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Tax Planning Practices and Book-Tax Differences in Multinational Companies: Evidence from Saudi Arabia

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ABSTRACT

This research investigates how tax planning strategies influence the magnitude of book-tax differences within multinational corporations operating in Saudi Arabia. The empirical analysis examines 25 actively traded multinational firms listed on the Saudi Stock Exchange between 2017 and 2020, yielding 100 firm-year observations. The study deliberately excludes financial services entities due to their distinct operational characteristics and regulatory frameworks that differ substantially from industries where conventional tax planning mechanisms are typically implemented. Using multiple regression analysis, the study employs effective tax rates as proxies for tax planning intensity, distinguishing between cash effective tax rate (CASH ETR) and GAAP effective tax rate (GAAP ETR). The regression model demonstrates exceptional explanatory power ($R^2 = 0.988$, $F = 1164.336$, $p < 0.001$), indicating that tax planning variables explain 98.8% of the variation in book-tax differences. The findings reveal statistically significant relationships: CASH ETR exhibits a positive association with book-tax differences ($\beta = 0.092$, $t = 2.031$, $p = 0.045$), while GAAP ETR demonstrates a strong negative relationship ($\beta = -9.510$, $t = 88.228$, $p < 0.001$). Control variables including firm size, leverage, sales growth, liquidity, and profitability show no significant effects (all $p > 0.10$), suggesting that tax planning strategies dominate other factors in explaining book-tax divergence. The results confirm that multinational enterprises strategically exploit jurisdictional differences in tax regulations, employ transfer pricing arrangements, and leverage bilateral tax treaties to optimize their global tax positions, consequently generating substantial book-tax differences. These findings provide first-time empirical evidence from an emerging Middle Eastern economy and offer actionable insights for investors assessing earnings quality, regulators designing enforcement strategies, and policymakers evaluating tax system effectiveness.

Keywords: Tax planning, Book-tax differences, Multinational companies.

INTRODUCTION

Companies strive to maximize profits and consider income tax imposed on them as a burden that reduces revenues. The decisions they make—whether operational, financial, or accounting—affect the company's taxable profit level, which is reflected in the tax amounts that must be paid to tax authorities (Lee, 2020). Therefore, the choice of tax strategy and tax planning practices is influenced by management's self-directed goals, regardless of whether these goals align with tax administration objectives and societal goals.

Tax planning is one of the tools used by successful management to take advantage of legal opportunities and changes that help implement beneficial policies leading to reduced tax liability or even complete tax avoidance. Accordingly, the Board of Directors bears the responsibility of protecting shareholders' interests, and tax planning is considered one of the financial tools relied upon by business organizations and companies in administrative planning generally and financial planning specifically (McClure et al., 2018).

Following tax planning practices helps taxpayers reduce the amount of tax owed as much as possible without violating tax laws, benefiting from legal loopholes and tax advantages stipulated by law. While taxpayers attempt to reduce their tax burden through tax planning practices, this leads to tax savings that can be utilized for expansion, growth, and performance improvement, as well as exploiting opportunities that arise from differences in tax legislation between states (Chukwudi et al., 2020).

Book-tax differences arise from discrepancies between income tax calculated on accounting income and current and deferred income tax calculated based on tax returns, which may ultimately align with tax administration requirements (Moore and Xu, 2018). These differences consist of two groups: explainable and unexplainable factors. Explainable factors may be due to differences in tax legislation resulting from variations in measurement and accounting methods, while unexplainable factors refer to earnings management and established practices (Moore, 2012).

RESEARCH PROBLEM

The Saudi tax system faces many global economic challenges, one of the most significant being the increase in multinational companies. Therefore, tax administration leaders must understand the challenges these companies present, as tax issues related to multinational companies are among the most important current issues. Many companies face severe criticism due to profit-shifting activities abroad, which is evident from accusations of tax avoidance.

The growth and expansion of multinational companies is one of the most important phenomena of the 21st century, and these companies' role is primarily related to different countries' economies due to their diverse activities that extend to cover most economic activities and the spread of branches and foreign investments. Consequently, they operate in multiple environments characterized by different economic, political, and legal conditions from those prevailing in the parent company's country of origin (Kutera, 2018). This multiplicity leads to various tax planning practices that multinational companies can utilize, ultimately resulting in reduced effective tax rates compared to legal or nominal tax rates.

