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Examining determinants of book-tax difference: Insights from Malaysian multinational corporations

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Abstract

This research investigates the factors affecting the book-tax differences of multinational corporations (MNCs) operating in Malaysia. The sample for this study consists of MNCs with subsidiaries in tax haven countries listed on the Financial Times Stock Exchange (FTSE) Bursa Malaysia Kuala Lumpur Composite Index (KLCI) and FTSE Bursa Malaysia Mid 70 Index. About 67 MNCs were selected after eliminating 32 companies with inadequate data and one with extreme outliers. A secondary data approach was employed, utilising multiple regression analysis. Selected corporate characteristics, including deferred tax liabilities and assets, taxable income, interest coverage ratio, return on assets, and effective tax rate, were used as independent variables. Descriptive analysis revealed evidence that corporations with a high return on assets (ROA) typically benefit from very high levels of book-tax differences (BTDs). Furthermore, the results indicate that a high interest coverage ratio may partly explain the outcomes leading to an increase in differences recorded between book income and taxable income. Thus, this supports the idea that a positive relationship exists between the interest coverage ratio and BTD. Hence, this study contributes to the tax literature and informs policymakers on factors influencing BTD, especially MNCs with subsidiaries in tax haven countries. The study aims to contribute to the existing body of knowledge by offering insights into the factors influencing MNCs' strategic tax planning decisions in the Malaysian context. Policymakers should address the unfair allocation of the worldwide tax base, where a reasonable portion of the earnings made by MNCs doing business in a nation should be subject to taxation in that nation.

Keywords: *Book-tax difference; Multinational corporation; Effective tax rate; Tax planning; Tax burden.*

Introduction

In the world of corporations, the interaction between financial reporting and taxation creates a dynamic environment with book-tax differences. As companies carry out operations, the contrast between the income reported for financial purposes (book income) and the income subject to taxation (taxable income) becomes an area that requires thorough exploration. This research embarks on a journey to uncover the intricacies of book-tax differences and their implications for entities.

Managers who cater to stakeholders and comply with regulatory requirements navigate a complicated landscape where financial and tax reporting serve different functions. The pursuit of income for financial purposes driven by factors such as regulatory capital requirements, bond covenants, and compensation agreements often conflicts with the desire to minimise taxable income for tax-related considerations. This contrast sets the stage for an investigation into the strategies employed by managers to optimise performance metrics within these frameworks.

The literature review delves into evidence and theoretical frameworks, shedding light on the importance of book-tax differences. These distinctions serve as performance indicators for tax authorities and users of statements and have implications for risk assessment, financial transparency, and tax planning strategies. The ideas put forth in this research are based on an analysis of existing knowledge, aiming to

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understand the connections between book-tax differences and various factors like deferred tax liabilities/assets, taxable income, interest coverage ratio, return on assets, and effective tax rate.

To explore these connections, this study uses a quantitative research approach, and it also employs multiple linear regression analysis. By examining data from the years 2017 to 2022, it would be possible to gain insights into how book-tax differences have changed over time in the business world. Through this examination of relationships, the research seeks to contribute to academic discussions about multinational corporations and offer practical insights for those dealing with the intricacies of financial reporting and taxation in a global setting. As the researcher delves into each chapter, the aim is to shed light on the dynamics that influence book-tax differences and their impact on business operations.

Literature Review

Book-Tax Difference

In order to calculate both book and taxable income, managers employ various strategies, as book and tax reporting serve different functions and stakeholders. Due to regulatory capital requirements, bond covenants, compensation agreements, and other factors, managers are incentivised to claim higher income for financial reporting purposes. In comparison, they are incentivised to declare lower taxable income for tax considerations. Both book and taxable income may be useful performance indicators for tax authorities and financial statement users because managers have distinct incentives to report book and taxable income. Each measure summarises a firm's performance based on a separate set of regulations. In particular, if the controlled components of each metric differ from the "shocks" to taxable income and book income, then each measure should be instructive (Lev & Nissim, 2004). Both empirical and anecdotal evidence support this expectation. For instance, while auditing corporation tax returns, Internal Revenue Service (IRS) audit manuals direct internal revenue agents to compare book and tax numbers and raise any discrepancies. Additionally, Mills (1998) discovers that IRS audit adjustments rise when the book-tax gap widens or when book income surpasses taxable income. This finding adds to the body of evidence indicating that tax authorities consider book income a useful indicator of a company's tax base.

