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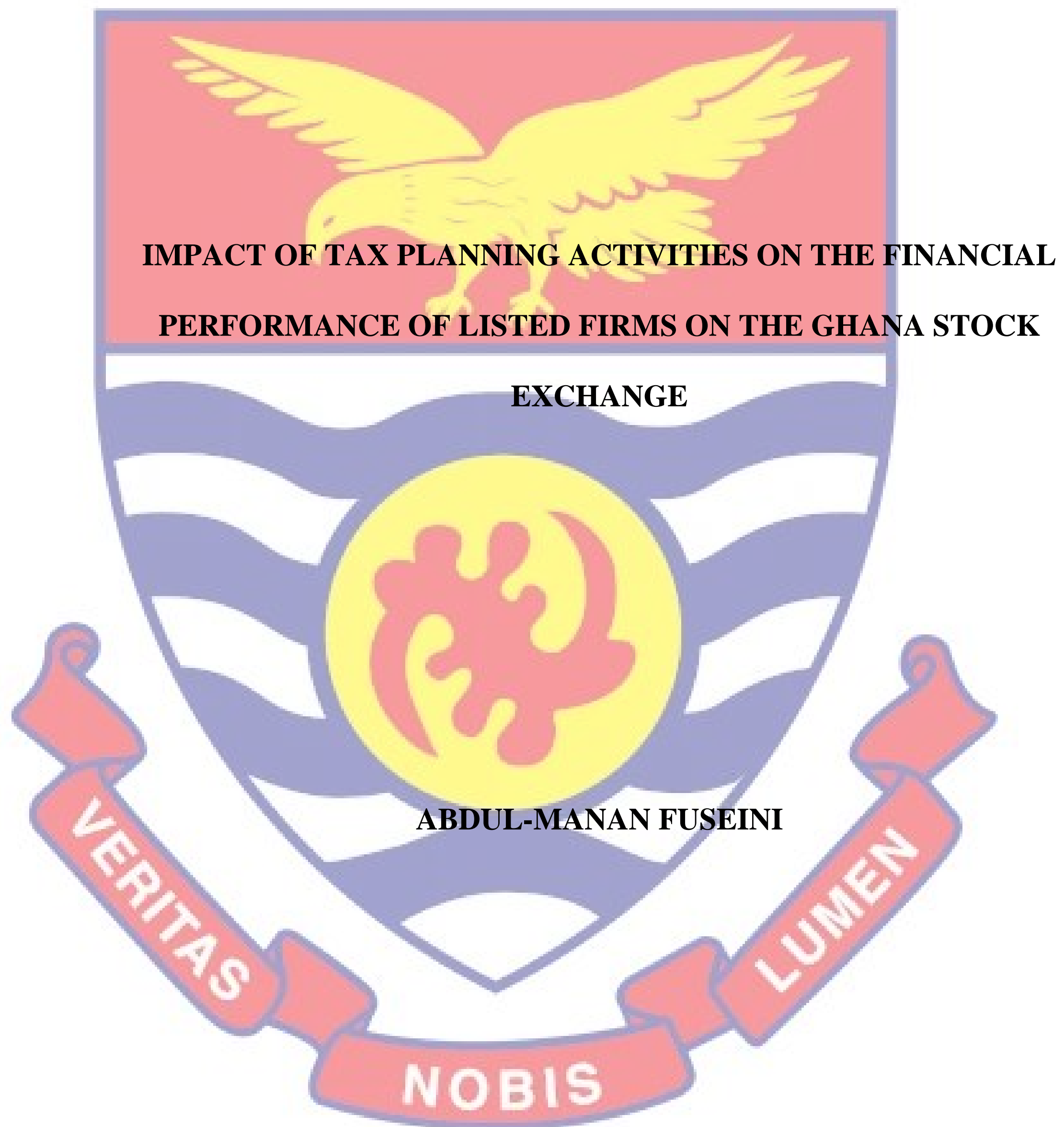

IMPACT OF TAX PLANNING ACTIVITIES ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS ON THE GHANA STOCK EXCHANGE

ABDUL-MANAN FUSEINI

2021

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IMPACT OF TAX PLANNING ACTIVITIES ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS ON THE GHANA STOCK EXCHANGE

BY

ABDUL-MANAN FUSEINI

Dissertation Submitted to the Department of Accounting of the School of Business, College of Humanities and Legal Studies, University of Cape Coast, in partial fulfillment of the requirements for the award of Master of Business Administration degree in Accounting

DECEMBER 2021

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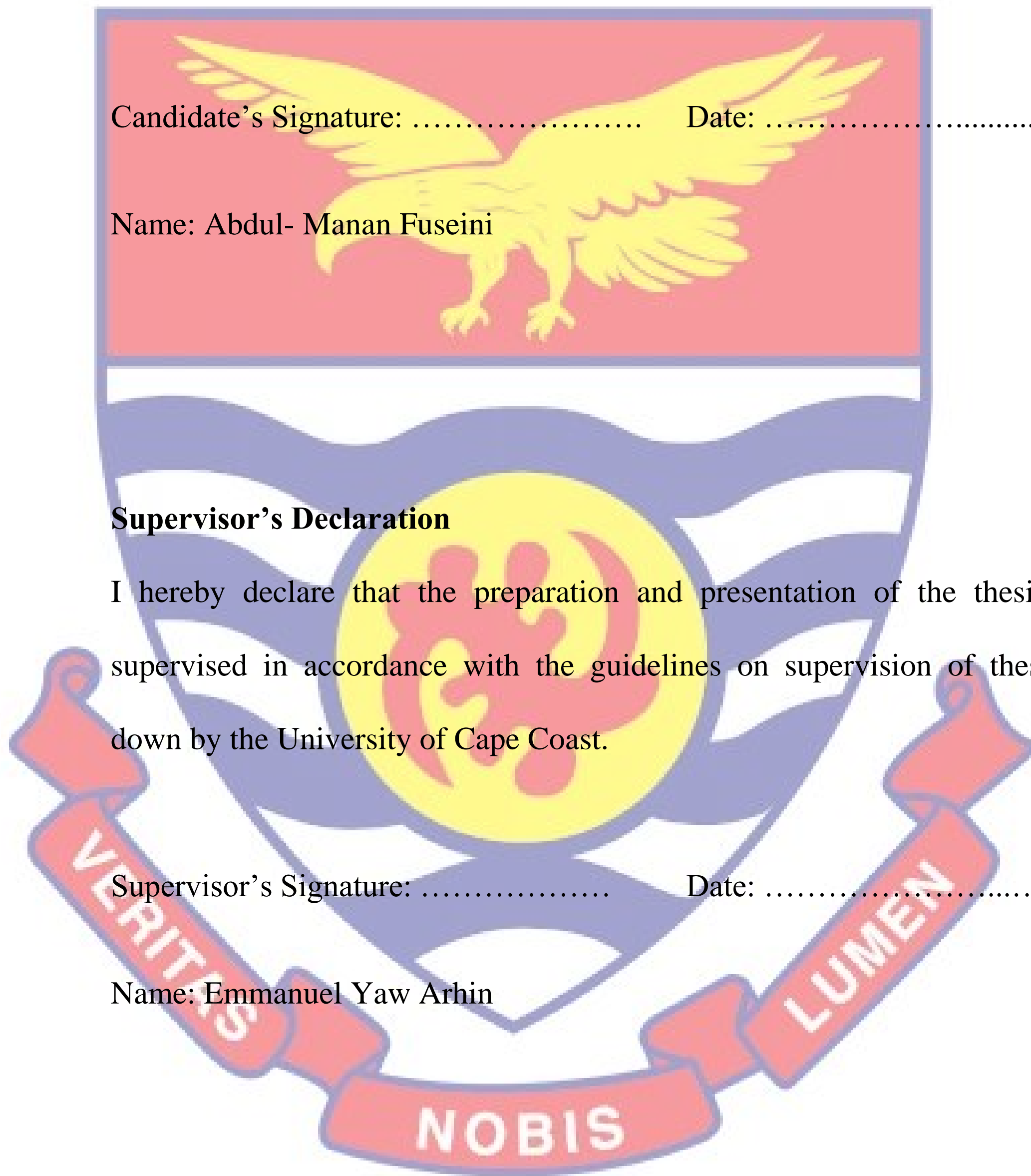
DECLARATION

Candidate's Declaration

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



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Name: Abdul- Manan Fuseini

Supervisor's Declaration

I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Supervisor's Signature: …………….. Date: ……………….....…...

Name: Emmanuel Yaw Arhin

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ABSTRACT

This dissertation was aimed at assessing the impact of tax planning activities on firms' performance among the listed firms on the GSE. It also examined the effects of demographic characters; board size and non-executive membership impose on tax planning of firms. By employing a pooled panel regression on a panel data set of listed companies on the Ghana Stock Exchange over the period of 2010 to 2019, the study found that the size of firm and the stage of growth along its life cycle do have a positive and significant impact on its tax planning activities. In addition, the size and composition of the board of directors also significantly affects a firm's tax planning decisions and activities. Large boards are adversarial while the presence of non-executive directors enhances tax planning. Finally, tax planning was observed to be negative and significant to firm performance. Based on the findings of the study, it is worthwhile that companies engage in periodic analysis to assess their growth trajectory in order to select and implement appropriate tax planning activities that commensurate their growth stage. Furthermore, shareholders should consider the inclusion of non-executive directors on the board even as they strive to maintain a reasonable board size. Finally, management should engage on cost and benefit analysis on tax planning in order to select and implement a feasible strategy to leverage for firm performance.

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KEY WORDS

Tax planning Activities

Firm Performance

Pooled Panel Regression

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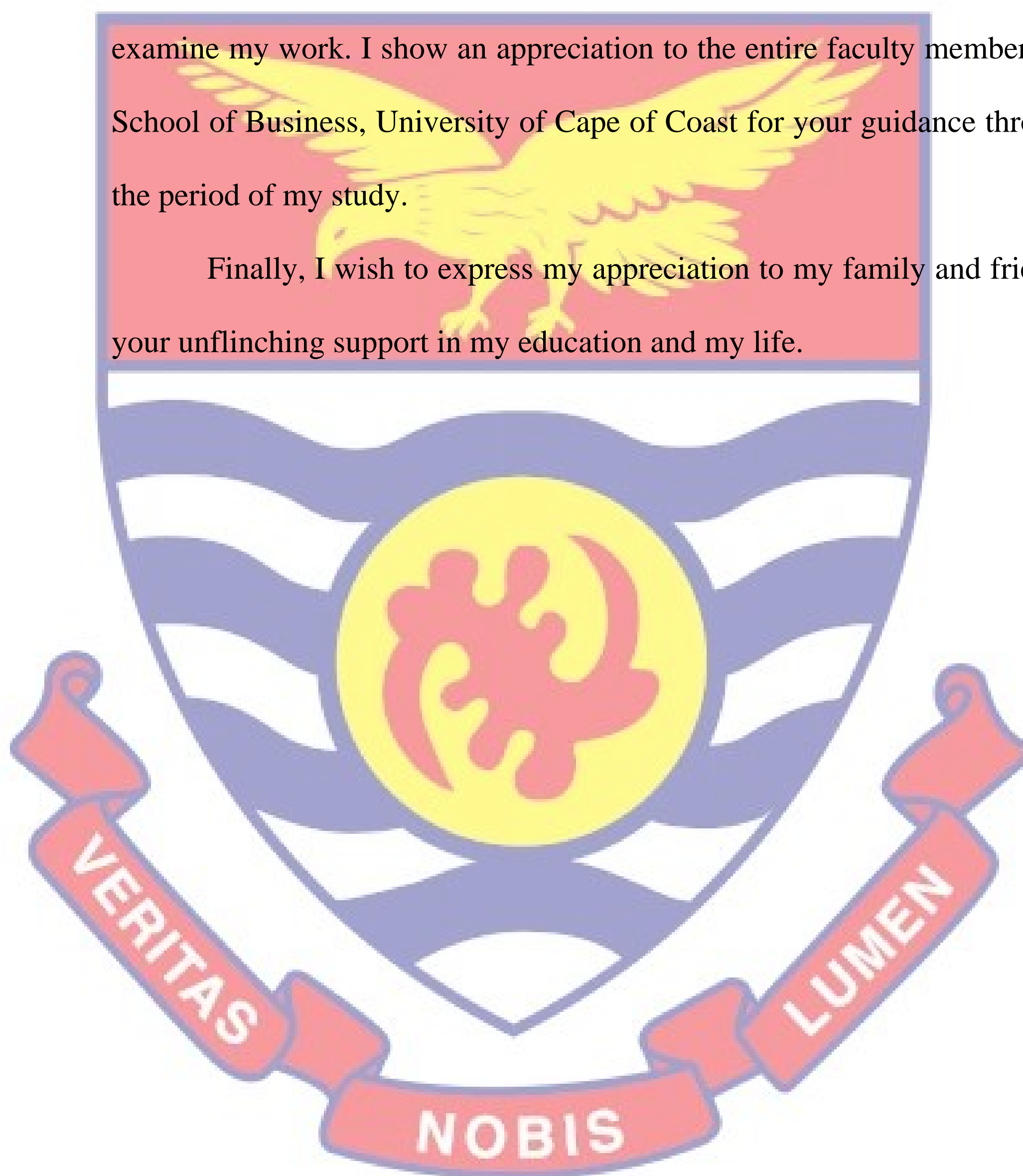
Finally, I wish to express my appreciation to my family and friends for your unflinching support in my education and my life.



