

Corporate Tax Planning and Financial Performance of Companies Listed in Colombo Stock Exchange (CSE)

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ABSTRACT

This study focuses on how best performing listed companies in CSE make strategies in tax planning to reduce tax liabilities without violating rules and regulations imposed by the Tax Authority. In this study, the corporate tax planning was measured by using the Effective Tax Rate (ETR) and the financial performance was measured by using Return on Assets (ROA). The sample of the study was designed based on criteria namely, the largest and most liquid companies in the Sri Lankan equity market and the sample period was restricted for the period 10 years from 2009-2018. The sample represents seventeen (17) companies which are used to calculate the S&P SL 20 index. Data was collected through the published annual reports of CSE of the selected listed companies during the selected financial time period. Co-integration regression along with Panel Dynamic Ordinary Least Squares (DOLS) statistical technique was used to explore this study. Johansen co-integration test confirmed to run the panel DOLS. According to the result of that, corporate tax planning has a negative impact on the financial performance of Sri Lankan best-performing companies listed in CSE however, which is not statistically significant at 5% level. It provides evidence that there is no significant impact from corporate tax planning strategies to the financial performance of listed companies in CSE. This evidence implies that Sri Lankan firms do not utilize the loopholes embedded in the Sri Lankan tax law efficiently.

Keywords: Corporate Tax Planning, Colombo Stock Exchange, Co-integration regression, Effective Tax Rate, Financial Performance, Panel Dynamic Ordinary Least Squares, Return on Assets.

INTRODUCTION

Corporate Tax is a significant cost for a firm which a firm has a responsibility to pay to the government. Tax payment causes a reduction in the income of a firm. When income goes down it effects on reducing the wealth of the shareholders. So, companies use various strategies to reduce the tax burden of a company. Making strategies to reduce the tax burden of companies without violating rules and regulations of the tax policy and conditions imposed by the tax authority can be introduced as corporate tax planning. From Corporate tax planning, individuals and firms hope to increase the profit after tax. Likewise, corporate tax planning can be understood as the activity undertaken by the access of to reduce the tax liability by making optimum use of all permissible allowances, deduction, concessions, exemptions, rebates, exclusions and so forth available under state [1] (Kariuki, 2017). Globally, the transformations in the tax systems and accounting standards have given the opportunities for the firms to manage their tax affairs for getting advantage for their shareholders. Tax planning is a highly important activity which is done by companies to manage tax burden as one of many tools used to manage companies' tax affairs [2] (Mgammal & Ismail, 2015). Similarly, tax planning can be

introduced as the planning of an individual and financial affairs which are made without violating the law and stipulated requirements as per the Income Tax Act [1] (Kariuki, 2017). So, tax planning takes complete privileges to reduce tax liability such as exemption of taxes, tax discounts, rebates, allowances, concessions, deductions and other benefits or reliefs stipulated as per the Income Tax Act. As well as tax planning can be viewed as an alternative source of financing. The aim of tax planning is to minimize tax liability (Hoffman, 1961). For developed countries, tax planning methods are well explained even though reliable and consistent data is not clearly available. Although in developed countries it has been explained clearly, however in developing countries these methods have less well understood [1] (Kariuki, 2017). In the tax planning process, it includes some elements such as the managing tax implication, understanding the type of expenses subject to tax under the current regulations, and effective planning of tax collection practices to ensure prompt payments [1] (Kariuki, 2017).