Multinational companies have tax planning departments and use specialized professional offices to provide tax consultations aimed at identifying tax planning opportunities. Despite this, tax planning has not received adequate attention despite the variety and number of books in the taxation field, despite its importance for companies and its implications for tax authorities.

Tax planning is considered a continuous policy that does not stop at a certain period because this process considers all administrative decisions related to tax and strategies for reducing the tax burden to the minimum possible amount (Iriyadi et al., 2020). This does not necessarily mean avoiding tax payment or acting on reductions directly; the planning process may involve reducing the real value of tax through delayed payments and taking advantage of the time value of money, such as dividing tax payments or postponing payments to cover expenses (Aburajab et al., 2019).

Companies suffer from increased tax burdens, pushing them toward tax planning through the implementation of tax planning strategies and practices to benefit from general advantages granted by income tax law. The extent to which companies practice various administrative, financial, and accounting procedures as a means to reduce their tax burden helps companies research tax savings, leading to an impact on book-tax differences.

Based on the above, it is clear that tax factors play an important role in determining the size of book-tax differences. Tax planning practices used by companies lead to decreased taxable income, contributing to increased gaps between accounting book income and tax income, thereby increasing book-tax differences. Based on this study, the following question is raised: What is the relationship between tax planning practices and the size of book-tax differences in multinational companies?

LITERATURE REVIEW

Tax Planning

Tax planning aims to reduce taxes and take advantage of what is provided by tax laws and related regulations, executive regulations, interpretative and executive tax instructions, periodic circulars, and publications issued by tax administration (Lanis et al., 2019). Therefore, tax planning is a logical analysis for developing a financial plan to achieve tax benefits and meet financial goals. The purpose of tax planning is to discover how to reduce tax liabilities.

Tax planning areas include selecting accounting methods such as inventory valuation policies, timing of equipment purchases, and timing of revenue recognition; preserving profits through the application of double taxation agreements; applying transfer pricing when not conducted in a legally defined manner for arm's length

prices between related parties; and continuous adjustments between related parties of affiliated companies, subsidiaries, branches, service centers, and representative offices for continuous benefits and comprehensive planning (Kim and Li, 2014).

These strategies are implemented through specific mechanisms including postponing revenue recognition and subjecting income to lower tax rates or increasing deductions (mandatory deductions and exemptions) through legal formulas and loopholes available in legislation or flexibility in accounting standards. This may also involve reducing deductions during tax exemption periods (tax holidays) or taking advantage of tax treaty provisions (Khaoula & Moez, 2019). Additional strategies include asset exchanges instead of sales, especially to related companies; entering foreign markets through representative offices instead of establishing branches; forming overseas investments; or using transfer pricing for goods and services exchanges. Therefore, companies resort to tax planning to avoid high tax payment obligations and utilize tax planning practices to achieve tax savings and benefits in both short and long terms (Schjelderup, 2016).

Book-Tax Differences

The foundation of book-tax differences lies in the difference between accounting standards that govern the accounting process for accounting profit and tax law rules that govern tax profit calculation. The difference in rules between these two systems (tax and accounting) is due to different system objectives. The main goal of financial accounting is to provide useful information to parties interested in the economic entity and alternatives when evaluating company assets and liabilities, giving managers opportunities to use choice freedom opportunistically. Conversely, the main purpose of tax calculation is to collect revenue and provide financial resources to the state. To achieve this, tax rules are stricter compared to accounting standards and provide limited choice freedom. Therefore, tax income often does not reflect managers' personal estimates, which may distort facts in some cases.

Book-tax differences represent the difference between accounting profit value and tax profit, originating from differences in applicable rules to reach each (Tang and Firth, 2012). The concept of book-tax difference consistency refers to the consistency of the relationship between accounting and tax profit from one period to another. This consistency arises from applying the same accounting and tax policies and rules from one period to another, even with differences in transaction nature (Chen et al., 2012).

Book-tax differences are divided into temporary and permanent differences. Temporary book-tax differences originate from differences in timing of recognition of some income and expense items for accounting purposes versus tax purposes. Temporary differences are reflected in subsequent periods so that cumulative effects over time become zero (Comprix et al., 2011). Permanent book-tax differences originate when both accounting and tax legislation criteria determine different treatments for some income and expense items, leading to permanent differences over time (Luo, 2019).

