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Tax Administrators' Perception of Corporate Merger and Acquisition Investment Decision in Malaysia

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Abstract

The study aims to look at the perception of tax administrators on the merger and acquisition (M & A) investment decision in Malaysia based on planned behavior theory. A total of 88 Inland Revenue Board Malaysia (IRBM) staff took part in the structured interviews. The result was analyzed to examine the link between peer influence and perceived behavioral control on behavioral intention to carry out a merger and acquisition. Results show that perceived behavioral control is significantly and positively related to behavioral intention while peer influence is weak yet a significant influence on behavioral intention. This article is organized into four parts. The first part will discuss the introduction. The author moved on to discuss the theoretical framework as the second part of this article where theory of planned behavior and peer influence and behavioral intention will be discussed in depth. The third part will be the research methodology and the final part is recommendation and conclusion.

Keywords

Peer Influence, Perceived Behavioural Control, Merger & Acquisition

1. Introduction

Merger and acquisition (M & A) activities are on the rise since the 90s due to trade liberalization worldwide. Such deals were seen involving big companies around the world, the likes of Verizon and Vodafone (2013) and Google and Android (2005). In Malaysia, more recent major deals took place when YTL Cement Bhd acquired Malayan Cement Bhd (formerly known as Lafarge Malaysia Bhd) in 2019 (Azhar, 2020) and Kuala Lumpur Kepong Bhd (KLK) acquired

IJM Plantations Bhd in 2021 (Aziz, 2021). The main drivers in merger and acquisition in Malaysia are to bring together two companies into one, creating more value and gaining wider clientele, compared with being separate entities (Samitah, 2018).

A merger is a move to join entities to create a new entity whilst acquisition is, on the other hand, a purchase of an entity by another in the form of shares or assets for ownership rights without emergence of a new entity. A notable merger in Malaysia includes the merger of SapuraCrest Petroleum Berhad with Kencana Petroleum Berhad to bring about SapuraKencana Petroleum Berhad in 2012 (Mah & Thomazios, 2020).

The major purpose of the merger and acquisition is the minimization of competition and maximizing what they can offer the market (Samitah, 2018). The advantage is in fact mutual for both the acquirer and the acquired. However, the process of merging and acquiring also includes tax obligations. It is important to know if the process hinders profitability for the acquiring company, thus, burdening them with unnecessary expenses. It is pertinent to consider various factors including the country's tax structure before the M&A takes place.

Malaysian tax is mainly regulated by the Income Tax Act 1967 (ITA), Stamp Duty Act 1949 and Real Property Gain Tax Act 1976 (Samitah, 2018). When it comes to stamp duty, the rate for share transfers is lower than that of asset transfers, which ranges from 1% - 3% depending on value transacted. Share transfers are also exempted from capital gains tax unless the shares involve real properties, such as real property companies (RPC). An RPC is defined by shared values, either real property or shares in another property company, of more than 75% of total tangible assets.

However, like many developed countries such as the US and the UK, there are anti-avoidance provisions under ITA in Malaysia relating to M&A that gives the IM director-general (DG) the prerogative to deny tax benefits for transactions which are clearly for the purpose of avoiding tax (Johansson, 2016).

Section 140 of the ITA is fundamental to M&A process. The DG of the Malaysian Inland Revenue Board (IRBM) may invoke Section 140 if the M&A structure chosen looks strange and inappropriate, especially if it is intended to save substantially on tax (Samitah, 2018). Thus, for legitimate transactions between the two parties, the following considerations should be in place:

- Proper legal forms are enforced or enforceable;
- Transactions are not fraudulent and with substance or purpose other than to escape tax;
- Transactions have commercial intent;
- Transactions are made at arm's length, meaning they can stand against the scrutiny of transfer pricing.

Many studies confirmed negative perceptions and ignorance of the impact of tax on the merger and acquisition investment decision. According to Nordin et al. (2020), respondents' opinions were diverse over the impact of tax on merger and acquisition and most of them had misconceptions of the implications of merger and acquisition treaties. This was due to the lack of understanding or knowledge regarding M & A (Nordin et al., 2020).

The objective of this research is to study the relationship between peer influence and perceived behavioral control and merger and acquisition decision. By getting IRBM staff, who would have a better idea of taxation than the common taxpayers, hopefully, the results can ignore the lack of understanding and misconception of taxation when it comes to making such decisions. There are indeed many studies done to test the effect of peer influence. For example, study conducted by Hanno & Violette (1996) found a significant relationship between the effect of peer influence on behavioral intention to pay tax. However, it is a totally different story for the merger and acquisition. Peer influence has not been explored whether it can affect the merger and acquisition decision behavior.