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DEDICATION

To my wife, Addisah Iddrisu and our lovely son Maahir Shieyarigeba Abdul-Manan for their love and support.

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TABLE OF CONTENTS

Page

DECLARATION ii

ABSTRACT iii

KEY WORDS iv

ACKNOWLEDGEMENTS v

DEDICATION vi

LIST OF TABLES x

LIST OF FIGURES xi

LIST OF ACRYONYMS xii

CHAPTER ONE: INTRODUCTION

Background to the Study 1

Statement of the Problem 6

Purpose of the Study 8

Research Objectives 8

Research Hypotheses 8

Significance of the Study 9

Delimitations 9

Limitations 10

Definition of Terms 11

Organisation of the Study 11

CHAPTER TWO: LITERATURE REVIEW

Introduction 13

Theoretical Review 13

Hoffman (1961) Theory of Tax Planning 13

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The Trade-Off Capital Structure Theory 14

Conceptual Review 15

Concept of taxation 15

Tax avoidance and tax evasion 17

Importance of firm performance 17

Determinants of firm performance 18

Empirical Review 20

Demographic factors and tax planning 20

Firm size and tax planning 21

Firm growth and tax planning 22

Board size, composition and tax planning activities 23

Tax planning and firm performance 24

Firm size and firm performance 30

Liquidity and firm performance 30

Growth opportunity and firm performance 31

Conceptual Framework 32

Chapter Summary 32

CHAPTER THREE: RESEARCH METHODS

Introduction 33

Research Design 34

Population 34

Sampling Procedure 34

Data Collection Procedure 35

Model Specification 35

Description of Variables and Measurement 35

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Data Processing and Analysis 40

Diagnostic Tests 41

Chapter Summary 42

CHAPTER FOUR: RESULTS AND DISCUSSION

Introduction 44

Test of Multicollinearity 45

Inferential Statistics 48

Objective 1: To Examine the Impact of Demographic Factors on Tax Planning Activities. 48

Objective 2: To Examine the Impact of the Board on Tax Planning Activities. 51

Objective 3: Assess the Association Between Tax Planning Activities and Firm's Performance. 53

Chapter Summary 56

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction 57

Summary of Key Findings 58

Conclusions 58

Recommendations 59

Suggestion for Further Research 59

REFERENCES 61

Digitized by Sam Jonah Library

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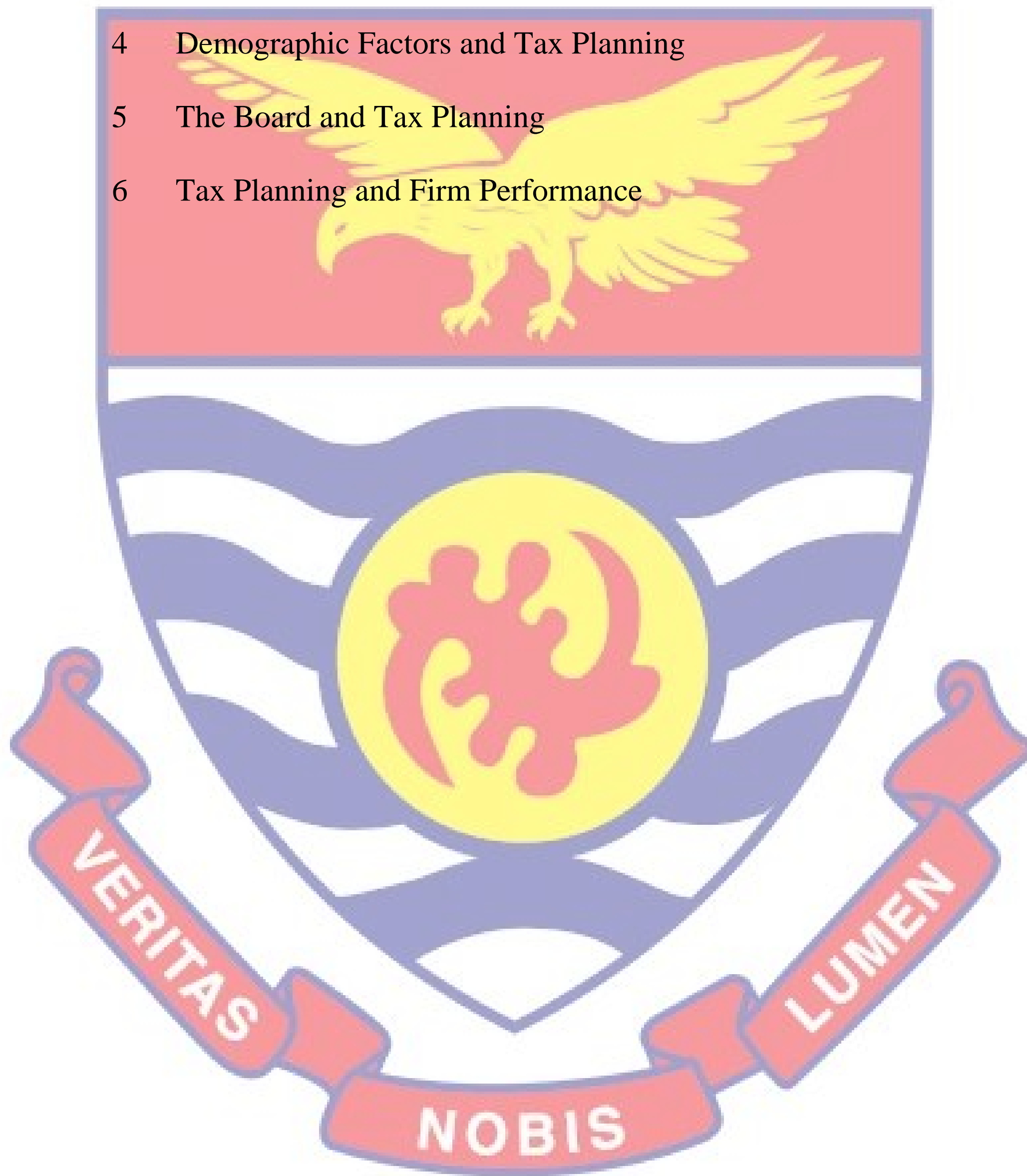
LIST OF TABLES

Page

1	Descriptive Statistics	44
2	Pairwise Correlation Matrix	46
3	Test for Multicollinearity	47
4	Demographic Factors and Tax Planning	48
5	The Board and Tax Planning	51
6	Tax Planning and Firm Performance	53



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LIST OF FIGURES

Page

1 Conceptual Framework 32

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LIST OF ACRYONYMS

AIC	Akaike Information Criterion
BS	Board Size
DW	Durbin Watson
ETR	Effective Tax Rate
ARDL	Auto Regression Distribution Lag
GLS	Generalized Least Square
GRA	Ghana Revenue Authority
GSE	Ghana Stock Exchange
NED	Non-Executive Directors
ROA	Return on Asset
ROE	Return on Equity
VAT	Value Added Tax
VIF	Variance Inflation Factor
PBIT	Profit before interest and tax

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CHAPTER ONE

INTRODUCTION

This research assessed how tax planning activities affect the performance of firms listed on the Ghana Stock Exchange. The chapter comprises background to the study, problem statement, study objectives, research questions, hypothesis, significance of the study, delimitations as well as scope of the study, definition of key terms, and how the rest of the study is organised.

Background to the Study

Taxation remains the prime source of revenue to many governments across the globe. It is the one revenue opportunity available to governments to expend on public projects without recourse to public borrowing. As such, the responsibility to pay tax liabilities owned to government is a well-established and appreciated one among citizens, businesses and agencies in various countries. Tax revenue significantly contributes to the attainment of economic goals, budget funding and resource allocation. According to Kariuki (2017), governments generate tax revenue for public expenditure and helps in reducing inequalities through a policy of redistribution of income. The core responsibility of governments as an employer, provider of social amenities, maintainer of peace and order, law and justice, governance and politics are footed by public funds sourced from taxation among others.

In Ghana, Tax revenue remains very critical to the development of the country since it constitutes a large proportion of the total revenue of the country. In 2011 for example, tax revenue represented 80% of the total revenue, and rose to 84% in 2012 (Ministry of Finance, 2017). Despite the

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benefits nations derive from taxation, tax obligations continue to inject venom of unaccountable economic pain to businesses and individuals. Maguire, and Papeş, (2021) states that "No one likes taxes; people do not like to pay them and governments do not like to impose them". Therefore, economic entities charged with tax obligations especially corporate bodies are always synthesizing new ways to minimize, postpone, or avoid entirely, the payment of tax. The World Bank report on doing business (2020) buttressed that Ghana recorded a tax compliance of just 49.5 percent as against the sub Saharan African average of 54.7 percent. These attempts by the economic units could be legal or illegal depending on the taxation laws in various jurisdictions across the globe. Compliance with taxation puts a tremendous pressure on small and medium scale enterprises both in the aggregate and relative businesses. Zoubouloglou, García-Portugués, and Marron, (2021)asserts that revenue bearing companies smaller than $1 million bear almost two-thirds of business compliance cost and that those cost are larger relative to revenues or assets for small firms than for big ones.

According to the Income tax Act (2015) Act 896, there are varying concessionary tax rates available to companies, which are based on the nature of each entity's business, industry and location. Companies and other corporate bodies are required to account for income and expenses on an accrual basis for each accounting year, rather than calendar year. Most companies in Ghana are taxed at a rate of 25%. Companies pay taxes through self-assessments and withholding at the source, with the companies themselves acting as withholding agents for the government. In the third month of each resident company's accounting year, the firm is required to file a self-

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assessment form declaring an estimate of taxes payable for the accounting year. The estimated tax must then be paid to the Ghana Revenue Authority (GRA) in quarterly installments, and the total amount paid must eventually constitute at least 90% of the actual tax payable for the accounting year. Resident companies are also required to file corporate income tax returns no more than four months after the end of their accounting year. Following this, resident companies must pay any outstanding corporate income taxes after claiming credit for estimated taxes paid and taxes withheld during the year. Ibrahim, Musah and Abdul-Hanan, (2018) documented that the sources of tax revenue in Ghana are from direct taxes and indirect taxes. The direct taxes being imposed on incomes and wealth of tax payers such as income tax, corporate tax, capital gain tax as well as gift tax while the indirect taxes are imposed on consumption expenditure such as value added tax, import and export duty and communication service tax.

Logically, firms that minimize cost are presumable expected to perform better all things being equal. By far, firms would derive maximum benefit from tax planning than those that do not plan their taxes. The Hoffman's Tax Planning Theory (1961) asserts that tax planning seeks to divert cash, which would ordinarily flow to tax authorities, to the corporate entities. Tax planning activities are desirable to the extent that they reduce taxable income to the barest minimum, without sacrificing accounting income. The theory is premised on the fact that firms tax liability is based on taxable income rather than accounting income. The idea is thus to intensify activities that reduce taxable income but has no relationship on accounting profit. The theory thus recognized a positive association between firm's tax planning activity and the

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firm's performance. The essence of the association between tax planning and corporate performance is therefore on the basic assumption that tax benefits from the tax planning exceed tax cost. According to Ogundajo and Onakoya (2016), the tax liability of a firm has a positive impact on the firm's profitability. The achievement of wealth maximization goal of the firm through the many ways of increasing profitability worsens the ability of the firm to pay high taxes leading to the reduction of its tax liability. Tax planning strategies have a positive influence on the flow of cash and financial performance of an organization as it can lead to higher earnings after tax. In addition, firms which are financed by debt enjoy tax shields since debt reduces the taxable amount as compared to equity financing.

