Tax Planning and Firm Performance: An Empirical Analysis of Listed Banks in Ghana

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ABSTRACT: This study examines the relationship between corporate tax preparation and bank performance using evidence data from banks listed on the Ghana stock market. Understanding how the banking sector operates is important because it has implications throughout the economy. The connection between bank profitability and tax planning activities in a developing economy is explored in this study. Non-financial company performance and tax preparation have also proven to have a neutral connection, according to specialists in the area. There is also no connection between business performance and tax preparedness. In specifically, individuals look at how corporation tax, company size, liquidity, leverage, firm age, and firm growth influence the return on assets (ROA) of Ghana's listed banks. The research utilizes data from all eight listed banks on the Ghana Stock Exchange (GSE) from 2015 to 2019. For the analysis of our research, individuals utilized the ordinary least squares (OLS) regression model. There is a connection between bank performance and company tax preparation, according to our results. People encourage bank CEOs to consider and manage their tax load in order to enhance their profitability.

KEYWORDS: Corporate, Firm Performance, Ghana Stock Exchange, Study, Tax Planning, Tax Preparation, Tax Avoidance.

INTRODUCTION

Banks mainly take deposits plus offer credit to individuals, companies, and governments, either directly or via capital markets, for the purposes of financing consumption, investment, and capital expenditures, and thus contribute to economic growth. Between 2000 and 2017, the banking sector in Ghana experienced a lot of changes and advancements. These changes vary from a rise in the number of banks to a broad variety of activities, ownership and corporate governance structures, new product creation, and central bank policy and supervision. The Central Bank's clean-up of the financial institutions industry, which took place from 2017 to 2019, is the most recent reform that is still applicable. Such developments have an effect on a significant number of institutions. All of these efforts were focused at improving and repairing the banking industry [1].

The basic line is that the banking sector does not function in a vacuum; it is the only one that has a direct effect on every other sector of the economy. Banks play a vital role in the development of an economy by providing financial services to people, businesses, and governments. High tax rates are at the core of the banking industry's problems. Taxation is regarded as an economic instrument that serves to boost Ghana's economy by decreasing the country's budget imbalance. Taxation may be defined as the collection of obligatory contributions by taxing authorities to cover the expenses of their operations in which the taxpayer gets no direct benefit. Corporate tax planning, according to experts, is an indirect legal activity that diverts income from shareholders to the government.

Tax planning entails a complete study and application of tax policies such as the rules for business start-up and termination, pioneer status incentives, investment allowances, business establishment, acquisition and use of assets for the company's primary purpose, tax exemptions applicable to loans, and other company laws and regulations. The existing literature on taxation, according to Commonwealth Association of Tax Administrators (CATA), stresses one issue: taxes are punitive in nature, and as a consequence, taxpayers almost always shirk their allocated tax obligation and never fully bear the actual tax burden. They also allege that Ghanaian companies engage in sophisticated tax evasion strategies. Taxpayers often utilize ways to reduce, postpone, or completely avoid paying taxes, according to experts [2].

Assessments are a major cost for both the organisation and its investors, and it is generally believed that investors want to avoid paying them. In any case, this reasoning overlooks the non-charge costs involved with tax evasion, especially those related with organisational difficulties. In businesses owned/run by establishing relatives, there is a particular organizational conflict between the majority and minority investors. People find that family undertakings are less assessment forceful than their non-family companions, ceteris paribus, when evaluating charge forcefulness and establishing family support utilizing different measures. This result indicates that family company owners are prepared to forgo charge advantages in order to avoid the non-charge cost of a planned value drop, which may arise from minority investors' worries about family lease hunting disguised as duty avoidance. Our results are likewise predictable, with privately-owned companies being more worried than publicly-traded enterprises about possible fines and brand harm from an Internal Revenue Service (IRS) audit. When individuals utilize a limited number of responsibility cover instances, they accomplish the same outcomes [3].

Efforts by taxpayers to minimize, postpone, or avoid paying taxes may be lawful or criminal. Tax avoidance refers to legitimate techniques, while tax evasion refers to unlawful ones. The severe repercussions of tax evasion would make it an unattractive choice for publicly traded businesses [4]. Tax planning has a longstanding history, possibly as old as the tax itself. It may be traced back to 1947, when in the case of Commissioner vs. Newman, Judge Hand held that making arrangements for one's company to reduce taxes to a minimum was not malevolent. Experts concur with Judge Hand's findings, saying that companies must understand and obey the rules to ensure that their tax burden is reduced. Those with expertise in the sector also believe that paying more tax than the law demands makes little economic sense. Because it is incorporated in the price of goods and services, a tax system affects the cost structure of companies. There is a common notion that companies that can make better use of their tax planning may reduce their expenses. There is a positive connection between business performance and tax planning.

