

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

INSTITUTE OF DISTANCE LEARNING

**EXAMINING THE EFFECT OF CORPORATE TAXATION PLANNING ON
THE FINANCIAL PERFORMANCE OF LISTED FINANCIAL AND NON-
FINANCIAL INSTITUTIONS IN GHANA.**

BY

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**A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND
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MASTER OF SCIENCE IN ACCOUNTING AND FINANCE**

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DECLARATION

I declare that this thesis is the result of my own work and that no part of it has been presented for another degree in this university or elsewhere

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DEDICATION

I dedicate this work to the Almighty God for His protection and guidance throughout my period of study. I also dedicate my work to my mother Miss Hellen Anku.

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ABSTRACT

Tax planning activities include tax avoidance and tax evasion schemes that affect the financial plans of banks due to changes in national tax laws. Tax planning schemes reduce the tax burden of firms through extensive outsourcing and higher levels of pre-tax income leading to higher profits. Assuming the firm does not change, the fewer income taxes increased by firms become lower after-tax income before taxes profit, because the cost of tax avoidance is lower than for firms with lower before-tax gross income. The study aimed at identifying the impact of effective tax rate on tax planning for financial and nonfinancial organizations. A comparison was done between the tax planning determinants of financial and nonfinancial organizations. The used data from the annual reports of 12 listed financial and nonfinancial organizations. The study concludes that tax planning measured with effective tax planning improves the financial performance of financial organizations. Firm size has also shown that the financial performance of financial organizations is positively affected when the organization's size improves.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Tax planning activities include tax avoidance and tax evasion plans that affect the financial plans of banks due to changes in national tax laws (Putra et al., 2021). Olarewaju and Olayiwola (2019) show that tax planning schemes reduce the tax burden of firms through extensive outsourcing and higher levels of pre-tax income leading to higher profits. Assuming the firm does not change, the fewer income taxes increased by firms become lower after-tax income before taxes profit, because the cost of tax avoidance is lower than for firms with lower before-tax gross income. McCarthy (2016) argues that tax credits, tax evasion, and tax evasion are used more efficiently than non-profit companies making a larger difference on the tax books. Olamide et al. (2019) also state that banks with the ability to implement tax planning are more likely to be selective and more efficient than banks without effective budgeting arrangements for tax planning.

This study will be based on three concepts. Hoffman's tax planning theory 1961 as discussed by Ftouhi and Ghardallou (2020), stated that because of the complex nature of the tax process and structure, the weakness of the legal system allows taxpayers to take advantage of the tax situation. This concept supports firms that divert business applications to the use of other firms rather than flowing to government regulators (Ftouhi and Ghardallou, 2020). The Theory of Capital Structure and Tax Trade-off Theory by Myers in 2001 cited by Yakubu et al. (2021) says that firms have a higher choice of debt than equity because of the tax protection benefits of borrowing. Yakubu et al. (2021) confirm that aggressive borrowing can be carried out to the extent that

the value of the extra debt is offset by the rise in the present value of the costs of financial distress. The agency cost theory of Jensen and Meckling in 1976 discussed by Tang (2022) is also the fundamental of this study because it explains that agent managers can distort the company using tax planning to distribute the wealth of the company in its favor. Corporate tax planning can be good or bad for a company especially if the management does not comply with the government's actions (Tang, 2022).

Banks in the GSE are taxed differently because they also have different financial operations (Tackie et al. 2022). However, each bank has its tax management practices and strategies. The Taxation Law of 2015 (Taxation Law 896) came into effect on September 1, 2015, aiming to create harmony and orientation in the organization and implementation of the Taxation Law, to ensure that taxpayers comply with the law and to improve tax collection (Seidu, et al., 2021). The law allows the GRA to detain any person or bank that appears to be involved in tax evasion (Seidu, et al., 2021).

Olamide et al. (2019) defined tax planning as the planning of personal financial affairs without violating the law or following prescribed practices. There is a full right to allow tax breaks, tax deductions, rebates, discounts, rebates, deductions, and other benefits or benefits prescribed per the Income Tax Act (Gatsi et al., 2013). The term tax planning is used by businesses and individuals to pay taxes from the federal government, state, and local tax authorities (Lewar and Fadjarenie, 2022). This process requires aspects such as tax impact management, understanding the nature of expenditures according to existing regulations, and proper planning of tax collection procedures to ensure prompt payment (De Vito, 2022). The use of tax laws to solve the problem of paying taxes is part of tax collection. Color (Li et al., 2022). The aim of tax planning is to reduce tax liability (Le, et al., 2022). Hlaing and Stapleton (2022)

show that the competitive environment produces strategic decisions that are consistent with the company's operational decisions. Beasley et al. (2021) argue that several methods can be used to achieve tax reduction. For developing countries, this process is well-defined, although reliable and consistent data are not available (Rabbi and Almutairi, 2021). For developing countries, Nurfadila and Muslim (2021) outline the methods of tax reduction as including transfer fees, paying for strategies to change the profits of the entity, shell companies, shares of the company's debt, mixed companies and the direct tax law of the company (Nurfadila and Muslim, 2021).

The circumstances in which the firm's goals will be achieved are called financial performance (Donkor et al., 2022). A bank's financial performance depends on the firm's ability to use its assets from its core business to run the business and generate revenue thereafter (Ebimobowei, 2022). Financial performance also refers to the overall financial health of a company over a period (Felix and Mamidu, 2021). Financial performance also measures or rate companies from the same industry or across different industries for comparative purposes (Ado et al. 2021). In short, financial performance is an important objective desired or targeted by firms, especially profit-oriented firms (Omesi and Appah, 2021). Financial performance focuses on those things that directly affect the firm's financial statements or reports (Aronmwan and Igbinoba, 2021). Financial performance analysis can deal with factors such as profit growth, sales volume, capital employed, and assets among other factors related to the company (Bashir and Zachariah, 2020). Financial performance is an important sign of the success of some economic sectors, for example, the achievement of goals and objectives (Salawu, 2017). The company's stakeholders are very interested in the company's financial performance (Khuong et al., 2020). Financial performance measurement can be based on financial ratios such as operating ratio, debt ratio, budget

and profit (Ozkan et al., 2017). Financial performance is measured from several perspectives including solvency, profitability, and liquidity (Maqbool and Zameer, 2008). Measuring the performance of the company can be done through the responses found in the financial reports of the company such as return on capital, return on assets, and gross profit margin (Maqbool and Zameer, 2008).

Overesch and Wolff (2021) show that corporate tax liability is related to corporate profitability. The success of the objective of increasing the company's wealth through various means of increasing profits leads to the company's ability to pay higher taxes, thus reducing its tax liability. They argue that since tax planning has a positive effect on the income of the organization, there may be a negative effect on the firm because the government cannot collect enough taxes (Overesch and Wolff, 2021). This negative impact on the economy will lead to a decrease in the financial performance of the company (Kumari and Pattanayak, 2017). Tax planning strategy has a positive effect on the cash flow and financial performance of organizations because it can increase after-tax income (Shevlin et al., 2020). In addition, companies with debt receive tax protection because debt reduces taxable income compared to equity funds (Wilde and Wilson, 2008). Oyewumi et al. (2008) argued that tax planning promotes good financial planning in organizations. Companies can also consider other tax planning incentives to get tax protection such as giving businesses such as free business zones, providing rural investment subsidies, buying goods in time to use capital gains and tax exemption of interest earned. in business conducted by foreign companies in that country.

A study by Auerbach et al. (2017), established a complex set of organizational costs arising from the conflict of interest between shareholders and managers. This view assumes that interested managers are always willing to engage in tax-exempt activities

to avoid paying rent. Therefore, the shareholders will tolerate the negligence of the management in tax matters that will ignore the lawyers. Oktaviyani and Munandar (2017) revealed that tax planning can have a negative impact on the economy, industry, society in general, and the financial performance of companies. A comprehensive tax plan can lead to the provision of services to the poor such as poor health facilities, infrastructure and education systems that deteriorate simply because the government does not raise funds to support institutions (Kanagaretnam et al., 2008). Companies listed on the GSE are taxed differently because they also have different financial structures. However, each company has its tax management practices and strategies. Also, the ownership structure of various companies differs from state-owned companies, and foreign subsidiaries, some of which are privately owned but others are sold to the public including the government (Allen et al., 2017). With the tax practices identified by various organizations and the organizational practices that helps the organization to achieve their goals and objectives, it is important to identify how tax planning in an organization affects the performance of an organization.

1.2 Statement of the problem

Putra et al. (2021) found two different views on the causes and consequences of tax evasion in the literature. The mainstream defines its main objective as the transfer of wealth from the government to the shareholders (Olawajun and Olayiwola, 2019). This can be done whenever the firm avoids paying a large amount of tax. Therefore, the shareholders will be happy to encourage their representatives to do this process. Olamide et al. (2019) have a more detailed view of the types of agency costs that arise because of interest between directors and its owners. This situation suggests that self-interested managers participate in tax avoidance activities to benefit from advanced

decisions and therefore use outsourcing to their advantage (Ftouhi and Ghardallou, 2020).

In Ghana, most of the banks listed in the GES have improved in performance but others have had declining fortunes caused by the fact that the managers of the operating organizations do not have the necessary guidance to achieve the right results (Yakubu et al., 2021). The aim of the firm is to generate profit and increase the wealth of its owners which can be achieved by improving financial performance (Tang, 2022). Many companies use various tax planning techniques such as tax avoidance techniques as a way to increase profits (Tackie et al., 2022; Agyei et al., 2020). According to Seidu et al. (2021) some Ghanaian companies can report higher income due to good tax management practices. Studies on corporate tax planning and financial performance in developed nations have yielded mixed results (Lewar and Fadjarenie 2022; Tang, 2022; Ftouhi and Ghardallou, 2020; Kanagaretnam et al., 2008). Gatsi et al., (2013) argued that tax evasion not only affects financial performance but also increases the value of companies through good tax planning strategies. Many people have found that good corporate governance and tax evasion can lead to normal returns. This finding is consistent with Olamide et al. (2019) who stated that good corporate governance and tax avoidance practices lead to higher corporate value. On the other hand, Lewar and Fadjarenie (2022) found a negative relationship between tax avoidance and future profits.

In developing nations, there are a little studies conducted in this area called tax planning, but these studies do not link tax planning with financial performance (De Vito, 2022). Nchor and Adamec (2015) compared tax evasion in Ghana and Nigeria while Moerenhout and Yang (2022) described tax evasion in Nigeria as having a significant impact on accounting practices. Amidu and Yorke (2017) analyzed the tax

incentives and avoidance practices adopted by Ghanaian firms. Tackie et al. (2022) looked at the impact of tax planning policies on tax savings in manufacturing companies in Ghana and found that tax planning policies could not contribute to tax savings. Based on my review of literature on tax planning and how it affects performance of an organization, very few studies exist in Ghana on tax planning and performance. The few studies identified to work on the subject used tax compliance as a measure of tax planning (Kawor, and Kportorgbi, 2014). Therefore, there is a gap in the literature that this study seeks to fill. This study aims at including both tax compliance and effective tax rate as a measure of tax planning. This study aims to fill this gap by answering the question; Does the corporate tax plan affect the financial performance of banks in GSE?

