

CORPORATE TAX PLANNING AND FIRM PERFORMANCE: EVIDENCE FROM SELECTED INDIAN COMPANIES

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ABSTRACT

Corporate tax planning is an important component of financial management because taxation directly affects corporate cash flows, investment capacity and after-tax profitability. This study examines the conceptual and empirical relationship between corporate tax planning and firm performance in the Indian corporate sector. The proposed study focuses on ten selected Indian listed companies and covers FY2020–21 to FY2024–25. Corporate tax planning is measured using Effective Tax Rate (ETR), Cash Effective Tax Rate (Cash ETR) and Book-Tax Difference (BTD), while firm performance is measured through Return on Assets (ROA), Return on Equity (ROE) and, where appropriate, Tobin's Q. Firm size, leverage, sales growth, capital intensity and firm age are included as control variables. The study integrates agency theory, stakeholder theory and tax-planning perspectives and proposes a panel regression framework. Existing Indian evidence indicates that effective tax rates vary with profitability, firm size, growth, leverage, asset tangibility and non-debt tax shields, while recent research finds that the performance consequences of tax avoidance depend on governance and ownership structures. The study therefore treats tax planning as a conditional financial strategy rather than assuming that a lower tax burden automatically improves performance.

KEYWORDS: Corporate Tax Planning; Effective Tax Rate; Tax Avoidance; Firm Performance; ROA; ROE; Book-Tax Difference; Corporate Governance; India.

INTRODUCTION

Corporate taxation represents a significant financial cost for profitable companies and consequently forms an important part of corporate financial planning. Tax planning involves

arranging business activities and financial decisions so that the tax burden is managed within the applicable legal and regulatory framework. Proper tax planning can improve cash flows and provide additional resources for investment, debt servicing and shareholder distribution.

Tax planning should be distinguished from aggressive tax avoidance and tax evasion. A reduction in effective tax payments may arise from legitimate tax incentives, depreciation provisions, investment deductions, tax-regime choices, foreign operations or timing differences. Therefore, a low effective tax rate cannot automatically be interpreted as evidence of inappropriate tax behaviour.

The Indian tax environment provides an interesting setting for examining these issues because eligible domestic companies can choose different tax regimes. The Income Tax Department identifies, among other provisions, a 22% income-tax rate under Section 115BAA for eligible companies, while other domestic companies can fall under different applicable rates. These choices create an opportunity to examine the relationship between tax burden, corporate decisions and performance.

The central research question is not simply whether companies reduce taxes, but whether tax planning is associated with better firm performance after accounting for other financial characteristics. Tax savings can increase after-tax income, while aggressive tax avoidance can create agency, regulatory and reputational costs.

Review of Literature

Desai and Dharmapala (2009) examined the relationship between corporate tax avoidance and firm value and found that the effect of tax avoidance on firm value depends significantly on corporate governance. Their study reported that the average effect of tax avoidance on firm value was not significantly different from zero, while firms with stronger corporate governance experienced a more positive relationship, suggesting that tax savings create greater value when supported by effective governance mechanisms. **Athira and Jijo Lukose (2024)** investigated the determinants of effective tax rates among Indian firms and found that ETR is influenced by firm-specific characteristics, macroeconomic conditions and changes in tax policies. Their findings highlight the importance of factors such as firm size, profitability, growth and other financial characteristics in explaining variations in corporate tax burdens among Indian firms. **Recent SAARC Banking Study (2025)** examined the relationship between tax avoidance and firm performance with particular emphasis on ownership concentration and board independence among banking firms in India and other SAARC economies. The study indicated that corporate governance mechanisms can influence the

relationship between tax planning and financial performance, demonstrating that governance plays an important role in determining how effectively firms convert tax savings into improved performance. **Raj (2026)** examined tax planning and financial reporting discretion among Indian non-financial firms listed on the National Stock Exchange during 2009–2022. The study found a positive association between tax avoidance and earnings management, and the relationship remained robust under alternative model specifications. The findings suggest that tax-planning activities may have implications not only for tax savings but also for the quality and reliability of reported financial performance. **Recent Indian Pharmaceutical Study (2025)** analysed book-tax avoidance, ETR, leverage, firm size and export intensity in relation to ROA and ROE among Indian pharmaceutical companies using panel data for FY2020–21 to FY2024–25. The study reported positive relationships between book-tax avoidance and profitability, while leverage was negatively associated with performance, indicating that the impact of tax planning may differ according to industry characteristics and financial structure.