Such proponents believe that taxes are a corporate expense, and that any move that lowers taxation reflects improved economic efficiency. This implies that the advantages of tax planning exceed the costs and dangers of doing so. This claim has been refuted by professionals. Tax planning has no significant effect on company performance, according to specialists in the field. In Europe, the United States, and Asia, the literature on tax planning and company success in the banking industry is significantly advanced. The majority of studies on tax planning and business performance in the African context, especially in Ghana, concentrate on the manufacturing, mining, and other non-financial sectors [5].

As previously stated, there are few literatures on profitability of commercial institutions in Ghana. In this respect, there is a considerable vacuum in the literature. Because the banking sector is considered as a key component of any economy, it is essential to examine tax planning and good performance in the banking industry for the benefit of all stakeholders. Because the banking industry drives all other sectors of the economy, the results of this study will be important to all stakeholders. As a consequence, the training is to examine the connection the presentation of banks listed on the Ghana Stock Exchange (GSE) [6].

The remainder of the research is arranged in the same manner. The following section reviews relevant literature, the middle piece covers research methodology, the penultimate portion offers and explains analysis and findings, and the final portion sums up the study. Experts think that successful companies are lawfully shifting money meant for governments to their own wallets. This is considered the study's underlying theory. The primary problem is that tax planning activities are only effective if it is feasible to achieve the lowest taxable revenue without having a negative impact on accounting income, since companies' fiscal responsibilities are focused on the former rather than the latter, i.e., taxable income tax. Companies must therefore put in a lot of effort and take use of tax loopholes to reduce taxable income rather than reported profit in their financial statements [7].

Experts also believe that there is a positive connection between a company's tax planning and its profitability, as long as the tax benefits obtained from these activities exceed the expenses of achieving the tax advantages. Current theories incorporate Hoffman's idea that businesses may obtain significant tax advantages from their operations by better understanding the unpredictability and loopholes in tax laws. This research looks at the connection between tax preparation and business success in organizations other than banking institutions. They find no connection between tax preparation and company success. Various scholars have also looked at the connection between corporate tax approach and mining company profitability.

Their study showed no significant connection between corporate tax and company performance, and a negative correlation between liquidity and business success. Experts in the industry also find a neutral connection between non-financial company performance and tax preparation. Researchers also think that there is no connection between business success and tax planning. Furthermore, Desai et al. find that tax preparation has a negative effect on business performance. Taxation has a detrimental effect on the banking sector's performance [7]. After studying the impact of corporate tax avoidance on business profitability, experts believe that there is a substantial and crucial connection between tax evasion and firm profitability. Corporate income tax and company performance have a favourable connection, according to experts. Experts in the industry think that the size of a firm impacts its financial success.

LITERATURE REVIEW

W. H. Hoffman Jr. states that the essay focuses on tax planning theory. Tax planning is the capacity of a taxpayer to arrange his financial activities in such a manner that he incurs the least amount of tax obligation. When the phrase "tax planning" is used, it refers to effective tax planning. All tax planning does not result in a tax burden that is lowered to the desired minimum. Tax planning that isn't customized to the individual taxpayer's requirements may have the unexpected effect of raising the tax burden. Tax planning requires the use of foresight, and as a consequence, it is concerned with problems that may emerge in the future. Unfortunately, tax planning is often the product of some forethought. The taxpayer who learns about the six-month holding requirement for gaining the long-term capital-gains benefit too late, much to his dismay, is likely to profit from his mistakes in future acts. Author is ready and willing to participate in the tax preparation procedure after getting burned once. It's essential to differentiate among avoidance and evasion. For taxpayers, these ideas have become equal far too frequently. Failure to differentiate between these various concepts tarnishes the tax planning process and may result in severe legal consequences [8].

M. A. Nnadi et al. pointed that the research focuses on the impact of taxation on dividend policy, particularly in Nigerian banks. The aim of the research was to examine at the connection between profit, dividends, and taxes, especially in the banking sector. The results support the M&M theory's theoretical assumptions. The hypothesis was evaluated using normal multiple regression analysis. The study cited historic dividend patterns, concerns about maintaining a target capital structure, present levels of financial leverage, shareholder demand for dividend income, regulatory requirements and limits, such as capital impairment, the desire to convey positive signals to investors, and the desire to follow the industry's dividend distribution schedule as factors impacting bank dividend policy. The results of the research show a significant connection between taxes and bank dividend structures, and they also suggest that profit is a major element in establishing a company's dividend policy. The theory, which showed a significant impact of profit on dividend and a positive relationship between profit, tax, and dividend, backs this up. The study backs up several financial theorists' theories, recommending capital gains instead of dividends for high taxpayers, and that banks' dividend policies, particularly in Nigeria, should be closely assessed based on the bank's specific circumstances, rather than on age-old conventional reasons generally formed by academics [9].