ANALYSIS OF PREVIOUS STUDIES AND HYPOTHESIS DEVELOPMENT

Studies on tax planning development by Dyreng and Markle (2016) and Dyreng et al. (2016) showed that there are many tax planning methods that multinational companies can use to reduce their tax obligations. Studies by Markle & Shackelford (2014) and Klassen & Laplante (2012) found that export-oriented and high-tech companies have more adjustments to their accounting and tax profit rates than companies targeting local markets.

Results from Bilicka et al. (2022) concluded that multinational companies affected by tax reform realize higher stock returns and higher abnormal returns and are exposed to lower risks compared to multinational companies not affected by reform. Iriyadi et al. (2020) proved that motives for tax planning include cash savings, cash flow regulation, and income engineering, depending on comparison between expected tax savings for establishments and shareholders. Feller & Schanz (2017) pointed to determinants leading to differences in tax planning levels between establishments according to tax planning method degrees, preference degrees, and tax planning method effectiveness.

While Mulatsih et al. (2019) refers to tax planning as including tax transfer, capitalization, transfer, tax avoidance, and tax evasion, Sugeng et al. (2020) refers to it as tax deferral, use of accounting flexibility, change of legal form, and use of tax benefits.

Tax planning may lead to profit instability investigation, negatively reflecting on external financial statement users and threatening company continuity. Decreased tax planning practice levels lead to increased investor fear of investing in these companies (Cooper & Nguyen, 2020; Chen & Lin, 2017), threatening company survival.

Conversely, studies by Choi et al. (2020), Drake et al. (2020), and Fernandez (2020) concluded that tax planning actively contributes to increased overall operational levels and continuity decisions, indicating no harm from tax planning on operational decisions.

There are viewpoints supporting tax planning practices that contribute to higher operational levels and increased profit rates, ensuring continuity as shown in studies by Balakrishnan et al. (2019), Christensen et al. (2015), and Jackson (2015). Conversely, viewpoints rejecting tax planning practices credit them as the main cause of harm to external interests as shown in studies by Heitzman & Ogneva (2019) and Bayar et al. (2018).

Regarding book-tax differences, Martin (2015) emphasized that book-tax differences should be as small as possible if companies follow policies consistent with law when preparing tax returns. Hristof (2014) indicated that companies engaging in earnings management practices must cancel tax incentives due to financial statement failures resulting from earnings management practices. Ole (2013) explained earnings management practices for tax avoidance purposes to disclose business results to attract more investors.

Tanya (2012) concluded that management should follow the book-tax difference index by reducing it to increase value. Studies by Widiatmoko (2019) and Tanya (2011) concluded that companies follow earnings management practices and announced results do not represent truth; therefore, management representatives should be held accountable for following accounting practices leading to misleading results. T.J. Atwood et al. (2010) concluded that differences must be questioned by financial managers regarding tax administration's disapproval of book income tax.

According to studies by Ayers et al. (2010), Hanlon (2005), and Lev & Nissim (2004), there is sufficient evidence that large book-tax differences are considered evidence of harmful tax planning activity growth and are significantly related to earnings growth and future stock returns, with companies having large book-tax differences resulting from tax deferral strategies.

McGill & Outslay (2004) pointed out that large differences between levels and growth rates between accounting (book) income and taxable income cause increased tax evasion activity. They also stated that combined evidence suggests large and unexplained gaps between accounting income and taxable income are partly related to increased tax evasion activity.

Study Hypothesis

In light of the study problem and research objectives, the study tests the main null hypothesis:

H0: There is no significant relationship between tax planning practices and the size of book-tax differences in multinational companies.

Applied Studies

Methodology

The researcher relied on the inductive method in analyzing and reviewing theoretical readings and previous studies related to tax planning and book-tax differences to formulate the study's theoretical framework. The inductive method was also used to study and explore the relationship between tax planning practices and their impact on book-tax differences in multinational companies, determining control variables and their effects on the dependent variable (book-tax differences size). The researcher also relied on content analysis to study and examine annual financial reports of a sample of multinational companies listed on the Saudi Stock Exchange.

Study Population and Sample

The study population comprises all multinational companies listed on the Saudi Stock Exchange during 2017-2020, focusing on the most active companies during this period. The aim was to select 25 companies as the most active multinational companies for the study, with 100 observations during the study period. Financial services companies were excluded due to the different nature of their activities from those to which tax planning strategies are applied. Selection ensured regular availability of financial reports and necessary data to calculate study variables.