Research Gap: The reviewed studies indicate that the relationship between corporate tax planning and firm performance remains inconclusive. Existing research has primarily focused on individual tax measures such as ETR or book-tax differences, while comparatively limited attention has been given to examining multiple tax-planning measures together with different profitability indicators. Therefore, the present study extends the existing literature by analysing corporate tax planning through multiple measures and examining its relationship with ROA and ROE among selected Indian companies.

Objectives of the Study

1. To examine the relationship between corporate tax planning and firm performance in selected Indian listed companies.
2. To assess the relationship between Effective Tax Rate and accounting profitability.
3. To examine whether alternative tax-planning measures provide consistent results.
4. To evaluate the role of firm size, leverage, growth, capital intensity and firm age as control variables.
5. To develop an empirical framework suitable for post-corporate-tax-reform Indian firms.

Hypotheses

H1: Corporate tax planning has a significant relationship with Return on Assets.

H2: Corporate tax planning has a significant relationship with Return on Equity.

H3: Corporate tax planning has a significant relationship with market-based firm value.

H4: Firm size, leverage, growth and capital intensity significantly influence firm performance after controlling for corporate tax planning.

H5: Corporate governance moderates the relationship between tax planning and firm performance.

RESEARCH METHODOLOGY

1 Research Design: The proposed study adopts a quantitative panel-data design covering FY2020–21 to FY2024–25. A balanced or near-balanced panel should be constructed from audited annual reports and financial databases. Final empirical estimates should be based only on independently extracted annual-report observations; unavailable observations should not be estimated or fabricated.

2 Proposed Sample

Company	Sector
Reliance Industries Ltd.	Energy / Diversified
HDFC Bank Ltd.	Banking
Tata Consultancy Services Ltd.	Information Technology
Infosys Ltd.	Information Technology
ICICI Bank Ltd.	Banking
State Bank of India	Banking
Bharti Airtel Ltd.	Telecommunications
Hindustan Unilever Ltd.	FMCG
ITC Ltd.	Diversified / FMCG
Larsen & Toubro Ltd.	Engineering / Infrastructure

The proposed ten-company sample provides sectoral diversity. Banking firms should be interpreted separately where necessary because their financial-statement structures differ from non-financial firms.

3 Variables

GAAP Effective Tax Rate (ETR) = Total Tax Expense / Profit Before Tax.

Cash Effective Tax Rate = Cash Taxes Paid / Profit Before Tax.

Book-Tax Difference (BTD) = Book Pre-tax Income minus estimated taxable income, scaled by total assets or another consistent denominator.

ROA = Profit After Tax / Average Total Assets.

ROE = Profit After Tax / Average Shareholders' Equity.

Tobin's Q = (Market Value of Equity + Book Value of Debt) / Book Value of Assets.

Control variables: firm size, leverage, sales growth, capital intensity and firm age.

Governance variables may include board independence, ownership concentration and audit-committee characteristics.

4 Econometric Models

Model 1: $ROA_{it} = \beta_0 + \beta_1 \text{Tax Planning}_{it} + \beta_2 \text{Size}_{it} + \beta_3 \text{Leverage}_{it} + \beta_4 \text{Growth}_{it} + \beta_5 \text{Capital Intensity}_{it} + \mu_i + \lambda_t + \varepsilon_{it}$

Model 2: $ROE_i = \beta_0 + \beta_1 \text{Tax Planning}_{it} + \beta_2 \text{Size}_{it} + \beta_3 \text{Leverage}_{it} + \beta_4 \text{Growth}_{it} + \beta_5 \text{Capital Intensity}_{it} + \mu_i + \lambda_t + \varepsilon_{it}$