R. O. Salawu et al. articulated in the article that the research focused at association preparation listed companies from the year 2004 until 2014, in Nigeria. The audited annual financial reports of the sampled company and the Nigerian Stock Exchange fact books were utilized to create a panel of financial characteristics for 50 non-financial listed businesses across 10 sectors. At a 5 percent level of significance, the pairing indicates tested time. This implies that tax preparation does not cause in either direction findings show significant non-directional causal connection, indicating that both null hypotheses are correct there is no major accidental link from Tax Planning to Firm Value (Tobin Q) [10].

METHODOLOGY

This section describes how the research will be carried out. People utilize secondary data from all eight (8) banks registered five-year period, giving us a total of 40 years of observation. All of the banks listed on the GSE were selected based on the availability of access to their financial statements during the study period (2015-2019). Firms' financial performance may be assessed in a variety of ways (e.g., return on assets, return on equity, gross profit margin, and so on), but return on asset (ROA) is used to operationalize the performance measure as a dependent variable since it has been used in a number of studies to reflect business profitability. Because corporate income tax is not the only variable that affects profitability, control factors such as company size, firm age, liquidity, firm growth, and leverage were also utilized. Because it produces accurate and unbiased estimates, the research utilizes a regression model that incorporates time series and a cross sectional unit. The ordinary least square (OLS) regression model is used to investigate the connection between the tax planning variable, the business performance measure, and the study's control variables. Secondary data from the GSE was placed into Microsoft Excel and then loaded into the statistical program for social science for analysis and interpretation.

The following regression model is used to evaluate the study data:

$$ROA_{it} = \alpha_0 + \beta_1 CIT_{it} + \beta_2 SIZ_{it} + \beta_3 LEV_{it} + LIQ_{it} + \beta_5 AGE_{it} + \beta_6 GRO_{it} + \varepsilon_{it}$$

Where:

ROA (return on asset) = ratio of earnings before tax (EBT) and total assets.

CIT (corporate income tax) = ratio of current income tax expense and EBT.

SIZ (firm size) = the natural logarithm for the company's total assets.

LEV (leverage of firm) = the ratio of debt and shareholders' fund.

LIQ (liquidity of firm) = total liquid asset to total liquid liability ratio.

AGE (firm age) = number of years of company existence before the study period.

GRO (growth of firm) = the ratio of current total assets and previous total assets.

α_0 = constant term.

β_1 to β_6 = the individual coefficients for the control variables.

ε = error term

$_{it}$ = cross-sectional measurements and time-series of companies.

RESULTS AND DISCUSSION

1. *Descriptive Statistics:*

Table 1 provides descriptive statistics that demonstrate how the variables utilized in the research are identified to assist in the study's analysis. Table 1 indicates that ROA, which is a proxy for business success, has a minimum of -0.0368 and a high of 0.0884, with an average of 0.0296 during the study period. A high of 0.8265, an average of 0.2706, and a low of -0.3376 are also displayed for corporate income tax. The average company size, as evaluated by total asset, is GHC 5032.34 million, with a high of GHC 13229 million and a low of GHC 1600 million. Furthermore, the average liquidity and leverage of businesses are 1.0521 and 0.4587, respectively. Table 1 shows a minimum of 6 years and a maximum of 66 years for bank firm age, with an average bank firm existence of over 37 years, suggesting that the banks selected for the research are fairly stable. The ratio of current total assets to previous total assets, which is used to evaluate company growth, has a high of 0.5848, a low of -0.0390, and an average of 0.2057.

Table 1: Descriptive Statistics reveals that the banks considered for the study are generally stable, with an average bank firm age of over four decades besides a maximum of sixty-six years plus a minimum of six years for bank firm age.

Variables	Obs.	Mean	SD	Min	Max
ROA	40	.0296	.0271	-.0368	.0884
Corporate income tax	40	.2706	.1937	-.3376	.8265
Firm size (GH₵'m)	40	5032.34	3007.080	1600	13229
Liquidity of firm	40	1.0521	0.1910	.5713	1.5325
Leverage of firm	40	.4587	.0076	.4430	.4798
Firm age	40	36.750	16.929	6.00	66.00
Firm growth	40	.2057	.1219	-.0390	.5848

2. *Multi-collinearity Test:*

The correlation matrix of Pearson is utilized in the study to estimate the degree of likely collinearity between the investigated variables. The effectiveness of the generated coefficients is affected by the degree of connection between the variables. The results are presented in Table 2. The results show that there is no significant relationship between the coefficients, suggesting that the regression is generally free of multi-collinearity problems.