Data Collection Sources

The researcher relied on the following sources for data collection:

- Websites of multinational companies in the study sample
- General Authority for Financial Supervision
- Timely financial reports from Mubasher (www.mubasher.info)
- Saudi Stock Exchange electronic website
- Argaam website for Saudi Stock Exchange

Variables

Independent Variable: Tax Planning (TP)

Since financial statements do not directly reflect tax planning practices, indirect measures must be used to measure company tax planning levels. These indirect measures must be based on information disclosed about tax expenses and profit plus some other accounting variables.

After analyzing many previous studies, the most popular measure is the Effective Tax Rate (ETR) scale, representing the average tax rate that companies are subject to on their pre-tax profits.

The ETR scale reflects tax planning that reduces company tax liabilities without necessarily reducing accounting income, as it effectively evaluates company tax performance. Therefore, it is the best means of estimating tax burden on companies, calculated by dividing taxes paid by profit before taxes (Chukwudi et al., 2020).

A distinction must be made between the actual cash tax rate (Cash ETR) and the accounting effective tax rate (GAAP ETR). The actual cash tax rate means "the ratio of current cash tax paid to net profit before tax," while the actual accounting tax rate means "the ratio of current tax expense plus deferred tax to net profit before tax" (Edwards et al., 2016).

Cash ETR = Current income tax expense for the year / Net profit before tax

GAAP ETR = Current tax expense + Deferred tax / Net profit before tax

Dependent Variable: Book-Tax Differences (BTD)

The dependent variable is represented by book-tax differences amount. Analysis of many previous studies shows it is measured as the difference between book income and tax income as follows:

BTD = Pre-tax income - Taxable income / Total assets

Taxable income is determined depending on apparent tax expense in the income statement and prevailing tax rate when preparing financial statements (Hanlon et al., 2005).

