B11) and reduce the cost of tax administration for tax authorities (B14). Specifically, it is noted that more tax disclosure is necessary in the companies' annual report as it is beneficial to the stakeholders, improves the quality of financial statements and increases transparency (Langenmayr (2017); (Ernst and Young, 2015; Kubick *et al.*, 2015).

5. Conclusion

The respondents of this study are from various career backgrounds, which include professionals, IRBM officers, academics, management executives and students, to represent the varied users of annual reports. This study highlights three components of users' perceptions on tax disclosure in companies' annual report, i.e., the importance of tax disclosure, current state of tax disclosure and usefulness of more tax disclosure provided in the annual report.

This study finds that users of annual reports in Malaysia perceive that tax disclosure is an important part of accounting disclosure in the annual report but it is still limited, not detailed and too technical to be interpreted. Users of annual reports in Malaysia also agree that more tax disclosure would be useful for stakeholders to comprehend tax matters of the companies and sufficient tax disclosure would improve the quality of the annual reports of Malaysian companies as well as enhance its transparency.

As this study is exploratory and has only focused on the users' perceptions of the importance of tax disclosure, current tax disclosure and usefulness of more tax disclosure in the annual reports, the detailed aspects or contents of the tax disclosure are not covered in-depth. Future research on tax disclosure can be conducted to include more respondents throughout Malaysia. It is also recommended that future research examines items or contents of tax disclosure disclosed by companies in more detail besides identifying whether or not there is any difference in terms of tax disclosure among companies listed on Bursa Malaysia.

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