According to the research, taxable income can provide financial statements that provides consumers with useful information about the performance of their company. The findings of Hanlon (2005) and Lev and Nissim (2004) indicate that book-tax disparities are a relevant metric for assessing business performance, as they are systematically correlated with earnings growth, future stock returns, and earnings persistence. Shevlin (2002) and Hanlon (2005) find that although taxable income (calculated using financial statement disclosures) does not explain a firm's annual stock returns as well as book income, estimated taxable income has a significant additional explanatory power to book income. These findings are consistent with previous research on the subject. There isn't much data about taxable income as a substitute performance metric outside of this research. Many assumptions surround taxable income as a performance metric despite the absence of data, particularly in circumstances when the company engages in tax avoidance or has lower profit quality.

Some have questioned whether a significant book-tax difference (the difference between financial accounting income and taxable income) is a sign of low-quality corporate earnings in light of previous accounting scandals (Frank, Lynch, & Rego, 2004; Hanlon, 2005). According to Desai (2005), policymakers have taken notice of this issue. Hanlon, Kelley Laplante, and Shevlin (2005) conducted a study that delves into the possibility of using taxable income as a substitute and valuable indicator of corporate earnings or as a standard to assess the calibre of corporate earnings.

The importance of accounting results to investors in the valuation of a company's equity is known as value relevance (Hanlon et al., 2005). A firm's taxable income serves as a proxy for the effectiveness of its tax planning, and like other accounting measures that have a significant association with equity market value (Adegbie, Ajayi, Aguguom, & Otitolaiye, 2023; Wan, Kamarudin, & Ibrahim, 2005; Yoon, Jiang, & Cui, 2023; Zhao, Tang, Zhang, & Feng, 2023), it is also relevant to value if it has a statistical association with a firm's market values or returns Kelly (2005). The value and relevance of financial accounting earnings in the United States (U.S.) have been extensively studied in the literature. On the other hand, little research has been conducted on the value and relevance of taxable income. Simultaneously, accounting experts have widely used assessments of book-tax differences and the property of taxable income to evaluate the quality of corporate earnings, respectively.

Importance of Book-tax Difference

The capacity of book-tax differences to shed light on multiple aspects of a business's tax and financial reporting strategies makes them significant. For a variety of stakeholders, including investors, analysts, regulators, and politicians, it may be essential to comprehend these distinctions. When it comes to financial reporting transparency, book-tax differences highlight the disparities between a business's taxable income and financial accounting income. By analysing these variations, stakeholders can evaluate the accuracy and dependability of a company's financial statements, thereby enhancing financial reporting transparency.

While earning quality may contribute to the importance of book-tax differences, significant or ongoing book-tax differences could indicate possible problems with financial reporting or earnings management. Evaluating the quality of earnings is essential for analysts and investors to make well-informed choices about a company's financial performance and well-being. With regard to tax planning strategies, corporations can proactively manage their tax obligations by utilising legal tax laws and incentives. By identifying the tax planning techniques a corporation employs, the analysis of book-tax differences can shed light on its overall tax efficiency.

With regard to risk assessment, comprehending book-tax differences is essential for analysts and investors to evaluate a company's tax-related risks. Significant or inexplicable variations may impact the financial soundness of the corporation, indicating possible future tax issues. Benchmarking with other corporations in the same industry is a vital technique tax experts use. Comparing book-tax differences across companies in the same industry or region can provide valuable benchmarks. This comparative analysis helps investors and analysts identify outliers and assess the companies' relative tax efficiency and financial reporting practices.

Regulators monitor compliance with accounting standards and tax legislation by utilizing data on book-tax differences. Identifying anomalies in these variations could lead to additional research on a business's tax procedures. Policymaking and tax reforms emphasise the importance of book-tax differences when policymakers use data on variations in book taxes to guide decisions regarding tax reform and policy. Comprehending how businesses operate under the tax code facilitates policymakers' assessment of the efficiency and equity of current tax laws. To summarise, book-tax differences are an essential instrument stakeholders use to assess risk related to a company's tax position and financial reporting, as well as financial transparency, earnings quality, and tax planning strategies.

