UNIVERSITI PUTRA MALAYSIA

# TAX PLANNING AMONG COMPANIES IN MALAYSIA IN AN E-COMMERCE ENVIRONMENT

MORNI HAYATI BT JAAFAR SIDIK

GSM 2010 9

# TAX PLANNING AMONG COMPANIES IN MALAYSIA IN AN E-COMMERCE ENVIRONMENT

**By**

**MORNI HAYATI BT JAAFAR SIDIK**

**Thesis Submitted to the Graduate School of Management, Universiti Putra Malaysia, in Fulfillment of the Requirement for the Degree of Doctor of Philosophy**

**July 2010**

© COPYRIGHT UPM

## DEDICATION

This thesis is dedicated to:

My late mum, Allahyarhamah Che Yah, who had been my source of motivation and inspiration throughout my life. She left this world on Ramadhan 1430 before I can show her this work.

My huband, Ahmad Shaidi, and my three children, Aini Munirah, Aqil Hadif and Aqif Nukman who were all born throughout the period of my studies.

© COPYRIGHT UPM

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Doctor of Philosophy

**TAX PLANNING AMONG COMPANIES IN MALAYSIA IN AN E-COMMERCE ENVIRONMENT**

**By**

**MORNI HAYATI BT JAAFAR SIDIK**

**July 2010**

**Chairman:** **Abu Sofian bin Yaacob, Ph.D.**

**Faculty:** **Graduate School of Management**

E-commerce poses new way of doing business and provide new opportunities for companies to broaden their markets. E-commerce transactions, however, have raised several tax problems. One of them is the ambiguities surrounding the concept of permanent establishment. These ambiguities, on the other hand, may be used by e-commerce companies to reduce tax burden through tax planning. The purpose of this study is to examine the tax planning from PE interpretation in e-commerce environment in the Malaysian context.

This study employed two types of data collection methods. The first method is the quantitative data collection through questionnaire survey. Nine hundred and fifty questionnaires were sent to the selected respondents using both postal and electronic mail (e-mail). Out of 950 copies distributed, 107 questionnaires were received from the respondents. The second method involved collecting qualitative



© COPYRIGHT UPM

data through in-depth interviews. The key personnel from four e-commerce companies were interviewed to gain further insights on their tax planning.

The results of this study showed that 95 percent of the respondents are tax planning adopters. The statistical analyses revealed that although the respondents adopt tax planning in e-commerce environment, they do not depend on the use of tax consultants, organizational characteristics and innovation factors.

The study also showed that there is no relationship between website address and tax planning adoption. Apart from that, there was no clear relationship between tax planning adoption and tax planning perceptions. The findings suggest that even though the companies adopt tax planning, it does not mean that they perceive tax planning to be important.

In summary, the findings suggest that tax issues might not be the main consideration when a company in Malaysia plans their website. There are other issues that are more important than tax issues such as legal and securities issues. This implies that the tax authorities in Malaysia may have ample time to study their tax policy in e-commerce environment. At the same time, CEOs and managers of the e-commerce companies should ensure they are equipped with tax knowledge in order to avoid any unnecessary tax liabilities.

© COPYRIGHT UPM

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**PELAN PERCUKAIAN SYARIKAT-SYARIKAT DI MALAYSIA DALAM PERSEKITARAN E-DAGANG**

**Oleh**

**MORNI HAYATI BT JAAFAR SIDIK**

**Julai 2010**

**Pengerusi:** **Abu Sofian bin Yaacob, Ph.D.**

**Fakulti:** **Sekolah Pengajian Siswazah Pengurusan**

E-dagang merupakan cara baru untuk mengendalikan perniagaan dan memberi peluang kepada peniaga untuk mengembangkan pasaran mereka. Transaksi e-dagang bagaimanapun telah menimbulkan beberapa masaalah percukaian. Salah satu daripada masaalah tersebut adalah keraguan terhadap konsep "*permanent establishment*" (PE). Keraguan tersebut bagaimanapun boleh digunakan oleh syarikat e-dagang untuk mengurangkan bebanan cukai mereka melalui pelan percukaian. Tujuan penyelidikan ini adalah untuk mengkaji pelan percukaian daripada interpretasi PE di dalam suasana e-dagang dari konteks Malaysia.

