

The Effectiveness of Reinvestment Allowance (RA) and Tax Attributes in Stimulating the Performance of Incentivised Firms: Moderating the Effects of Foreign Directorship

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The debate on the implication of fiscal incentives is extensive. Nevertheless, whether tax incentives succeed in stimulating firm performance remains highly controversial and has received much attention from governments and policymakers. We aimed at providing evidence about the effect of RA and other tax attributes on firm performance. Secondly, we examined if firm directorship has a moderating effect on our regression estimation. To fully understand the effects of fiscal incentives, a systematic study is needed to link RA to not just business location, employment, economic implication development but also to the overarching issues of firm performance. This research uses the Panel Least Square regression model to examine the interplay between RA and other tax attributes on firm-level performance measured by return on asset. Employing tax return data from 2007 to 2016 of corporate firms consistently claiming RA, this research affirms that RA has positively impacted the performance of incentivised firms in Malaysia. Besides RA, these incentivised firms also depend on other tax attributes such as lower effective tax rates, various tax benefits, the firm scale of operation as well as adequate tax audit monitoring. We also affirm that foreign directorship only moderates one of the tested explanatory variables used in this research, which is the effective tax rate (ETR). Overall, the evidence in this research-driven extensively by responses of the incentivised firms addresses the issue of effective incentive utilisation and tax attributes. This research could be the first to contribute evidence on the systematic assessment of RA.

Key words: *Reinvestment allowance, tax incentive, firm performance, moderating effects and tax returns.*

Introduction

The importance of fiscal policy for economic growth has led to growing policy adaptation among governments and policymakers, especially in developing countries (World Bank, 2018). Although a large body of research has evaluated the impacts of such fiscal incentives in attracting investment (G. Jolley et al., 2015; James, 2013; Krista, 2012), raising real income (Lester, 2018), creating employment and business establishment (Jensen, 2017; Prillaman and Meier, 2014), addressing market failure (Bes and Alvarez-Estrada, 2013; Efobi, et al., 2017) as well as supporting innovation and Research and Development (Bell et al., 2019; Yigitcanlar et al., 2017; Busom et al., 2014), there has been less work on how incentives affect the overarching issues of firm performance. Moreover, as far as we know, there are no efforts to investigate directly the long-term effects of RA on firm performance. In the popular press, The Edge Financial Daily, (2016, 2017) reported that there are two different firms that have benefited from RA and have exhibited a contradicting impact on their performance. For instance, their reports specified that PROTON has enjoyed massive tax credit break from various tax incentives, including RA. However, this giant national carmaker has also faced uncertain performance issues. In another case, SPRITZER (a firm that manufactures drinking mineral water) has reported better financial performance as a result of the utilisation of RA incentive. An earlier work carried out by the World Bank (2006) is dated and may not be relevant to contemporary economies. We aimed to provide current evidence on these issues by examining the effectiveness of specific tax incentives and other related tax attributes in stimulating firm performance when a firm utilises the Reinvestment Allowance (RA). We responded to the suggestion made by Jensen (2017) on the lack of long-term impact of incentives by incorporating data, which consists of the firms claiming RA for a period of ten years, from 2007 to 2016. In this research, we also added to the tax incentive literature by examining the moderating effect of foreign directorship on RA utilisation, other tax attributes and firms' performance of the same sample of firms claiming RA.

Unlike any other fiscal policy, such as direct government financial assistance, subsidy, or grant, the unique features of tax incentives have made them both favourable and debatable. According to Amendola et al. (2018), tax incentives do not require any cash outflow from a government's annual budget. However, they incur tax compliance as well as tax monitoring costs as a result of the misappropriation of tax incentives. World Bank (2018) states that tax incentives are the most efficient way of attracting foreign direct investments. They also mention that tax incentives in developing countries encounter certain drawbacks such as weak design, less transparency, and require more administrative work. Calcagno and Hefner