2. Theoretical and Research Framework

2.1. Theory of Planned Behavior (TPB)

The theory of planned behavior (TPB), developed by Ajzen in 1980, put forward a model measuring how human actions are steered, with intention as its focus. Theory of planned behavior is an extension of theory of reasoned action taking into account another construct, perceived behavioral control (Ajzen, 1991). TPB asserts dependence of behavior on behavioral intention whilst peer influence and perceived behavioral control are factors influencing behavioral intention.

Behavioral intention signifies one's inclination to execute a particular behavior, making it a forerunner of a behavior. The application of this theory of planned behavior in this study is based on study by Bidin et al. (2012), which found peer influence and ethics to be positively linked to intention to comply with taxation. Bidin et al. suggest that taxpayers are more willing to pay tax when they are well-informed. Thus, being tax administrators and being well-informed on tax issues, this study intends to find out if peer influence and perceived behavior control have any correlation with the intention to carry out a merger and acquisition, should they own a company.

2.2. Peer Influence and Behavioral Intention

Peer influence is a perceived social pressure to execute or not execute a behavior. In other words, it is one's perception of what people close to them think what they should or should not do (Ajzen & Fishbein, 1980). It is strengthened by emotions, opinions or behaviors displayed when the relevant issues were brought up in the past. In the context of taxation, Hanno & Violette (1996) found a significant and positive effect of peer influence on behavioral intention to pay tax. Top management in a corporation tends to act based on external influence and personal experience when making a merger and acquisition decision.

However, peer influence has not been explored for merger and acquisition decision behavior. If there is a strong perception that a merger and acquisition will burden the company with its tax obligations, the majority of people would have the same opinion and disagree with its exercise. As merger and acquisition involve substantial tax obligations, peer influence of such matter must be important in explaining one's behavioral intention to proceed.

2.3. Perceived Behavioral Control

Perceived behavioral control refers to one's belief of their ability to execute a behavior. Two facets of that belief include the extent of control one has over the behavior and the confidence one has about completing it. Empirically, Bobek & Hatfield (2003) found that perceived behavioral control is positively linked to intention to pay tax. Holst & Iversen (2011), on the other hand, emphasized the distance between intention and actual behavior, with the understanding that intention does not equal to action. However, individuals with high perceived behavioral control are more likely to translate into action compared with individuals with lower perceived behavioral control (Ajzen, 1991).

More recently, Ajzen (2002) argued that perceived behavioral control encompasses two variables namely perceived self-efficacy and perceived controllability. Perceived self-efficacy is an individual's belief of his or her ability to perform a behavior (Bandura, 1991) while perceived controllability is a belief that one's behavior is volitional (Ajzen, 2002). For example, in the context of merger and acquisition, a CEO might perceive that he is able to carry it through, because he has a high perceived self-efficacy and that he has the greatest control over the decision. With all the resources and perceptions, and the lack of peer influence in his mind, he is most likely to give it a go. Another CEO might have lower perceived behavioral control because he lacks the belief of his ability to make sure he succeeds and that he has higher peer influence in mind. Therefore, he might call off the deal. In a situation like this, the perceived behavioral control construct and peer influence are pertinent in decision making process. **Figure 1** shows the research framework.

2.4. Hypothesis

Based on the planned behavior theory, the hypotheses for this study are developed as follows:

H1: Peer influence has a significant positive effect on behavioral intention to the merger and acquisition decision.

H2: Perceived behavioral control has a significant positive effect on behavioral intention to the merger and acquisition decision.

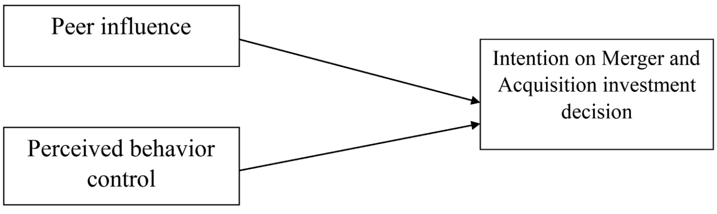

Figure 1. Research framework.

3. Research Methodology

3.1. Sample Size

Sample size should be at least twelve interviews for Guest, Bunce, & Johnson (2006), whereas Mason (2010) recommends that sampling should continue until the researcher obtains the desired findings. This study chose the purposive sampling technique. The rules of purposive sampling are that the researcher selected the sample based on his own judgment and also, the purposive sampling, in qualitative research allowed the researcher to get the maximum variation in the data and to classify cases of interest from the participants (Ahmad et al., 2007). Therefore, this study employed this method to gather data from the expert to help investigate the issues at hand. The respondents' demographic background can be seen in **Table 1** below.