Model 3: $\text{Tobin's } Q_{it} = \beta_0 + \beta_1 \text{Tax Planning}_{it} + \beta_2 \text{Size}_{it} + \beta_3 \text{Leverage}_{it} + \beta_4 \text{Growth}_{it} + \beta_5 ROA_{it} + \mu_i + \lambda_t + \varepsilon_{it}$

Here μ_i represents firm-specific effects and λ_t represents year effects. Fixed-effects and random-effects models should be compared using appropriate specification tests, including the Hausman test.

Data Sources

Primary sources should include company annual reports, audited financial statements, notes to accounts and corporate-governance reports for FY2020–21 to FY2024–25. Tax rates and statutory provisions should be cross-checked with the Income Tax Department and Finance Act materials. Market values required for Tobin's Q should be obtained from a consistent market-data source. Annual reports are particularly important because tax expense, deferred tax and cash-tax information can differ materially across firms.

Proposed Data Analysis

Descriptive statistics for ETR, Cash ETR, BTDT, ROA, ROE and control variables.

Pearson correlation analysis.

Variance Inflation Factor (VIF) for multicollinearity.

Pooled OLS, Fixed Effects and Random Effects estimation.

Hausman test for model selection.

Robust standard errors and sensitivity tests using alternative tax-planning measures.

A lower ETR should not automatically be interpreted as aggressive tax avoidance. ETR may be affected by tax incentives, exempt income, losses, foreign operations, accounting adjustments and changes in statutory tax regimes.

Variable Measurement Table

Variable	Measurement	Expected Relationship	Role
ETR	Tax expense / PBT	Potential negative/positive	Main tax variable
Cash ETR	Cash tax paid / PBT	Potential negative/positive	Robustness
BTD	Book-tax difference / assets	Potential positive/ambiguous	Alternative tax-planning measure
ROA	PAT / average assets	—	Dependent variable
ROE	PAT / average equity	—	Dependent variable
Firm Size	ln(total assets)	Control	Control
Leverage	Debt / total assets	Control	Control
Growth	Annual sales growth	Control	Control
Capital Intensity	PPE / total assets	Control	Control

DISCUSSION

Corporate tax planning can affect firm performance through at least two channels. The first is the direct cash-flow channel: lower tax payments, when legally achieved, increase funds available for investment, debt servicing and shareholder distributions. The second is the risk channel: aggressive strategies may generate uncertainty, disputes, penalties, reputational costs or greater scrutiny. The net effect is therefore theoretically ambiguous.

Indian evidence supports this conditional interpretation. Studies of ETR determinants show that profitability, size, growth, leverage and asset characteristics can influence effective tax rates. Recent research on corporate tax avoidance and firm performance also finds that governance and ownership characteristics matter. Thus, a simple correlation between ETR and ROA may produce misleading conclusions if firm characteristics are omitted.

The post-2019 corporate-tax environment provides an especially useful setting. The availability of alternative domestic-company tax regimes means that firms may make tax-regime choices that affect current tax expense and investment decisions. Future empirical work should therefore include a tax-regime indicator and distinguish firms that have opted for concessional regimes from those following standard provisions.

Empirical Data Extension

The earlier conceptual manuscript has been extended with an empirical panel. The dataset covers ten companies and FY2021–22 through FY2024–25. ETR observations are taken from published annual reports, company financial information, or financial-data sources that report historical ETR. ROA and ROE are drawn from published historical ratio series. Because definitions can differ across data providers, the empirical results should be treated as

exploratory and should be reconciled with the companies' audited annual reports before final journal submission.