Determinants of Book-Tax Difference

Given the heightened materiality of high book-tax differences, ceteris paribus, managers are probably more inclined to share book-tax difference information when organisations have a sizeable book-tax difference. However, managers may have different incentives to reveal book-tax difference information depending on whether the substantial book-tax difference is positive or negative. Managers may be less likely to disclose information related to a significant positive book-tax difference than information pertaining to a large negative book-tax difference because a large positive book-tax difference may indicate aggressive financial reporting (Revsine, Collins, & Johnson, 2005), lower earnings (Lev & Nissim, 2004), less persistent earnings (Hanlon & Shevlin, 2005), and/or earnings management activities (Phillips, 2003).

In a scenario where market participants are more inclined to seek alternate signals to evaluate business performance, as is the case for firms with low earnings quality, managers are not incentivised to reveal book-tax difference information that market players could construe as validation of low earnings quality and/or manipulated results. If managers legitimately postpone disclosure because of information uncertainty or costs associated with disclosure, they are likely to refrain from providing book-tax difference information.

As earnings quality declines, market players are likely to become more interested in significant differences between book earnings and taxable income for firms that exhibit both substantial book-tax differences and low earnings quality. The magnitude and sign of book-tax differences may also have an impact on managerial incentives. Managers are incentivised to conceal book-tax difference information when they have a substantial positive book-tax difference during a decline in earnings quality, as these differences indicate low earnings quality and possible earnings manipulation. On the other hand, managers might feel

compelled to reveal substantial negative book-tax disparities, given that they usually don't suggest any manipulation of reported earnings.

Tax avoidance practices, such as earnings management, related-party transactions, and other perquisite consumption behaviours, might obscure rent extraction regarding the book-tax difference determinant, mainly when corporations engage in significant tax avoidance (Desai, Foley, & Hines, 2006). Managers are disinclined to reveal book-tax differences that imply a firm is involved in substantial tax evasion activities, as market participants can use them to gauge how aggressively a corporation is managing its tax liability. Tax evasion practices also diminish the value of book-tax differences as indicators of earnings. Specifically, when tax avoidance efforts are high, taxable income becomes a less meaningful performance metric (Ayers, Jiang, & Laplante, 2009). As a result, when tax avoidance practices are rampant, managers are less motivated to reveal book-tax differences.

Book-Tax Difference and Deferred Tax Liabilities and Assets

Even if the firm's reinvestment strategy ensures that the deferred tax obligation never reverses, Sansing (1998) demonstrated that a deferred tax liability resulting from the employment of separate depreciation methodologies for book and tax was valued adequately. Sansing (1998) further demonstrated that the market value of the firm was lowered by a sum less than its book value due to the deferred tax liability resulting from depreciation differences between book and tax. In this regard, an analysis was built by Sansing (1998). First, a broad approach to emphasis was looking at the valuation of companies with various transactions in which income consequences are recorded in multiple book and tax periods. Consider liabilities that result in current book expenses but tax deductions later, for instance. Research indicates that recording a liability at its non-discounted value, like warranty liabilities, or at the present value of expected cash payments, like obligations related to post-employment benefits other than pensions, will result in a different valuation effect on the associated deferred tax asset. Second, imagine a scenario where the firm's reinvestment rate, which is lower than the economic depreciation rate, inverts the deferred tax asset and the deferred tax liability.

H_1: There is a positive relationship between deferred tax liabilities, assets, and the book-tax difference.

Book-Tax Difference and Taxable Income

Corporations successfully use the distinctions between tax and financial reporting requirements in their tax planning tactics, which creates the difference between taxable and financial accounting income. The footnotes of the companies' financial statements display permanent and temporary disparities, signifying the difference between financial accounting income and taxable income. Hanlon (2005) has also discussed the dual purpose of corporate income as the reason for the increasing disparity between the two incomes.

First, corporate income is computed using Generally Accepted Accounting Principles (GAAP) and produced for financial reporting justifications. Second, the government calculates corporate income to determine its tax obligations. Therefore, the determination of corporate income adheres to various policies, regulations, and tax legislation of the Inland Revenue. Managers manipulate both reported incomes to satisfy different users because corporate income is prepared for two different purposes: low reported taxable income intended to increase cash flows by lowering tax payments and reported earnings due to lower tax expenses, and high reported financial accounting income to shareholders and creditors intended to boost market value, as discussed by Hanlon (2005).

H_2: There is a positive relationship between taxable income and book-tax difference.