As corporate governance develops and the separation of ownership and control of corporate bodies become well-spread, the need for a comprehensive tax planning activities is imperative to achieve organizational goals such as wealth maximization for investor (Kawor & Kportorgbi, 2014). In Ghana, the tax laws have many provisions that ease the burden of tax obligation. The tax planning avenues in the Act make it possible for businesses to order their tax affairs through proper accounting and financing strategies that minimize the taxable income presented to the tax authority. The tradeoff theory of capital structure by (Hoang, Viet, & Anh, 2021) suggests the relevance of the capital structure planning of firms in taxation. The theory basically asserts that the financing strategies adopted by firms in raising funds from alternative fund sources are of great impact in taxation to companies. It hence suggests that debt financing gets higher preference in the fund mix since it accrues less tax obligations for entities. The implication is that the tax advantages resulting

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from debt lieu firms to debt financing since the interest on debts are subject to tax deduction while equity payments are taxable. It thus implies that the value and therefore performance of a company is influenced by the structure of the capital mix. It could therefore be deduced that firm's performance could be influenced by the level of tax planning activities.

Tong and Green (2017) for instance asserted that firms' capital structure plans are influenced by the prevailing tax policy that affects the industry. This is because firms are required to deduct interest on debt from taxable income during the computation of tax liabilities for tax authorities. A company's financial performance is subject to how effectively a firm uses its assets from its principal role of conducting business and its subsequent generation of revenues. Financial performance can as well be used to gauge or measure firms from the same industry or across different industries for comparison purposes. Financial performance remains a crucial objective that firms especially the profit-oriented firms desire or aim at to achieve (Mamaro, & Legotlo, 2020).

Tax planning dates back to 1947, when learned judge Hand ruled in the case Commissioner v Newman that there is nothing illegal about arranging one's affairs so that taxes are as low as feasible. This idea is supported by Hoffman's (1961) tax planning theory. According to Hoffman, understanding the current tax rules and applying the regulations in a way that ensures the firms' tax exposure is minimized is a must. According to Hoffman, paying a higher tax than the law requires makes no economic sense. The tax planning framework developed by Scholes and Wolfson (1992) emphasizes the

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importance of business tax planning. A successful corporation, according to Scholes and Wolfson, is one that is correctly adapted to its tax environment.

The traditional thinking is that firms that derive maximum benefit from tax planning perform better than those that do not plan their taxes. From the empirical perspective, (Dharmapala, 2019; Chen, Chen, Chen and Shelvin 2017; Zemzem, 2017) tax planning is said to be associated with firms' performance. The argument is that tax represents cost of doing business, and any action that has the potential of minimizing tax cost reflects in higher firm performance. This argument presupposes that tax planning cost and risk do not exceed the savings from the planning hence beneficial to business.

Statement of the Problem

Taxation has remained a burden to corporate bodies and individuals since antiquities. Taxes interfere with not only the opportunities to re-invest corporate profits but also in the dividends of the investors in their businesses. This has therefore caused several entities to synthesize practices ranging from legal to illegal in order to contain the said hardship. Legally the tax system in Ghana provides for corporate bodies to avoid tax through proper tax planning, and capital structuring among others that reduce their tax obligation to the tax authorities but not to evade tax compliance as such. This practice is expected to reduce the tax obligation of companies thereby availing funds for business operations.

In spite of these legal provisions by the State to reduce the venom of corporate taxes on business entities, one would envisage some impeccable business performance among quoted companies in particular. Nonetheless,

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corporate bodies keep yelling and reporting poor performances as they are unable to meet their business operational goals.

Mirage of empirical analysis reveal that in the Ghanaian context very little attention has been given to the assessment of tax planning on firm performance at the macro level. Bruce-Twum (2018) for example used primary data for assessment in the Tema metropolis while Ibrahim, Musah and Abdul-Hanan (2018) revealed the impact of people's demographic characteristics. Kawor and Kportorgbi (2014) however scoped their study to only non-financial quoted firms while Salia and Atuilik (2016) concentrated on the impact of VAT.

A study of the impact of tax planning activities on firms' market performance is crucial for all stakeholders in the emerging security markets such as the Ghana stock Exchange. In fact, each possible relationship has a unique implication for the players. For instance, a positive association implies that tax planning produces a win-win situation for both management and shareholders (investors). A negative association connotes that tax planning benefits may not eventually trickle to the pocket of the shareholder. Indeed, a negative correlation may indicate the presence of an agency problem, in which management is more interested in tax planning to improve their own position than in furthering the investor's interests. When a neutral link is discovered, a follow-up study will be conducted to look into the possible elements that could influence the relationship in either a positive or negative way. Second, the study is required to provide tax planning agents and investors with information about the dynamics of tax planning.

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However, most of the prior studies i.e. Kawor and Kportorgbi (2014) and rest mentioned above concentrated their research on association between tax planning on the non-financial performance of listed firm in the Ghana stock Exchange. Hence, the need for an assessment of the impact of tax planning on financial performance of firms is examined at the macro level. This work is poised to assess the impact of tax planning activities on the financial performance of financial institution listed on the Ghana Stock Exchange.

Purpose of the Study

The purpose of the study was to assess how tax planning activities affect the performance of firms listed on the Ghana Stock Exchange.

Research Objectives

The objectives of the study are to;

1. examine the impact of firm's demographic (firms' size and firms' growth) features on tax planning activities
2. assess the impact of the board size on tax planning activities of listed firms on the Ghana Stock Exchange.
3. assess the relationship between tax planning activities and firm's performance.

Research Hypotheses

The following hypotheses were tested in the study:

1. H_0: firms' demographic characteristics do not impact on firm's tax planning activities.
2. H_0: the board has no impact on tax planning activities of listed firms on the GSE.

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3. H_0: there is no relationship between firm tax planning activity and firm performance.

Significance of the Study

The study of the impact of tax planning on quoted companies presents great opportunities to governments, management, policy formulators, implementers, analysts, academicians and taxation regulatory bodies. In order to safeguard and sustain the fundamental source of government revenue for developmental purposes, governments through the Ministry of Finance needs to accustom themselves with the finding of this study and the like. This is necessary as information from this study would form a basis for governments' policies on taxation. Policy formulators, implementers and analysts would acknowledge the essence of this study as it provides basis for developing proper tax planning activities.

Also, the implementation of the recommendations and the outcomes of this study will be of great importance to managements of both listed and unlisted companies in adopting appropriate strategies for tax avoidance necessary for the performance of their companies. The study would further broaden the empirical knowledge stock on the topic thereby strengthening the formidable basis for academicians in the knowledge discovery process. It will be a new source of knowledge to researchers to further understand and appreciate the value of taxation, tax avoidance and tax evasion and their impacts on the financial performance of companies.

Delimitations

The concern of the study is assessing the impact of tax planning on the performance of listed firms in Ghana. In view of this, the study was scoped to

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only companies listed on the Ghana Stock Exchange since the Exchange is the only legislated market for listing of companies in Ghana. For the purpose of data availability, the study was done within the periods of 2010 to 2019 years of assessment.

Limitations

This study was underpinned by the following limitations. Firstly, the study largely relied on data obtained from published financial statements of some listed companies. The usefulness of the study to meet its intended purpose therefore depends on the accuracy of the data as published. Therefore, the relevance of the findings, conclusion, suggestions and recommendations is occasioned on the credibility of the data used for the study.

Another limitation to the study is the fact that the study could not be done on all the listed firms on the Ghana Stock Exchange because they do not have all the published financial statements required for the study period. Hence, inferring from the outcome of the study to other companies must be done with much caution since the firms are of different sizes, ages, and objectives.

Furthermore, the testability and verifiability of the study are largely limited to the scale of measurement of the variables used for the study. From extend literature, there are array of measurements for firms' performance which differ in scope and computation. In this study however, financial performance is measured with return on equity and as such verifying this study using variables either than what has been used for this study could create variance to the findings of the study.

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Definition of Terms

Financial Performance: A company's financial performance is the measure of how effectively a firm uses its assets from its principal role of conducting business and its subsequent generation of revenues. Financial performance is used to measure and compare firms from the same industry or across different industries. Financial performance remains a crucial objective that firms especially the profit-oriented firms desire or aim at to achieve (Mamaro, & Legotlo (2020).

Tax Planning Activities: It refers to the set of activities within the ambit of law deployed to reduce the tax liabilities of a firm. Tax planning varies from firm to firm and from industry to another. Nonetheless, it is Primarily focused on the reduction of the tax obligation accrued to a firm. Tax Planning reduces the operational cost and hence maximize profit for organisations.

Organisation of the Study

This study was segmented into five major sections called chapters. The first Chapter is an introductory chapter, and comprised the background to the study, the statement of the problem, the objective of the study, and the hypotheses. It also included the significance of the study, delimitation of the study, limitation of the study, definition of terms and organisation of the study.

Chapter Two was concerned with both theoretical and empirical literature reviews that underpinned the study whereas Chapter Three was devoted to the methodology of the study. Thus, the research approach, study design, study area, data collection, model specification and data analysis.

Chapter Four focused on the main findings of the study and offered a discussion in relation to existing literature on the study. Finally, Chapter Five

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presented the summary, conclusions and recommendations of the study. The recommendations were made for practitioners, policy formulators and further researchers.

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CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter was dedicated to review related literature on various constructs that form the fulcrum on which this work revolves. The review essentially was structured into; some concepts of taxation, theoretical and empirical literature review as well as some explanation of terms in taxation.

Theoretical Review

Hoffman (1961) Theory of Tax Planning

The theory postulates the need for corporate entities to take advantage of the lope holes within the legal certain of a given jurisdiction. The theory supports the redirection of corporate earnings into channels that reduce the tax burden but equally following the law. With respect to the sophisticated nature of tax systems and structures some leeway within the legal systems remain inevitable and could be capitalized by the taxpayer through tax planning. It suggests that tax planning would require restructuring within the ambit of the law to minimize the tax liability of tax payers.

Firms are therefore required to maintain a small taxable income without jeopardizing the accounting income for the year of assessment. By doing so, firms will derive tax exemptions, tax discounts, rebates, allowances, concessions, deductions and the benefits accrued from their own financial restructuring without conflicting with the legislation governing taxation. In order to accommodate the effects of changing tax laws, corporate tax plans should be flexible enough and incorporate the changes of the business

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environment (Vasanthi, 2015). In the view of Needham (2013), the successful operation of tax planning varies from low-income levels to high income status and hinge on strategies such as transfer pricing, profit shifting mechanisms, payments for intangible assets, corporate debt financing among others. Drawing from this, a direct link can be drawn that Hoffman (1961) Theory is suitable and appropriate for determinant of tax planning activities.

The Trade-Off Capital Structure Theory

The strategy employed by corporate bodies to meet financial needs for investment is a trade-off in the capital structure. Firms could finance their investment needs through equity funding or debt financing. The capital structure theory therefore seeks to explain the strategy adopted by entities in their capital mix collection. The theory postulates that small or weak firms depend on debt financing while those with strong capital reserves seek equity funding the more. Hackbarth, Hennessy and Leland (2007) revealed that the trade-off between debt and equity financing creates the pecking order where debt financing has the higher preference largely because of the low cost of capital and the associated risk. Miller and Modigliani (1958) demonstrated that debt financing decreases the tax liabilities of corporate bodies because it reduces the taxable income available for tax charges.

This theory therefore signals that firms could reduce their tax obligation through the capital mix adopted in their capital structure. According to Tong and Green (2017), in order for firms to remain financially sound, their capital structures need to be dictated by the tax policy related to debt and equity financing. This is necessitated because firms are privileged to subtract interest on debts during profit or lost computation hence debt financing are

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privileged to tax deductible while equity is not. Therefore, the capital structure of firms positively or negatively could influence firm's financial status.

Conceptual Review

Concept of taxation

A tax may be defined as a financial burden laid upon individuals and property owners to support the government source of funding. A tax is a mandatory payment legislated by a legal authority upon whom power is conferred by government (central or district assemblies) under the name of toll, tribute, tillage, impost, duty, custom, excise, subsidy, aid, supply, or any other. From the view of economists, a tax is a non-penal, yet compulsory transfer of resources from the private to the public sector levied on a basis of predetermined criteria and without reference to specific benefit received. In Ghana and across many contemporary taxation systems, taxes are levied in monetary units and collected on behalf of the government by the revenue authority such as the Ghana Revenue Authority (GRA).

The prime role of the tax system is to galvanize sufficient revenue to meet the financial demands of the growing public sector. To tax is to levy a financial charge on individuals and business entities by a State or sub-national entity such as the Metropolitan, Municipal and District assemblies or any other functional equivalent of a State and enforceable by the law. Tax incomes from direct and indirect tax sources are used to run government planned expenditure in the provision of social amenities such as road network, schools and hospital infrastructure, provision of portable drinking water, national defense apparatus, among others hence failure to pay taxes could attract civil penalties such as

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fines or forfeiture or criminal penalties in forms of imprisonment on the non-paying entity or individual.