1.3 Objective of the study

The main objective is to examine the effect of corporate taxation planning on the financial performance of listed Banks in Ghana. The specific objectives are as follows;

1. To examine the effect of corporate taxation planning on the financial performance of the financial institution.
2. To examine the effect of corporate taxation planning on the financial performance of the non-financial institution.
3. To compare the effect of corporate taxation planning on the financial performance of the financial institution and non-financial institution.

1.4 Research question

1. What is the effect of corporate taxation planning on the financial performance of financial institution?

2. What is the effect of corporate taxation planning on the financial performance of nonfinancial institutions?
3. Are the differences in the effect of corporate taxation planning on the financial performance of financial institutions and non-financial institutions?

1.5 Significance of the study

The government will benefit from the results of this study which will use the findings to evaluate the effectiveness of tax avoidance schemes and tax incentives in improving the performance of local companies. The information obtained from this research will be the basis for the creation of state policies that control Tax collection. The findings of this study will be relevant to stakeholders including the management of listed and unlisted companies daily because it will give them an understanding of the impact of tax avoidance strategies, and tax incentives provided by the government or law. This study is also important for establishing a financial strategy in the company. This study will be a repository of new knowledge for academics and researcher to know the value of tax collection, tax evasion, and the financial impact on companies.

1.6 Scope of the study

Corporate taxation planning on financial performance is influenced by several macroeconomic and financial factors such as firm capital, firm age, structure and government practices or business policies as well as firm size. However, this study is limited to listed banks on GSE based on their corporate taxation planning. The study will use variables in the bank's financial reports or statements. Additionally, the study population will include six GSE-listed banks and six manufacturing firms. Other listed firms will not be included in this study. Firms' age selection is also not limited to the establishment of the firms. Specifically, the sampling period is limited to listed banks

from 2015 to 2021. The financial organizations used for the study are GCB Bank, Societe Generale Bank, Republic Bank, CAL Bank, Ecobank and Agriculture Developmental Bank. The non-financial organizations used in the study are Camelot Ghana Limited, Fanmilk Ghana Limited, Ghana Oil Limited, Guinness Ghana Limited, Total Ghana Limited, and Unilever Ghana Limited.

1.7 Summary Methodology

Panel research design is used for this research. The study employs purposive or judgmental sampling techniques for a sample of banks firm (banks and manufacturing firms) listed on the Ghana stock exchange based on access to the financial information of these firms. The research utilizes secondary data and financial data from the banks' Annual Reports at the time of analysis. Since the analysis focuses on corporate taxation planning, the years of firms with losses are removed and the final sample is viewed from 2015 - 2021. This period allows reliable research and the establishment of long-term analysis of long-term relationships between independent and dependent variables. Panel data analysis allows combining temporal and spatial analysis, which makes it possible to effectively analyze different data.

A panel data approach was incorporated to measure the relationship between corporate tax planning and financial performance. Time series variables were computed based on fixed and random models, using the Hausman test to pick the best model. A fixed effect model is used to control for the fixed properties of the firms included in the study at any given time after considering the time series data. This method removes bias from the data and provides better statistical results by explaining the sample variance. Random effects methods are used with cross-sectional data in which sample characteristics vary. As one of the methods of the regression method, its main function is to match the operator with the data to reduce the sum of the double errors of the

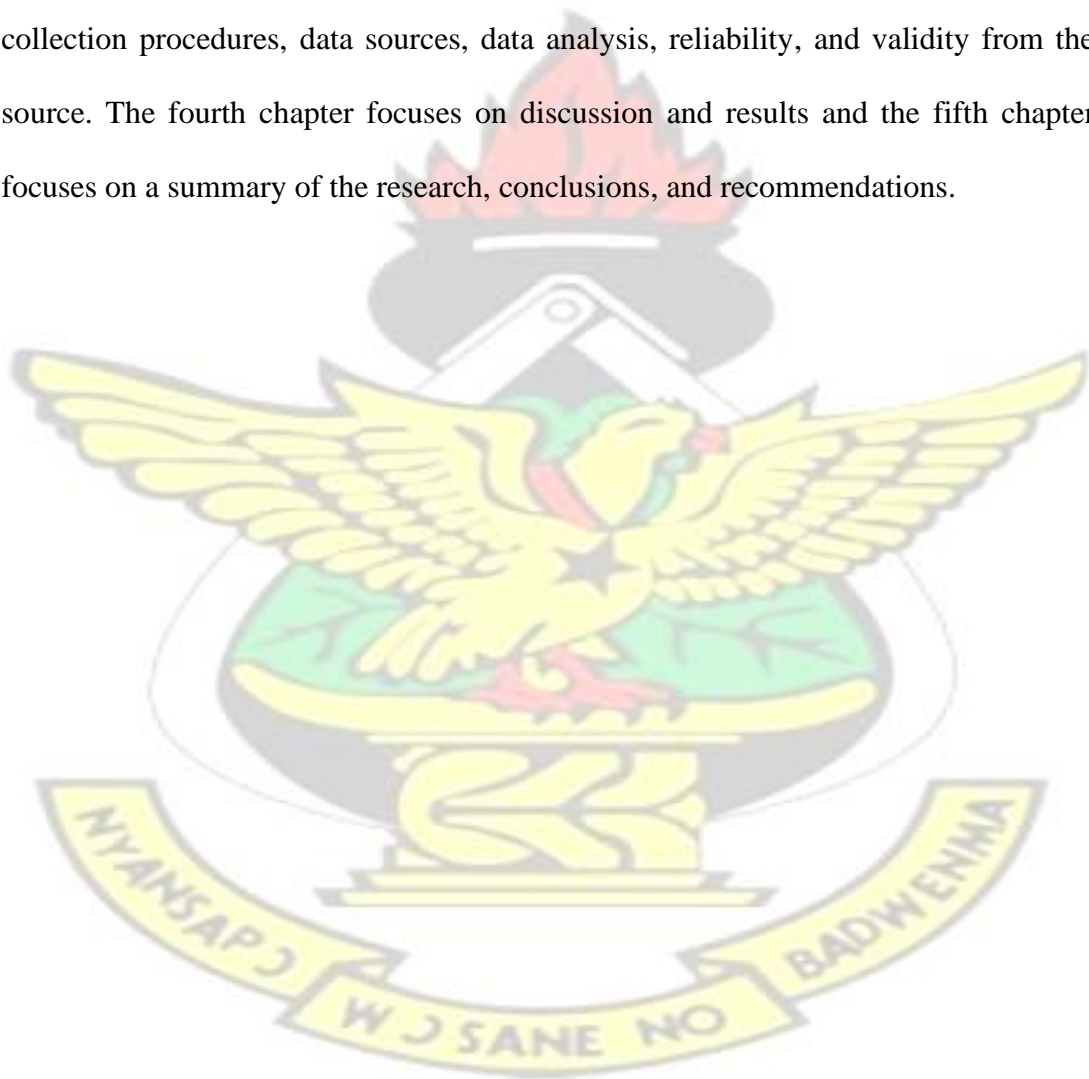
data. In this study, there are two contributions; independent and dependent variables. The tax structure of the business as an independent variable is measured according to the effective tax rate (tax paid profit before tax), the strength of capital, small capital, and the size of the company while the dependent variable is the rate of financial performance in return on investment, on shares, return on assets and earnings per share. The model is controlled using firm age and firm size.

1.8 Limitations of the study

The scope of this study is for 7 years (2015-2021). The long-term holding of the results of the study has not been determined. In addition, it is not certain that a similar study will take place after 2021. A longitudinal study will be reliable as it will capture important exceptions in this study. One of the limitations of the study is the quality of the data. It is difficult to draw conclusions from this research if the results reflect reality. The information to be used is considered correct only. The needs change from year to year depending on the current situation. This research uses secondary data, obtained and in the public domain, as opposed to primary data. The study will also consider selected factors, not all of which affect the financial performance of listed banks mainly due to the limitations of available data. For data analysis, researchers will use multiple linear regression models. Due to the limitations that occur in the use of regression models, such as strange and erroneous results when the value of the variable changes, the researcher cannot conclude the findings with certainty. If too many factors are added to a functional regression model, the theorized relationship between two or more variables may not hold.

1.9 Organization of the study

The study is aligned into five chapters. Chapter one involves the background, the problem statement, the objectives, the research questions, the significance, and the scope of the study. The second chapter reviews literature-related definitions and concepts, research theory and theoretical frameworks and other authors' empirical evidence. The third chapter discusses the research design, descriptions of study sites, target populations, sampling and sampling methods, sample sizes, questionnaires, collection procedures, data sources, data analysis, reliability, and validity from the source. The fourth chapter focuses on discussion and results and the fifth chapter focuses on a summary of the research, conclusions, and recommendations.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review section of the study is discussed in the second chapter. The chapter two consists of four major sub headings with some other sub headings beneath each of them. The various sections under chapter includes, review of major concepts, review of theories, review of existing literatures, and presentation of a research model and hypothesis development. Under the conceptual review, the research provides definitions, operationalization, and how the study uses the major concepts outlined. Under the theoretical review, the theoretical underpinnings of the study are discussed to identify how this study fits into the existing theoretical framework. The conceptual framework was used to show the various relationships and prepositions of the study with the various relationships between the variables being discussed. The research gap identified by the researcher was the final part of the chapter two.

2.2 Conceptual Review

The conceptual review section is an important section for the study where the researcher defines, and gives operational meaning to the variables in the study. The researcher also provides a working route of how the constructs are used in the study. The two main variables of the study are corporate taxation, and financial performance of organizations. The study discusses these constructs vividly from sections **2.2.1 to 2.2.3**.

2.2.1 Corporate Taxation

Prudently, businesses often want to pay the bare minimum of taxation possible and sometimes even obtain tax advantages on the total number of taxes due (Cobham et

al., 2008). Moreover, this is because raising income after taxes while reducing tax expenses and pressures is the only way for income-oriented businesses to accomplish their fundamental goal of maximizing profits for shareholders (Anesa et al., 2019). Consequently, many businesses implement tax accounting strategies that will help them enhance efficiency with this objective in mind (Andersen et al., 2008). In essence, taxation is a legal and required compensation paid to the state by people and businesses, whether it is increasing or restrictive (Galdeano et al., 2019). In addition, it is an essential element of financial regulation that significantly affects a country's economic and social growth. In a nutshell, executives at all levels of leadership must give importance to taxation (Basri et al., 2021). Furthermore, the complexity of tax laws, the lack of adequate tax evaluation, the shortage of skilled labor, the administration's cruel strategies of compendium, the absence of transparency, an absence of clarity, numerous corporate taxes, and disputes over the constitutional authority of tax administration and the judicial system on federal agencies' matters are just a few of the problems the Ghana banks taxation system at the moment dealing with (Safiullah and Shamsuddin, 2019). Alternatively, the term "corporate tax," usually known as "taxable profit or earnings" or "business tax," can be referred to as type of immediate tax charged on the profits and/or assets of companies or other similar holding companies. Taxes of this nature are popular in several countries, and they could also be levied at the state or municipal level (Chen et al., 2019). Moreover, corporate tax is a government-imposed company expenditure (money outflow) that serves as the principal origin of revenue for a nation (Pohan, 2022). Concisely, a corporate tax is a tax assessed on a shareholder's earnings. Taxes must be paid on a business tax liability, which consists of profitability minus the cost of products sold, intersegment expenditures, brand management, R&D, amortization, and other

overheads (Wang et al., 2020). For this study, the definition of corporate Taxation by Chen et al. (2019) will be adopted in the study. It states that the term "corporate tax," sometimes known as "taxable profit or earnings" or "business tax," refers to a type of immediate tax charged against the profits or assets of companies or other similar holding companies.