Kajian ini menggunakan dua kaedah untuk mengumpul data. Kaedah pertama adalah mengumpul data kuantitatif dengan menggunakan borang kajiselidik. Sembilan ratus lima puluh borang kajiselidik (950) telah dihantar kepada responden yang terpilih secara pos dan elektronik (emel). Daripada jumlah tersebut, 107 borang kajiselidik telah diterima daripada responden. Kaedah kedua



© COPYRIGHT UPM

ialah mengumpul data kualitatif melalui temubual secara mendalam. Pegawai utama daripada empat syarikat e-dagang telah ditemubual untuk mengetahui dengan lebih lanjut tentang pelan percukaian mereka.

Hasil kajian menunjukkan 95 peratus daripada respondent adalah pengguna pelan percukaian. Kajian statistik mendapati walaupun responden menggunakan pelan percukaian di dalam suasana e-dagang, ianya tidak bergantung kepada penggunaan pakar percukaian, sifat organisasi dan faktor innovasi.

Kajian ini juga mendapati tidak ada perhubungan di antara alamat laman web dan penggunaan pelan percukaian. Selain itu, tiada perhubungan di antara penggunaan pelan percukaian dan persepsi terhadap penggunaan pelan percukaian. Hasil kajian mengesorkan walaupun syarikat menggunakan pelan percukaian, ini tidak bererti mereka merasakan pelan percukaian sebagai sesuatu yang penting.

Secara ringkasnya, hasil kajian menyarankan bahawa isu cukai bukan merupakan perkara utama yang diambilkira oleh syarikat di Malaysia dalam membina laman web mereka. Isu lain yang diambikira adalah seperti perundangan dan keselamatan. Ini bererti pihak berkuasa percukaian di Malaysia mempunyai ruang masa yang mencukupi untuk mengkaji polisi percukaian di dalam suasana e-dagang. Dalam masa yang sama, pengarah syarikat e-dagang mesti memastikan

© COPYRIGHT UPM

mereka mempunyai ilmu percukaian untuk mengelakkan syarikat mereka daripada membayar liabiliti cukai yang tidak sepatutnya.

© COPYRIGHT UPM

## ACKNOWLEDGEMENTS

This thesis is the result of an arduous journey and a number of people have helped me along the way. Without them, this thesis would never have been completed.

Foremost, I would like to express my sincere gratitude to my supervisor Dr. Abu Sofian Yaacob for the continuous support of my PhD study and research, for his patience, motivation and enthusiasm since the beginning of the study.

Besides my supervisor, I would like to thank the rest of my thesis committee member, Prof. Dr. Fatimah Mohamed Arshad and Prof. Dr. Hajah Mustafa Mohd Hanefah for their encouragement and insightful comments. They took time off from their busy schedule to provide feedback on my thesis draft. I will always appreciate their effort.

I would also like to thank my fellow PhD buddies in UPM, Dr. Michelle Phang Mee Soung (Deakin University) who constantly motivates me to finish up this journey, Dr. Nahariah Jaafar (MMU), my colleagues in UTAR, for the stimulating discussions on research, Mr Yap Ching Seng, Mr Lee Teck Heang and Ms Angeline Yap. In particular, I am also indebted to the management in UTAR for giving the flexibility to pursue my study and also my colleagues in FAM UTAR, Puan Rahizah Rahim, Puan Junainah and Cik Fitriya, who keeps on reminding me to get a “Dr.” title.



© COPYRIGHT UPM

Special gratitude goes to Dr Alias Radam (UPM) for helping me in statistical analysis and Dr Mastura Salleh for taking intense academic interest in the early stage of this study as well as providing valuable suggestions that improved the quality of this study.

I would like to express my heartiest thanks to my sisters and brothers for their kindness and affection, and for their constant encouragement to motivate me. My special appreciations are due to my niece, Amalina Ismail for editing the thesis, despite her busy schedule in entertaining her two active boys and also my nephew, Afzal for distributing the questionnaires.