Verified Panel Dataset

Company	FY	ETR_pct	ROA_pct	ROE_pct
Reliance Industries Ltd.	2022	21.67	3.60	7.70
Reliance Industries Ltd.	2023	24.55	4.12	8.58
Reliance Industries Ltd.	2024	23.68	4.15	9.01
Reliance Industries Ltd.	2025	22.34	3.79	8.40
Tata Consultancy Services Ltd.	2022	25.60	22.24	43.46
Tata Consultancy Services Ltd.	2023	25.70	23.77	46.73
Tata Consultancy Services Ltd.	2024	25.80	25.56	50.51
Tata Consultancy Services Ltd.	2025	25.30	25.39	52.16
Infosys Ltd.	2022	26.00	15.45	28.96
Infosys Ltd.	2023	28.00	15.49	31.04
Infosys Ltd.	2024	27.00	15.05	31.96
Infosys Ltd.	2025	28.90	15.06	28.93
HDFC Bank Ltd.	2022	25.00	1.80	15.40
HDFC Bank Ltd.	2023	25.00	1.80	15.90
HDFC Bank Ltd.	2024	14.80	1.60	14.10
HDFC Bank Ltd.	2025	24.40	1.60	13.70
ICICI Bank Ltd.	2022	24.00	1.80	14.70
ICICI Bank Ltd.	2023	25.00	2.10	17.20
ICICI Bank Ltd.	2024	25.00	2.40	18.60
ICICI Bank Ltd.	2025	25.00	2.40	17.80
State Bank of India	2022	26.90	0.70	11.60
State Bank of India	2023	25.00	0.90	15.00
State Bank of India	2024	25.30	1.00	15.60
State Bank of India	2025	25.70	1.10	15.40
Hindustan Unilever Ltd.	2022	—	12.80	18.40
Hindustan Unilever Ltd.	2023	—	14.10	20.40
Hindustan Unilever Ltd.	2024	—	13.60	20.30
Hindustan Unilever Ltd.	2025	—	13.50	21.20
Bharti Airtel Ltd.	2022	33.47	4.40	9.46
Bharti Airtel Ltd.	2023	25.80	5.41	12.28
Bharti Airtel Ltd.	2024	32.50	5.47	8.07
Bharti Airtel Ltd.	2025	2.39	6.24	28.94
ITC Ltd.	2022	24.77	15.61	25.10
ITC Ltd.	2023	24.23	18.28	29.43
ITC Ltd.	2024	23.56	17.15	28.74
ITC Ltd.	2025	25.75	16.81	27.58
Larsen & Toubro Ltd.	2022	29.20	3.47	11.26
Larsen & Toubro Ltd.	2023	26.40	3.89	12.46
Larsen & Toubro Ltd.	2024	24.10	4.46	14.99
Larsen & Toubro Ltd.	2025	25.00	4.59	15.78

Note: A dash denotes a value that was not sufficiently verified from the sources retrieved in this research pass. HUL is therefore excluded from the complete-case regression because its

ETR series was not independently verified here. The remaining company-year observations are retained rather than replacing missing values with estimates.

Descriptive Statistics

Variable	Mean	Median	Minimum	Maximum	Std. Dev.
ETR (%)	24.80	25.00	2.39	33.47	4.85
ROA (%)	8.30	4.28	0.70	25.56	8.01
ROE (%)	21.01	15.69	7.70	52.16	12.26

The descriptive statistics show substantial dispersion in both taxation and performance. The variation is especially pronounced for ROE because banking and non-banking firms have very different capital structures.

Correlation Analysis

Relationship	Pearson r	p-value
ETR vs ROA	0.11	0.52
ETR vs ROE	-0.06	0.72

ETR and ROA have a correlation of 0.110, while ETR and ROE have a correlation of -0.062. Correlation does not establish causality and should be interpreted cautiously because the sample combines financial and non-financial sectors.

Exploratory Panel-Style Regression

To reduce the risk of interpreting simple correlations as causal relationships, the study estimates exploratory regressions of ROA and ROE on ETR while controlling for year effects. Company fixed effects are not estimated in this compact verification stage because the extracted dataset does not yet contain a complete, independently verified set of firm-level controls for all ten companies.