It is important to understand what corporate tax planning is and how this study will contextualize corporate tax planning into the study. Basically corporate tax planning involves arranging an organization's finances to reduce the tax liability while adhering to all the laws that bind taxation in the jurisdiction of the organization (Schön, W. Ed. 2008). Corporate tax planning is effectively achieved when an organization is able to reduce its tax obligation while staying in the confines of the tax regulations of its operating area. The organization must understand tax evasion is illegal while tax avoidance is legal, hence tax planning should be hinging towards tax avoidance and ensuring tax evasion does not occur (Bird, and Davis-Nozemack, 2018).

An organization can employ transfer pricing as a tool to achieve tax planning (Kebwaro, 2014). Transfer pricing involves adjusting prices charged for goods and services between entities in an organization that are related to optimize the taxable profit of the entities in the organization. According to Randolph (2006), an organization can reduce its tax burdens by moving profits to jurisdictions where the taxable income levels are lower as compared to other jurisdictions where the organization operates. Reallocating income and expenses involves shifting income from a region with higher tax levels to regions with lower tax burdens. Tax-efficient investment strategies and business operations is another tax planning strategy that can be used to reduce tax burdens and achieve effect tax planning. Tax-efficient investment strategies involve investing in efficient securities, such as tax free bonds,

which have lower tax impacts. On the business operations structuring, the organization can ensure the organization is a pass-through entity but not corporate entity liable to tax compliance. Finally identifying tax maximizing potentials of the organization and ensuring the organization meets the conditions necessary to enjoy tax deductions.

2.2.2 Financial Performance

Researchers consider financial performance as a thorough measure of an organization's position in several areas, including resources, expenditures, ownership, costs, income, and financial results (Shabbir and Wisdom 2020). Moreover, it is evaluated using several corporation formulae that enable consumers to compute simple information on the prospective performance of a firm (Bartolacci et al., 2020). In addition, internal stakeholders review financial performance to assess the strength and position of their firms, among other standards. To identify possible portfolio returns and whether a firm is worthwhile to them, economic performance is computed for external users. Concisely, a financial statement analysis must take place before computations on particular investment parameters that determine performance may be done (Cho et al., 2019). Furthermore, financial performance is a measure of how effectively firms utilizes its resources and generate it into revenue. It is a review of its economic status in relation to factors including resources, debts, stock, costs, and earnings (Ichsan et al., 2021). Moreover, assessing the financial strength of the results of a firm's policies and procedures is referred to as financial performance. In addition, it is used to evaluate strategic and long fiscal viability and can be applied to analyze competitiveness within the same business or across many sectors of the economy (Awaysheh et al., 2020). For this study, the definition of financial performance by Ichsan et al. (2021) will be adopted in this study. It states that financial performance is a measure of how effectively firms utilizes its resources and converts it into revenue.

Return on Assets (ROA)

This is a form of return on investment (ROI) indicator that assesses a company's profitability in proportion to its total assets. This ratio measures a company's performance by comparing its profit before interest and tax to the capital it has invested in assets. Analysts use ROA to evaluate a company's operational performance about its investments, regardless of whether the investments were financed with debt or stock (Ligocká, and Stavárek, 2019; Azizah et al., 2020; Levine et al., 2020; Yin et al., 2020). The higher the rate of return, the more productive and efficient management is in spreading its economic resources. ROA assesses management's overall effectiveness in creating profits from its available assets. The greater the company's ROA, the better. ROA is a full measure of performance management, utilizing three variables: total revenues, total costs, and assets; if the firm has a strong ROA, it will create a satisfying ROE (Edesiri, & Confidence, 2020). Furthermore, identifying the numerator of its equation is a point of contention among academics. Yin et al., (2020) claim that the simplest way to determine ROA is to divide net income for a period by total assets. In contrast, certain experts, such as Astuti and Husna (2020), divide EBIT by total assets.

Return on Equity (ROE)

When an organization accesses its profit earned through the funds provided by its shareholders, the return on equity is considered as a measure financial performance in that organization. Return on equity it typically calculated as the portion of a company's annual return/net income as a percentage of total shareholder's equity in the organization. In a basic sense, return on equity could be seen as the amount of profit an organization generates based on the dollar investments of their shareholders. It replicates management's performance or inability to maximize the return to

shareholders on their investment in the company (Chukwuogor et al., 2021). An organization's return on equity is a primary metric for evaluating investment results. Another important contribution of return on equity is its ability to show how a firm and its management are able to grow the company using the equity funds of the organization. By comparing a firm's ROE to the industry average, something about the firm's competitive edge may be determined. Indeed, consistent growth in ROE over time might demonstrate that a company is effective at building shareholder value by understanding how to spend earnings wisely to enhance profitability. A consistent decline in ROE, on the other hand, may indicate that management made bad judgments about plowback cash in unproductive ventures.

Tobin's Q ratio

Tobin's is a ratio between a physical item's market value and replacement value. The ratio was created by James Tobin 1978, an economist who won the Nobel Prize. Tobin put out the theory that the total market value of all publicly traded enterprises should be roughly equal to their replacement costs. Market value is a wonderful indication of company performance if market data is accurate. However, the market is not always efficient since the assumption that the market price represents all knowledge at any moment does not fulfill the premise of asymmetric information (Stiglitz, 2002). Tobin's Q proposes employing other complementary indicators, such as Price to Earnings (PE) and Market to Book, to help somewhat offset this drawback (MB).

Theoretically, according to academics, the short-term success of the business is measured by accounting-based metrics like ROA, ROE, profit margin, and others, while the market-based performance of the firm is assessed using Tobin's Q as an indicator of potential long-term performance. As a result, the two are integrated to provide a clear company image.

Typically, investors from all over the world start by assessing a company's present performance. As far as chances to do business anyplace in the globe, the world has recently shrunk. As economic globalization benefits individuals everywhere, it has enabled excellent corporate performance. Better prospects may be created by removing the obstacles to corporate trade and financial investments, allowing for expansion and growth. Without the ability of the firm to measure results, the possibility of improving the processing capacity of the organization cannot be achieved. Financial performance is key to achieving process development measurement in an organization. To ensure continuous financial success, it is key to measure organizational performance in an organization.

Effective Tax Rate

Effective tax rate is one of the measures of tax planning as the measure depends on the statutory tax rate of an organization and the effective tax rate. Tax planning is said to occur if the tax savings occur due to the occurrence of unexplained excess of statutory tax rate over the effective tax rate. When the difference between Effective Tax Rate (ETR) and Statutory Tax Rate (STR) then there is said to be tax savings stemming from tax planning (Tackie, et al., 2022). ETR is calculated based on the difference between the income tax expense and the earnings before interest and tax. Other measures of ETR are based on total tax expense and the change in deferred tax liability and operating cash flow of the organization.

2.3 Theoretical Literature Review

According to Giglio (2022), growth in knowledge and information has increased the challenging nature of research in academia, as research becomes lengthier, more challenging and complex. This study uses three major theories as the underpinnings

for this study. These theories help to build the research gap and provide a guide to direct the research. The theoretical review section examines the content of these theories, by examining the effect of corporate taxation on the financial performance of banks. Modigliani and Miller's theory, Scholes-Wolfson's theory, and its extension of the Slack resource theory and good management model provided the foundation for the theoretical examination of the research. To conclude, the theoretical framework of this study provided a clear contextual path through which the various relationships between the constructs, can be drawn.

2.3.1 Modigliani and Miller's Theory

Modigliani and Miller (M&M) (Brusov et al., 2020) have consistently served as the cornerstone of contemporary study and evaluation of corporate finance challenges. According to Giglio (2022), the Modigliani and Miller's theory is one of the best known models that identifies the value of two companies to be equal although one of the companies might be indebted. However, the M&M theory states this assumption based on the condition of no taxes, absence of information asymmetry, or total full access to information by all individuals etc. According to the M&M theory, markets will have both indebted and non-indebted companies to be equal if individuals and business also borrow at the same interest rate. This strategy presupposed a flawless universe with no tax, rendering their argument unfeasible. The assumptions underlying the M&M theory fails since most countries if not all countries worldwide put some of tax on businesses and individuals. The justifications supported by the commerce concept, which gives significance to tax advantages accruable to firms through interest charges, are therefore brought to the forefront as a result. In other words, outstanding debt on the price of fixed-income securities is taxable income (Adesuyi, 2022). This emphasizes the idea that while financial leverage has a tax advantage associated, actual

borrowing costs are less than the negligible cost of debt financing. So long as a certain barrier is not passed, additional leveraged will be very valuable to a corporation (Filatova et al., 2022).

2.3.2 Scholes-Wolfson theory

By highlighting the notion of tax advantages through the integration of three key elements of an effective tax plan, namely "the counterparties, the levies, and the expenses," Mgammal (2019) revised theoretical approaches to taxable income around the world. The providing detailed taxation, the amounts of taxes imposed, regardless of whether verbal or nonverbally, as well as the corresponding overall cost associated with the tax, whether real or anticipated, must all be taken into account for tax planning to succeed. To clarify the significance of implied tax, Shevlin (2020) used the philosophies of risk and reward theories and models. Underlying tax refers to the tiny improvement between the cost of purchasing an investment at a given dividend yield as well as what it would have been worth in scenarios where the tax levied had changed (Sun et al., 2021). The "tax clientele" idea was also developed by Scholes et al. in 1992. It contrasts the tax liability of an investment with that of a comparable commodity at the same amount of danger to produce various levels of capital costs. The investment process, the balancing pricing hypothesis, and the chance and benefit theory all serve as the foundation for these ideas. The idea of invisible taxation and the idea of the taxable client both have their roots in economic models. In conclusion, Schwab et al. (2022) stressed overall expenses as one of the key components of taxation by urging all executives to carefully consider every cost associated with a tax strategy. Other hidden costs related to tax preparation must be included in the business model (Tackie et al., 2022).

2.2.3 Slack resource and good management theory

A firm ought to be in a solid financial position to support its financial performance outcomes and taxes, according to the slack-resource theory (Asamoah, 2019). The accomplishment of the financial results must be used to finance social effectiveness and taxation. This notion states that financial performance should emerge foremost. According to a sound leadership approach, interpersonal quality comes first (Islam et al., 2021). According to the concept, a corporation with a good attitude among its decision-makers is simpler to achieve a solid financial position via marketplace procedures (Sun et al., 2020). Organizational responsibility is more challenging to quantify than financial achievement. Therefore, many strategies for the social performance of corporations and taxes were utilized in some earlier research on the link between corporate social responsibility and corporation monetary and financial achievement (Maqbool and Hurrah, 2020).

2.4 Empirical Literature Review

This section assessed the research on prior studies that addressed the study's objective. These include examining the effect of corporate taxation on the financial performance of Banks. Literature related to the study's goal of examining the effect of corporate taxation on the financial performance of Banks in previous and ongoing research projects was evaluated.