Last but not the least, my special appreciation goes to my husband, Ahmad Shaidi Sahamin and my late mum, Allahyarhamah Che Yah who have helped me to concentrate on completing this thesis by taking care of the kids and supported mentally throughout the course of this work.

© COPYRIGHT UPM

I certify that an Examination Committee met on July 2010 to conduct the final examination of Morni Hayati bt Jaafar Sidik on her Doctor of Philosophy thesis entitled "Tax Planning among companies in Malaysia in an e-commerce environment" in accordance with Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U(A) 106] 15 March 1998. The Committee recommends that the student be awarded the degree of Doctor of Philosophy.

Members of the Thesis Examination Committee were as follows:

**Foong Soon Yau Ph.D.,**
Professor
Graduate School of Management
Universiti Putra Malaysia
(Chairman)

**J. Hesseldine, Ph.D.**
Professor
Nottingham University Business School
Jubilee Campus
Wollaton Road
Nottingham NF8 1BB
United Kingdom,
(External Examiner)

**Norsiah Ahmad, Ph.D.**
Associate Professor
Department of Accounting and Finance
Faculty of Economics and Management
Universiti Malaysia Terengganu
21030 Kuala Terengganu
Terengganu
(Internal Examiner)

**Zulkarnain Muhamad Sori, Ph.D.**
Associate Professor
Head
Department of Accounting and Finance
Faculty of Economics and Management
Universiti Putra Malaysia
43400 UPM, Serdang
Selangor Darul Ehsan
(Internal Examiner)

© COPYRIGHT UPM

**Abu Sofian Yaacob, Ph.D.**
Lecturer
Department of Accounting and Finance
Faculty of Economics and Management
Universiti Putra Malaysia
43400 UPM, Serdang
Selangor Darul Ehsan
(Representative of Supervisory Committee/Observer)

---

**FOONG SOON YAU, Ph.D.**
Professor / Deputy Dean
Graduate School of Management
Universiti Putra Malaysia

Date:

© COPYRIGHT UPM

This thesis submitted to the Senate of Universiti Putra Malaysia has been accepted as fulfillment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee are as follows:

**Abu Sofian Yaacob, Ph.D.**
Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Chairman)

**Fatimah Mohamed Arshad, Ph.D.**
Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

**Hajah Mustafa Mohd Hanefah, Ph.D.**
Professor
Dean
Faculty of Economics and Muamalat
Universiti Sains Islam Malaysia
(Member)

---

**ARFAH SALLEH, PhD, FCPA (Aust)**
Associate Professor / Dean
Graduate School of Management
Universiti Putra Malaysia

Date:

© COPYRIGHT UPM

## DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at Universiti Putra Malaysia or other institutions.

_____

**MORNI HAYATI BT JAAFAR SIDIK**

Date:

© COPYRIGHT UPM

## TABLE OF CONTENTS


| | Page |
|---|---|
| DEDICATION | ii |
| ABSTRACT | iii |
| ABSTRAK | v |
| ACKNOWLEDGEMENTS | viii |
| APPROVAL | x |
| DECLARATION | xiii |
| LIST OF TABLES | xvii |
| LIST OF FIGURES | xviii |
| LIST OF ABBREVIATIONS | xix |

**CHAPTER**

| | |
|---|---|
| 1. INTRODUCTION | |
| 1.1. Introduction | 1 |
| 1.2. Background of the Research | 2 |
| 1.3. Problem Statement | 6 |
| 1.4. Research Objectives | 10 |
| 1.5. Research Questions | 10 |
| 1.6. Contributions of the Study | 11 |
| 1.7. Outline of the Thesis | 13 |
| 2. LITERATURE REVIEW | |
| 2.1. E-Commerce Definition | 15 |
| 2.2. E-Commerce in Malaysia | 19 |
| 2.3. E-Commerce Benefits | 22 |
| 2.3.1. Improved Speed of Delivery | 22 |
| 2.3.2. Reduced Costs | 23 |
| 2.3.3. Important to Business Strategy | 23 |
| 2.4. E-Commerce Barriers | 24 |
| 2.4.1. High Cost of Maintenance | 24 |
| 2.4.2. Legal, Security and Tax Issues | 24 |
| 2.4.3. Heavy Reliance on External Consultants | 25 |
| 2.5. Adoption of Information Technology | 26 |
| 2.6. Adoption of E-commerce at Organizational Level | 27 |
| 2.7. Characteristics of E-Commerce and Its Implication for Taxation | 33 |
| 2.7.1. Elimination of Intermediaries or Disintermediation | 34 |
| 2.7.2. Blurring National Border | 35 |
| 2.7.3. Digitisation | 35 |
| 2.8. The Permanent Establishment (PE) Concepts | 37 |
| 2.8.1. The Need for a PE | 37 |