Book-Tax Difference and Interest Coverage Ratio

Several studies in the bankruptcy prediction literature use interest coverage ratios to explain the level of financial difficulty of corporations. EBITDA and EBIT are frequently utilised in interest coverage ratio computations that take an economic approach to estimate cash flow, evaluate the operating cycle's financial sustainability, and calculate the cost of debt servicing capacity. As demonstrated by prior studies, a financial technique is used to determine the applied interest coverage ratio, taking cash flow statement financial margins into account. Financial margins, as opposed to the interest coverage ratio determined using an economic approach, express the cash flow generations directly and do not require any approximation. Regarding the topics of tax shield and deductibility of interest expense, some authors have calculated interest coverage ratio using the numerator EBIT; other authors have examined the application

of interest coverage ratio to determine the solvency of listed companies, consistently using EBIT as the numerator; still, other research has applied the same methodology for SMEs. Some authors have preferred calculating the interest coverage ratio based on the EBITDA margin for both credit rating and financing operations covenant calculations, as well as for extending the calculation to companies in the food industry.

H_3: There is a positive relationship between interest coverage ratio and book-tax difference.

Book-Tax Difference and Return on Asset

Analysts and investors can evaluate the company's earnings based on sales, asset levels, and equity investments thanks to profitability measurements (Gitman, Juchau, & Flanagan, 2015). Experts recommend examining the company's operational operations, shareholders' returns, and return on investments from these perspectives. This study, like the ones by (Valls Martínez & Rambaud, 2019) uses return on assets, a profitability statistic, to determine how tax aggressiveness is related. Profitability remains the primary objective, and earnings before interest, taxes, depreciation, and amortisation (EBITDA) are also used from an operational cash flow standpoint.

H_4: There is a positive relationship between return on asset and book-tax difference.

Book-Tax Difference and Effective Tax Rate

The amount of taxes that a corporation must pay in a fair amount to ensure that it does not impede an organisation's capacity to achieve its goals is known as the effective tax rate. The effective tax rate tells us about the impact of exemptions and rate adjustments within an organisation. Policymakers and interest groups frequently use the company's effective tax rate as a tool to make inferences about the corporate tax system because it offers a convenient summary of data on the cumulative effects of different tax incentives and adjustments to corporate income tax rates (Gupta & Newberry, 1997).

Accounting and finance researchers have adopted both the effective tax rate and the book-tax difference in empirical research, often even within the same study. As previously mentioned, (Lennox, Lisowsky, & Pittman, 2013) adopted three distinct BTD measures and five distinct ETR measures in their research. Two ETR measures and two BTD measures are used by Chen, Chen, Cheng, and Shevlin (2010); one BTD measure is based on (Manzon & Plesko, 2002) and the other on (Desai et al., 2006). One BTD measure, one ETR measure, and two measures based on residuals from regressions incorporating BTDs are used by Frank, Lynch, and Rego (2009); Kim and An (2023); Surugiu, Mazilescu, and Surugiu (2023) and Kumar (2023). Three forms of BTDs and four distinct ETR measurements are presented by Hanlon and Heitzman (2010). The BTD measure used by Ayers, Laplante, and McGuire (2010) is just one.

H_5: There is a gap between income reported to shareholders (higher) and income reported to tax authorities (lower).

Research Design

A study's research design involves determining its goals and problem, outlining the necessary information and data, creating a plan for the study, designing data collection methods, conducting the research data collection, analysing and interpreting the findings, and finally, deriving the research report. This study chose a quantitative research approach to analyze numerical data related to the factors contributing to book-tax differences in the financial statements of multinational corporations.

A multivariate analysis, possibly a regression analysis, is suggested to determine how changes in the independent variables may be related to changes in the dependent variable. In this case, the relationship is between a dependent variable, namely the book-tax difference, and several independent variables, namely deferred tax liability or deferred tax asset, taxable income, interest coverage ratio, return on assets, and effective tax rate. The relationship is mentioned below:

i. Deferred tax liabilities or deferred tax assets: Disparities in accounting and tax laws give rise to deferred tax liabilities and assets. Higher deferred tax liabilities or assets may be a contributing factor to a more significant book-tax discrepancy if there is a positive link between them and the book-tax difference;
ii. Taxable income: The income that is used to calculate taxes is known as taxable income. A positive correlation between the book-tax difference and taxable income can suggest that changes in taxable income also affect the book-tax difference;

iii. Interest coverage ratio: The ability of a business to pay its interest debts is measured by the interest coverage ratio. If changes in interest expenses have an effect on the tax liabilities, or if interest-related transactions have different effects on the book and tax bases, it can be related to the book-tax difference;

iv. Return on assets: A company's profitability in relation to its total assets, is measured by its return on assets or ROA. If variations in the accounting and tax treatment of assets affect the overall difference, it could be connected to the book-tax difference and

v. Effective tax rate: The actual tax rate that a business pays on its pre-tax income is known as the effective tax rate. There could be a positive correlation between changes in the effective tax rate and changes in the book-tax difference.