Gatsi et al. (2008) researched to investigate the impact of corporate turnover taxation on the monetary results of Ghana's selected companies. Moreover, this investigation employed a descriptive-causal approach. Krause (2001), defined the explanatory causal kind of investigation as gathering data on the current situation of the circumstance, while causality explains the impacts and interactions connecting two or more factors. In a study by Gatsi et al. (2013), the researchers focused on listed

manufacturing firms and how corporate income tax affects their financial performance. 10 factories from the years 2005 to 2012 that were registered on the Ghana Securities Exchange were specifically chosen using the appropriate sampling approach. Furthermore, the primary source of information for this study was the audited financials of the 10 industries industry listed on the Ghana Securities Exchange between 2005 and 2012. Moreover, the dynamic panel framework and the conventional least squares method of extrapolation were utilized for the data analysis. Concisely, the fact that the data is a visual representation of 10 firms with a period of around 7 years led to the adoption of the panel regression approach. Gatsi et al. (2013), showed that, a substantial inverse association between corporate taxation and financial effectiveness was shown by the investigation. Alternatively, on the other side, there is a strong positive correlation between financial success and a company's size, history, and development. Moreover, Gatsi et al. (2013) advised factory businesses to hire tax professionals to help them with taxable income to minimize their net paying taxes and improve their economic effectiveness or financial effectiveness based on the study's results and shortcomings. Furthermore, to represent that in the operational changeover of the enterprises, they need once again to grow the size of their resources and assure optimal utilization of such capabilities.

Olarewaju and Olayiwola (2019) carried out a study to explore how corporate tax management affects the financial success or effectiveness of mentioned non-financial enterprises. In addition, from 2007 to 2016, 47 selected non-financial organizations provided the supplementary annual statistics that were utilized. Moreover, it was decided to use a panelist autoregressive distributed technique together with analysis of structures such as multiple regression and error correction model. Moreover, the survey's findings showed that tax evasion had a negative correlation with financial

success whereas tax deductions had a positive correlation. Furthermore, the financial indicators under examination were mostly responsible for their disruptions or inaccurate predictions. Concisely, while the financial effectiveness reaction to spikes in tax benefits had a recessionary impact and, as a result, might improve the banks' profitability, the financial results response to surprises in tax evasion had a simulative effect. Therefore, corporation tax management that increases tax savings has a significant impact on nonbank firms' profitability. There was no recommendation and limitations for references for future studies were not indicated.

Otwani et al. (2017) conducted a study that aims to examine how corporate taxation affects the financial success of the selected firms on Kenya's Nairobi Securities Exchange. Concisely, the research approach included explorative and statistical research methods. Moreover, the Financial Markets Commission databases, the National Stock Exchange dataset, academic papers, and other academic journals were used to gather secondary information. In addition, out of a population of interest of 69 publicly traded corporations as of January 2015, a sample of 59 businesses was taken from the webpage of the national stock market. Moreover, the results show that there is a correlation between corporate taxation and listed businesses' financial success on Kenya's national stock market. Furthermore, the research offered decision-makers insightful information for developing public strategies to minimize underperformance and the ensuing insolvency of listed corporations. In addition, depending on the study's conclusions and drawbacks, it is recommended that other factors be investigated, taking into consideration the current economic indicators as the regression models because they have a significant influence on the company board's judgment call. In contrast to the existing study, which only took into consideration income and financial return as financial success indicators success, more research is required that

incorporates other performance characteristics, such as net income divided by the total resources.

Nyeadi et al. (2008) performed a study to experimentally examine how institutional social responsibility affects the financial performance of identified South African companies. The research tackles simultaneous cross-correlations throughout the panelist cross-section by estimating the consequences of institutional social management on company financial performance using panelist-adjusted systematic deviation. In addition to using a mixture of analysis of the financial methods to gauge business financial effectiveness, the research also includes a wide basis of virtually every quantitative of institutional social responsibility developed by the public investment corporation information gathering. According to the research, corporate social leadership significantly improves the financial performance of businesses in South Africa. Whenever corporate leadership is broken down into its essential parts, it becomes clear that governance performance has a positive effect on a company's financial success but that there is little indication of a connection between social or ecological elements and organizational effectiveness. For large businesses, corporate social leadership has a higher beneficial effect on performance. Corporate social leadership has been shown to favorably affect financial effectiveness in the private sector at the industrial level through excellent governance and environmentally conscious actions. On the other hand, it has no impact on the banking institutions' performance. The researcher suggested that subsequent studies could investigate additional large datasets or employ a primary information strategy that can provide for a larger number of participants and an extended time frame for a more comprehensive look and simple extrapolation of the findings depending on the report's results and

shortcomings. The study also points out a significant gap that calls for more direction for development.

Haddad (2022) researched to compare the effects of management competence on conventional and Islamic banking' financial results following the mortgage economic or financial meltdown. According to the senior management quality assessment, the main goal is to assist finance investors in choosing the optimum and most suitable banking model. The modified least-square approach was used to examine the effects of management competence on the financial results of standard or conventional and Islamic banks depending on the gaps in previous studies. Researchers gathered data on financial effectiveness and management competence from 30 nations spread across 4 countries. Every one of the two equivalent samples, consisting of 112 banks, underwent testing. The focus of the author was solely on the firms that consistently released yearly reports from 2010 to 2008. The study demonstrates that the senior management competencies in standard or conventional banks have significantly impacted the banking's financial effectiveness, but the influence of the senior management's effectiveness on the financial effectiveness of Islamic banks remains uncertain. However, the immediate results matter more to the financial success of Islamic banks than the bad comments do. Depending on the outcomes and the study's inadequacies, the researcher recommended that future studies might expand on this investigation by estimating imbalanced cross-sectional data utilizing big data, which would include all conventional and Islamic financial organizations worldwide. Additional research might also focus on the committee's relevance to construct a new, reliable monetary and fiscal policy in developing markets.

Hoseini et al. (2008) did a study to determine how to comprehend the management structure, tax evasion on the Tehran stock market, and socio-demographic

characteristics of the governing board. Variables used in this study were assessed utilizing multiple regression techniques depending on panel information, and the population of interest consists of 505 firm-year observational data from businesses registered on the Tehran Stock Exchange over the years 2012–2016. The results of this investigation showed that, given that managerial board members are intended to foster information-based rebalancing among shareholders and executives and increase investor confidence, it is reasonable to conclude that the presence of women on these boards enhances their effectiveness. Additionally, companies with female directors exhibit less tax evasion under agency and 5stockholder's hypotheses, as interested parties' theory contends that continuous management of corporate activities reduces tax dodging. In light of the findings and research constraints, the researcher proposed that the stock market hire women for its surveillance teams to evaluate businesses' efficiency and lessen prejudice against men and women to ensure effectiveness via coordination. Additionally, it is advised that while making investments and buying shares, economic feasibility consideration to the number of board members. But since the findings of the study show that organizations with larger boards of directors engage in greater tax evasion in their managerial plans and initiatives.

Mamatzakis et al. (2022) carried out a study to objectively analyze how Greek enterprises maintain their profits concerning indebtedness, taxes, and economic collapse. The researchers who conducted this research demonstrate that there are actual earnings manipulation metrics that, whether or not they are adjusted for achievement, heavily rely on reliable hypotheses. The researchers offer a novel paradigm that allows for panel structure to account for company-level variability while enabling endogenous selection of the number of underpinning business divisions during information production. The research findings suggest that when faced with

financial risks, Greek enterprises are inclined to scale back their efforts to manipulate profitability. Taxation and the banking meltdown each have a good and negative impact on managing profits. Generally, the findings show that Greek businesses are more inclined to lower amortization when they are exposed to the financial risks of borrowing. This is presumably because they are more strictly regulated by banks and creditors and have fewer opportunities to control their revenues. In terms of taxes, businesses would prefer to prevent damages than pay less in taxes. Additionally, in times of financial meltdowns and financial difficulties, managers tend to use earnings to paint a more accurate image of the firm's profitability to the financial system. Recommendations were not made for future studies.

2.5 Hypotheses Development

This area talks about the key hypotheses as shown in Figure 1 above. Subsections have been created and discussed for each of the hypotheses as illustrated by the research model.

2.5.1 Hypothesis

Hypothesis 1

H₀: Corporate Tax rate has a negative and significant effect on Financial Performance

H₁: Corporate Tax rate has a positive and significant effect on Financial Performance

Hypothesis 2

H₀: Effective tax rate has a negative effect on financial performance

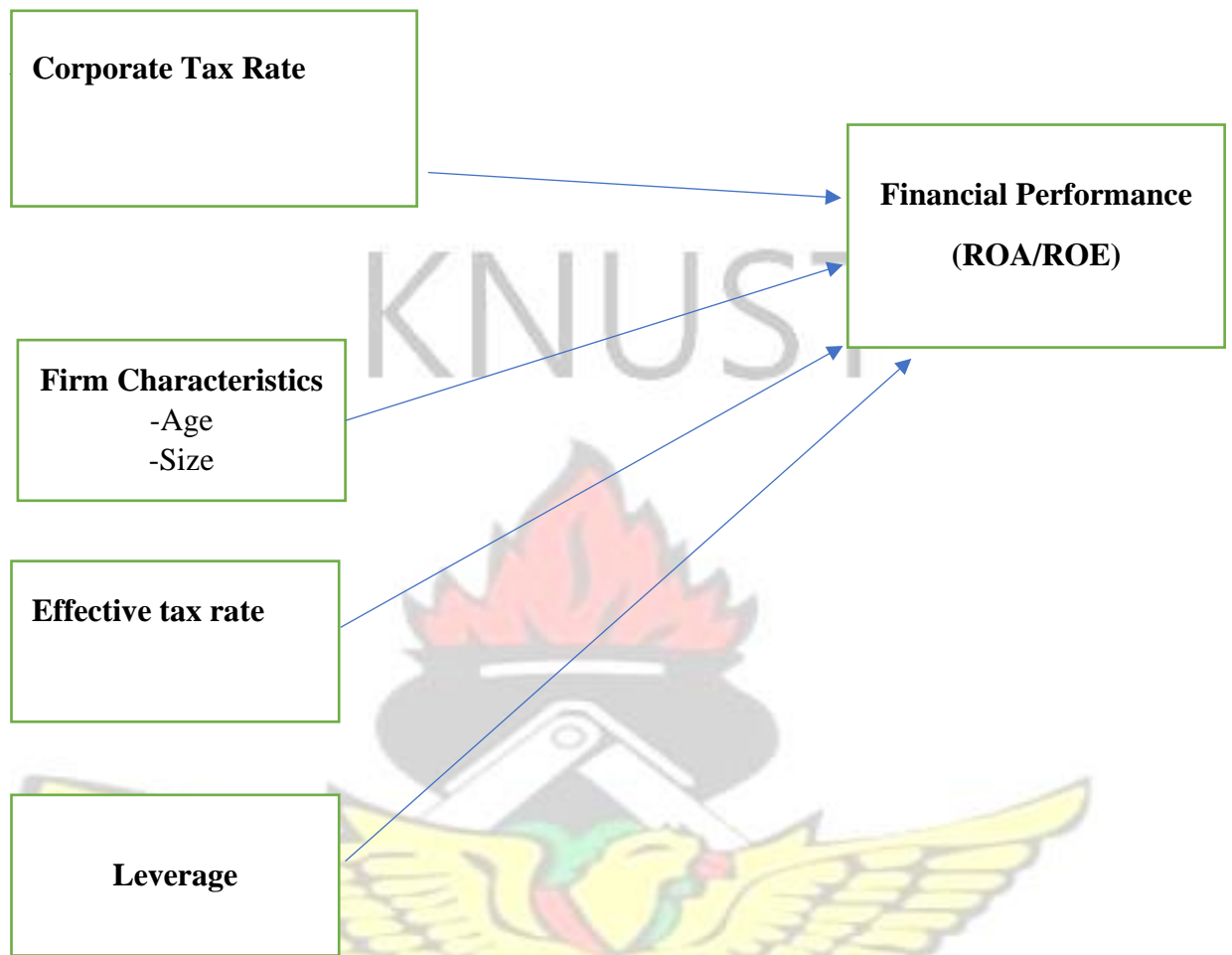
H₁: Effective tax rate has a positive effect on financial performance