© COPYRIGHT UPM

2.8.2. The History of PE 38
2.9. The PE Concept in E-Commerce Environment 40
2.10. Responses 46
2.11. Tax Planning 50
2.11.1. Relationship between Tax Planning, Avoidance and Evasion 53
2.11.2. Prior Research on Tax Evasion or Tax Plannin0g 58
2.11.3. Tax Planning in an E-Commerce Environment 63
2.12. Summary 67

3. CONCEPTUAL FRAMEWORK AND RESEARCH METHODOLOGY
3.1. Theoretical Background 70
3.1.1. Theory of the Firm 70
3.1.2. Diffusion of Innovation Theory (DOI) 71
3.2. Model Building 73
3.2.1. Tax Planning Adoption 76
3.2.2. Independent Variables 79
3.2.3. Website Address 92
3.2.4. Perceptions towards Tax Planning 93
3.3. Research Approach 95
3.4. Quantitative Research Method 97
3.4.1 Data Source and Sampling Method 97
3.2.2 Data Collection Method 100
3.4.3. Questionnaire Design 101
3.4.4 Questionnaire Pre-Testing 103
3.4.5. Questionnaire Administration 104
3.4.6. Operationalisation of the Variables 106
3.4.7. Analytical Techniques 115
3.5.Qualitative Research Approach 117
3.6 Summary 119

4. RESULTS AND DISCUSSIONS ON QUANTITATIVE DATA
4.1. Response Rate and Non-Response Bias 120
4.2. Analysis of Non-Response Bias 122
4.3. Data Examination 126
4.3.1. Test of Normality 126
4.3.2. Missing Data 126
4.3.3. Reliability and Validity Test 127
4.4. Descriptive Statistics on the Respondents' Demographic Profile 130
4.5. The Structural Set Up of the Companies 133
4.5.1. The Server 133
4.5.2. The Website 137
4.5.3. Sales via the Websites 140
4.5.4. Digital Deliveries 142
4.5.5. Tax Issues 143
4.6. Testing of Hypotheses 145
4.6.1. The Logistic Regression Model 146
4.6.2. Assumptions of Logistic Regression 147
4.7. Findings and Discussions of Hypotheses 1-3 151
4.7.1. Hypothesis 1 151



© COPYRIGHT UPM

4.7.2. Hypothesis 2a 152
4.7.3. Hypothesis 2b 154
4.7.4. Hypothesis 2c 155
4.7.5. Hypothesis 2d 156
4.7.6. Hypothesis 3a 156
4.7.7. Hypothesis 3b 157
4.8. Correlation among the Variables 158
4.8.1. Hypothesis 4 158
4.8.2. Hypothesis 5 159
4.9. Discussions 160
4.10. Summary 161

5. RESULTS AND DISCUSSIONS ON QUALITATIVE DATA
5.1. Background of the Interviews 163
5.2. Description of the Four Respondents 164
5.3. Analysis of Interviews 166
5.3.1. Motivations and Benefits to Deploy E-commerce 166
5.3.2. Tax Issues 167
5.3.3 Decision Making for E-commerce Deployment 169
5.3.4 Location of the Technology 169
5.3.5 E-commerce Substitution 170
5.4. Discussion of the Analysis 171
5.5. Summary 173

6. CONCLUSIONS AND IMPLICATIONS
6.1. Summary of the Findings 176
6.2. Implications of the Study 179
6.2.1. Theoretical Implication 179
6.2.2. Practical Implications 181
6.3. Limitations of the Study 185
6.4. Recommendation for Future Research 187

REFERENCES 189

APPENDICES 224

BIODATA OF THE CANDIDATE 229

© COPYRIGHT UPM