One of every government's most fundamental duties is to administer possession and use of land in the geographic area over which it is sovereign, and it is considered economically efficient for government to recover for public purposes the additional value it creates by providing this unique service in the form of taxes. Governments have at their disposal several different kinds of taxes in order to gather funds to embark on developmental goals. Zemzem (2017) observed that, it is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as individuals and corporate bodies. Modern taxation systems are intended to support the poor, the disabled, and pensioners by taxes of those who are still working. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy through fiscal policy strategies or to modify patterns of consumption or employment within an economy. However, some economies especially the neoclassicals argue that all taxations create market distortion and result in economic inefficiency.

A nation's tax system is often a reflection of its communal values or the values of those in power. To create a system of taxation, a nation must make choices regarding the distribution of the tax burden— who will pay taxes and how much they will pay—and how the taxes collected will be spent. In democratic nations where the public elects those in charge of establishing the tax system, these choices reflect the type of community that the public and/or government wish to create. In countries where the public does not have a

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significant amount of influence over the system of taxation, that system may be more of a reflection of the values of those in power (Vasanthi, 2015).

Tax avoidance and tax evasion

Tax avoidance is a legal means of exploiting the tax laws of the country in order to gain some financial reliefs of taxation. It is a strategy to reduce the tax payable by a tax liability entity whilst making full disclosure of the performance of the entity within the year of tax assessment. Blackman (2005) puts it right as the legal utilization of the tax regime to one's own advantage for the purposes of reducing the tax amount payable to the tax authority. Rego (2003) explains that tax avoidance comprises any tax planning activity, intentionally or unintentionally to legally reduce the payment of tax. Hoffiman (1961) explained that the significant differentiation between tax evasion and tax avoidance is a matter of law. He asserted that tax avoidance is the usual and ultimate goal to be achieved in tax planning activities. It is a legal prerogative exercised to mitigate tax liability.

Bruce-Twum (2018) referred tax evasion to be the illegal reduction of tax payments either by underreporting income or by stating higher deduction rates. It's immoral and interrelated with fraud, criminal prosecution, risk and attracts penalty. Tax evasion therefore is an intentional leak of national financial resource and unacceptable by the laws.

Importance of firm performance

The firm's success is basically explained by its performance over a certain period of time. Any company's management must be able to assess its efficiency. It is difficult to change a method without first evaluating the results.

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As a result, evaluating the effect of organizational capital on business performance is important for enhancing firm performance.

Researchers have extended efforts to determine measures for the concept of performance as a crucial notion. Finding a measurement for the performance of the firm enables the comparison of performances over different time periods. Nonetheless, there has been no consensus on a best measure for financial performance.

Performance of a firm is significantly impacted by corporate governance and if the functions are appropriately established for the corporate governance system, it attracts investment and helps in maximizing the company's funds, reinforcing the company's pillars and this will result in the expected increase in firm performance. In other words, an effective corporate governance protects against probable financial challenges and facilitates remarkable growth. Therefore, corporate governance plays a key role in the growth of the firm performance (Ehikioya, 2009).

Determinants of firm performance

Here, the study presents some factors that account for the performance of a firm. It demonstrates how these determinants contribute to the successful well-being of a firm.

Structure of Ownership: At least, for the purpose of survival, firms need to take financial performance seriously. The owners of firms have an important duty to ensure that they make enough returns and keep company performance in good trajectory. Company ownership strategies are important factors for mitigating conflicting interests between shareholders and managers. To curb this challenge, many firms increase the equity ownership of managers

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making them shareholders of the company thus being motivated to maximize the firm's wealth. Andow and Bature (2016) realised that good corporate governance among board of directors, managers and other stakeholders is a favorable approach and leads to economic development. Brennan (1995) postulated that a conflict of interest arising from the agency relationship reflects in the share prices since they drop over time. To minimize this conflict, firms employ and set up a board of directors which is independently selected from annual general meetings and is mandated to ensure firms carry out transparent financial reporting.

Liquidity: since companies with excess current asset over their current liabilities are able to meet their cash needs more easily thereby reducing their overall exposure to liquidity risks, they tend to be more profitable and perform better. Due to inadequate liquidity to meet current needs, a company might have to sell off investment securities at below market price just to settle their claims that have fallen due. As a result, their financial performance may be hindered. Liquidity is a proxy for measuring the ability of management to meet their immediate commitments to the various policy holders without an increase in the profit from investments and without being forced to sell off financial assets. Having sufficient liquidity is hence a measure of improving company financial performance (Tong & Green 2017).

The Size of The Firm: as firms grow and develop, they enjoy economies of scale, and economies of scope as they explore within the experience curve. Therefore, the performance of firms has a strong link to the company size. This could further be attributed to efficiencies in operating costs that improve performance by increasing output and subsequently reducing the

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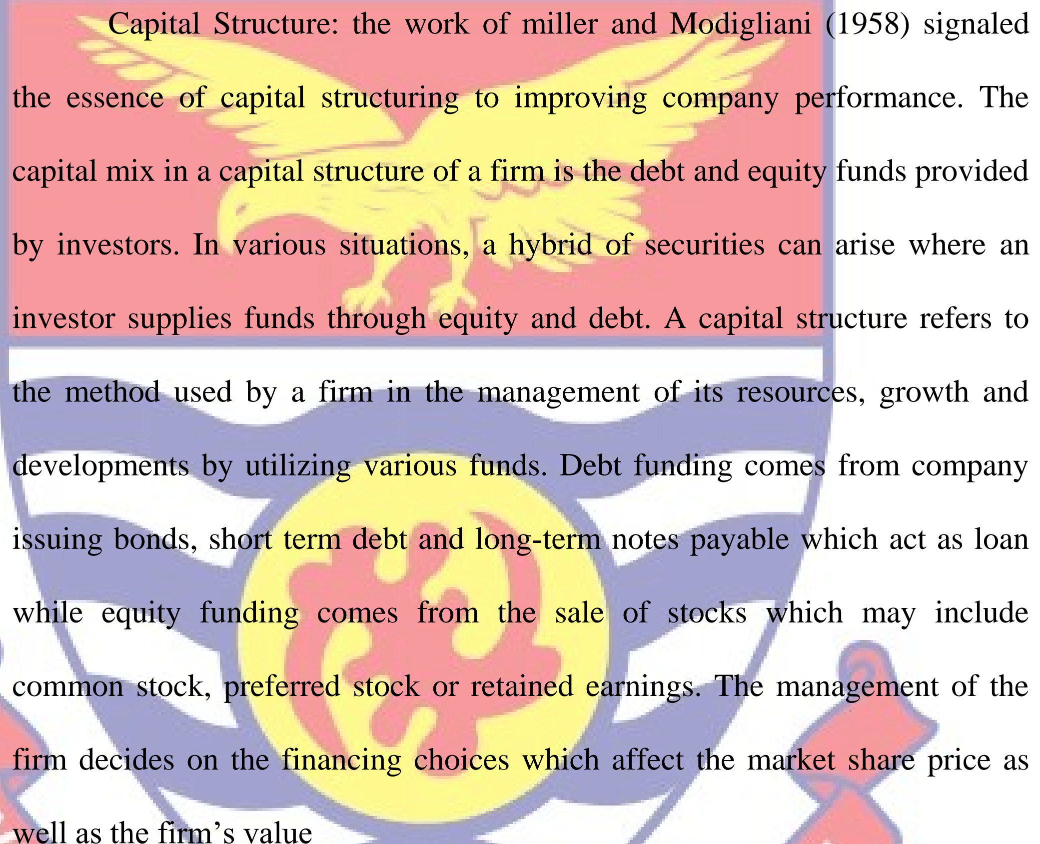
cost per unit of output. Large firms are often industry leaders and hence have a strong power in price determination, product introduction and could counteract the forces of new entrance. Large firms also have the capacity to diversify their investments in order to reduce the risk association with a business operation (Marron, 2014).



Capital Structure: the work of miller and Modigliani (1958) signaled the essence of capital structuring to improving company performance. The capital mix in a capital structure of a firm is the debt and equity funds provided by investors. In various situations, a hybrid of securities can arise where an investor supplies funds through equity and debt. A capital structure refers to the method used by a firm in the management of its resources, growth and developments by utilizing various funds. Debt funding comes from company issuing bonds, short term debt and long-term notes payable which act as loan while equity funding comes from the sale of stocks which may include common stock, preferred stock or retained earnings. The management of the firm decides on the financing choices which affect the market share price as well as the firm's value

Empirical Review

This section is concerned with an assessment of relevant and related literature in other to be abreast with existing efforts on the topic under study.

Demographic factors and tax planning

Although a multitude of factors could account for the compliance and planning of tax, Ibrahim, Musah and Abdul-Hanan (2018) revealed that people's educational level, marital status, party affiliation, income levels and religious faith do not influence their tax morale. This was discovered when the

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study focused on investigating such determinants using a probit model and observed a non-linear relationship between age and tax morale.

Firm size and tax planning

The size of a corporation could affect its achievement because it determines the economies of scale enjoyed by the firm. Bigger corporations have wider opportunities and can exploit the high leverage ratio resourcefully with comparative positive returns. Conversely, larger size, if not well managed well could lead to adverse returns as a result of huge fixed cost outlays. On the other hand, small firms have greater difficulty in securing debt financing when compared to large corporations. Madugba, Ben-Caleb, Lawal and Agburuga (2020) investigated Firm Size and Tax Saving Behaviour of Listed Companies on Nigeria Stock Exchange. By employing a descriptive statistics and panel data regression test, the result revealed that interest tax savings has negative and insignificant relationship with firm size. The study concluded that the lower the firm size the higher the tax savings behaviour and vice versa of quoted companies in Nigeria.

Belz, Von-Hagen and Steffens (2019) Used a meta-regression analysis to assess the relation between effective tax rate (ETR) and firm size. By using a unique data set, their study provided evidence supporting a positive relationship between firm size and their tax planning activities. They inferred that large firms are concerned with tax planning activities since it accrues long term benefits.

As a corporation increases in size, operations and earnings, their tax responsibilities increase in accordance to their earnings, and therefore necessary to curb the taxes and enhance profit. Firms at this point are bent on

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using services of expertise to reduce tax liabilities legally by adjusting their capital structure. In line with this, there exists a link between size and the ability of such firm to adopt the tax saving strategy of taking more debts to reduce corporate tax (Onaolapo & Kajola, 2017).

Bariyima and Cletus (2018) also raised that firms that are above a median size in their sample are much more prepared to raise equity capital to be remained profitable in the industry. It does imply that the use of debt to shield tax payments is a function of firm size because those bigger and more profitable firms tend to use less debt financing. Consequently, mega corporations tend to adopt equity financing much more than debt, thereby discounting the saving that may arise from debt tax shields.

Firm growth and tax planning

Mangoting and Onggara (2019) assessed whether tax avoidance differed across firm life cycle. By using a sample of 56 companies with an 8-year time period, they found that tax avoidance practices varied along the phases of the life cycle of firms. They realised that firms significantly engaged in tax avoidance in their introduction and decline stages while seldomly practice tax planning in their growth and mature stages. Companies seem to be less incentivized to engage in tax planning activities such as tax avoidance in their peek stages due to stable regular cash inflows and large profit stream. Therefore, governments and tax entities should be aware of firms' strategies during their introductory and shake out periods. Abbas, Seemab, Waheed and Hussain (2018) also noticed diversion in tax planning activities as firm growth.

Iriyadi, Tartilla and Gusdiani (2020) studied on banking service companies listed on the Indonesia Stock Exchange in the period 2014 - 2018.

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Through a purposive sampling procedure and a multiple linear regression analysis, they found that the growth of the firms had a positive significant effect on firm taxation behaviours. Hasan, Al-Hadi, Taylor, and Richardson (2017) also studied whether a firm's growth explains its propensity to engage in corporate tax avoidance. They observed a U-shaped pattern in tax avoidance outcomes across the various life cycle stages. That is, tax avoidance is significantly positively associated with the introduction and decline stages and significantly negatively associated with the growth and mature stages.

Board size, composition and tax planning activities

Khaoula and Ali (2012) assessed whether board of directors' attributes have an impact on corporate tax planning in developing counties. By using a sample of 32 companies from 2000 to 2007, they evidenced that while duality exhibits a negative relation with effective tax rates, diversity on the board showed a positive association. However, there was no relations between board size, independent directors and corporate tax planning.