(2018) claim that tax incentives are best applied as a political strategy in creating employment. In other cases, tax incentives for SMEs in Europe are found to be inappropriate, ineffective, not well designed and lead to unnecessary complexity in the taxation system (Bergner et al. 2017). In an extreme case, Kolhe (2017) proposes to withdraw the use of incentives and to replace them with other beneficial fiscal tools because tax incentives cause enormous revenue loss to the government of India. Despite all of these drawbacks, the primary rationale for using RA in this research rests on the notion that tax incentives may reduce the cost of doing business and will eventually increase firm performance (Abd Hamid N, 2015). On the other hand, the underperforming firms may even deter the reinvestment and expansion of their business. Based on these notions, firm performance is vital because it reflects management effectiveness and efficiency in making use of firm resources, and this, in turn, would contribute to the economy at large.

This research uses confidential tax return data¹ and taxpayers' profiles based on the Case Management System (CMS). The results demonstrate that firm performance not only depends on the consistency of utilising RA but also relies heavily on other tax attributes. We also documented our moderator variable, which is foreign directorship, exhibits an interacting effect toward one of the explanatory variables tested in the analysis. The rest of this paper is organised as follows: Section II gives the literature review and hypothesis development. Section III outlines our research methodology, while Section IV covers our empirical results and, lastly, Section V summarises the discussion conclusion.

Literature Review and Hypothesis Development

Reinvestment Allowance and Firms' Performance

Bank Negara Malaysia (2017) and World Bank (2006) regard RA as the most prominent and frequently used tax incentive in Malaysia. RA is a special tax relief introduced in 1979 where it provides 60% of tax exemption to manufacturing firms that plan to invest in qualifying capital expenditures connected to expansion, diversification, automation as well as modernisation of business operation.

Prior research evaluating the effect of tax incentives on economic development indicators such as creating jobs, generating revenue, and attracting investments have shown weak or no impact at all (Lester, 2018; Kolhe, 2017; Prillaman and Meier, 2014). In contrast, research concentrating on the effects of tax incentives on firm performance showed a healthy implication. For instance, a comparison research approach performed by Amendola et al. (2018) in the Dominican Republic found that the performance of firms benefited from tax

¹ The tax and audit data are subjected to strict confidentiality requirements, and outcomes are cautiously presented in the aggregate to maintain confidentiality.

incentives outpaced those that did not employ tax incentives. Similarly, when Mayende (2013) applied gross sales and value-added to measure firm performance, the researcher found a positive impact where firms benefitted from tax incentives when compared to their counterparts. Additionally, there is more evidence proving that tax incentives generate a positive impact on firm performance, especially among SMEs in Malaysia (Noor et al. 2016; Nadiah Abd Hamid, 2015). In other research, government intervention through financial aid improves the performance of SMEs in Australia (Xiang and Worthington, 2017). Nakatani (2018) acknowledged the importance of Research and Development tax incentives and investment on the performance of New Zealand firms. This research contributes to the limited number of studies that focused on the relationship between tax incentives and corporate performance, especially among firms claiming RA. The question is whether the RA incentive provided by the government can stimulate the economic performance of a firm. Hence, the current study examined the relationship between tax incentives and the performance of corporate firms in Malaysia.

We argued that tax incentives are among the most crucial fiscal policy through which governments and policymakers can influence a firm's business cycle, especially in lowering the cost of doing business. Lower cost means firms have additional profit, which would enable them to grow and expand. We followed Abd Hamid's (2015) empirical evidence that tax incentives do improve firm performance only when they utilise tax incentives successfully. Abd Hamid et al. (2018) found that firm performance measured by ROA is the decisive predictor in determining the success of RA utilisation. As such, we applied RA utilisation indicator, which was used in the research conducted by Abd Hamid et al. (2018). We expected the indicators of RA utilisation (RAUTI) to have a substantial impact on firm performance. Thus, we propose the following hypotheses:

H1: RA utilisation (RAUTI) is associated with firm Performance (ROA)

Tax Attributes and Firm Performance (ETR, VTB, EXAUD, TPP)