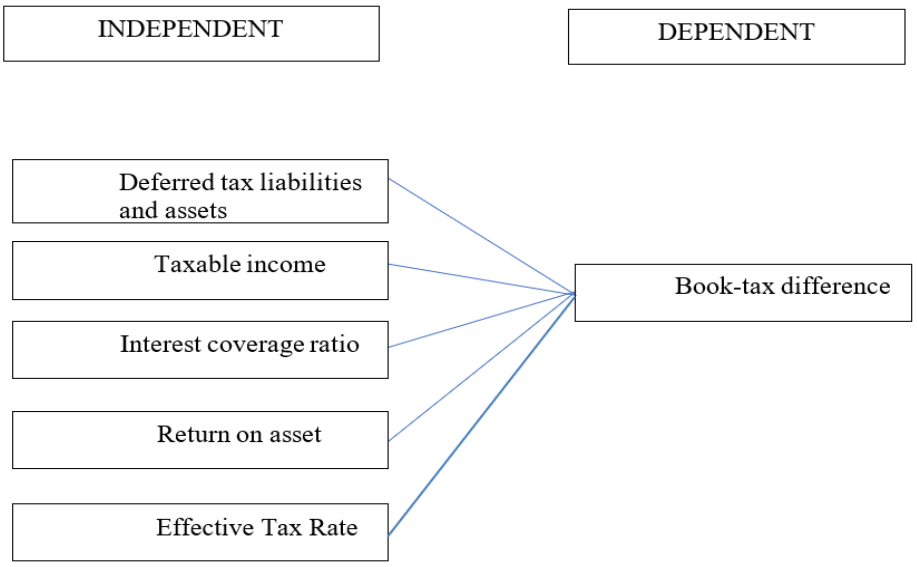

Figure 1. Conceptual framework.

Measurement of Components of Book-Tax Differences

According to Hanlon (2005), significant book-tax differences are indicative of declining earnings quality and potential future earnings issues. Additionally, Desai et al. (2006) demonstrated, through anecdotal evidence from major corporate scandals (such as Enron, Tyco, and Xerox), that managers opportunistically exploit the distinctions between financial and tax reporting, thereby lowering the quality of corporate earnings measures for both tax and financial reporting purposes. Furthermore, a rising deferred tax liability could be a signal of lower earnings quality. Consequently, book-tax differences help assess how healthy businesses are performing.

This study adopted the approach of Noor, Fadzillah, and Mastuki (2010), where the financial statements are utilised to assess the firm's taxable income using the following formula:

$$Taxable\ Income\ =\ Current\ tax\ expense\ /\ statutory\ tax\ rate \qquad (1)$$

The differences between a firm's pre-tax income and its estimated taxable income are known as the book-tax difference. Initially, the model described in Equation (1) is employed to estimate taxable income. Subtracting the expected taxable income from the pre-tax income of a company generates the book-tax differences. The quality of corporate earnings and the prevalence of tax planning activities are thus indicated by the difference between pre-tax income and expected taxable income, which can be either significantly positive or significantly negative.

$$BTD\ =\ PTI\ less\ T.I. \qquad (2)$$

Where PTI is the pre-tax income shown in the company's financial accounts, T.I. is the estimated taxable income obtained from Equation (1) above, and BTD is the book-tax difference, representing the difference between financial accounting income and taxable income.