When examining the effect of demographic gender diversity on corporate tax planning, Khaoula and Ali (2019) noticed that gender diversity on the board is not significant and doesn't have an effect on tax planning. While Board independence enhances tax practice, Board size and firm size do not exhibit significant relations. It was therefore suggested that literature on gender be proposed for a new tax framework.

Khaoula and Moez (2019) focused on a sample of 105 European firms during the period 2005–2012 and found that board independence, board diversity, and CEO's dual functions have a significant and negative effect on the relationship between tax planning and firm value. They indicated that

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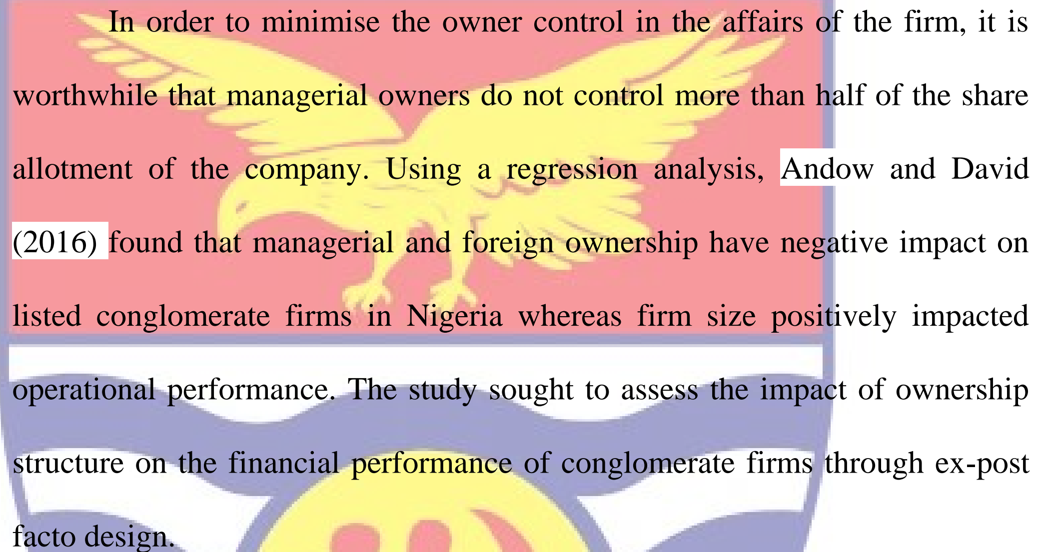
adding independent directors to the board will negatively change the relation between tax planning and firm value and the engagement in tax planning practices. By this argument, additional independent members may decrease the costs and risks associated with tax planning, which may change the effect on firm value.



In order to minimise the owner control in the affairs of the firm, it is worthwhile that managerial owners do not control more than half of the share allotment of the company. Using a regression analysis, Andow and David (2016) found that managerial and foreign ownership have negative impact on listed conglomerate firms in Nigeria whereas firm size positively impacted operational performance. The study sought to assess the impact of ownership structure on the financial performance of conglomerate firms through ex-post facto design.

In view of the increasing expectation of investors on tax compliance, Zemzem and Ftouhi, (2013) demonstrated the effects of board of directors' characteristics on taxation issues. The study, based on the analysis of a sample of 73, showed that board size and the percentage of women in the board affect the activity of tax aggressiveness. Return on assets and size of the firm are significantly and positively associated.

Tax planning and firm performance

In the quest to examine the corporate tax planning and financial performance of some banks in Nigeria, Temitope *et al*. (2019) discovered that effective tax rate had an adverse impact on financial performance of the banks whereas thin capitalization showed a positive impact on performance. The study was conducted using the pooled ordinary least square method. It

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concluded that the impact of tax planning on corporate performance depended on the adopted tax planning strategy of the bank hence tax authorities could embark on tax reforms that adjust tax rates considering the elasticity of the tax burden.

Proper tax planning by corporate bodies however depends on the ability and knowledge of the tax planner and the comprehension of the tax authorities on tax laws. It is therefore necessary that tax education be delivered to corporate bodies from time to time. This is expected to amplify tax compliance and broaden the tax basket. Abdul Wahab (2018) made this assertion in a study conducted on some small and medium-sized enterprises in Tamale through a descriptive survey and a cross-sectional approach. Tax planning activities seemed to reduce the tax revenue and impeded the government effort to realizing the budgeted income for the year. Bruce-Twum (2018) also determined the extent of knowledge about gift tax in Ghana using the Accra-Tema Metropolis as a sample population. It further sought to assess the extent of compliance with Gift Tax in Ghana. Using a cross sectional data on individual tax returns filed for the years of assessment 2009 to 2012, it was observed that there was a very low awareness rate of Gift Tax and consequently, the compliance rate was also low.

Aggrey (2011) observed that the slow pace at which the economy of Ghana grows is partly attributable to her inability to raise adequate funds from taxation for her economic activities. Through an Auto Regression distribution Lag (ARDL) approach to cointegration, Aggrey showed further that government expenditure is vital in generating tax revenue in the long run. Not only nations suffer from tax activities but almost all business entities do. An

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analysis of the impact of value added tax on firms cash flow reveals that VAT has divergent impacts on various facet of the Ghanaian economy as such policy makers would need to assess the elasticity of a tax scheme and the burden of tax on the economy and the citizenry (Salia & Atuilik, 2016). Kawor and Kportorgbi (2014) also required to ascertain the level of tax planning of firms and to explore the relationship between tax planning and firms' market performance. The study used 22 non-financial companies listed on the Ghana Stock Exchange over a twelve-year period from 2000. Through a longitudinal correlative designed it was observed that firms' tendency to engage in intensive tax planning activities reduces when tax authorities maintain low corporate income tax rates. In addition, tax planning was observed to have no impact on firms' performance.

Tax legislations are often enshrined as Acts in the law books of many nations. These laws have a significant impact on the operations of business units in various nations. Kariuki, (2017) for example realised that the tax loopholes available in the income tax Act of Nairobi was just inadequate to promote tax savings and thus manufacturing companies felt it was so oppressive for their growth. In addition, Shabbir, Waheed and Mahmood (2017) investigated the relationship between tax optimization and firm value in the context of Pakistan. The study incorporated specially the factors that could be closely interrelated to effective tax rates and can influence the firm value. Debt, earnings management and audit quality were given the main interest in this study. Through a balanced panel regression analysis, the results showed that tax optimization, accruals and audit quality increase the firm value. Furthermore, Thuo (2017) aimed to ascertain the effect of corporate tax

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planning on financial performance of listed companies in Kenya. Using a secondary data for five years, the study employed a descriptive cross-sectional research design and a multiple linear regression model to analyze the relationship between the variables. This study recommended that adequate measures be put in place by managers of listed firms to improve and grow their financial performance through corporate tax planning.

Small scale businesses have unique response to matters of taxation. Marron (2014) examined how tax policy affects small business. The study showed that abiding by the tax code places a disproportionate burden on small businesses although small businesses are more likely to underpay their taxes. Tax reform could shift the relative tax burden of small and large businesses and recalibrate the structure in order to equilibrate among tax payers. Taxes represent a significant cost to the firm and shareholders, and it is generally expected that shareholders prefer tax aggressiveness. However, this argument ignores potential non-tax costs that can accompany tax aggressiveness, especially those arising from agency problems. Firms run by founding family members are characterized by a unique agency conflict between dominant and small shareholders (Chen, Chen, Chen & Shelvin 2017). Using multiple measures to capture tax aggressiveness and founding family presence, it was found that family firms are less tax aggressive than their non-family counterparts. The study observed that family owners are being more concerned with the potential penalty and reputation damage from tax authorities than non-family firms.

There are inconclusive debates about the impact of taxation on corporate bodies and multinationals. Bruwer, (2020) sought to examine the

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effect of taxes on corporate borrowing in selected African countries. By employing a panel regression model, it was discovered that taxation is not important in explaining corporate borrowing decisions. Ogundajo and Onakoya (2018) examined the influence of corporate tax planning on the financial performance of manufacturing firms quoted on Nigerian Stock Exchange using annual reports and for 10 selected firms out of 28 firms listed under consumer goods sector. The study employed Generalized Least Square (GLS) method of regression based on the outcome of Hausman's model estimation test. The study established that aggressive tax planning such as thin capitalization, tax law incentives and other benefits of loopholes in Nigerian tax laws have not been fully utilized by the Nigerian firms. They noticed that it would be worthwhile for manufacturing firms to include tax planning as part of the firm's strategic financial planning.

When multinational firms expand their operations in tax havens the question of whether or not they divert activity from non-havens has always been raised. Dharmapala, (2019) offered a model for examining the relationship between activity in havens and non-havens, and discussed that tax haven activities enhances activity in nearby non-havens.

Ogundajo and Onakoya (2016) examined the influence of corporate tax planning on the financial performance of manufacturing firms quoted on Nigerian Stock Exchange using annual reports and for 10 selected firms out of 28 firms listed under consumer goods sector. The study employed Generalized Least Square (GLS) method of regression based on the outcome of Hausman's model estimation test. The study established that aggressive tax planning such as thin capitalization, tax law incentives and other benefits of loopholes in

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Nigerian tax laws have not been fully utilized by the Nigerian firms. They noticed that it would be worthwhile for manufacturing firms to include tax planning as part of the firm's strategic financial planning. In European context, Zemzem (2017) wanted to find out whether corporate tax planning behaviours accounted for an increase in firms' value. By evaluating data for 73 sampled firms listed in the Euronext 100 index for the period from 2008 to 2012, the study argued that tax planning adversely affected firm's value due to higher agency costs. This finding collaborates the work of Bird (2003) who claimed that businesses do not like taxes and governments neither likes it as well.

Many developing countries that appreciate the essential factors and remain legitimate in accountability and disclosures tend to generate more adequate level of tax compliance. Following the mirage of empirical analysis, it remains apparent that in the Ghanaian context very little attention has been given to the assessment of tax planning on firm performance at the macro level. Bruce-Twum (2018) for example used primary data for assessment in the Tema metropolis while Ibrahim, Musah and Abdul-Hanan (2018) revealed the impact of people's demographic characteristics. Kawor and Kportorgbi (2014) however scoped their study to only non-financial quoted firms while Salia and Atuilik (2016) concentrated on the impact of VAT.

In this study therefore, an assessment of the impact of tax planning on performance of firms is re-assessed at the macro level, thus using secondary data. Secondary data is deemed to provide some accuracy to empirical works because it's not manipulated and collected with less human interaction. Unlike primary data that suffers from the credibility of the respondent, secondary data

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remain unchanged over time hence accurate for decision making over a period of time.

Firm size and firm performance

The size of a corporation could affect its achievement because it determines the economies of scale enjoyed by the firm. Bigger corporations have wider opportunities and can exploit the high leverage ratio resourcefully with comparative positive returns. Conversely, larger size, if not well managed well could lead to adverse returns as a result of huge fixed cost outlays. On the other hand, small firms have greater difficulty in securing debt financing when compared to large corporations. Madugba, Ben-Caleb, Lawal and Agburuga (2020) investigated Firm Size and Tax Saving Behaviour of Listed Companies on Nigeria Stock Exchange. By employing a descriptive statistics and panel data regression test, the result revealed that interest tax savings has negative and insignificant relationship with firm size. The study concluded that the lower the firm size the higher the tax savings behaviour and vice versa of quoted companies in Nigeria.

Belz, Von-Hagen and Steffens (2019) Used a meta-regression analysis to assess the relation between effective tax rate (ETR) and firm size. By using a unique data set, their study provided evidence supporting a positive relationship between firm size and their tax planning activities. They inferred that large firms are concerned with tax planning activities since it accrues long term benefits.

Liquidity and firm performance

Liquidity is a ratio that aims to measure a company's ability to meet its short-term obligations. A company that has high liquidity means that it can pay

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the short-term debt, so it tends to reduce total debt, which in turn capital structure will be smaller, so it can be said that liquidity affects the capital structure. By the pecking order theory which suggests that managers prefer to use financing in the first order of retained earnings, then debt and finally the sale of new shares is supported by research conducted by (Septiani & Suryana 2018). Based on the signal theory, the ability of a company to meet its short-term obligations will get a positive response by the stock market which causes the company's value to rise so that it can be said that liquidity affects the value of the company is supported by research (Yanti & Darmayanti 2019).