Extant studies in the field of accounting, business and finance assert that firm performance is influenced by numerous factors such as good corporate governance (Noor et al., 2016), macroeconomic factors and, firm characteristics (Egbunike and Okerekeoti, 2018), investment of intangible assets (Nakatani, 2018), government financial assistance (Lim et al., 2018; Xiang and Worthington, 2017) as well as working capital management (Zariyawati et al., 2017). Unlike other previous research, we examined firm performance according to a tax perspective. Besides RA utilisation, we also examined the implications of various tax attributes on firm performance, such as an effective tax rate (ETR), book-tax differences (BTD), tax audit monitoring (EXAUD), and corporate taxpayer profiles (TPP). We classified

these independent variables as tax attributes because they were generated from the tax return data used in this research.

Halperin and Sansing (2005) define a firm's ETR as the ratio of a firm's income tax expense to its pre-tax financial accounting income. ETR is a standard measure of tax planning effectiveness where activities are taxed fairly. In this current research, we used ETR as a proxy for tax planning activities carried out by the incentivised firms and applied them to examine the implication on firm performance. Current research has used ETR in examining its implication on firms. One research study conducted by M.W.M, Ghazali et al. (2018) investigated the consequences of tax planning (measured by ETR) on firm value listed in Bursa Malaysia. They found that ETR has a significant association with firm value. Other extensive work done by Azizan (2018) found strong evidence that tax fairness which is measured by ETR, is positively associated with the credibility of a firm's financial reporting. This research extends the literature by examining the implication of ETR on firm performance and has the expectation that ETR has a significant impact on the performance of incentivised firms.

The government of Malaysia provides plenty of tax incentive programmes which are designed to benefit corporate firms. Numerous tax programmes in Malaysia have been classified into tax deductions, preferential tax rate exemptions, incentives, and capital allowances as well as a double deduction, which includes rebates (MICPA et al. 2019). The variations in these tax incentives programmes are seen as a piece of evidence that the Malaysian government is generous in providing support to enhance investment activities and business expansion in the country (PWC, 2017). Nonetheless, the research conducted by Romli et al. (2017) on various tax programmes benefited by SMEs in Malaysia found that tax benefits have caused revenue forgone to the government. Their research specifically analysed SMEs and the implication on revenue collection at the country level, without taking into consideration other effects of such programmes such as growth or firm performance. In this research, we postulated that various tax benefits (BTD) enjoyed by firms have a significant impact on their performance.

The next tax attribute examined in this research is known as tax audit monitoring (EXAUD). In Malaysia, IRBM conducts two kinds of tax audits, namely field and desk audits. A field audit requires a visit to a taxpayer's office for a detailed assessment of relevant documents, while a desk audit involves a review of documentation attained from a respective taxpayer and interviews the taxpayer at one of IRBM's offices. When it comes to a tax audit, firms' characteristics such as firm status, taxpayer profiles, and industry sector are perceived to be the determinant factors that tax authority takes into consideration for tax audit cases (A. Hamzah FH et al. 2019). Tax monitoring performed by the tax authority is essential and is a valuable corporate governance function. Initial work carried by Desai et al. (2007)

acknowledges two valuable insights on tax monitoring. First, the researchers concede that stricter tax enforcement restores corporate governance and secondly, tax revenue dependant on the quality of corporate governance. Following the insight from Desai, Hanlon et al. (2014) it was found that tax monitoring has a positive impact on a firm in terms of the quality of financial reporting. Furthermore, Tennant and Tracey (2019) affirmed that tax monitoring also improves firm profitability and the level of the effective tax rate.

Nevertheless, empirical evidence based on multinational firms in Europe show an adverse effect of tax enforcement on firms. For instance, a large multinational firm reported lower profit and shifted its profit to a subsidiary firm located in a country that has weak tax monitoring (Baumann et al., 2017). Another example claims that stringent tax monitoring has caused European private firms to maintain a downward level of profitability, mainly when there is a minimum requirement that would trigger mandatory audits (Burgstahler and Roller, 2018). In this research, we contend that tax monitoring performed by the tax authority has a significant impact on the performance of the incentivised firms.