Regression Analysis

Multiple linear regression connects a dependent variable to independent variables in a research model to determine if variables independent of the dependent variable have an effect. Multiple linear regression analysis is used to obtain regression coefficients that will be utilised to examine the empirical model.

$$BTD = \beta_0 + \beta_1 DTL_t \; and \; \beta_1 DTA_t + \beta_2 TI_t + \beta_3 ICR_t + \beta_4 ROA_t + \beta_5 ETR_t + \varepsilon_t \quad (3)$$

Where BTD represents the measure as the difference between financial accounting income and taxable income; β0 is the constant; β1DTL and β1DTA represent the difference between a book-basis and tax-basis balance sheet multiplied by the tax rate; β2TI represents the current portion of income tax expense divided by the statutory tax rate; β3ICR is measure as EBITDA/ EBIT divided by S.F. (Interest revenue minus Interest charge); β4ROA represents EBIT divided by total asset; β5ETRt represents the current tax expense divided by earnings before interest and tax; and ε, is the error term. The variable t is the number of firm years between 2017 to 2022.

Results and Discussions

Descriptive Analysis

The descriptive test for the first category includes location parameters like the mean, which are used to illustrate the data set's central tendency. These parameters provide information about the location of a sample's centre or a significant portion of the sample. The descriptive test shows that the mean values for deferred tax liabilities and deferred tax assets, taxable income, interest coverage ratio, return on assets, and effective tax rate were 13.89, 12.80, 2.12, -2.63, and -1.83, respectively. These statistics indicate that, on average, all measurements have values ranging from -2.63 to 13.89 out of 396 observations collected.

Table 1. Descriptive analysis.

Variables	N	Minimum	Maximum	Mean	Std. deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. error	Statistic	Std. error
TI	396	5	22	12.80	2.936	8.623	0.319	0.123	0.909	.245
ICR	396	-3	9	2.12	1.568	2.458	0.169	0.123	0.719	.245
ROA	396	-7	1	-2.63	0.982	0.965	-0.428	0.123	2.057	0.245
ETR	396	-9	3	-1.83	1.140	1.299	-2.143	.123	10.185	0.245
DTL and DTA	396	5	23	13.89	3.010	9.061	0.231	0.123	0.633	0.245
BTD	396	0	23	13.57	3.059	9.359	0.052	0.123	1.393	0.245
Valid N (Listwise)	396									

The second category consists of dispersion measures, providing details regarding the degree to which a variable's values within a sample deviate from one another. Therefore, dispersion measures can be used to characterise the degree to which a variable's values depart from the mean value: Do the values differ significantly because they are far apart, or are they close together? The standard deviation is a prominent illustration. Based on the same table, the standard deviations for deferred tax liabilities and deferred tax assets, taxable income, interest coverage ratio, return on assets, and effective tax rate were 3.01, 2.94, 1.57, 0.98, and 1.14, respectively. Out of the 396 observations collected in this study, the highest standard deviation was for deferred tax liabilities and deferred tax assets, indicating the highest variability and size of spread among variables acting as determinants of corporate tax planning for multinational companies in Malaysia.

Multiple Linear Regression

Homoscedasticity

The result shows a consistent spread around zero, indicating homoscedasticity, which also suggests linearity.

I. Dependent Normality test

Table 2. Dependent normality test

	N	Minimum	Maximum	Mean	Std. deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. error	Statistic	Std. error
BTD	396	0	23	13.57	3.059	9.359	0.052	0.123	1.393	0.245

In order to ensure that the data is normally distributed, the skewness of the data is being examined. According to Tabachnick and Fidell (2001); Han and Yu (2023), and Khanum, Ul-Haq, Hye, and Cheema (2024), if the skewness values fall between -1 and +1, the data is considered normally distributed. Positive skewness values indicate low scores in the distribution, whereas negative values indicate a build-up of high scores. Based on Table 2, the results show that all the skewness values are closer to 0.0 and within the range of –1.0 to 1.0, in line with Tabachnick and Fidell (2001). Furthermore, the results stipulated in Table 2 show that all the data are typically distributed.

II. Auto-correlation

Table 3. Auto-correlation

Model Summary[b]	
Model	**Durbin-Watson**
1	1.611

The table above shows that the Durbin-Watson value is 1.611, which falls within the range of 1.50 to 2.50. Hence, there is no autocorrelation present.

III. Multicollinerity

Table 4. Multicollinerity

Coefficients[a]			
Model		**Collinearity statistics**	
		Tolerance	**VIF**
1	(Constant)		
	T.I.	0.077	13.003
	ICR	0.373	2.684
	ROA	0.315	3.174
	ETR	0.400	2.502
	DTL and DTA	0.082	12.222

For this study, variance inflation factors (VIF) are used to determine whether multicollinearity problems exist. Generally, multicollinearity problems arise when the VIF values are above 10. Based on the findings, the VIF values for deferred tax liabilities and deferred tax assets are 12.222, for taxable income is 13.003, for interest coverage ratio is 2.684, for return on assets is 3.174, and lastly, for effective tax rate is 2.502. Since the VIF values are less than 10 between independent variables, we can conclude that no multicollinearity exists in the sample, and the assumptions are achieved.