Table 1 shows a total of 88 respondents, which comprised 32 males and 56 females. Most of the interviewees were at the age of 20 - 29 with a total of 44.3% out of the total number. Followed by the age of 30 - 39 with 25%, age 40 - 49 with 22.7% and 8% of the interviewee were at the age of 50 and above. The IRBM officers had different education levels. As provided by the table above, majority of the officers had their degree as the highest education level with the percentage of 84%, 9% of them had their diploma and 7% had finished until post graduate. Most of the interviewees had been working in the industry for more than 5 years. This brings the percentage to 29.6% for those with 6 - 10 years of experience, 36.4% for those with 11 - 20 years and 17% for those who had been

Table 1. Demographic background.

No	Characteristic	Information	No of Respondents	Percentage
1	Age	20 - 29	39	44.3%
		30 - 39	22	25%
		40 - 49	20	22.7%
		50 above	7	8%
2	Gender	Male	32	36.4%
		Female	56	63.6
3	Marital Status	Single	16	18%
		Married	72	82%
4	Education	Diploma	8	9%
		Degree	74	84%
		Post Graduate	6	7%
5	Work Experience	1 - 5 years	15	17%
		6 - 10 years	26	29.6%
		11 - 20 years	32	36.4%
		20 years above	15	17%

working for 20 years and more. The author believed that the responses from these group of interviewee are relevant to help build a good writing on the topic.

3.2. Interview

Kvale (1996) defined an interview as a two ways conversation with the purpose of gathering information and description on the topic from the interviewee. It is a method of data collection which enables the individuals to think and to talk about their issues, needs, beliefs, experiences and understandings (Nunkoosing, 2005). It is recognized to be one of the effective ways for data collection. It can be either structured, where same order of questions is given to each subject with multiple choice of answers, or unstructured, where answers from subjects may differ from each other. Apart from enabling interviewees to speak and express their own feelings (Berg, 2007), interview also allows researchers to probe people's view in greater depth (Kvale, 1996, 2003). It gives the researcher room to explore the views, experiences and beliefs of the individual on specific matters (Gill, Stewart, Treasure, & Chadwick, 2008). According to Silverman (2000), unlike a questionnaire, interview is believed to help supplement the researcher with a deeper understanding of the issue in question.

Face-to-face interviews were the major method used to gather data for this study. The in-person interview, often known as a face-to-face interview, is one of the most common and oldest methods of gathering qualitative data. Lavrakas (2008) claims that it is the best method of data gathering for reducing non-response and increasing data quality. It has been claimed that face to face interviews can assist to detect subtle responses through the body language, behavior, mood, or any other signs of the respondents' thoughts and feelings throughout the interview process. Therefore, to help the author to better understand the topic, a total of 88 interviews were conducted between authors and IRBM officers either face-to-face or via telephone calls. The interviews were guided by a set of questions according to the objectives of the study and structured according to individual unit of inquiry.

The questions and responses are provided in **Table 2** below.

Table 2. Questions and Answers

No	Question	Answer	No of Respondent	Percentage
1	Are people close to you able to strongly influence you to proceed for a Merger & Acquisition	Yes	8	9%
		No	78	89%
		Not Sure	2	2%
2	Do you feel that you have the will of your own to decide on a merger and acquisition deal, if you were a company owner?	Yes	80	91%
		No	0	0%
		Not Sure	8	9%

4. Recommendation and Conclusions

The purpose of this study was to examine the relationship between two perceptions, and intention to carry out the merger and acquisition. This study used the theory of planned behavior to examine the factors that influence tax administrators, who should be familiar with taxation issues, on carrying out an M&A deal, should they face such matter. The factors examined were peer influence and perceived behavioral control. Based on the result, it was found that the perceived behavioral control is the strongest factor influencing the intention to decide on a merger and acquisition. Whilst all believed they can make such a decision on their own, some did feel that peers would have an influence on their decisions. Having said that, the study is the least empirical, leading to failure to draw real results. An empirical study using Likert Scale questionnaires would be appropriate, together with samples who are familiar with business and taxations, instead of just people with taxation knowledge, would be more useful for such study. On top of that, questions that relate taxes to M&A deals should be put forward in the survey questionnaires, in order to figure out the biggest concern among respondents. In that way, policymakers may be able to tweak regulations around taxes that encourage the company to pay taxes accordingly in an M&A exercise.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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