Growth opportunity and firm performance

Iriyadi, Tartilla and Gusdiani (2020) studied on banking service companies listed on the Indonesia Stock Exchange in the period 2014 - 2018. Through a purposive sampling procedure and a multiple linear regression analysis, they found that the growth of the firms had a positive significant effect on firm taxation behaviours. Hasan, Al-Hadi, Taylor, and Richardson (2017) also studied whether a firm's growth explains its propensity to engage in corporate tax avoidance. They observed a U-shaped pattern in tax avoidance outcomes across the various life cycle stages. That is, tax avoidance is significantly positively associated with the introduction and decline stages and significantly negatively associated with the growth and mature stages.

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Conceptual Framework

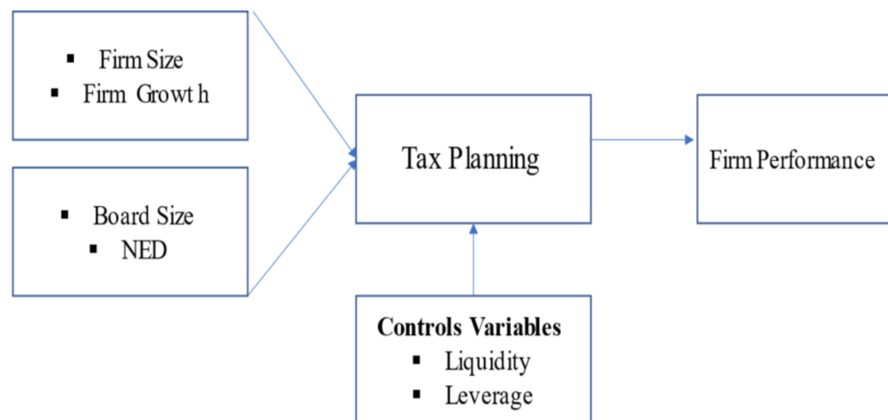

Figure 1: Conceptual Framework

Source: Author (2021)

The conceptual framework presents a pictorial view of the study. It shows an assessment of the impact of demographic factors on firms' tax planning. It also shows the effect of the board on tax planning. Finally, the framework demonstrates the impact of tax planning on firm performance.

Chapter Summary

This chapter was set out to review related literature on tax planning and the performance of corporate bodies. It commenced with an introduction and explanation of tax concepts and followed by a theoretical assessment of both the Hoffman's theory of tax planning and the trade-off theory of capital structure. The study was presented in a conceptual framework and finally some related and relevant empirical reviews were done.

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CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter contains the research methodology adopted for the study. As such, the research design, population and sample procedure have duly been discussed. The appropriate data collection process has also been established and the section further states how data was analyzed.

This study is conducted in line with the positivism philosophy which allows the researcher to comprehend the subject matter of the study. It involves the collection of data, analysis of collected data by the use of statistical test of significance and finally present findings which are quantitatively reported (Hays & Wood, 2011). The advocates of the positivism paradigm explain that this approach involves researching into a social observation and coming up with conclusions and generalizations (Cooper & Schindler, 2008).

Kivunj and Kuyini (2017) reported that positivism portrays a realist thinking that there exists a body of knowledge driven by natural laws for which researchers seek to discover and comprehend. Given that positivists are committed to a realist thinking, they are dedicated to discover facts in an objective manner. Thus, by avoiding the possibility of inquirer-bias, the researcher uses manipulative and empirical methods, often in the guise of questions and hypotheses that place the point of decision with nature rather than with the inquirer.

This design is adopted because this study requires the collection of data on tax planning activities as well as the performance of quoted companies in the GSE.

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Research Design

A research design explains the procedures used by a study for establishing the associations between dependent variables and independent variables (Khan, 2008). In this study, the explanatory design was employed because such a design allows for the assessment of relationship between and among variables in a study. (Cooper & Schindler, 2008). Explanatory research is conducive for the assessment of a problem which requires increased understanding of a subject matter.

Population

Population refers to all observations of interest in an entire collection like people or events (Burns & Burns, 2008). The target population was all the listed companies on the Ghana Stock Exchange. As at the time of study, the GSE had 37 companies dully listed.

Sampling Procedure

In this study, the sample was limited to financial institution listed by 2010 and fully operational up to 2019 financial year. This became necessary for the purpose of the availability of data in order to meet the assumption requirement of data adequacy for an effective statistical analysis. Therefore, the sample size for the study was 26 companies for 10 years. However, the study adopted purposive sampling because purposive sampling enables researchers to squeeze a lot of information out of the data that they have collected

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Data Collection Procedure

A panel data was collected for the study. Data on corporate tax planning, firm performance and the control variables were collected from annul financial statements, audited financial reports, and published corporate reports for the period of 2010 to 2019 financial years.

Model Specification

The study used a regression model to show the effect of corporate tax planning on financial performance. The model was a linear regression analysis where the corporate tax planning was the independent variable while financial performance was the dependent variable. The relationship was explained through the regression model below:

$$Y_{it} = a + \sum_{t=1}^{p} \beta_1 X_{it} + \sum_{t=1}^{p} \beta_2 Z_{it} + \mu_{it}$$

Where,

Y= Financial Performance

α = Constant Term (the value of Financial performance when all variables are held to constant zero)

β1, β2, β3 and β4 = Coefficients of the independent variables

X_t = Corporate Tax Planning

Z_2 = Control variables

μ_t= the error term

Description of Variables and Measurement

In this section, the study presented the contextual definitions of the variables and how they are measured.

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Financial performance

Financial performance refers to the degree to which financial goals of a company have been achieved. It is the method of monetarily assessing the outcomes of the policies and activities of a company. It is used to assess the overall financial performance of a company over a given time and further offers a fair avenue for inter companies' comparison. It is the overall measure for the complete well-being of the corporate body.

Even though more sophisticated valuation techniques have come along in measuring financial performance, Return on Equity (ROE) has proven most useful. This is because it is a quick, easy and comprehensive metric of how the investment of shareholders have been. ROE focuses on the performance of a company in meeting the objective of its formation, shareholders wealth maximisation (Al-Matari, Al-Swidi, & Fadzil, 2014).

In this study and in line with Obiyo and Lenee (2011), Rouf (2011), Swamy (2011), Ibrahim and Abdul Samad (2011), financial performance is measured with Return on Equity. It is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets. ROE is considered a measure of the profitability of a corporation in relation to stockholders' equity.

Corporate tax planning

Corporate Tax Planning plays an essential role in supporting a company's value-adding activities and strategic decisions. It helps businesses to ease tax burden and operate more smoothly and efficiently. The basic objective of corporate tax planning involves the reduction of a company's

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Effective Tax Rate to achieve tax efficiency and remain competitive in its industry.

The primary reason for conducting corporate tax planning is to avoid illegitimacy. Tax planning allows enterprises to cope with any changes in the external environment, and lead to more systematic business operations. Effective corporate tax planning facilitates businesses to reduce tax costs, and therefore companies can enjoy higher earnings for shareholders or can gain money for reinvestment. Higher shareholder earnings and reinvestment capital are signs of flourishing business operations and can attract more potential investors which will further improve the company's financial position (Ibrahim et al., 2015). In this study Corporate Tax Planning was measured as current income tax expense divided by profit before tax. This measurement is in line with astute literature.

Liquidity

Liquidity is the ability of a firm to meet its short-term financial obligations when they fall due. That is, a company is said to be liquid when it can pay all its debts that become due within the accounting year. Bruwer, (2020) opined that liquidity is measured as a ratio of current assets to the current liabilities. It assesses the number of liquid assets of a business that could be traded in the market without losing its value. The current assets can be turned into cash within a year and are available to pay short-term expenses and debts.

Company size

This refers to the operation capacity of firms. It shows how big or small a company is with respect to others in the industry. Company size signals to

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investors an expectation of the financial performance of a company. It is often expected that companies with large operational size will perform well. In this study the size of the listed firms is measured in line with Zemzem (2017) as a Natural logarithm of total assets at the disposable of a company at the end of the accounting year.

Leverage

It is any technique involving debt (borrowed funds) rather than the issue of fresh equity for the purchase of an asset and other long-term financing needs. Normally, the lender will set a limit on how much risk it is prepared to take and will set a limit on how much leverage it will permit, and would thereupon require the acquired asset to be provided as collateral security for the loan. The level of leverage of a firm has a significant impact on its financial performance. In consonance with Ogundajo and Onakoya (2016) leverage is proxied as long-term debt / (shareholders equity + long term debt)

Firm growth

Bank Growth plays a very important role in banks tax planning. Dyreng et al. (2008) provide evidence that firm size and growth are significant in tax management processes. The authors found that, small firms with higher growth have higher tax rates. Bank growth is measured as current interest income less previous interest income divided by previous current income. Wang (2010) found confirmed that there is a positive relationship between firms' growth and their financial performance. Institutional knowledge in tax planning is a function of growth and accompanying experience of managers in tax matters in an organisation (Nwaobia, 2013). In this study, growth is measured in line with Nwaobia (2013) as PBIT/Sales $\times$100.

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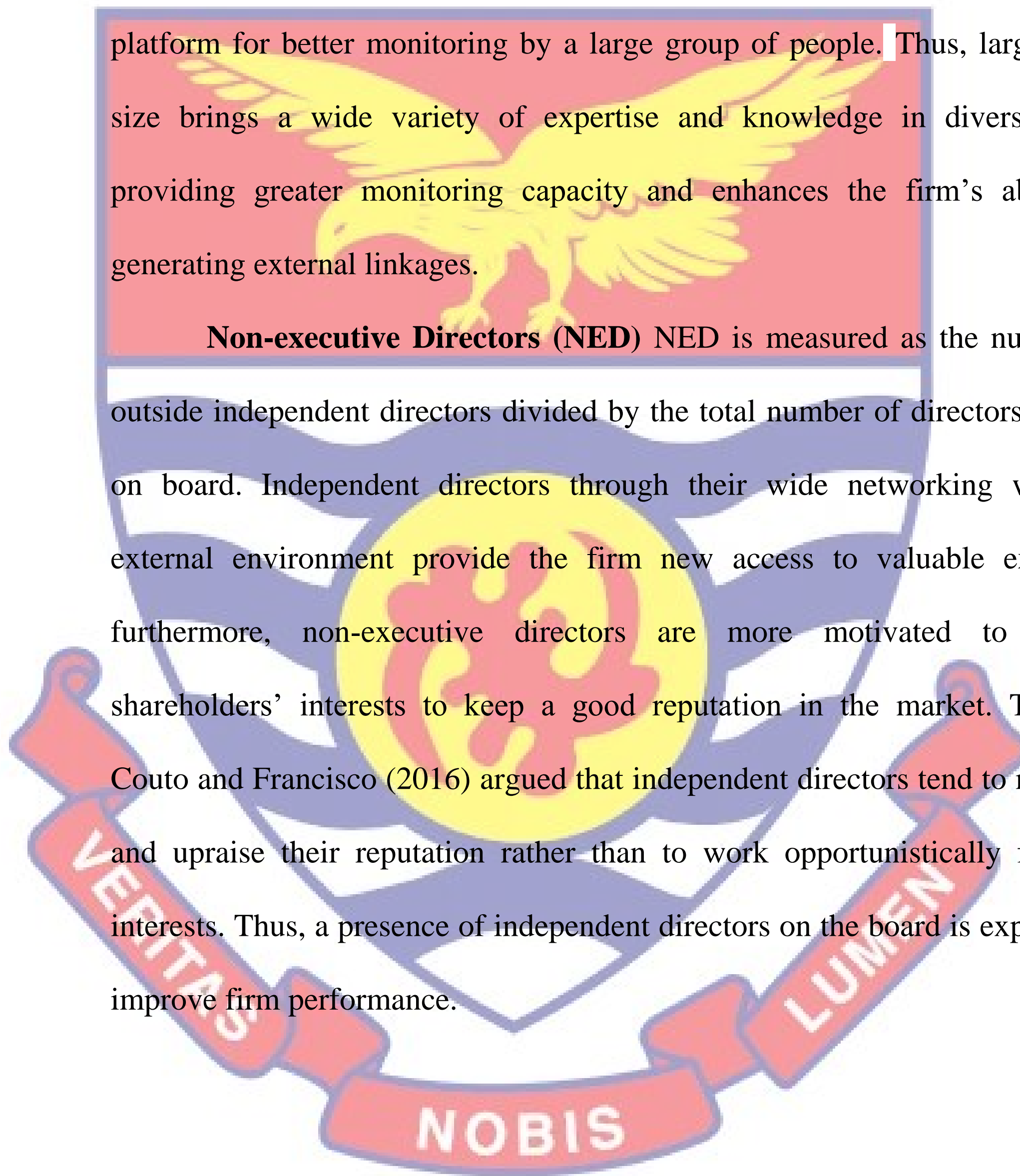
Board Size (BS) BS is the number of directors serving on the board. BS is measured as a log of number of directors serving on board. Kalsie and Shrivastav (2016) reported that companies require large board size that enhances their ability to understand and respond to diverse stakeholders. They believe that the large board size enhances firm performance by offering a platform for better monitoring by a large group of people. Thus, large board size brings a wide variety of expertise and knowledge in diverse fields providing greater monitoring capacity and enhances the firm's ability in generating external linkages.