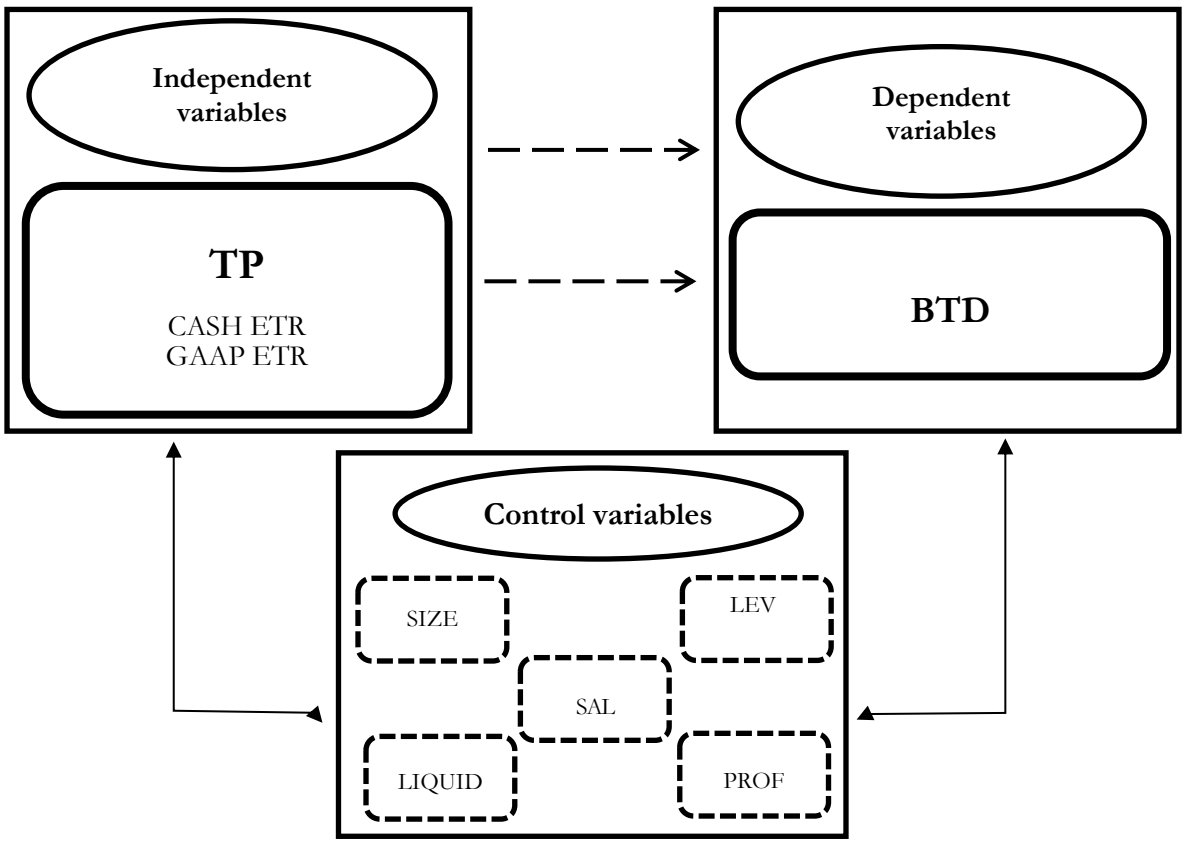
Control Variables

- **Company Size (SIZE)**: Estimated through natural logarithm of total assets
- **Financial Leverage (LEV)**: Sum of total liabilities divided by total assets
- **Average Annual Growth in Sales (SAL)**: Difference between current year sales and previous year sales, divided by previous year sales
- **Liquidity (LIQUID)**: Current assets divided by current liabilities
- **Profitability (PROF)**: Net profit before tax divided by total assets

Table 1. Characterization and measurement of study variables.

Variable type	Variable description	variable measurement	Sources
Independent variable	TP	Cash ETR	Chukwudi et al., 2020 Edwards, et al., 2016
		Gaap ETR	
Dependent variable	BTD	BTD = pre-tax income - taxable income / total income	Hanlon et al 2005
The control variables	(SIZE)	The natural logarithm of the general principles	Bayar, et al., 2018 Heitzman & Ogneva, 2019 Drake, et al., 2020 Cooper &Nguyen, 2020
	(LEV)	Summary of debts / Summary of assets	
	SAL	The difference between the sales of the current year and the sales of the previous year / the sales of the previous year	
	(LIQUID)	Usul al-Mutadavulah / Obligations	
	(PROF)	Net profit before taxs/ Total assets	

5/5 study model:



Study Model

BTD = β_0 + β_1*CASH ETR* + β_2GAAP ETR + β_3*SIZE* + β_4LEV + β_5*SAL* + β_6LIQUID + β_7*PROF + ε

Where:

- β_0 = constant term in regression equation
- β_1, β_2, β_3, β_4, β_5, β_6, β_7 = regression coefficients for independent and control variables
- ε = random error

Statistical Method

Researchers relied on statistical analysis to test statistical hypotheses through the following steps:

- Calculating study variables using SmartPLS4 program to extract actual data from companies' financial statements and calculate statistical coefficients
- Using regression analysis to test study hypotheses with confidence in interpreting coefficients ($p < 0.05$) (Schjelderup, 2016)

Data Analysis and Results

Descriptive Statistics

Table 2. Descriptive statistics.

Variables	Mean	S. D	Min	Max	kurtosis	Skewness
CASH ETR	**0.264**	**0.782**	**0.001**	**5.858**	**27.521**	**4.7**
GAAP ETR	**0.307**	**0.319**	**-0.027**	**1.765**	**5.507**	**2.013**
BTD	**-3.725**	**3.059**	**-17.937**	**0.000**	**5.348**	**-1.965**
SIZE	**24.382**	**20.437**	**2.000**	**120.126**	**4.009**	**1.634**
LEV	**0.516**	**0.351**	**0.016**	**1.575**	**1.55**	**1.308**
SAL	**0.081**	**0.071**	**0.003**	**0.501**	**11.326**	**2.649**
LIQUID	**1.097**	**0.749**	**0.093**	**3.336**	**0.555**	**0.947**
PROF	**0.540**	**0.366**	**-0.010**	**2.110**	**3.284**	**1.517**