The study's conclusions showed that the tax rate on corporations had a significant impact on the banking businesses' financial results. This end result aligns with research conducted by Cherian et al., (2019), who used regression analysis to assess the impact of business taxable income on the financial performance of identified consumer products firms in Nigeria from 2006 to 2016 (Wang et al., 2020). They discovered in their analysis that there is a negligible positive correlation between corporation tax and the company's financial success. Additional researchers reported that the listed industrial and commercial enterprises' financial performance is positively and substantially (P-value: 0.009) impacted by the corporation tax rate (Beck et al., 2008). The tax rate has a significant impact on the capital mix decision made by the company since most managers choose greater debt-financed as a tax shelter. This claim is consistent with that of Nguyen et al. (2020), who believed that corporate taxation had an impact on the decisions made by businesses regarding their financial performance. The trade-off argument put out by Galdeano et al. (2019), which states that enterprises would reach a budget deficit whereby tax shelters from extra debt will equal the expense of financial difficulty, also supports this idea. As evidenced by the consequence, which indicates a positive link between company management and organizational tax rates, the outcome of the second specific goal is also consistent with the proposed hypothesis that revenue is anticipated to improve the quality of financial statements (Ramli et al., 2019). This is facilitated by the management teams of the company's choice to use more power and influence as a defense against corporate taxes. Hence, it is extrapolated that a positive influence of Corporate Taxation on Financial Performance.

2.6 Conceptual Model/ Framework

The three major theoretical model are Modigliani and Miller's theory, Scholes-Wolfson's theory and its extension to the Slack resource theory, and good management theory (see Figure 1). Despite the importance of these criticisms, corporation taxation avoidance tactics have been established in the business world. With the assistance of advisory companies that progressively include tax reduction offerings as a crucial element of company plans, corporations appear to be experts at reducing their tax liabilities (Basri et al., 2021). Corporate tax maximization is seen as acceptable (Cai et al., 2008), including by intelligent people, despite the idea that corporations should pay more to government finances being supported by a growing number of world authorities (see Beloe, 2008). This is because the goal of lowering expenses is seen as normal, instinctive, and unavoidable in the context of corporation taxation (see Hanlon and Heitzman, 2010); in fact, it serves as the foundation for a broad spectrum of corporate tax simulated annealing strategies, such as those that are currently under fire. Nevertheless, the country's taxation system ought to be adaptable enough to be used in taxpayers' money as it serves as a true issue associated with national growth (Fuest et al., 2008). In addition to being a significant source of revenue for individuals, an efficient taxation system may also promote economic development and employment in the economy through its influence on capital creation and development. But then, it appears that businesses have developed strategies to lessen the tax burden as a result of the issues with the Nigerian tax system, including some that are unlawful (Ohrn, 2008). Independent (Corporate Taxation), and variables are all involves the overall idea of dependent (Financial Performance). It is anticipated that examining the effect of corporate taxation on the financial performance of Banks.

Independent



Control

Figure 1: Conceptual framework

Source: Adortse, 2023

2.7 Chapter Summary

The present study is designed to examine the effect of corporate taxation on the financial performance of Banks. The literature review was broken down into five main sections (Conceptual Literature Review, Theoretical Literature Review, Empirical Review, Conceptual Framework, and Hypothesis Formulation). The conceptual review, which was a component of the first section, provided detailed definitions for the research variables and explained how they were used in the study. Corporate

taxation and the financial performance of Banks make up the study's variables. The second part was the theoretical review, which identified the theory presented in the study. An empirical review, the third element, turned up prior studies on the objectives of the research. The conceptual framework, which illustrates the relationship between the variables, is the fifth and final component. In the fifth step, which involved developing hypotheses, the literature on the connections between the research variables was examined. The study's methodology is presented in the next chapter, which is chapter three (3).



CHAPTER THREE

METHODOLOGY

3.0 Introduction

This Chapter focuses on the research design, data, methods, model specification, and variable description and measurement for the examination of the effect of corporate taxation planning on the financial performance of listed firms in Ghana. The chapter is organized as follows: first, the research design is discussed, including the choice of panel research design and the reasoning behind it. Second, the data used in the study is presented, including the time period covered and the sources of the data. Third, the methods used in the analysis are discussed, including the choice of fixed and random effect models and the reasoning behind them. Fourth, the model specification is presented, including the use of a panel regression model and the diagnostic testing and robustness checks that will be conducted. Finally, the description and measurement of the variable are also discussed, including the choice of variables and the method of measurement.

3.1 Research Design

The research design chosen for this study is a panel research design which is a type of research design that uses both cross-sectional and time-series data. Panel research design is particularly useful for studying the effect of a variable on a group of individuals or firms over time (Behl et al., 2022). In this study, the group of firms being studied is the listed firm (banks and manufacturing firms) in Ghana and the variable being studied is the effect of corporate taxation planning on the financial performance of these firms.

The choice of panel research design is motivated by several reasons. First, it allows for the control of both time-invariant and time-varying variables (Williams et al., 2022), which is important for studying the effect of corporate taxation planning on the financial performance of listed firms in Ghana. Second, it allows for the control of unobserved heterogeneity (Porter, et al., 2019), which is important for studying the effect of corporate taxation planning on the financial performance of listed firms in Ghana. Third, it allows for the use of both cross-sectional and time-series data, which is important for studying the effect of corporate taxation planning on the financial performance of listed firms in Ghana.

3.2 Population

The population of a study depicts the total number of elements that a researcher can possibly include in a study. The population of this study comprises of all the listed companies on the Ghana Stock Exchange in 2023. This includes both financial and non-financial organizations. Based on the data available in the Ghana Stock Exchange system, there are 31 listed companies on the Ghana Stock Exchange.

Table 1: Listed companies on the Ghana Stock Exchange (2023)

No.	Symbol	Company
1	ACCESS	Access Bank Ghana Plc
2	ADB	Agricultural Development Bank
3	AGA	AngloGold Ashanti Plc
4	ALW	Aluworks LTD
5	ASG	Asante Gold Corporation
6	BOPP	Benso Oil Palm Plantation Ltd
7	CAL	CalBank PLC
8	CLYD	Clydestone (Ghana) Limited
9	CMLT	Camelot Ghana Ltd
10	CPC	Cocoa Processing Company
11	DASPHARMA	Dannex Ayrton Starwin Plc.
12	EGH	Ecobank Ghana PLC
13	EGL	Enterprise Group PLC
14	ETI	Ecobank Transnational Incorporation
15	FML	Fan Milk Limited
16	GCB	Ghana Commercial Bank Limited
17	GGBL	Guinness Ghana Breweries Plc
18	GOIL	GOIL PLC
19	MAC	Mega African Capital Limited
20	MTNGH	MTN Ghana
21	PBC	Produce Buying Company Ltd.
22	RBGH	Republic Bank (Ghana) PLC.
23	SCB	Standard Chartered Bank Ghana Ltd.
24	SCB PREF	Standard Chartered Bank Ghana PLC
25	SIC	SIC Insurance Company Limited
26	SOGEH	Societe Generale Ghana Limited
27	SWL	Sam Wood Ltd.
28	TBL	Trust Bank Limited (THE GAMBIA)
29	TLW	Tullow Oil Plc
30	TOTAL	TotalEnergies Ghana PLC
31	UNIL	Unilever Ghana PLC

Source: Ghana Stock Exchange

3.3 Sample size and sampling technique

The sample size generally refers to a part or selection from the population that the researcher uses to represent the entire population of the study. To determine the best sample size that suits a study, the researcher needs to identify the sampling technique that best suits the research. This study used the convenience sampling technique to select some financial and non-financial institutions from the listed forms in Ghana.

The convenience sampling allowed the researcher to focus on listed financial and non-financial institutions that have audited annual reports between 2015 and 2021. The total sample used for the study were 12 institutions which included six financial institutions and six non-financial institutions.

3.4 Data

The data used in this study is a panel dataset that covers the period from 2015 to 2021. The data set includes financial performance data for all the listed firms in Ghana and corporate taxation planning data for the same firms. The data period used for the study was partly informed by the banking sector clean up that occurred in Ghana between 2017 and 2020. Using data between 2015 to 2021 allows for the study to capture pre banking sector clean up, the banking sector period and the post banking sector clean up period. The financial performance data includes variables such as net income, return on assets, and return on equity while the corporate taxation planning data includes variables such as income tax as a measure of tax planning. The data also includes firm-level control variables such as leverage and firm size.

The financial performance data and corporate taxation planning data as well as the control variables were collected from the annual reports of the firms and the Ghana Stock Exchange (GSE) which is the main source of financial performance data for listed firms in Ghana. The data was cleaned and processed to ensure that it was in a format that could be used for the analysis.

The inclusion of firm-level control variables such as leverage and firm size will help control for any potential confounding effects on the relationship between corporate taxation planning and the financial performance of the listed firms. Thus, the data used in this study is secondary data, which is collected from various sources, such as annual

reports and data from the GSE. The data were analyzed using different statistical techniques such as fixed-effect and random-effect models, and panel regression.

The financial organizations used for the study are GCB Bank, Societe Generale Bank, Republic Bank, CAL Bank, Ecobank and Agriculture Developmental Bank. The non-financial organizations used in the study are Camelot Ghana Limited, Fanmilk Ghana Limited, Ghana Oil Limited, Guinness Ghana Limited, Total Ghana Limited, and Unilever Ghana Limited.

3.5 Methods (Data analysis technique)

The methods used in this study are fixed effect and random effect models. The choice of these models is motivated by the need to control for the unobserved heterogeneity of the firms and the time-invariant characteristics that may affect the relationship between corporate taxation planning and financial performance.

Fixed effect models are useful for studying the effect of a variable on a group of individuals or firms over time when the group of individuals or firms is considered fixed (Bell et al., 2019). In this study, the group of firms being studied is the listed firms in Ghana which are a fixed group. The fixed effect model is used to control for the unobserved heterogeneity of the firms and the time-invariant characteristics that may affect the relationship between corporate taxation planning and financial performance.

Random effect models, on the other hand, are useful for studying the effect of a variable on a group of individuals or firms over time when the group of individuals or firms is considered random (Bell et al., 2019). The random effect model is used to control for the unobserved heterogeneity of the firms and the time-invariant

characteristics that may affect the relationship between corporate taxation planning and financial performance when they are random.

Similar studies have used fixed-effect and random-effect models to control for unobserved heterogeneity in their analysis. For instance, authors such as (Almaqtari et al., 2019) and (Majeed and Mazhar, 2019) have used fixed-effect and random models to control for unobserved heterogeneity in their analysis of the relationship between corporate taxation and the financial performance of firms. Due to the selected model of the study and the type of data the researcher used the Stata 16 statistical analysis tool to conduct the panel studies.