Apart from VIF, tolerance is also employed, where a tolerance value less than 0.10 indicates the possibility of multicollinearity. Based on the findings, the tolerance values for each variable are below 0.10, where the tolerance value for deferred tax liabilities and deferred tax assets is 0.082, for taxable income it is 0.077, for interest coverage ratio it is 0.373, for return on assets it is 0.315, and lastly, for effective tax rate it is 0.400. Thus, multicollinearity exists in this study, and assumptions are achieved.

The p-value indicates the slope of the regression line and the strength of the relationship between the predictor variables and the outcome variable. A significant result (Sig.<0.05) suggests that the predictor variable predicts the outcome variable significantly. Based on Table 4, the findings in this study show the p-value for each variable. Firstly, the p-value is 0.000, represented by deferred tax liabilities and assets; taxable income is at 0.000; the interest coverage ratio is at 0.523; the return on assets is at 0.076; and the

effective tax rate is at 0.000. The overall findings indicate a significant relationship between deferred tax liabilities and deferred tax assets, taxable income, and the effective tax rate towards the book-tax difference. Meanwhile, the interest coverage ratio and return on assets show no significant relationship with the book-tax difference.

Conclusion

In this research, an analysis was done on the factors that influence bookkeeping and tax reporting in multinational corporations. The study has examined the relationship between reporting and taxation, uncovering the intricate strategies employed by managers to navigate diverse regulatory frameworks. The literature review provided a strong foundation by highlighting how corporate income plays a role and how managers face different incentives when reporting for financial and tax purposes. Noteworthy studies, such as those conducted by Hanlon (2005) and Lev and Nissim (2004), emphasised the importance of book-tax differences as performance indicators linked to earnings growth, stock returns, and financial transparency. Additionally, while less explored in existing literature, the study discovered that taxable income is a metric for assessing a company's health and tax planning efficiency.

In the section on hypothesis development, the study has outlined the relationships between book-tax differences and critical determinants such as tax liabilities/assets, taxable income, interest coverage ratio, return on assets, and effective tax rate. These hypotheses served as a guide for the analysis, hence giving insights into how these factors contribute to the differences between book and tax values in multinational corporations.

This study found that tax liabilities/assets, income, and the effective tax rate were identified as influential variables that affect the gap between financial accounting income and taxable income. The differences in tax liabilities and assets directly impact the financial reporting of taxes. This is because tax liabilities represent the amount of taxes a company owes to tax authorities based on taxable income, while tax assets are credits or deductions that can reduce future tax payments. Fluctuations in tax liabilities/assets can arise from changes in tax laws, accounting treatments, or the timing of recognizing income and expenses for tax purposes. These variations contribute to differences between financial accounting income and taxable income, as reported in the financial statements. While, discrepancies between financial accounting income and taxable income often stem from variations in the recognition and measurement of income items. Financial accounting principles, such as revenue recognition and expense matching, may differ from tax laws and regulations governing taxable income. For instance, financial reporting purposes may recognize certain revenues or expenses differently than tax purposes, resulting in disparities in reported income figures. The magnitude of these differences can significantly impact the book-tax gap.

For the effective tax rate, this variable is a critical metric that reflects the proportion of income tax expenses relative to pre-tax income. Variations in the effective tax rate can result from factors such as tax planning strategies, tax incentives, and differences in the tax treatment of specific items. Changes in the effective tax rate can influence the magnitude of the book-tax gap by altering the amount of taxes payable or refundable, thus impacting reported financial accounting income and taxable income.

The results presented in the findings and discussions section highlighted the variation and diversity among these factors, underscoring how corporate tax planning for companies is inherently complex. In summary, this study provides insights into understanding book-tax differences in multinational corporations. By unraveling the intricacies of these differences and shedding light on various factors, this study offers nuanced knowledge that can benefit stakeholders, policymakers, and academics alike. As multinational companies adapt to the changing business environment, the insights shared in this study provide a solid basis for further exploration and real-world implications in areas such as financial reporting, taxation and corporate decision-making.

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