In previous research, firm characteristics such as firm size, financial indicators, ownership structure have been widely used as significant predictors on firm performance (Egbunike and Okerekeoti, 2018; Al-Matari et al. 2017; Isik et al. 2017). In this current research, we examined the impact of various corporate taxpayer profiles (TPP) on firm performance. Firms were classified according to their scale of business operation, which was predetermined by the Inland Revenue Board of Malaysia into “big taxpayers”, “multinational corporate taxpayers”, and “regular taxpayers”. Firms’ scale of operation found to be a crucial factor that exposes the firm to practice profit shifting which leads the firm to engage in tax avoidance activity (Beuselinck et al., 2014) and also affects firm performance through international scale capabilities and use abroad knowledge to overcome liabilities (Borda et al. 2017). As the evidence highlights the effects of firms operating internationally, we hypothesised that the variation classified in TPP has significant influence over firm performance.

In this research, all the variables mentioned above are employed to examine the direct effects on the performance of the incentivised firms. Overall, we expected tax attributes such as effective tax rate, various tax benefits, tax audit monitoring as well as tax payer’s scale of operation to have a substantial relationship with the performance of the incentivised firms. Thus, we propose the following hypothesis:

H2: Tax Attributes are associated with the performance of the incentivised firms (ROA)

The Moderating Effect of Firm's Directorship on RA Utilisation, Tax Attributes and Firms' Performance

There is a general assumption that a firm's director has an essential role in advising and monitoring the board on the well-being of the firm. Early literature shows that the effectiveness of the board in directing management depends on the combination of insiders and outsiders serving on the board (Fama and Jensen, 1983; Fama, 1980). In an extant study, the presence of outsiders or a foreign director in a firm has widely discussed by the researchers. For instance, it emerges that a foreign director does more than just advising and monitoring the board on the matter associated with investment policy, performance, and monitoring the compensation for CEO (Kim et al. 2014). Furthermore, outsiders or foreign directors are independent observers who take a more comprehensive view of essential decisions that affect the firm. Foreign directors are experts and possess knowledge on the strategic direction of firms (Coles et al. 2008), and they provide sources vital to firm growth and long-term success (Coles et al. 2008).

Recent research has disclosed that firms with the presence of a foreign director reported better corporate social responsibility (CSR) and are averse to tax aggressiveness (Lanis and Richardson, 2018). In another study, Estélyi and Nisar (2016) acknowledged that the presence of foreign directors is positively and significantly associated with a firm's international market operations as well as operating performance. Furthermore, Ben Barka and Legendre (2017) reaffirmed that the presence of an independent director enhanced economic and equity performance of the firm.

Most of the literature examines the direct impacts of a director on firm behaviour. Our second objective is aimed at any moderating effects cause by directorship on improving or reducing the relationships between explanatory variables; RAUTI, ETR, TPP, BTM, and EXAUD on the performance of the incentivised firms. In this current research, we contend that the circumscribed role of either a foreign or an domestic director has an interactive relationship effect between RA utilisation, tax attributes which would improve the performance of the incentivised firms. Therefore, this study expects a firm director, either foreign or domestic director, would enhance or reduce RA utilisation, tax attributes and would improve the performance of the incentivised firm. Therefore, this research proposes the following hypothesis for testing:

H3: Firm Directorship (FDIR) moderates the relationship between the tax attributes and the performance of the incentivised firms (ROA)

Research Methodology

Data and Sample Selection

To empirically test hypotheses H1 to H3, we merged data from two sources: i) confidential tax return data and ii) taxpayers' profiles internally generated by the Case Management System (CMS). Table 1 describes the conditions of the sample selection. We placed our focus on RA incentive utilisation since we are interested in examining the impact of RA on the performance of the incentivised firms. The entire 7,153 sample firms claiming RA from 2007 to 2016 were identified and filtered according to the firm-year observation that exhibited complete data as well as firms that consistently reported RA utilised or RA unutilised in the specific columns reported in their tax return. After performing multiple data filtration, we identified 401 samples and completed 4,010 observations (10 observation years).