3.6 Model Specification

The model specification used in this study is a panel regression model. The panel regression model is a type of statistical model that allows for the estimation of the effect of a variable on a group of individuals or firms over time (Behl et al., 2022). In this study, three-panel regression models were used to estimate the effect of corporate taxation planning on the financial performance of listed firms in Ghana.

The first-panel regression model is used to estimate the effect of the income tax rate on return on investment. The model is specified as follows:

$$ROI_{it} = \beta_0 + \beta_1 Income\ Tax\ Paid_{it} + \beta_2 Effective\ Tax\ Rate_{it} + \beta_3 Leverage_{it} + \beta_4 Firm\ Size_{it} + \varepsilon_{it} \quad (1)$$

Where:

ROI_{it} = the return on investment of firm i at time t

$Income\ Tax\ Paid_{it}$ = the income tax paid of firm i at time t

$Effective\ Tax\ Rate_{it}$ = the income tax rate of firm i at time t

$Leverage_{it}$ = the leverage of firm i at time t

$Firm\ Size_{it}$ = the firm size of firm i at time t

ε_{it} = the error term

The second panel regression model is used to estimate the effect of tax incentives on return on assets. The model will be specified as follows:

$$ROA_{it} = \beta_0 + \beta_1 Income\ Tax\ Paid_{it} + \beta_2 Effective\ tax\ rate_{it} + \beta_3 Leverage_{it} + \beta_4 Firm\ Size_{it} + \varepsilon_{it} \quad (2)$$

Where:

ROA_{it} = the return on assets of bank i at time t

$Income\ Tax\ paid_{it}$ = the tax incentives of bank i at time t

$Effective\ Tax\ Rate_{it}$ = the income tax rate of firm i at time t

$Leverage_{it}$ = the leverage of bank i at time t

$Firm\ Size_{it}$ = the firm size of bank i at time t

ε_{it} = the error term

The third panel regression model will be used to estimate the effect of tax compliance on return on equity. The model will be specified as follows:

$$ROE_{it} = \beta_0 + \beta_1 Income\ Tax\ Paid_{it} + \beta_2 Effective\ tax\ rate_{it} + \beta_3 Leverage_{it} + \beta_4 Firm\ Size_{it} + \varepsilon_{it} \quad (3)$$

Where:

ROE_{it} = the return on equity of firm i at time t

$Income\ Tax\ Paid_{it}$ = the tax compliance of firm i at time t

$Effective\ Tax\ Rate_{it}$ = the income tax rate of firm i at time t

$Leverage_{it}$ = the leverage of firm i at time t

$Firm\ Size_{it}$ = the firm size of firm i at time t

ε_{it} = the error term

The use of the firm level control variables such as leverage and firm size will help control for any potential confounding effects on the relationship between corporate taxation planning and financial performance of the listed firms.

3.7.1 Diagnostic Testing

To ensure that the panel regression models are appropriate for this study, diagnostic testing will be conducted. The diagnostic testing that was conducted includes the panel stationarity test and the Hausman test.

The panel stationarity test is used to test for the presence of unit roots in the panel data, which can affect the validity of the panel regression models. Two tests will be used for the panel stationarity test: the Im-Pesaran-Shin (IPS) test and the Levin-Lin-Chu (LLC) test. The IPS test is a test for unit roots in panel data that allows for cross-sectional dependence, while the LLC test is a test for unit roots in panel data that allows for both cross-sectional dependence and structural breaks (Levin, et al.,2002).

The alternative hypothesis for the panel stationarity test is that there are no unit roots in the panel data, which means that the panel data is stationary. If the panel data is found to be stationary, it means that the panel regression models are appropriate for this study. If the panel data is found to be non-stationary, then the panel regression

models may not be appropriate for this study and transformation of the data is needed (Levin, et al.,2002).

The Hausman test is used to test the assumption of the exogeneity of the independent variables in the panel regression models (Wooldridge, 2010). The Hausman test is conducted to ensure that the independent variables are exogenous which is important for the estimation of the effect of corporate taxation planning on the effect of corporate taxation planning on the financial performance of listed firms in Ghana.

For the fixed effect model, the null hypothesis is that the fixed effect is not correlated with the independent variables, and the alternative hypothesis is that the fixed effect is correlated with the independent variables. If the null hypothesis is rejected, it means that the fixed effect model is appropriate for this study. If the null hypothesis is not rejected, it means that the fixed effect model is not appropriate for this study and the random effect model should be used instead (Hamaker and Muthén, 2020).

For the random effect model, the null hypothesis is that the random effect is correlated with the independent variables, and the alternative hypothesis is that the random effect is not correlated with the independent variables. If the null hypothesis is rejected, it means that the random effect model is appropriate for this study. If the null hypothesis is not rejected, it means that the random effect model is not appropriate for this study and the fixed effect model should be used instead (Hamaker and Muthén, 2020).

3.7.2 Robustness Checks

To enable the robustness of the panel regression models, robustness checks are conducted to test for autocorrelation and heteroscedasticity of the error term. These checks are important to ensure that the results of the panel regression models are not affected by these issues.

Autocorrelation occurs when the error term is correlated with the lagged error term. Autocorrelation can lead to biased and inefficient estimates of the coefficients in the panel regression models. To test for autocorrelation, the Durbin-Watson test is used. The null hypothesis for the Durbin-Watson test is that there is no autocorrelation in the error term, and the alternative hypothesis is that there is autocorrelation in the error term. If the null hypothesis is rejected, it means that there is autocorrelation in the error term, and the panel regression models may not be appropriate for this study. In this case, adjustments such as the use of a Generalized Least Squares (GLS) model or the use of a panel data-specific error correction model (ECM) can be used to correct for autocorrelation (Hsiao, C., 2022)

Heteroscedasticity occurs when the error term has a different variance across the panel units. Heteroscedasticity can lead to biased and inefficient estimates of the coefficients in the panel regression models. To test for heteroscedasticity, the White test will be used. The null hypothesis for the White test is that there is no heteroscedasticity in the error term, and the alternative hypothesis is that there is heteroscedasticity in the error term. If the null hypothesis is rejected, it means that there is heteroscedasticity in the error term, and the panel regression models may not be appropriate for this study. In this case, adjustments such as the use of a GLS model or the use of a panel data-specific heteroscedasticity-consistent covariance matrix estimator (HCCME) can be used to correct for heteroscedasticity (Hsiao, 2022).

3.8 Variables Description and Measurement

The variables used in this study include corporate taxation planning, return on investment, return on assets, return on equity, leverage, and firm size. The following is a description of the variables, their measurement, and the expected results.

Corporate taxation planning: This variable is measured using the income tax rate. The income tax rate is the percentage of income that is paid in taxes. It is expected that a lower income tax rate, higher tax incentives, and higher tax compliance will be associated with better financial performance (Nwokoye et al., 2022).

Leverage: This variable measures the amount of debt used to finance a company's operations. It is calculated as the ratio of total debt to shareholders' equity. A lower leverage ratio is associated with better financial performance (Myšková and Hájek, 2017).

Firm size: This variable measures the size of a company. It is calculated as the natural logarithm of total assets. A larger firm size is associated with better financial performance (Lin et al., 2019).

Return on investment (ROI): This variable measures the efficiency of an investment. It is calculated as the ratio of net income to total investment. A higher return on investment is associated with better financial performance.

Return on assets (ROA): This variable measures the profitability of a company. It is calculated as the ratio of net income to total assets. A higher return on assets is associated with better financial performance.

Return on equity (ROE): This variable measures the profitability of a company in relation to the shareholders' equity. It is calculated as the ratio of net income to shareholders' equity. A higher return on equity is associated with better financial performance.

3.9 Chapter Summary

This chapter has outlined the research design, data, methods, and variables used in this study to examine the effect of corporate taxation planning on the financial performance of listed firms in Ghana. A panel research design was used to analyze the data from 2015 to 2021. The methods used include fixed effect and random effect models, which were specified using a panel regression model. The model was also subjected to diagnostic testing, including the panel stationarity test and the Hausman test, to ensure the validity of the panel regression models. Robustness checks were conducted to test for autocorrelation and heteroscedasticity of the error term. The variables used in this study include corporate taxation planning, return on investment, return on assets, return on equity, leverage, and firm size. The results of this study will provide insight into the relationship between corporate taxation planning and financial performance of listed firms in Ghana, and will contribute to the literature on corporate taxation and financial performance.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

The fourth chapter of the study is the data analysis and discussion section. The researcher collected data from the financial and annual reports of six financial institutions and six non-financial institutions. The data analysis consisted of descriptive statistics of the variables, and the regression analysis conducted to identify the effect of tax planning on profitability of financial and non-financial organizations in Ghana. The chapter discusses the findings of the study based on available literature and also provide intuitions to understand and discuss the findings of the study.

4.2 Descriptive statistics

The descriptive statistics was conducted for the studies based on the two categories of firm type used in the study. The descriptive was divided into descriptive statistics for financial and non-financial institutions.

4.2.1 Descriptive statistics (non-financial institutions)

Table 2 shows the descriptive statistics for the non-financial institutions used for the study. The collected data on six institutions in Ghana who are not in the financial sector. The six companies are Ghana Oil company, Guinness Ghana Limited, Camelot Ghana Limited, Fanmilk Ghana Limited, Total Energies Ghana, and Unilever Ghana Limited. Financial data was collected from 2015 to 2021 for all the six companies. From the table ROE had a mean of 0.075, a minimum figure of 0.000975 and a maximum of 0.33. Table 2 also shows that the average return on equity for the six companies is 0.15 for the period. The maximum return on equity was 0.74 while the minimum was 0.001728. Effective Tax Rate (ETR) has a mean of 0.43, minimum of

0.00 and a maximum of 3.10. The mean leverage for the six companies is 1.62, the minimum was 0.35 and the maximum was 4.57.

Table 2: Descriptive statistics (non-financial institutions)

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	42	0.075	0.076	0.000975	0.33
ROE	42	0.15	0.15	0.001728	0.74
ROI	42	191.29	256.16	2.115527	1174.36
Leverage	42	1.62	1.10	0.353818	4.57
FIRMSIZE	42	14.87	2.90	12.27473	21.46
ETR	42	0.43	0.59	0.00	3.10
Taxpaid	42	3130595	7777833	0.00	32500000.0

Source: Adortse, 2023

4.2.2 Descriptive statistics (financial institutions)

Table 3 shows the descriptive statistics for the financial organization used in the study. The study collected information on GCB Bank, Societe General bank, Cal Bank, Ecobank, Republic Bank and Agriculture Development Bank (ADB), from 2015 to 2021. The total observation for the study was 42. Return on assets (ROA) has a mean of 0.033, minimum value of 0.0025 and a maximum value of 0.29. ROA also has a standard deviation of 0.04 which shows the data is dispersed widely away from the mean. ROE had a mean of 4.43, a minimum value of 0.2 and a maximum of 0.29. ROI

had a mean of 1260.134, a minimum value of 1.92 and a maximum value of 19658.59. Effective Tax Rate (ETR) had a mean of 0.43, a minimum of 0.058 and a maximum value of 2.59. The average leverage for the period was 17.36, the minimum leverage was 3.89 and a maximum of 62.51.