Table 2: Correlation of Dependent and Independent Variables. The results show that the coefficients have no significant relationship, indicating that the regression is essentially free of multi-collinearity concerns.

Variables	1	2	3	4	5	6	7
1 ROA	1.000						
2 Corporate income tax	.473	1.000					
3 Firm size	.309	.065	1.000				
4 Liquidity of firm	.025	-.272	-.052	1.000			
5 Leverage of firm	-.349	-.334	.225	.028	1.000		
6 Firm age	.041	-.037	.294	.067	-.203	1.000	
7 Firm growth	.132	-.142	.164	-.092	.055	.020	1.000

Tables 3 and Table 4 indicate the study's significance level. The study's coefficients are computed at a significance level of 0.05 ($p = 0.05$). The significance criterion for this research is 0.002 ($0.002 < p = 0.05$), which is a lower degree of significance. This shows that the model can predict how corporate income tax, firm size, liquidity, leverage, firm age, and business development influence the profitability of banks listed on the Ghana stock market. At the 95 percent confidence level, a p-value (sig.) of less than 0.05 is deemed statistically significant. This implies that a p-value higher than 0.05 suggests that the relationship between the dependent and independent variables is statistically insignificant.

Table 3: Summary of the Model. At a significance level of 0.05 (p = 0.05), the study's coefficients are computed.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.671[a]	.451	.351	.0218753

a. Predictors: (Constant), Corporate income tax, Firm age, Firm growth, Liquidity of firm, Firm size, Leverage of firm

Table 4: Illustrates the Analysis of Variation (ANOVA).

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.013	6	.002	4.509	.002[b]
	Residual	.016	33	.000		
	Total	.029	39			

a. Dependent Variable: Return on asset

b. Predictors: (Constant), Corporate income tax, Firm age, Firm growth, Liquidity of firm, Firm size, Leverage of firm

3. *Discussion of Regression Results:*

Table 5: Regression Analysis of ROA. Our findings reveal a positive correlation between corporate income tax (tax planning) and bank firm performance.

Variables	Coefficient	Standard Error	Sig.
Corporate income tax	.056	.021	.011
Firm size	3.479E-12	.000	.013
Liquidity of firm	.027	.019	.173
Leverage of firm	-1.236	.540	.029
Firm age	.000	.000	.324
Firm growth	.037	.030	.226
(Constant)	.537	.253	.041

Table 5 shows the results of our model regression. Our finding reveals a positive correlation among corporate income tax and bank firm performance which sharply contradicts the finding of various studies which looked at the correlation between tax planning and firm performance of companies other than financial firms but our findings is in line with various studies which find correlation among corporate firm profitability and tax planning. Our research also shows a strong connection between company size and profitability of banks. This confirms the conclusions of academics and professionals in the area, that the connection between company size and firm performance is quite positive. They perceive a negative impact of firm leverage on bank performance but people do not discover any connection between liquidity, firm age and company growth and bank performance.

CONCLUSION

Using evidence data from banks listed on the Ghana stock market, the paper examines the connection between corporate tax preparation and bank performance. Understanding how the banking sector works is important because it has implications in all other sectors of the economy. This study examines the connection between bank profitability and tax planning activities in a developing country. According to experts in the industry, non-financial company performance and tax preparation have a neutral connection. There's also no connection between company success and tax planning. People investigate how corporate tax, business size, liquidity, leverage, company age, and company growth affect Ghana's listed banks' ROA. From 2015 to 2019, data from all eight listed banks on the GSE was utilized in the research. People find a favourable connection between corporate income tax and bank performance, as well as a link between business size and bank performance. This indicates that listed banks' tax planning activities in Ghana have a significant effect on their earnings. People urge bank CEOs to consider and control their tax burden in order to increase their earnings.

Understanding how the banking sector operates is important because it has implications throughout the economy. The connection between bank profitability and tax planning activities in a developing economy is explored in this study. Non-financial company performance and tax preparation have also proven to have a neutral connection, according to specialists in the area. There is also no connection between business performance and tax preparedness. In specifically, individuals look at how corporation tax, company size, liquidity, leverage, firm age, and firm growth influence the return on assets (ROA) of Ghana's listed banks. The research utilizes data from all eight listed banks on the Ghana Stock Exchange (GSE) from 2015 to 2019. For the analysis of our research, individuals utilized the ordinary least squares (OLS) regression model. There is a connection between bank performance and company tax preparation, according to our results. People encourage bank CEOs to consider and manage their tax load in order to enhance their profitability.

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