Table 1: Conditions of the Sample Selection

Data	Conditions	Number PF Firms
Tax Return	The entire sample frame consists of a firm utilising RA.	7,153
	<u>Eliminate:</u> firms not utilising RA consistently in all observation years (2006-2017) and firms reported incomplete RA claims in tax returns.	(5,955)
	Full sample inclusive of firms that reported positive and negative nett incomes.	1,198
	<u>Restrict:</u> firms reported extreme values of ROA more than 100% and -100% firms with incomplete variables data.	(797)
Taxpayers' Profiles	Final samples consisting of profit and loss firms are matched with the taxpayers' profiles and historical audit records.	401

Regression Specifications

The objective of this research is two-fold; first, to examine the impact of RA utilisation and tax attributes on firm performance and second to examine the moderating effect of directorship on the relationships between RA utilisation, tax attributes, and the performance of the incentivised firm. To achieve this objective, we developed the least square regression model and subsequently tested the interaction least square regression model, which is estimated as follows:

$$\text{FIRMS' PERFORMANCE}_{i,t} = \alpha + \beta_1 \text{ RA UTILISATION}_{i,t} + \beta_2 \text{ TAX ATTRIBUTES}_{i,t} + \varepsilon_{i,t} \quad (\text{i})$$

Using the sample, we expanded the regression (i) by including the interaction between firm directorship (FDIR) and RA utilisation (RAUTI) and, included tax attributes (ETR, BTM, TPP, and EXAUD) to test H3, whether firm directorship would moderate positive or negative effect on the performance of incentivised firms. The regression model is as follows:

$$\text{FIRMS' PERFORMANCE} = \alpha + \beta_1 \text{ RAUTI}_{i,t} + \beta_2 \text{ TAX ATTRIBUTES}_{i,t} + \beta_3 \text{ RAUTI}_{i,t} \times \text{FDIR}_{i,t} + \beta_4 \text{ ATTRIBUTES}_{i,t} \times \text{FDIR} + \varepsilon_{i,t} \quad (\text{ii})$$

In this research, we used ROA as an accounting-based measure of firm performance as ROA has been widely used to measure firm performance. This ratio has been widely employed in international business, finance, accounting, as well as taxation (Borda et al., 2017; Isik et al. 2017; Le and Phan, 2017). For instance, firm performance measured by ROA has been applied to examine the impact of macroeconomic factors and firm characteristics (Egbunike and Okerekeoti, 2018) and employed to investigate the influence of state ownership (SOEs) and good corporate governance practices (Liu et al., 2018). ROA has also been used to investigate the effect of working capital management (Zariyawati et al. 2017) as well as to examine the effectiveness of the financial incentives on firm performance (Noor et al. 2016). We included RA utilisation (RAUTI) and tax attributes as independent variables when examining the impact on firm performance. Tax attributes consist of rich data such as effective tax rate (ETR) and book-tax difference (BTD) proxy for the various tax benefits, which includes taxpayers' profiles (TPP). Finally, we included firm directorship (FDIR) as our moderating variable. We further explained the measurement of all other variables in the next section.

Variable Definitions

Table 2 lists the variables used in the empirical analysis.