Table 3: Descriptive statistics (financial institutions)

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	42	0.033195	0.04299	0.0025	0.289569
ROE	42	4.434238	10.9692	0.196203	70.80118
ROI	42	1260.134	3904.976	1.918302	19658.59
leverage	42	17.84502	17.36379	3.88947	62.50857
FIRMSIZE	42	16.57494	2.391586	14.2643	22.4165
ETR	42	0.426097	0.503799	0.058308	2.593015
Taxpaid	42	8105613	2.09E+07	2162	97600000

Source: Adortse, 2023

4.3 Objective one: effect of corporate tax planning on financial performance of financial institutions

To identify the effect of corporate tax planning on the financial performance of financial institutions, the study conducted a panel regression estimation and estimated

both the fixed and random effect models, and used the Hausman test to select the best model. The study used three dependent variables to measure performance of the organization and that is return on equity (ROE), return on investment (ROI) and return on assets (ROA).

Table 4: Hausman test ROA

Correlated Random Effects - Hausman Test		
Test cross-section effects		
Test Summary	Chi-Sq. Statistic	Prob.
Cross-section random	2.37	0.4997

Source: Adortse, 2023

Table 4 above shows the outcome of the Hausman test for ROA as measure of performance. The p-value is 0.4997 which is greater than 0.05. Since the p-value is greater than 0.05 we accept the fixed effect model as the best model to determine the effect tax planning on performance measured with ROA.

Table 5: Fixed effect (ROA)

ROA	Coef.	Std. Err.	t	P>t
EffectivTR	0.00377	0.00877	0.43	0.682
Taxpaid	-0.045	0.093	-3.47	0.007
FIRMSIZE	0.001351	0.004597	0.29	0.779
leverage	-0.00065	0.000518	-1.26	0.253
_cons	0.020451	0.075308	0.27	0.795
R-square				0.023
P value				0.0004

Source: Adortse, 2023

Table 5 shows the fixed effect model for the relationship tax planning and financial performance of financial institutions. Financial performance was measured with return on asset (ROA). The coefficients shows that tax paid had a negative relationship with performance which was significant under 5%. A unit increase in tax paid will decrease performance by 0.045. This shows that when tax paid increases the financial performance of a well go down, but when the amount of tax paid decreases, the performance of the company improves. Effective Tax Rate (ETR) was positive in this model and had an insignificant relationship with return on assets. The overall significance of the model is 0.0004 which shows that all the variables are not equal to

0. The r-square of 0.023 shows that only 2.3% of change in ROA is explained by the dependent variables.

Table 6: Hausman test ROI

Correlated Random Effects - Hausman Test		
Test cross-section effects		
Test Summary	Chi-Sq. Statistic	Prob.
Cross-section random	12.12	0.0070

Source: Adortse, 2023

Table 6 above shows the outcome of the Hausman test for ROI as measure of performance. The p-value is 0.0070 which is lesser than 0.05. Since the p-value is lesser than 0.05 we reject the fixed effect model as the best model to determine the effect tax planning on performance measured with ROA and accept the random effect model as the best model.

Table 7: Random effect (ROI)

ROI	Coef.	Std. Err.	z	P>z
EffectivTR	-1337.14	462.0302	-2.89	0.004
Taxpaid	-0.00897	0.0374	-2.4	0.016
FIRMSIZE	664.217	337.4774	1.97	0.049
leverage	-12.6179	17.72936	-0.71	0.477
_cons	-8227.2	4643.459	-1.77	0.076
R-square				0.5747
P value				0.0001

Source: Adortse, 2023

Table 7 shows the random effect model for the relationship tax planning and financial performance of financial institutions. Financial performance was measured with return on asset (ROI). Effective tax rate had a negative relationship with return on investment with a coefficient of -1337.14 and significant level of 0.004. This shows that effective tax rate leads to a decrease in performance of the organization measured with ROI. Tax paid also had a negative relationship with ROI with a coefficient of -0.00897 which is significant under 5%. This shows that growth in tax paid leads to a negative impact on financial performance of a firm. Firm size had a positive relationship with performance with a coefficient of 664.217 and is significant under 5%. The relationship had an overall significance of 0.0001 which shows that the dependent

variables are not equal to 0. The r-square of 0.5747 shows that dependent variables explain financial performance measured with ROI by 57.47%.

Table 8: Hausman test ROE

Correlated Random Effects - Hausman Test		
Test cross-section effects		
Test Summary	Chi-Sq. Statistic	Prob.
Cross-section random	2.01	0.5699

Source: Adortse, 2023

Table 8 above shows the outcome of the Hausman test for ROE as measure of performance. The p-value is 0.5699 which is greater than 0.05. Since the p-value is greater than 0.05 we accept the fixed effect model as the best model to determine the effect tax planning on performance measured with ROE.

Table 9: Fixed effect (ROE)

ROE	Coef.	Std. Err.	t	P>t
EffectivTR	12.25673	6.917019	3.77	0.027
Taxpaid	-0.00288	0.00142	-2.02	0.09
FIRMSIZE	2.968674	1.438702	2.06	0.032
Leverage	-0.20879	0.142083	-1.47	0.192
_cons	-43.9374	23.43253	-1.88	0.11
R-square				0.3977
P value				0.0003

Source: Adortse, 2023

Table shows the fixed effect model for the relationship between tax planning and financial performance of financial institutions. Financial performance was measured with return on asset (ROE). From table 8, effective tax rate had a positive significant relationship with return on equity with a coefficient of 12.26. There is a negative relationship between tax paid and financial performance which implies the amount of tax paid leads to a decrease in performance. Firm size also had a positive significant relationship with performance measured with ROE, with a coefficient of 2.97 and a significance level which is significant under 5%. The model has an r-squared of 0.3977 which shows about 39.77% of change in ROE is explained by the independent variables. The overall significance level of 0.0003 shows that the variables are not equal to zero.

4.4 Objective two: to examine the effect of corporate tax planning on the financial performance of non-financial institution

Table 10: Hausman test ROA

Correlated Random Effects - Hausman Test		
Test cross-section effects		
Test Summary	Chi-Sq. Statistic	Prob.
Cross-section random	2.17	0.5377

Source: Adortse, 2023

Table 10 above shows the outcome of the Hausman test for ROA as measure of performance. The p-value is 0.5377 which is greater than 0.05. Since the p-value is greater than 0.05 we accept the fixed effect model as the best model to determine the effect tax planning on performance measured with ROA.

Table 11: Fixed effect model (ROA)

ROA	Coef.	Std. Err.	t	P>t
EffectivTR	-0.02	0.02	-1.09	0.32
Taxpaid	0.03	0.00	2.65	0.04
FIRMSIZE	-0.02	0.00	-3.82	0.01
leverage	-0.01	0.01	-2.10	0.08
_cons	0.32	0.07	4.65	0.00
R-squared				0.1285
P value				0.0028

Source: Adortse, 2023

Table 11 shows the fixed effect model for the relationship tax planning and financial performance of non-financial institutions. Financial performance was measured with return on asset (ROA). The table above shows that amount of paid had a positive relationship with ROA and significant under 5% level of significance. This shows that tax paid leads to improvement in the performance of the organization. Firm size had a negative relationship with ROA which is significant under 5%. Leverage also had a negative relationship with ROA with a significant level of 0.08 which is significant under 5% level of significance. The constant had a positive relationship with ROA with a coefficient of 0.32 and significant value of 0.00. This shows that firm performance with increase with or without tax planning. The overall significance of the model was 0.0028 which shows that all the variables are not equal to 0. The r-

squared was 0.1285 which shows that 12.85% change in ROA is explained by the independent variables.

Table 12: Hausman test ROI

Correlated Random Effects - Hausman Test		
Test cross-section effects		
Test Summary	Chi-Sq. Statistic	Prob.
Cross-section random	1.5	0.6826

Source: Adortse, 2023

Table 12 above shows the outcome of the Hausman test for ROI as measure of performance. The p-value is 0.6862 which is greater than 0.05. Since the p-value is greater than 0.05 we accept the fixed effect model as the best model to determine the effect tax planning on performance measured with ROI.

Table 13: Fixed effect (ROI)

ROI	Coef.	Std. Err.	t	P>t
EffectivTR	101.50	198.50	2.72	0.05
Taxpaid	-0.02	0.00	-2.60	0.04
FIRMSIZE	50.38	26.61	1.89	0.11
leverage	-53.57	23.57	-2.27	0.04
_cons	-448.56	384.88	-1.17	0.29
R-squared				0.1899
P value				0.0171

Source: Adortse, 2023

Table 13 shows the fixed effect model for the relationship tax planning and financial performance of financial institutions. Financial performance was measured with return on asset (ROI). Table 13 shows that effective tax rate had a positive relationship with financial performance measured with ROI. The relationship is significant under 5% level of significance with a coefficient of 101.50. Tax paid has a negative relationship with ROI with a coefficient of 0.02 and significant under 5%. Leverage also had a negative relationship with ROI with a coefficient of 53.57 and significant under 5%. The model had an r-squared of 0.1899 and a p-value of 0.0171. This shows that 18.99% of change in ROI is explained by the independent variables. The overall significance level of 0.0171 is lesser than 5% hence the model shows the variables are not all equal to zero.

Table 14: Hausman test ROE

Correlated Random Effects - Hausman Test		
Test cross-section effects		
Test Summary	Chi-Sq. Statistic	Prob.
Cross-section random	1.98	0.5776

Source: Adortse, 2023

Table 14 above shows the outcome of the Hausman test for ROE as measure of performance. The p-value is 0.4997 which is greater than 0.05. Since the p-value is greater than 0.05 we accept the fixed effect model as the best model to determine the effect tax planning on performance measured with ROE.