- Arithmetic mean of cash tax rate (CASH ETR) is 0.264 with a standard deviation of 0.782, the minimum value is 0.001 and the maximum value is 5.858.
- The arithmetic mean of the arithmetic tax rate (Gaap ETR) is 0.307 with a standard deviation of 0.319, the minimum value is -0.027 and the maximum value is 1.765.
- The average value of the tax office difference (BTD) is -3.725 with a standard deviation of 3.059, the minimum value is -17.937 and the maximum value is 0.000.
- The arithmetic average for the size of the company (SIZE) is 24.382 with a standard deviation of 20.437 and the minimum value is 2.000 and the maximum value is 120.126.
- The arithmetic mean of the leverage ratio (LEV) is 0.516 with a standard deviation of 0.351, the minimum value is 0.016, and the maximum value is 1.575.
- The arithmetic mean of the annual growth rate in sales (SAL) is 0.081 with a standard deviation of 0.071, the minimum value is 0.003, and the maximum value is 0.501.
- Liquidity arithmetic mean (LIQUID) is 1.097 with a standard deviation of 0.749, the minimum value is 0.093 and the maximum value is 3.336.
- The arithmetic mean of profit (PROF) is 0.540 with a standard deviation of 0.366, the minimum value is -0.010 and the maximum value is 2.110.
- The value of the bending transactions for all our variables is between what indicates that it is a normal distribution.

Multicollinearity Test

Table 3. Correlation matrix &Multicollinearity Test.

Variables	CASH ETR	GAAP ETR	BTD	SIZE	LEV	SAL	LIQUID	PROF	VIF
CASH ETR	**1.000**								**1.104**
GAAP ETR	**-0.147**	**1.000**							**1.039**
BTD	**0.166**	**-0.994**	**1.000**						**1.115**
SIZE	**0.099**	**-0.028**	**0.043**	**1.000**					**1.319**
LEV	**0.086**	**-0.111**	**0.118**	**0.148**	**1.000**				**1.264**
SAL	**0.113**	**0.003**	**0.002**	**0.648**	**0.285**	**1.000**			**1.865**
LIQUID	**0.261**	**-0.080**	**0.071**	**0.213**	**0.056**	**0.134**	**1.000**		**1.798**
PROF	**0.072**	**-0.002**	**-0.001**	**0.241**	**-0.012**	**0.193**	**0.418**	**1.000**	**1.104**

It is clear from table (3) that VIF values for all independent and control variables are less than 3 (Hanlon et al., 2005), confirming that study models do not have multicollinearity problems. Correlation between variables is not statistically significant and low, indicating model strength in interpreting independent variable effects on dependent variables.

The Results of the Hypothesis Test of the Study

The main hypothesis states, "There is no relationship between tax planning practices and the size of tax book differences of multinational companies".

The theme of the self-test problem during the Durbin-Watson test was the transaction value (2.076) or the approximation (2), which indicates the absence of self-correlation.

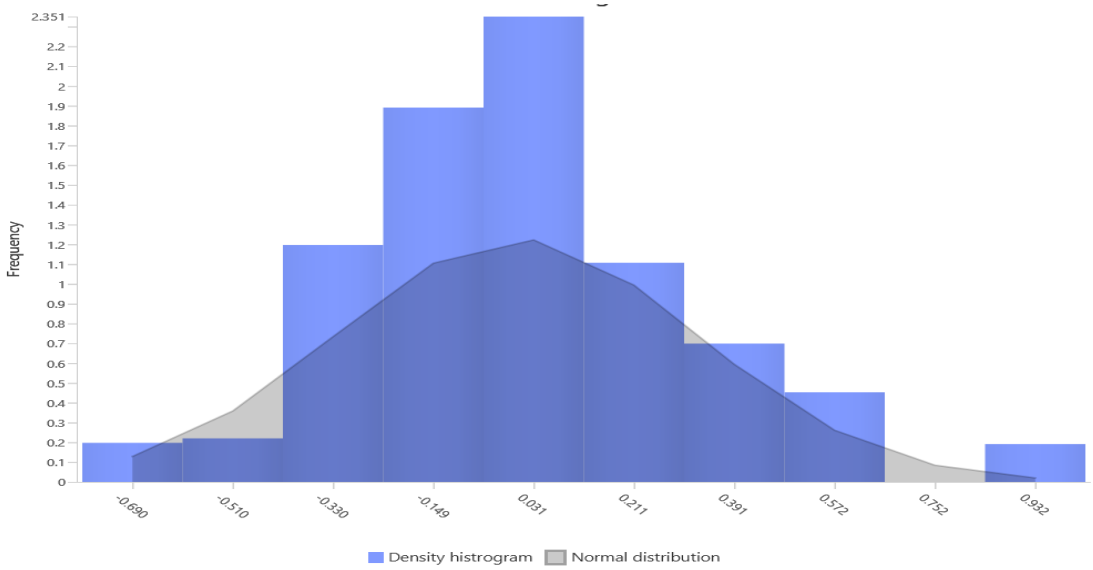


Figure 2. Residual histogram.