Table 2: Measurement of Variables

Variables	Operationalisation and measurement of variables
ROA	Return on assets (ROA) is our primary dependent variable and used as a proxy for the performance of the incentivised firms. ROA is measured by nett accounting income divided by total assets.
ETR	Effective Tax Rate (ETR) is measured by tax payable divided by nett accounting income.
RAUTI	Reinvestment Allowance (RA) utilisation (in percentage) is measured by RA claimed during the year divided by the actual maximum amount of RA at year <i>t</i> .
EXAUD	Tax monitoring (EXAUD) consists of a dichotomous outcome. Firms experiencing tax audit monitoring throughout the observation year of 2007 to 2016 were assigned as “1” and “0” otherwise.
BTD	Book-Tax Difference is a proxy for various tax benefits enjoyed by the incentivised firms. Book-tax difference is computed as pre-tax book income less estimated taxable income divided by total assets at year <i>t</i> . Our data on taxable income is incomplete. Alternatively, we used tax payable divided by Malaysia’s statutory tax rate at year <i>t</i> to derive estimated taxable income. BTD represents various tax benefits, which financial statement is not accounted for in deriving book income.
TPP	We use taxpayers’ profile (TPP) predetermined and coded by IRBM. TPP noted as: Multinational taxpayers abbreviated to “TPP1” where i) total income, income from other business sources and profits generated from related foreign firm exceeding RM 25million; ii) sales, purchase, total expenditure incurred, and total income generated from related foreign firm exceeding RM15million; and iii) a loan made to or from a related foreign firm. A big taxpayer is represented as “TPP2”, where sales exceed RM30 million A regular taxpayer is denoted as “TPP3”, where sales do not exceed RM30 million.
FDIR	Firm directorship is a moderator variable. A foreign director present in a firm is assigned “1” and “0” for a domestic director.

Results and Discussion

Descriptive and Correlation Analysis

Table 3 shows the descriptive statistic for ROA, ETR, BTD, RA utilisation and is followed by the frequency of categorical variables for TPP, EXAUD, and finally, FDIR in Table 4. The mean value for ROA is 0.054, which indicates that, on average, ROA of the incentivised firm is 5.42% of profit after tax. The mean value for ETR is 8.86. The mean value of RAUTI is 0.346, which indicates that, on average, 34.6% of the incentivised firms utilised RA. Meanwhile, the mean value for BTD is 0.0355. Within the overall observation, as seen in Table 4, regular taxpayers dominate the categorical variable for TPP with 53.4%, 84.3% of firm-years observation experienced tax monitoring by the IRBM, and finally, firms having a domestic director recorded the highest percentage of 69.6%. Table 5 depicts the correlation analysis conducted on the variables employed in this research. Base on this analysis, the independent variables (ROA) indicate moderate to weak correlation with all the independent variables; ETR, BTD, TPP, RAUTI, including moderating variables FDIR.

Table 3: Descriptive Statistics

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	Variance
ROA	4,010	-.9926	.9993	.0542	.1528	.023
ETR		.0000	1.0000	.0886	.1291	.017
RAUTI		.0000	1.0000	.3460	.4129	.171
BTD		-.3328	.9829	.0355	.0543	.003

Note: For the definition of variables, refer to Table 2

Table 4: Frequency of Categorical Variable

Taxpayer Profiles (TPP)	Frequency	Per cent
Regular taxpayer	2,140	53.4
Big taxpayer	1,390	34.7
Multinational taxpayer	480	12.0
Total	4,010	100.0
Tax Monitoring (EXAUD)		
No	630	15.7
Yes	3,380	84.3
Total	4,010	100.0
Firm Directors (FDIR)		
Domestic Director	2,790	69.6
Foreign Director	1,220	30.4
Total	4010	100.0