Non-executive Directors (NED) NED is measured as the number of outside independent directors divided by the total number of directors serving on board. Independent directors through their wide networking with the external environment provide the firm new access to valuable expertise. furthermore, non-executive directors are more motivated to protect shareholders' interests to keep a good reputation in the market. Terjesen, Couto and Francisco (2016) argued that independent directors tend to maintain and upraise their reputation rather than to work opportunistically for self-interests. Thus, a presence of independent directors on the board is expected to improve firm performance.

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Table 1: Operationalization and Measurement of Variables

Variables	Measurement
Financial performance	Return on equity
Tax planning	Current income tax expense divided by profit before tax
Liquidity	Current assets/ current liability
Company size	Natural logarithm of total assets
Leverage	Long-term debt / (shareholders equity + long-term debt)
Growth	PBIT/Sales × 100
Board Size	the number of directors serving on the board
Non-Executive Directors	the number of independent directors / the total number of directors serving on board.

Source: Author (2020)

Data Processing and Analysis

The study used a pooled panel regression analysis to examine the effect of corporate tax planning on financial performance. In the analysis, financial performance was the dependent variable while corporate tax planning was the independent. The study controlled for liquidity, company size and leverage in order to ensure a robust analysis.

A pooled regression model has a constant coefficient, referring to both intercepts and slopes. With this method one could pool all of the data and run an ordinary least squares regression model. Pooled panel regression analysis ignores possible group structure of the data (Hiestand, 2020). This means

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stacking the observations and assuming that the covariance matrix is diagonal and all regression coefficients are the same for all cross-sectional units and all time periods. Idun, Aboagye and Bokpin (2020) reported that pooled panel regression imposes a common intercept and slope coefficients for all cross-sections.

Pooled mean is effective for analysis because of its possibility to capture not only the variation of what emerges through time, but the variation of these two dimensions simultaneously. This is, pooled model can test for all variables across all times simultaneously. Secondly, it permits to inquiry into variables that elude study in simple cross-sectional or time. This is because their variability is negligible, or not existent across either time or space (Podestà, 2018).

The Stata version 14 was used to analyze the data. The results presented a descriptive statistic in forms of means, percentages, frequencies, and standard deviations and further showed an inferential statistical result for generalizations purposes.

Diagnostic Tests

In order to confirm the result of the study and upon which statistical inferences could be made with surety, a number of diagnostic assessments need to be conducted. This is important to ensure that the analysis meet all the necessary assumptions for proper specification. Paramount among the tests are test of autocorrelation, multicollinearity and test of statistical significance.

Autocorrelation is the measurement of the similarity between a variable and a lagged value of the same variable over successive time intervals. It was tested using Durbin-Watson statistic which lies between 0 and 4. A

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Durbin–Watson statistic that is substantially less than 2 is evidence of positive serial correlation while a Durbin-Watson statistic that is substantially greater than 2 also shows a negative serial correlation. As a rough rule of thumb, a Durbin–Watson statistic of about 2 suffices for the test of autocorrelation.

Multicollinearity is said to occur when there is a nearly exact or exact linear relation among two or more of the independent variables. This was tested by the determinant of the correlation matrices, which varies from zero to one and the variance inflation factor (VIF). Orthogonal independent variable is an indication that the determinant is one while it is zero if there is a complete linear dependence between them and as it approaches zero, then the Multicollinearity becomes more intense (Burns & Burns, 2008). The tests of statistical significance measured the contribution of the variables in explaining the state of the dependent variable.

The F- test and the t – test were used at 95% confidence level to test the statistical significance. The F statistic established a statistical significance of regression equation. That is the extent to which the independent variable altogether predicts the predicted variable. The t statistic on the other hand was used to test the statistical contribution of each independent variable.

Chapter Summary

This chapter presented the research methods employed in the study. The study is based on the positivism research paradigm and the quantitative research approach. The study also employed explanatory research design as it sought to clarify the relationships between tax planning and financial performance of listed companies on the Ghana Stock Exchange. A latent model was specified and the various variables included the control ones were

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described. Finally, the chapter presented the estimation technique and the various diagnostic tests necessary for proper specification.

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CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presented and discussed results obtained from the empirical analysis. Firstly, summary statistics on all the variables is presented to give an idea of the state of financial performance, tax planning, liquidity, company size and leverage of listed firms on the Ghana Stock Exchange. The chapter then presents a correlation matrix which aids to assess issues of multicollinearity among variables. Subsequently, the chapter presents the inferential statics on the various models estimated in the study. The latter is systematically presented in accordance with the respective objectives of the study.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
FIRM PERF	302	.29	3.569	-7.742	54.022
TAX PLAN	299	.382	7.154	-78.787	67.128
LIQUIDITY	184	1.242	1.27	0	8.503
SIZE	302	-7.89	1.569	-10.12	-3.822
LEVERAGE	298	.29	.39	0	2.449
GROWTH	191	.468	.858	-.970	6.997
BS	187	9.468	1.553	7	12
NED	186	.665	.0834	.444	.857

Source: Field Survey (2020)

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Table 2 presents the descriptive statistics for listed firms on the GSE within the study period of 2010 to 2019. The table shows an average firm performance of 0.29 within the range of -7.742 and 54.022. This implies that average firms' performance was stood around the mean at 29% return on equity. While tax planning activities recorded a mean of 0.382 in the range of -78.787 and 67.128, the average firm liquidity was observed to be 1.242 with a deviation of 1.27 in a range of 0 to 8.503. A mean of -7.87 within the range of -10.12 and -3.822 reflects the average firm size in the Exchange whereas the leverage level assumed a mean of 0.29 and a deviation of 0.39 in the range of 0 and 2.449. GROWTH seems spread around the mean as it indicates a mean of 0.438111 and standard deviation of 0.85798. A minimum of -0.96950 and a maximum of 6.99674 were also observed for GROWTH.

In terms of corporate governance, Board Size (BS) recorded a mean of 9.467742 with a standard deviation of 1.55321. This indicates that on average 9 directors serve on boards of the quoted firms, whereas the minimum number of directors who serve on board is 7 and the maximum is 12. Non-executive directors (NED) recorded a mean of 0.66503 and a standard deviation of 0.08341 with minimum and maximum values of 0.44444 and 0.85714 respectively.

Test of Multicollinearity

The need to conduct a correlation analysis is necessary in order to test for the presence of multicollinearity among the regressors. Multicollinearity is the occurrence of high intercorrelations among two or more independent variables in a multiple regression model. In general, it leads to wider confidence intervals that produce less reliable probabilities in terms of the

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effect of independent variables in a model (Brooks, 2019). The correlation coefficients represent the relationship between two variables.

Table 3: Pairwise Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) FIRM PERF	1.000							
(2) TAXPLAN	-0.002	1.000						
(3) LIQUIDITY	0.136	0.024	1.000					
(4) SIZE	0.063	-0.056	0.061	1.000				
(5) LEVERAGE	-0.061	-0.092	-0.242	0.232	1.000			
(6) GROWTH	0.126	0.041	0.155	-0.029	-0.116	1.000		
(7) BS	0.082	0.040	0.015	0.333	0.230	-0.312	1.000	
(8) NED	-0.107	-0.073	0.260	0.159	0.057	0.008	0.232	1.000

Source: Field survey (2020)

Table 3 shows the correlation among the variables under discussion. It shows the magnitude and direction of association among the variables. Brooks (2019) asserts that a correlation coefficient of 0.70 and beyond suggests the severe presence of multicollinearity. Since none of the correlation coefficient was more than 0.70, the issue of multicollinearity among the variables was not severe.

Although there are no fast-and-hard rules in interpreting the direction and magnitude of association to correlated values, the general guidelines provided by Cohen (1988) is of essence. In this preliminary assessment, tax planning is observed to have a very weak negative association with financial performance. Thus, the level of tax planning activities by quoted firms on the Exchange of Ghana has a weak adverse impact on their financial performance.

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However, Hair, Black, Anderson and Tatham (2006) opined that correlation only explains the relationship between the variables but does not guarantee the existence or otherwise of multicollinearity. Therefore, the study further employed the variance inflation factor (VIF) test to test for multicollinearity among the variables. Variance inflation factor measures how much the variance of the estimated coefficient is exaggerated as a result of multicollinearity.

Table 4 Presents results of the VIF values of the variables based on the test.

Table 4: Test for Multicollinearity

Variables	VIF	1/VIF
(1) FIRMPERF	1.09	0.917
(2) TAXPLAN	1.21	0.826
(3) LIQUIDITY	1.26	0.794
(4) SIZE	1.05	0.952
(5) LEVERAGE	1.13	0.885
(6) GROWTH	1.06	0.943
(7) BS	1.47	0.680
(8) NED	1.42	0.704

Source: Field Survey (2020)

Table 4, in testing for multicollinearity, Kutner, Nachsheim and Neter (2004) put it that the rule of thumb is that any value above 5.00 shows high multicollinearity. Table 6 shows that, all the variables of the variance inflation factor (VIF) are less than the threshold (5). This indicates that, the presence of multicollinearity between the variables is minimal. The VIF test results further buttresses the correlation matrix results that multicollinearity is not a problem for the study. Therefore, all the explanatory variables could be included in a regression model at a time.

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Inferential Statistics

The inferential statistics permit for the study to extend implications beyond the scope of the sample to the population. In this section therefore, a presentation of the findings is made in line with the objectives of the study and discussions on their implication to policy are made in consonance with literature and the underpinning theories.

Table 5: Demographic Factors and Tax Planning

Dependent Variable: TAX PLANNING				
Method: Least Squares				
Variables	Coefficient	Std. Error	t-Statistics	Prob.
Constant	7.858	0.987	7.965	0.000
SIZE	1.934	1.051	1.840	0.000
GROWTH	0.029	0.011	2.636	0.012
PERFORMANCE	0.409	0.104	3.93	0.000
LIQUIDITY	0.039	0.053	0.736	0.421
LEVERAGE	0.003	0.02	0.150	0.147
R-Square	0.598	Akaike info criterion	1.426	
Adjusted R-Square	0.564	Durbin Watson stat	1.745	
F-statistics	7.006			
Prob>F	0.000			

Source: Field Survey (2020)

Objective 1: To Examine the Impact of Demographic Factors on Tax Planning Activities.

From Table5, it was hypothesized that firms' demographic characteristics do not have any impact on their tax planning activities. Table 5 presents the empirical output of the assessment of the nexus among firms' demographic factors and their tax planning activities. It reveals a significant

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and positive association between firm size and tax planning. A unit change in company size will lead to about 193.4 percentage change in the companies' tax planning activities holding all factors constant. Therefore, as firms become financially big and large, they engage in tax planning activities in order to remain more profitable.

The finding of the study corroborates with Belz, Von-Hagen and Steffens (2019) who also provided evidence supporting a positive relationship between firm size and their tax planning activities. They concluded that large firms are concerned with tax planning activities since it accrues long term benefits. In the view of Onaolapo and Kajola (2010), when corporations increase in size, operations and earnings, their tax responsibilities increase in accordance to their earnings, and therefore necessary to curb the taxes and enhance profit. Bariyima and Cletus (2014) also buttressed this finding when they observed that large corporations are better prepared to restructure their financing mix and tend to adopt equity financing more than debt in order to reduce their financing cost.

However, the finding is incongruent with Madugba, Ben-Caleb, Lawal and Agburuga (2020) who investigated Firm Size and Tax Saving Behaviour of Listed Companies on Nigeria Stock Exchange. On the contrary they noticed that small firms vigorously engage in tax saving behaviours to ensure their survival and growth.

On the part of firm growth, a unit change in the growth of a firm leads to 0.029 change in tax planning of corporate firms on the GSE. This implies that as companies grow along their life cycle, their tax planning habit changes as well. This finding corroborates Mangoting and Onggar (2019) who made similar

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observation that tax practices varied along the phases of the life cycle of firms. However, they observed that companies seem to be less incentivized to engage in tax planning activities such as tax avoidance in their peek stages due to stable regular cash inflows and large profit stream. Abbas, Seemab, Waheed and Hussain (2018) and Iriyadi, Tartilla and Gusdiani (2020) also noticed diversion in tax planning activities as firm growth. They noticed that the growth of firms had a positive significant effect on firm taxation behaviours.