Model	ETR coefficient	ETR p-value	R-squared	Observations
ROA = ETR + Year effects	0.21	0.19	0.02	36
ROE = ETR + Year effects	-0.08	0.80	0.02	36

The coefficients should not be interpreted as causal estimates. The main purpose of these regressions is to demonstrate the statistical workflow using verified observations. A final submission-ready model should add firm size, leverage, sales growth, capital intensity and firm fixed effects, and should use robust or clustered standard errors.

Cash ETR and Book-Tax Difference

Cash ETR requires cash income-tax payments from the cash-flow statement divided by a consistent pre-tax income measure. Several company reports disclose income tax paid, for example Infosys reports income-tax payments in its current-tax reconciliation and ITC reports income-tax paid in its cash-flow statement. However, a complete 10-company, five-year Cash ETR series was not independently retrieved for every observation in this pass.

Book-Tax Difference requires a consistent measure of taxable income. Estimating taxable income solely from current tax expense and a statutory rate can introduce measurement error because of tax incentives, foreign taxes, minimum-alternate-tax effects, losses and other adjustments. Accordingly, BTD has not been manufactured from assumptions. The final dataset should extract taxable-income reconciliation information from each company's tax notes.

Sources Supporting the Empirical Dataset

- TCS Integrated Annual Report 2024–25: consolidated PBT and tax expense for FY2025 and FY2024, with historical ratio information available in the company's reporting series.
- Infosys Integrated Annual Report 2024–25 and company financial data: FY2025/FY2024 tax expense and ETR, historical ETR series, and income-tax paid information.
- HDFC Bank historical financial information: FY2021–FY2025 ETR, ROA and ROE series.
- ICICI Bank result reviews and historical financial information: FY2021–FY2025 PBT, taxes, ETR, ROA and ROE.
- State Bank of India historical ratio information: FY2021–FY2025 ETR and recent ROA/ROE series.
- Reliance Industries historical financial information and annual reports: FY2022–FY2025 ETR and historical ROA/ROE series.
- ITC annual reports: FY2022–FY2025 tax reconciliations and cash tax information.
- Bharti Airtel annual-report/market-data sources: historical ETR and profitability series.
- Larsen & Toubro annual reports and analyst financial summaries: historical ETR and profitability series.
- Hindustan Unilever historical financial-ratio data: FY2022–FY2025 ROA and ROE.

Interpretation

The empirical extension indicates that tax burden and firm performance move differently across sectors. IT services firms such as TCS and Infosys have relatively high accounting returns on assets and equity alongside ETRs in the mid-to-high twenties. Banks display much lower ROA because of the large asset base inherent in banking, while ROE remains substantially higher. These differences demonstrate why sector controls are essential.

The results also show why ETR should not be treated as a direct measure of aggressive tax avoidance. Company reports identify several factors affecting ETR, including tax incentives, overseas taxes, deferred tax, tax provisions and reversals, exempt income and changes in tax regulations. For example, Infosys explicitly reports such factors in its tax reconciliation.

Accordingly, the empirical evidence should be framed as an association between effective tax burden and firm performance rather than a direct causal effect of tax avoidance.

Robustness and Final Submission Requirements

1. Replace missing HUL ETR observations after extracting the audited tax-note reconciliation.
2. Complete Cash ETR for all 50 company-year observations from cash-flow statements.
3. Construct BTD only from company tax-reconciliation information.
4. Add firm size, leverage, sales growth and capital intensity.
5. Estimate pooled OLS, fixed effects and random effects.
6. Perform the Hausman test.
7. Use clustered or heteroskedasticity-robust standard errors.
8. Test alternative specifications using Cash ETR and BTD.
9. Consider separating banks from non-financial firms in the main model.

CONCLUSION

The paper has now been extended from a conceptual research framework to an empirical panel-data manuscript using a verified set of company-year observations. The available evidence shows substantial cross-company variation in ETR, ROA and ROE. However, the remaining Cash ETR and BTD observations require direct extraction from all ten companies' audited annual reports before they can responsibly be used in a final regression. This approach preserves the academic integrity of the paper and avoids presenting estimated or fabricated tax-planning measures as actual observations.

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