Note: For the definition of variables, refer to Table 2

Table 5: Correlations Analysis

Correlations			FD	TPP	EXAUD	ETR	RAUTI	ROA	BTD
Spearman's rho	FDIR	Correlation Coefficient	1.000	.430**	-.117**	-.004	-.056**	.077**	.019
		Sig. (2-tailed)	.	.000	.000	.781	.000	.000	.233
	TPP	Correlation Coefficient	.430**	1.000	-.099**	.118**	.066**	.176**	.125**
		Sig. (2-tailed)	.000	.	.000	.000	.000	.000	.000
	EXAUD	Correlation Coefficient	-.117**	-.099**	1.000	-.026	-.006	-.036*	.006
		Sig. (2-tailed)	.000	.000	.	.102	.682	.021	.721
	ETR	Correlation Coefficient	-.004	.118**	-.026	1.000	.728**	.413**	-.025
		Sig. (2-tailed)	.781	.000	.102	.	.000	.000	.112
	RAUTI	Correlation Coefficient	-.056**	.066**	-.006	.728**	1.000	.540**	.207**
		Sig. (2-tailed)	.000	.000	.682	.000	.	.000	.000
	ROA	Correlation Coefficient	.077**	.176**	-.036*	.413**	.540**	1.000	.724**
		Sig. (2-tailed)	.000	.000	.021	.000	.000	.	.000
	BTD	Correlation Coefficient	.019	.125**	.006	-.025	.207**	.724**	1.000
		Sig. (2-tailed)	.233	.000	.721	.112	.000	.000	.
		N	4010	4010	4010	4010	4010	4010	4010

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Note: For the definition of variables, refer to Table 2

Regression Analysis

The primary objective of the study is to examine the effectiveness of RA incentives and other tax attributes in stimulating the performance of the incentivised firms for a period from 2007

to 2016. Panel Least Squares Regression was performed to examine the influence of variables on the performance of the incentivised firms. Table 6 presents the independent variables tested as specified in the equation (i) followed by Table 7, which shows the interaction of moderating variables as prescribed in the equation (ii). The result shows the adjusted R-squared is 40.2%, indicating that the overall explanatory variables explained 40.2% of the variation in ROA. F-statics is 449.58 and p-value is 0.000 at 1% significant value. Significantly, RAUTI, ETR, BTM, EXAUD, and TPP for “big” and “regular” taxpayers show a robust association with the performance of the incentivised firm and thus supporting hypothesis 1 and 2. RAUTI, ETR, BTM, TPP 2: big taxpayers and TPP 3: regular taxpayers exhibit a strong positive association with firm performance, while EXAUD for firms experiencing tax audit monitoring exhibit significant negative association.

We proceed to our final objective of probing the moderating effect of firm directorship on explanatory variables and firm performance. In Table 7, equation (ii) incorporates a similar sample of firms as specified in equation (i). The regression produces a new result. It shows that when a director is a foreigner, it moderates and improves the coefficient of ETR on firm performance. Moreover, FD1 proves to have significant moderation with TPP3 but has an adverse coefficient on firm performance. Unexpectedly, the interaction of FD1 with EXAUD has made EXAUD insignificant with firm performance. Overall, the goodness of fit of this regression model improved 41.2% with F-statics at 215.60, and the p-value remains at 0.000 at 1% significant value.

Table 6: Regression Analysis Results

Dependent Variable: ROA				
Method: Panel Least Squares				
Sample: 2007- 2016				
Periods included: 10				
Cross-sections included: 401				
Total panel (balanced) observations: 4,010				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.0496	0.0056	-8.8869	0.0000
RAUTI	0.0968	0.0053	18.3651	0.0000
BTD	1.4792	0.0365	40.5593	0.0000
ETR	0.2136	0.0172	12.4477	0.0000
EXAUD=1	-0.0103	0.0052	-1.9939	0.0462
TPP=2	0.0146	0.0041	3.5497	0.0004
TPP=3	0.0209	0.0061	3.4594	0.0005
R-squared	0.4025	Mean dependent var		0.0542
Adjusted R-squared	0.4016	S.D. dependent var		0.1528
S.E. of regression	0.1182	Akaike info criterion		-1.4309
Sum squared resid.	55.9367	Schwarz criterion		-1.4199
Log-likelihood	2876.069	Hannan-Quinn criterion		-1.4270
F-statistic	449.5812	Durbin-Watson stat		1.1515
Prob (F-statistic)	0.0000			

Software: Eviews

Note: For the definition of variables, refer to Table 2

Statistical analysis: Tested at significance level of $\alpha = 0.05$ (p-value) with 95% confidence interval

Table 7: Regression Analysis Results with the Moderating Variables.