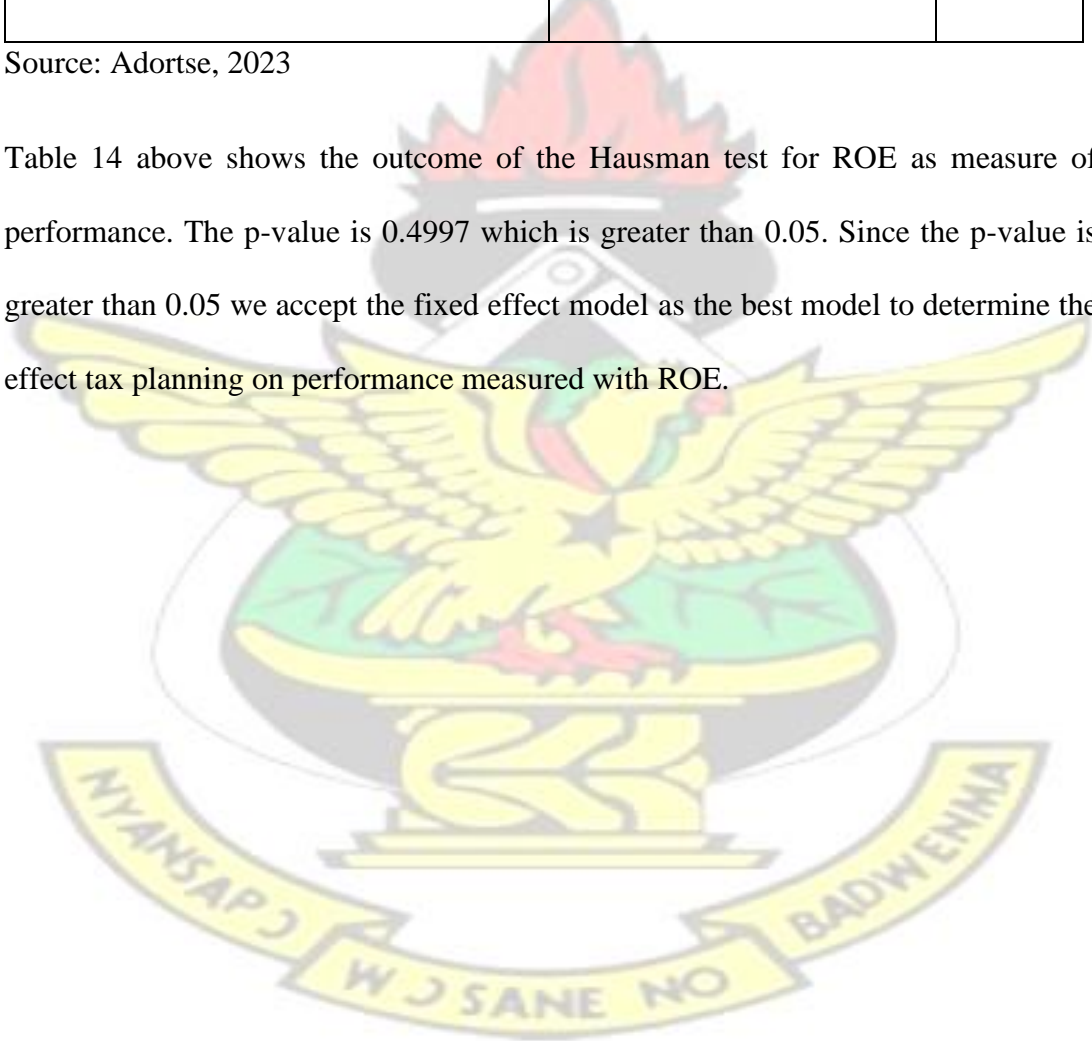


Table 15: Fixed effect (ROE)

ROE	Coef.	Std. Err.	t	P>t
EffectivTR	-0.04	0.05	-0.94	0.38
Taxpaid	0.07	0.00	2.33	0.06
FIRMSIZE	-0.03	0.01	-3.17	0.02
leverage	-0.04	0.03	-1.29	0.24
_cons	0.67	0.19	3.57	0.01
R-squared				0.1634
P value				0.0055

Source: Adortse, 2023

Table 15 shows the fixed effect model for the relationship tax planning and financial performance of financial institutions. Financial performance was measured with return on asset (ROE). Table 15 shows that there is a positive relationship between return on equity and tax paid, while there is a negative relationship between firm size and return on equity. Tax paid had a coefficient of 0.07 and is significant under 10% level of significance. Firm size had a coefficient of -0.03 and is significant under 5%. The model has an r-squared of 0.1634 which shows that about 16.34% of the change in ROE can be explained by the independent variables. The overall model is significant with a p-value of 0.0055 which shows that at least one of the dependent variables is not equal to zero.

4.5 Objective three: compare the effect of corporate taxation planning on the financial performance of the financial institution and nonfinancial institution

In comparing the effect of tax planning on the performance of financial and non-financial organizations, the study compared the four dependent variables of the study using Wilcoxon rank-sum or the Mann-Whitney test.

Table 16: Comparison – Effective Tax Rate

Two-sample Wilcoxon rank-sum (Mann-Whitney) test	
Effective Tax Rate	
	EffectivTR(group==nonfinancial) =
Null Hypothesis	EffectivTR(group==financial)
z	-1.152
Prob > z	0.322
Exact Prob	0.3157

Source: Adortse, 2023

Table 16 shows the comparison of the nonfinancial and financial companies studied on effective tax rate. Based on the output from the Wilcoxon rank-sum test, the probability greater than z figure of 0.322 is greater than 5% level of significance. We hence fail to reject the null hypothesis and conclude that there is no difference between the effective tax rate financial and nonfinancial groups.

Table 17: Comparison – Tax Paid

Two-sample Wilcoxon rank-sum (Mann-Whitney) test	
Tax Paid	
Null Hypothesis	Taxpaid(group==nonfinancial) = Taxpaid(group==financial)
z	-1.359
Prob > z	0.198
Exact Prob	0.1899

Source: Adortse, 2023

Table 17 shows the comparison of the nonfinancial and financial companies studied on their tax paid. Based on the output from the Wilcoxon rank-sum test, the probability greater than z figure of 0.198 is greater than 5% level of significance. We hence fail to reject the null hypothesis and conclude that there is no difference between the tax paid for financial and nonfinancial groups.

Table 18: Comparison – Firm size

Two-sample Wilcoxon rank-sum (Mann-Whitney) test	
Firm size	
Null Hypothesis	firmsize(group==nonfinancial) = firmsize(group==financial)
z	-2.529
Prob > z	0.0132
Exact Prob	0.0102

Source: Adortse, 2023

Table 18 shows the comparison of the nonfinancial and financial companies studied on their firm sizes. Based on the output from the Wilcoxon rank-sum test, the probability greater than z figure of 0.0132 is lesser than 5% level of significance. We

reject the null hypothesis and conclude that there is a difference between the true mean of firm size for the two groups. We conclude that the nonfinancial groups have a higher firm size as compared to financial companies.

Table 19: Comparison - Leverage

Two-sample Wilcoxon rank-sum (Mann-Whitney) test	
Leverage	
Null Hypothesis	leverage(group==nonfinancial) = leverage(group==financial)
z	-3.279
Prob > z	0.0231
Exact Prob	0.0215

Source: Adortse, 2023

Table 19 shows the comparison of the nonfinancial and financial companies studied on their leverage. Based on the output from the Wilcoxon rank-sum test, the probability greater than z figure of 0.0231 is lesser than 5% level of significance. We reject the null hypothesis and conclude that there is a difference between the true mean of firm size for the two groups. We conclude that the nonfinancial groups have a higher leverage as compared to financial companies.

4.6 Discussion

Firm performance can be affected by several aspects of the business. The tax planning activities of the organization is one of the determinants of the performance of a firm. The study found that firm performance when measured with either ROI, ROA, or ROE, has some changes in the impact of tax planning. Based on effective tax rate, the study found that firm performance is positively influenced when measured with ROE, ROA, or ROE. The findings show that when an organization in the financial sector is able to save on tax and plan on tax management, they are able to be profitable.

Comparing ETR to tax paid, the findings of the study show that for financial organizations, tax paid leads to decrease in performance but when they are able to plan their tax effectively, they are able to improve their profitability. A similar situation occurs for the non-financial companies when performance is measured with ROI. The organizations although will have their performance decreasing when tax paid increases, they will be able to improve on their financial performance when tax planning is improved which is shown by the positive relationship that exists between ETR and return on investment.

The study by Gatsi et al., (2008) on the impact of corporate turnover taxation on the monetary results of Ghana's selected companies stated that non-financial organizations such as factory businesses should hire tax professionals to help in tax planning since tax planning has a positive impact on financial performance of the organization. The findings of this study conform with that of Gatsi et al., (2008) in that there exists a positive relationship between financial performance of non-financial organizations and tax planning measured with effective tax rate, which is a tax saving measure.

The findings of Olarewaju and Olayiwola (2019) is also in line with the findings of this study. According to Olarewaju and Olayiwola (2019) tax planning has a potential of increasing the financial performance of non-financial organizations. Findings from the study of Otwani et al., (2017) also show that tax planning has a relationship with financial performance in Kenya, although the study did not state specifically the direction of relationship, the study recommended more study on the subject to identify more avenues through which tax planning can benefit organizations.



CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

Chapter five of the study provides a summary of the findings of the study, draws conclusion based on the findings and gives recommendation to the relevant stakeholders to the study. The first section of chapter five is the summary of findings, where the researcher summarized all the processes involved in conducting the research. The conclusion section provides specific conclusions that were derived from the findings from the data analysis. The recommendation given by the researcher are based on the conclusion drawn and the implications for the stakeholders related to the study.

5.2 Summary of findings

The study was conducted to identify the effect tax planning activities of an organization has on the performance of the organization financially. To further understand the relationship between the two subjects, the researcher divided the organizations into financial and non-financial organizations. The objectives of the study were to identify the effect of corporate tax planning on the financial performance of financial institutions and similarly to examine the effect of corporate tax planning on the financial performance of non-financial institutions. The study measured financial performance of both categories using return on equity, return on assets and return on investment. These three measures are part of the mostly widely accepted and used measures of financial performance of a firm. The study used effective tax rate, tax paid, leverage and firm size as the independent variables to measure tax planning and other related variables that affect financial performance.

The study collected data on six financial organizations and six non-financial organizations for the period between, 2015 to 2021. The study collected data from the financial reports of the various organizations on yearly bases. The annual data collected was derived through various ratios calculated. The ratios were arranged in a panel form as the study used panel data analysis to identify the relationships. Specifically, the study conducted the fixed and random effect and based on the Hausman test, a decision was made whether to accept the fixed or random effect models. A summary of the findings shows that; (a) good corporate tax planning leads to payment of a reasonable tax and hence improves the performance of financial and non-financial. (b) Tax planning has a positive impact on financial performance of non-financial firms, (c) There is no difference between the impact of tax planning on listed financial and non-financial firms.

5.3 Conclusion

Upon the completion of the data analysis based on the fixed and random effect models conducted through panel data estimation, the study can draw conclusions based on the relationships identified in the findings of the study. The first objective was to identify the impact of tax planning on the financial performance of financial organizations. The study ends that tax planning measured with effective tax planning improves the financial performance of financial organizations when performance is measured with return on asset and return on equity. When financial organizations pay more tax, their financial performance is negatively affected, but through tax planning activities their financial performance is improved. Firm size has also shown that the financial performance of financial organizations is positively affected when the organization's size improves. Firm size leads to an improvement of financial performance for financial organizations.

The second objective was to identify the impact of tax planning on the financial performance of non-financial organizations. The study concludes that tax planning has a positive impact on the financial performance of non-financial organizations but only when financial performance is measured with ROI. The study concludes that when an organization is able to perform effective tax planning, they are able to improve their financial position. The study also shows the leverage has a negative impact on financial performance of non-financial organizations.

Comparing the findings for the financial and non-financial organizations, the study ends that tax planning has no difference for the financial or non-financial companies. The effect of effective tax rate on financial performance shows that better tax planning leads to betterment in financial performance most importantly the effect is more unanimous when return on investment is the main measure for financial performance.

5.4 Recommendations

From on the findings and conclusion of the study, I recommend organizations to invest in tax planning and identify the best ways to improve on their tax burdens. The study found that tax paid by an organization has an inverse effect on the performance of the bank financially. Organizations should continue investing in tax planning activities as it has shown to be able to boost the financial performance of the organization. The more effective tax planning becomes, the better the financial performance of the firm. Effective tax planning leads to increased tax savings and this leads to growth in financial performance.

The government is a major determinant in the tax decisions of organizations. The study recommends the government should impose taxes in a manner that does not lead to organizations facing negative impacts on the organization. The government will push

organizations into employing tax savings practices such as tax avoidance when the tax systems seem to be harsh on the organizations and this will lead to loss of revenue to the government.

The study finally recommends that organizations identify the aspect of their organization which is mostly affected by tax they pay and the tax planning activities they put in place. For non-financial organizations, investing in tax planning activities that improve their return on investment should be considered as the best aspect of their business to manage in terms of tax planning and financial performance.



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