



Abstract

- International cross-border transfer pricing (TP) is a subject that no multinational enterprise can afford to ignore regardless of size and location.
- In today's economy, where multinational enterprises (MNEs) play an increasingly prominent role, transfer pricing continues to be high on the agenda of tax administrations and taxpayers alike.
- Previous studies have shown that certain characteristics of multinational enterprises influenced the selection of transfer pricing cases for audit in Malaysia.
- The objective of this study is to find out statistical evidence whether firm size, profitability margin, types of industry, and tax incentives were still the influencing factors in the selection of transfer pricing audit.
- The findings from this study prove that the previously considered important factors are no more the main determinants of a case being selected. Instead, economic circumstances that lead to a business restructuring or changes in entity characterization might be considered in determining the audit cases.
- This study will help the tax authorities to identify the current audit case selection method.
- For taxpayers and tax practitioners, the findings from this research study will allow them to identify risks and possible red flags to be chosen for audit.
- In this way, taxpayers can be more prepared and adhere to the prevailing pricing policy method at a consistent rate in line with domestic and international guidelines.

Problem Statement

- This study would attempt to quantify the characteristics of MNEs and determine the efficacy of selection for TP audit case procedure in Malaysia, as most researchers face difficulties in obtaining high-quality data that makes it impossible to classify the recorded data and business activities of MNEs because tax authorities in many countries have so far been restrictive in providing researchers with access to anonymized corporate tax return and data.

Research Question

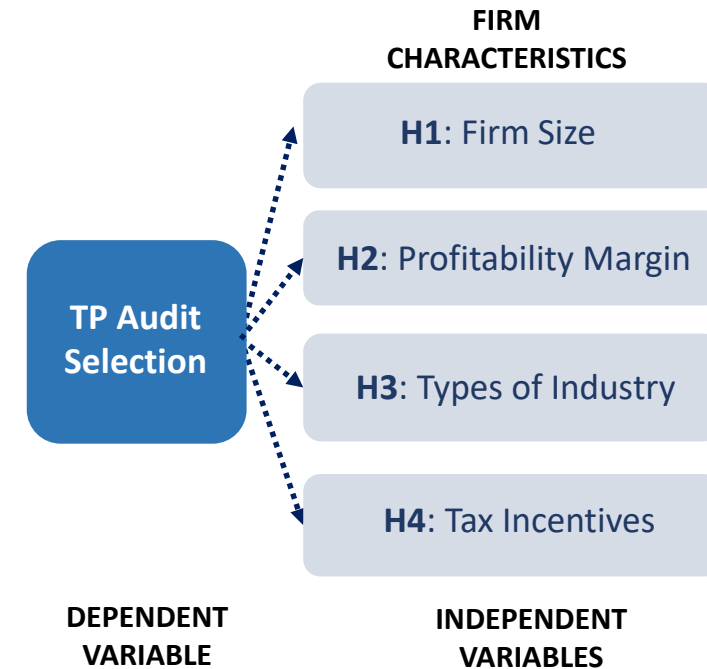
- Is there any significant relationship between the sizes of MNEs with the selection of TP audit?
- Is there any significant relationship between the profitability margins of MNEs with the selection of TP audit?
- Is there any significant relationship between the types of industry with the selection of TP audit?
- Is there any significant relationship between the tax incentives claim by the MNEs with the selection of TP audit?

Objective

- To determine whether there is any significant relationship between the size of MNEs and selection of TP audit
- To determine whether there is any significant relationship between the profitability margin of MNEs and selection of TP audit
- To determine whether there is any significant relationship between the type of industry of MNEs and selection of TP audit
- To determine whether there is any significant relationship between the tax incentive enjoyed by the MNEs and selection of TP audit.

Framework

Source : Shaikh Osman, M. (2010)



Pre-identified firm characteristics such as company size, profitability margin, type of industry and tax incentives are independent variables. The dependent variable is the TP audit selection.

Methodology

Quantitative Research

Secondary Data:

List of companies subjected to TP audit for the year 2018 & 2019 that was carried out by the Multinational Tax Branch (MTB) audit team, Bandar Baru Bangi

Sampling:

124 out of 145 cases were identified having high & medium risk of TP issues

The company size was measured using:

The total sales or turnover of the year of assessment

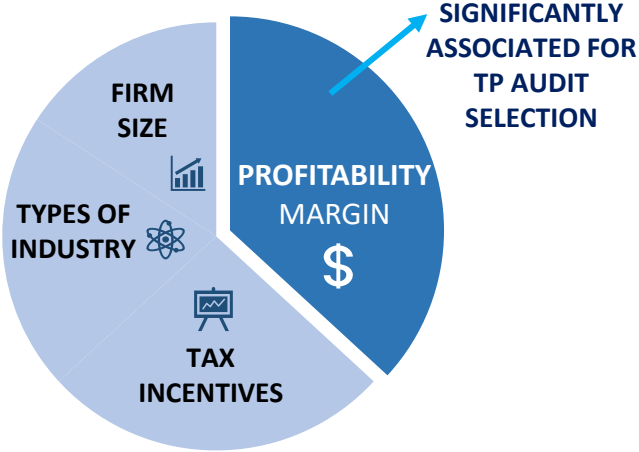
Data Analysis Techniques:

Frequency test & Pearson Chi-Square fit test

Data were analysed using:

Statistical Package for Social Sciences (SPSS).

Findings



- **Profitability Margin:** The firm profitability margin was positively associated with the selection of TP audit cases and probability of firms with low net profit ratio to be selected for TP audit were high as compared to firms with high net profit ratio.
- **Firm Size:** The firm size with a sales over RM100 million are frequently being selected for TP audit. However, the Chi-Square tests revealed that the size of business is not significantly associated with selection of TP cases.
- **Types of Industry:** Manufacturing industry was the most selected industry, but, as the range of industries are wide, the tendency for any MNEs located in any types of industry to be audited was possible. However, the type of industry is not significant and associated with the selection of TP audit cases.
- **Tax Incentives:** The MNEs with tax incentive were not associated with the selection of TP audit cases and it rejected the hypothesis.

Conclusion

- TP audit is costly not only for taxpayers but also to tax authorities. Therefore, effective audit selection is vital to the IRBM identifying and choosing the right cases to audit.
- Effective risk identification and assessment are vital steps to enable the IRBM to select and work on the most suitable cases for TP audit on MNEs.
- The IRBM is generally increasing its resources to address TP risks and endeavoring to up-skill its people.
- As a result, there is a trend towards more excellent centralization of TP resources.
- On the other hand, MNEs could be selected for audit unnecessarily because of their size or financial performance and other factors that were pre-identified by the tax authorities. Therefore, all MNEs should be ready to be audited at any time.

Research Gap

- This study aims to fill the knowledge gap by seeking empirical evidence by analyzing the selected TP audit cases scrutinized by the IRBM for 2018 and 2019. This study may help to close prevailing information gaps on the characteristics of the MNEs that have a high risk of being directly audited by the IRBM for TP review.
- For future research, other factors that can be investigated for TP audit selection, are firms under a same group of companies, business restructuring, e-commerce related business, unrelated TP issues such as withholding tax issue.