Dependent Variable: ROA				
Method: Panel Least Squares				
Sample: 2007 -2016				
Periods included: 10				
Cross-sections included: 401				
Total panel (balanced) observations: 4,010				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.0431	0.0069	-6.2222	0.0000
RAUTI	0.0880	0.0062	14.1040	0.0000
BTD	1.4443	0.0450	32.1259	0.0000
ETR	0.1637	0.0200	8.1819	0.0000
EXAUD=1	-0.0074	0.0067	-1.1158	0.2646
FDIR_X_RAU	0.0284	0.0115	2.4655	0.0137
FDIR_X_BTD	0.1569	0.0765	2.0516	0.0403
FDIR_X_ETR	0.1737	0.0382	4.5428	0.0000
FDIR_X_EXA=1	-0.0047	0.0106	-0.4421	0.6584
FDIR=0 AND TPP=2	0.0072	0.0048	1.4928	0.1356
FDIR=0 AND TPP=3	0.0217	0.0155	1.4016	0.1611
FDIR=1 AND TPP=1	-0.0249	0.0123	-2.0300	0.0424
FDIR=1 AND TPP=2	-0.0003	0.0117	-0.0278	0.9778
FDIR=1 AND TPP=3	-0.0056	0.0117	-0.4793	0.6317
R-squared	0.4122	Mean dependent var		0.0543
Adjusted R-squared	0.4103	S.D. dependent var		0.1528
S.E. of regression	0.1174	Akaike info criterion		-1.4438
Sum squared residual	55.0314	Schwarz criterion		-1.4218
Log-likelihood	2908.7830	Hannan-Quinn criterion.		-1.4360
F-statistic	215.6001	Durbin-Watson stat		1.1653
Prob(F-statistic)	0.0000			

Software: Eviews

Note: For the definition of variables, refer to Table 2

Statistical analysis: Tested at significance level of $\alpha = 0.05$ (p-value) with 95% confidence interval

Discussion and Conclusion

The statistical analysis presented in Table 6 reveals clear and compelling evidence of an association between incentive utilisation and tax attributes on the performance of a corporate firm in Malaysia that consistently claimed RA from 2007 to 2016. This research has

demonstrated that incentivised firms in Malaysia not only depend on consistency in utilising RA (RAUTI) but also rely heavily on other tax attributes such as various tax benefits (BTD), tax planning opportunity (ETR), firm's scale of operation (TPP) to perform better. The analysis also reveals that RA disproportionately benefits a big and regular taxpayer. In other words, "multinational taxpayers" (TPP1) holds less expectation to better perform as a result of utilising RA incentive. Hence, policymakers or governments should propose effective tax incentive policy and have an additional monitoring mechanism for this group of a taxpayer to assure that they benefit from such an incentive, too.

Interestingly, tax audit monitoring (EXAUD) exhibits a significant negative association with firm performance. Prior research evidence has shown that this outcome might be attributed to the selection of audit cases, which was based on the incentivised firms that reported a declining trend in profit or approaching loss (Bozanic et al., 2017). Otherwise, a firm's intention to avoid a tax audit might cause them to disclose lower profits (Burgstahler and Roller, 2018).

In determining whether firm directorship does exhibit a moderating effect on any of the explanatory variables tested on the outcome, we found that having a foreign firm director only moderates and improves the strength of ETR (from 16.37% to 17.37%) towards firm performance. This moderation might only affect a single variable given that a foreign director is only represented by a modest percentage of 30.4% from the entire firm sample observation. This outcome highlights the interest of a foreign director in managing and planning firms' tax-related matters as well as exhibit directors' willingness to deliver their expert knowledge to improve firm performance. Even firm directorship only moderates a firm's ETR; overall, the presence of a foreign director provides a meaningful explanation of the variations that affected firm performance.

Although we affirmed the long-term consequences of RA, especially in reducing the cost of doing business for a firm, we proposed that an alternative measure of a firm's performance such as sales growth could be applied in the future research. More policy-oriented studies are required to gain a better understanding of the impact of various tax incentives on the performance of corporate firms in the country where incentives are applied extensively.

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