Contrary, Hasan, Al-Hadi, Taylor and Richardson (2017) in their study of whether a firm's growth explains its propensity to engage in corporate tax planning observed a U-shaped pattern in tax practices. They found that tax avoidance is significantly positively associated with the introduction and decline stages and significantly negatively associated with the growth and mature stages.

Table 4 also presence the diagnostic test for the regression output. The R-squared and adjusted R-Squared explain the variation in tax planning as a function of the independent variables. The adjusted R-Squared of 0.564 implies that all the independent variables jointly explain about 56.4% of the systematic variations in firms' tax planning of the sampled companies over the study period. For the diagnosis of model specification, the F-statistics (7.06) and its P-value (0.000) show that the regression model was well specified and fitted. The study employed the Durbin-Waston (DW) statistics in testing for autocorrelation.

The DW statistics of 1.745 shows the problem of serial correlation was minimal and sufficient for statistical analysis. To assess information losses, the study used the Akaike information criterion (AIC) to evaluation prediction

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error and relative quality of statistical models. In this regression model the AIC of 1.426 reveals that low and insignificant information was loss and therefore confirms the proper specification of the model.

Table 6: The Board and Tax Planning

Dependent Variable: TAX PLANNING
Method: Least Squares

Variables	Coefficient	Std. Error	t-Statistics	Prob.
Constant	3.190	3.5054	7.20	0.000
BS	-0.027	0.013	2.070	0.001
NED	0.011	0.005	2.200	0.028
SIZE	0.131	0.032	4.093	0.000
GROWTH	0.016	0.006	2.600	0.015
PERFORMANCE	0.186	0.034	5.47	0.000
LIQUIDITY	0.283	0.098	2.890	0.008
LEVERAGE	0.007	0.001	7.00	0.000
R-Square	0.725	Akaike info criterion	1.234	
Adjusted R-Square	0.654	Durbin Watson stat	1.643	
F-statistics	6.216			
Prob>F	0.000			

Source: Field Survey (2020)

Objective 2: To Examine the Impact of the Board on Tax Planning Activities.

From Table 6, It was hypothesized that there is no relationship between the board of directors and tax planning of quoted firms on the GSE. Table 6 shows a negative but significant relationship between the board size of firms and their tax planning activities. A unit increase in the board size would lead to about 2.7 percentage decrease in the firms' tax planning activities. By

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implication, a large board size is adversarial to the firms' tax planning activities.

Table 6, also shows the relationship between non-executive directors and tax planning. It shows that the relationship is positive and significant. A unit change in the number of NED would lead to a 0.011 change in the tax planning activities of firms. This suggest that the more the number of NED on the board the better for tax planning activities.

These findings have some significant relations with existing literature. For example, Khaoula and Moez (2019) noticed that both NED and board size have negative impacts on the tax planning engagements of companies. Against this backdrop, Andow and David (2016) suggested that owner mangers should not occupy more than half of the board size of corporate firms' activities. Zemzem and Ftouhi (2013) also observed that board size and its diversity affect the activity of taxation for bodies corporate but, Khaoula and Ali (2019) reported that there were no relations between board size, independent directors and corporate tax planning.

Table 6 also present the diagnosis for the regression output. The adjusted R-Squared of 0.654 implies that all the independent variables jointly explain about 65.4% of the systematic variations in firms' tax planning of the sampled companies over the study period. The F-statistics (6.216) and its P-value (0.000) show that the regression model was well specified and fitted. The test of autocorrelation shows a DW statistics of 1.643 while the Akaike information criterion (AIC) for prediction error stood at 1.234. These show that the regression model was properly specified.

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Table 7: Tax Planning and Firm Performance

Dependent Variable: FIRM PERF

Method: Least Squares

Variables	Coefficient	Std. Error	t-Statistics	Prob.
Constant	8.950	0.899	9.955	0.000
TAXPLAN	-0.701	0.350	-2.001	0.000
LIQUIDITY	0.948	0.606	1.562	0.178
SIZE	0.032	0.024	1.334	0.179
LEVERAGE	0.197	0.371	0.531	0.696
GROWTH	0.003	0.002	1.500	0.147
BS	0.644	0.313	2.060	0.091
NED	0.0503	0.0322	1.560	0.121
R-Square	0.8855	Akaike info criterion	1.5289	
Adjusted R-Square	0.7939	Durbin Watson stat	2.351	
F-statistics	9.669			
Prob>F	0.0142			

Source: Field Survey (2020)

Objective 3: Assess the Association Between Tax Planning Activities and Firm's Performance.

From table 7, the result shows significant negative relationship between tax planning and firms' performance at 0.05 significance level. The negative coefficient of tax planning (-0.701) indicates that a unit percentage increase in tax planning leads to -0.701% decrease in firms' performance. This implies that as more and more tax planning activities are carried out by the quoted firms, an adverse effect is laid on their financial performances. Therefore, the null hypothesis that there is no relationship between tax planning activities and firm performance was rejected.

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This result disagrees with the argument of Hoffman (1961) theory that postulates that firms accrue financial performance when they resort to tax planning within the remit of the law. Thus, as long as it remains legal, firms could engage in activities that reduce their taxable income from which tax could be charged. The theory encourages firms to take advantage of the leeway in the tax laws by redirecting earnings into other channels in order to keep low taxable income for taxation. The finding further digresses from the capital structure theory which also asserts for restructuring of the capital structure of the firm as means of tax planning in order to reduce the taxable income of firms. The capital structure theory seeks to explain a tax planning strategy to be adopted by entities in their capital mix by employing either debt financing or equity funding.

Empirically, the study conforms with the findings of Temitope et al. (2019) who observed that effective tax rate adversely affected financial performance of banks in Nigeria. In addition, Kawor an Kportorgbi (2014) also found that non-financial companies list on the Ghana Stock Exchange engaged in intensive tax planning activities but that could not reflect significantly to their financial performance. They concluded that tax planning had no impact on firms' performance. Furthermore, Kariruki (2017) appreciated that the tax loopholes available in the income tax Act of Nairobi was just inadequate to promote tax savings and thus manufacturing companies could not achieve any performance accruing from their legal tax planning activities. Zemzem (2017) also buttresses that corporate tax planning behaviours are adversarial to firms' value.

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Zoubouloglou, García-Portugués, and Marron, (2021) recommended that tax authorities consider shifting tax burden relative to the size of firms in order to equilibrate among tax payers. Their study showed that abiding by the tax code places a disproportionate burden on small businesses although small businesses are more likely to underpay their taxes. In Similar vein, Chen, Chen, Chen and Shelvin (2017) noticed that family firms are less tax aggressive than their non-family counterparts.

This result supports prior studies like Swenson, (2018), Lev and Thiagarajan (2020), Wilopo, SHakimi, & Ismail, (2020). Ahmed and Khaoula (2018) who found a negative relationship between tax planning and firm performance (ROA).

Contrary to the outcome of this study, when Shabbir, Waheed and Mahmood (2017) investigated the relationship between tax optimization and firm value in the context of Pakistan, they observed that tax optimization, accruals and audit quality increase the firm value. In Kenya, Thuo (2017) recommended for adequate measures to be put in place by listed firms to leverage performance. This was necessitated when their study found that corporate tax planning was positive and significant on financial performance. Bruwer, (2020); Ogundajo and Onakoya (2018) both revealed the significant contribution of tax planning on financial performance. The influence of corporate tax planning on the financial performance of quoted manufacturing firms on Nigerian Stock Exchange was so remarkable for the later study such that it was encouraged that aggressive tax planning such as thin capitalization, tax law incentives and others be capitalised on in the Nigerian tax laws.

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In contrast, Frank, Lynch and Rego (2019), Wang (2017), Lisowsky et al. (2018) found positive relationship between tax planning and firm performance.

In Table 7, the R-squared and adjusted R-Squared values were (0.88) and (0.79) respectively. This indicates that all the independent variables jointly explain about 79% of the systematic variations in firms' performance of the sampled companies over the study period. The F-statistics (9.67) and its P-value (0.01) show that the regression model was well specified and fitted. In testing for autocorrelation, the study used the Durbin-Waston (DW) statistics which revealed a DW statistics of 1.86 hence the problem of serial correlation was at minimal and sufficient for statistical analysis. The Akaike information criterion (AIC) is an estimator of prediction error and relative quality of statistical models. In this model the AIC of 1.52 reveals very low information loss for the study and therefore confirms the proper specification of the model.

Chapter Summary

The chapter was dedicated to present the empirical outcomes of the study of the impact of tax planning on firm performance. It showed that tax planning had a negative and significant impact on firm performance. The assessment of demographic factors also reveals that firm size and its growth have positive and significant impact on tax planning. While the size of board of directors was significantly negative to tax planning, the number of non-executive directors had a positive impact on firm tax planning.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

In this chapter, a summary of the entire study is presented. In addition, the implications of the major findings are concluded and the necessary recommendations for policy and academic studies are further suggested.

Taxation is one of the prime sources of revenue for many governments as it significantly contributes to the attainment of economic goals, budget funding and resource allocation. In Ghana, tax revenue remains very critical to the development of the country since it constitutes the largest proportion of the total revenue of the country. Despite the benefits nations derive from taxation, tax obligations continue to inject venom of unaccountable economic pain to businesses and individuals. Therefore, economic entities charged with tax obligations especially corporate bodies are always synthesizing new ways to minimize, postpone, or avoid entirely, the payment of tax. The tax laws of Ghana provide for corporate bodies to reduce their tax liabilities through proper tax planning activities. This is expected to retain some cash flow for operations and improve firm performance over the accounting period.

An assessment of empirical studies on corporate tax planning and firm performance for listed firms on the Ghana Stock Exchange reveals the need for a macro analysis of the phenomenon. Therefore, this study was aimed at examining the impact of tax planning of quoted firms on the GSE. The study remains important as it recommends policies for tax policy formulators, implementers and governments at large. The study based on a positivism philosophy, an explanatory design and a quantitative approach to achieve the

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objectives. Data for the study were collected from annul financial statements, audited financial reports, and published corporate reports for the period of 2010 to 2019 financial years and through a pooled panel regression and its accompanying diagnosis, the estimations were done for each objective.

Summary of Key Findings

The estimation results presented in chapter three show that the demographic characteristics (firm size and growth) of quoted companies have positive impact on the tax planning activities. It does suggest that as firms grow along their life cycles and increase in their net assets, they would tend to embark on tax planning practices. The study also reveals that large board size does not enhance tax planning while the presence of non-executive members on the board promotes efficient tax planning. Finally, the assessment of tax planning on firm performance shows that tax planning is negative and significant on firm performance. That is, the quoted firms on the GES that practice tax planning do not perform well.

Conclusions

Based on the finding of this study, it could be deduced that the size and growth stage of firms influence their tax planning practices. In addition, the size and composition of the board of directors significantly influence the tax planning activities of companies. Board size does not necessarily need to be large to effectively inform tax planning decision. However, the blend of NED on the board is relevant for firm tax planning. Finally, it can be inferred that a negative relationship exists between tax planning activities and performance of quoted companies on the GSE. Therefore, the perception that tax planning improves firm performance does not hold for some companies.

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Recommendations

Based on the findings of this study, the following recommendations have been made. Firstly, since the size and growth level of a company affect its tax planning activities, it is worthwhile that companies engage in periodic analysis of themselves to assess their growth trajectory. This is necessary to identify a company's stage in life and to select and implement appropriate tax planning activities that commensurate the growth of a company.

Secondly, shareholders of firms should consider the inclusion of non-executive directors on the board even as they strive to maintain a reasonable board size. NED have no special interest (salaries and dividends) in the running of the business as such would remain independent on matters of the board. Therefore, they contribute useful ideas and put to bare their experiences from various industries.

Finally, due to the finding that tax planning does not positively affect firm performance, management of companies should engage on cost and benefit analysis on tax planning. This is necessary to select a feasible strategy at a time in other to leverage for firm performance. Through a cost and benefit analysis, management would be informed on the benefits of a tax planning strategy, cost of execution and the sanctions a company would face upon faulting a tax liability.

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Suggestion for Further Research

In view of the findings of this study, it is suggested that further studies could consider exploring the various stages of growth of companies and the likely planning activities that would in lieu the most benefits at each stage of growth. In addition, further studies could also be dedicated to evaluating

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various tax planning activities and their impact on firm performance. This would bring to light whether or not some or all tax planning activities have adversarial effect on firm performance.

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