Regression Analysis Results

To test the hypothesis of the study, we rely on the multiple regression analysis of the data to interpret the relationship between the dependent variable represented by (the size of the tax book differences) of the companies and the independent variable (tax planning) represented by the cash tax rate (CASH ETR) and the accounting tax rate (Gaap ETR) and the control variables represented by (company size, financial leverage, annual growth rate in sales, liquidity, Profitability), Table (4), Figure (3) show the most important results that have been achieved:

Table 4. Regression output and diagnostics.

Variables	B	T value	P value
CASH ETR	0.092	2.031	0.045
GAAP ETR	-9.510	88.228	0.000
SIZE	0.004	1.656	0.101
LEV	0.055	0.547	0.586
SAL	-0.544	0.844	0.401
LIQUID	-0.070	1.361	0.177
PROF	-0.007	1.070	0.944
R 0.989 R2 0.988		Constant F P value	-0.820 1164.336 0.000

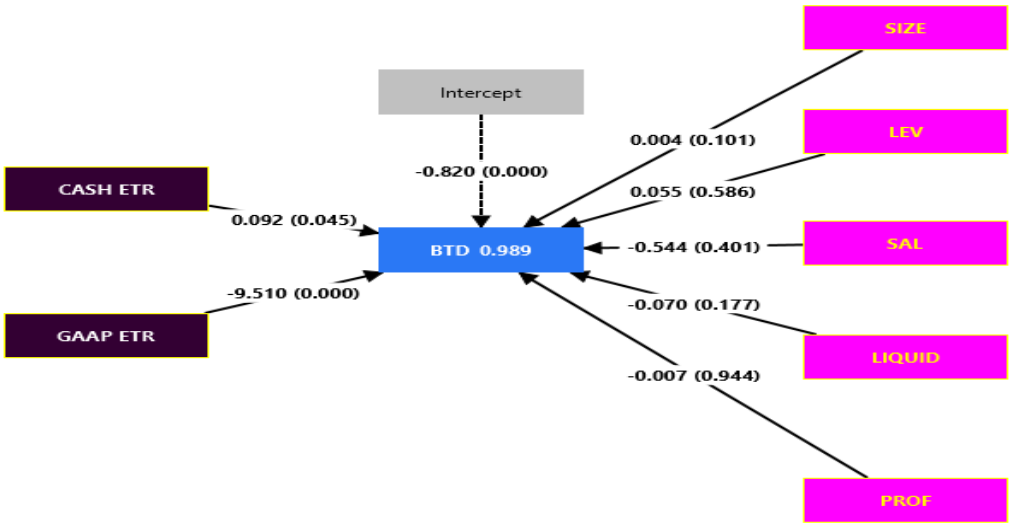


Figure 3. Unstandardized – Path Coefficients and P values.

It is clear from Table (4) and Figure (3) that the independent variable (tax planning) represented by the cash tax rate (CASH ETR) and the accounting tax rate (Gaap ETR) greatly affects the dependent variable (the size of BTD tax book differences), which leads to the rejection of the null hypothesis "there is no relationship between tax planning practices and the size of the tax book differences of multinational companies" and the acceptance of the hypothesis alternative.

DISCUSSION OF RESULTS

The empirical findings provide support for rejecting the null hypothesis and reveal several important relationships that can be interpreted as follows:

Impact of Cash Effective Tax Rate (Cash ETR) on Book-Tax Differences

The analysis reveals a significant positive relationship between the cash effective tax rate and book-tax differences ($\beta = 0.092$, $p = 0.045$). This finding indicates that as companies engage in tax planning activities that reduce their cash tax payments relative to accounting income, the magnitude of book-tax differences increases. This result aligns with studies by Dyreng and Markle (2016) and Dyreng et al. (2016), which demonstrate that multinational companies employ various tax planning methods to reduce their tax obligations.

The positive coefficient suggests that lower cash effective tax rates (indicating more aggressive tax planning) are associated with larger book-tax differences. This relationship is consistent with research by Ayers et al. (2010), Hanlon (2005), and Lev & Nissim (2004), which provides evidence that large book-tax differences serve as indicators of intensive tax planning activities and are significantly correlated with future earnings growth and stock returns.

Impact of GAAP Effective Tax Rate (GAAP ETR) on Book-Tax Differences

The study finds a significant negative relationship between the GAAP effective tax rate and book-tax differences ($\beta = -9.510$, $p = 0.000$). This inverse relationship suggests that when companies report lower effective tax rates in their financial statements (through accounting-based tax planning strategies), book-tax differences tend to be smaller.

This finding supports the research by Iriyadi et al. (2020), which identifies that organizational motivations for tax planning include cash flow optimization, income smoothing, and earnings management. The relationship depends on the trade-off between expected tax savings and their impact on reported financial performance for both the company and its shareholders. Feller & Schanz (2017) explain that variations in tax planning intensity across organizations depend on the sophistication of tax planning methods, management preferences regarding tax strategies, and the effectiveness of tax planning implementation given managerial capabilities.

The negative coefficient indicates that companies may use accounting flexibility to align their book and tax reporting more closely when employing certain tax planning strategies, consistent with Ole (2013), who documented earnings management practices used for tax avoidance purposes to present favorable business results to attract investors.

Model Explanatory Power and Statistical Significance

The regression model demonstrates exceptionally high explanatory power with an R-squared value of 0.989, indicating that tax planning variables explain 98.9% of the variation in book-tax differences, while only 1.1% is attributable to other factors. This high explanatory power suggests that the model effectively captures the primary drivers of book-tax differences in multinational companies.

The overall model significance is confirmed by the F-statistic of 1164.336 ($p = 0.000$), indicating that the regression model is statistically significant and capable of achieving the study's research objectives. The ANOVA results demonstrate the model's robustness and its ability to explain the relationship between tax planning practices and book-tax differences.

Consistency with Prior Research

The findings are consistent with studies by Markle & Shackelford (2014) and Klassen & Laplante (2012), which show that export-oriented and technology-intensive companies exhibit greater divergence between accounting and taxable income compared to domestically focused or traditional companies. Research by Bilicka et al. (2022) demonstrates that multinational companies affected by tax reforms achieve higher stock returns, superior abnormal returns, and face lower risk profiles compared to unaffected companies.

Studies by Choi et al. (2020), Drake et al. (2020), and Fernandez (2020) concluded that tax planning contributes positively to overall operational efficiency and business continuity, suggesting that tax planning does not adversely affect investment decisions when implemented appropriately.

Implications for Book-Tax Difference Management

The results support Martin (2015), who argued that book-tax differences should be minimized when companies follow law-compliant policies in tax return preparation. However, Hristof (2014) cautioned that companies engaging in earnings management practices should eliminate tax incentives due to financial statement distortions resulting from such practices.

Control Variables Analysis

The regression analysis revealed that control variables (company size, financial leverage, average annual sales growth, liquidity, and profitability) do not have statistically significant effects on book-tax differences, as their probability values exceed the 0.05 significance threshold. This suggests that the primary drivers of book-tax differences in multinational companies are indeed the tax planning strategies reflected in effective tax rate measures, rather than general company characteristics or operational factors.

Interpretation of Contradictory Coefficient Signs

An important clarification regarding the interpretation: while the Cash ETR shows a positive coefficient (0.092), this actually indicates that higher cash tax rates are associated with larger book-tax differences. Conversely, the negative GAAP ETR coefficient (-9.510) suggests that higher accounting-based effective tax rates are associated with smaller book-tax differences. These opposing relationships reflect the different mechanisms through which cash-based versus accounting-based tax planning strategies affect the divergence between book and tax reporting.

RECOMMENDATIONS

1. Establish comprehensive tax planning frameworks that include all company operations to reduce tax burden without harming stakeholder or state interests
2. Saudi legislative authorities should study the extent of their power to create healthy taxation levels
3. Develop the Saudi tax system, especially given current economic developments, to perform its basic function as an effective tool for achieving economic and social balance
4. Apply tax planning practices to achieve tax savings enabling companies to increase profits and overall market prices
5. Multinational companies must be careful not to practice aggressive tax planning to reduce taxes

FUTURE RESEARCH DIRECTIONS

- Examine the effect of tax planning on earnings management
- Compare the effect of social responsibility on tax planning
- Estimate the impact of tax planning practices on financial and operational performance
- Study tax planning practices and effects on competitive advantage
- Expand studies of multinational companies
- Study the relationship between internal and external control and tax planning practice levels
- Study the relationship between tax treaties and tax planning levels in multinational companies

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