Financial performance of a firm is a very important factor for a firm because financial performance in border sense refers to the degree to which financial has been achieved and is an important aspect of financial risk management. It is the process of measuring the result of firm policies and operations in monetary terms. As well as it is used to measure firm overall financial health over a given period of time and can also be used to compare similar firms across to the same industry or to compare industries or sections in organizations. The financial analysis of a firm helps to answer questions like what is the financial position of the firm at a given point of time, how financial performance of the firm over a given period of time of firm and interested groups such as managers, shareholders, creditors, and tax authorities. According to [4] (Yahaya & Lamidi, 2015) financial performance can be introduced as the range by which objectives of the firm and in this case financial objectives will be met or have been met. As well as a financial performance of the firm shows how they have used assets of the firm according to its principle role and how they have generated revenues. Likewise, it refers to the general well-being of the firm as far as finance is concerned over a certain period of time [1] (Kariuki, 2017). Financial performance in summary is an important objective that firms, especially the profit-oriented firm desire or aim to achieve [5] (Kajirawa, 2015). According to the study of [6] (Ogundajo & Onakoya, 2016)), they have noted that the tax liability of a firm is positively linked with the profitability of a firm. A firm has two objectives such as wealth maximization and profit maximization. To increase wealth maximization by increasing profit, firms use various strategies. The tax liability has a negative impact on those strategies. As well as they have further noted that even though tax planning has a positive effect on financial performance or organization cash flow it may occur as a negative effect on the economy if the economy was not able to collect enough taxes. Tax planning strategies can generate positive cash flow and positive impact on the financial performance of an organization which can lead to an increase in profit after tax. As mentioned in the above organizations use tax planning to reduce their tax burden and to increase the wealth of shareholders. In Sri Lankan context, the corporate tax rate has decreased with the changing of economic strategies. It was 45% in 1992/93, 40% in 1993/94, 35% in 1994/95, 30% in 2003/04 and subsequently, the standard rate of 28% in 2011. However, there is a variety of corporate rates: 28% for companies with taxable income over Rs.5 million, 12% where the taxable income is less than Rs.5 million (including venture capital companies) while a higher rate of 40% is applied for liquor, tobacco, betting and gaming [7] (Waidyasekara, 2016). Then from this research, it is going to study how best performing listed companies in CSE have adopted their corporate strategies to reduce their tax liability.

Problem Statement

A corporation tax is called a company tax or corporate tax which is a direct tax imposed by a justification on the income or capital of corporations. In Sri Lankan context corporate tax rate has been changed considerably just after changes of economic strategies of 1978. After the period of war, it was decreased from 35% 2009/10 to 28% up to now [7] (Waidyasekara, 2016). Even though the corporate tax rate has been decreased it is still higher than the Asia average and global average as the table given below.

Table 1. Corporate Tax Rates

Corporate Tax			
Year	Sri Lanka	Asia Average	Global Average
2009	35 %	25.37 %	25.32 %
2010	35 %	23.72 %	24.65 %
2011	28 %	22.91 %	24.52 %
2012	28 %	22.72 %	24.38 %
2013	28 %	22.13 %	24.15 %
2014	28 %	22 %	23.85 %
2015	28 %	21.98 %	23.74 %
2016	15 %	21.41 %	23.58 %
2017	28 %	21.04 %	24.04 %
2018	28 %	21.21 %	24.03 %

Source: Corporate tax table 2019

So, this study focuses on how best performing listed companies in CSE make strategies in tax planning in order to reduce tax liabilities without violating rules and regulations imposed by the Tax Authority. Thus, the objective of this study is to examine how the best-performing companies have used the benefits of the tax law by using the exemption provided by the tax authority and how they have used strategies to reduce the corporate tax liability.

Significant of The Study

There are several studies in relation to taxation with financial performance. However, this study addresses a different aspect which is the impact of corporate tax planning on the financial performance of firms in Sri Lanka. Therefore, this study would be useful for companies when they are maintaining their tax liability and to get advantages by managing tax payment. Especially for the government tax policy makers, they can have an idea about how people use their tax planning to reduce the tax burden and they can use that information when preparing new tax policies. Also, for companies, when strategies are made to reduce corporate tax expenses, the firms can get ideas on how to improve the corporate tax planning, while the companies, who do not use tax planning to reduce tax burden, can apply the ideas to make strategies in reducing tax planning impacts.

LITERATURE REVIEW

Corporate Tax Planning

Tax planning activity can be defined as the planning of reducing tax of ‘corporations’ and ‘individuals’ without violating the tax law and stipulated requirements, by taking all privileges such as exemption

of taxes, tax discounts, rebates, allowances, concessions, deductions and other benefits or reliefs stipulated as per the income tax act [1] (Kariuki, 2017). As cited in [2] (Mgammal & Ismail, 2015), tax planning can be defined in many ways, so tax planning can be defined as the capacity of tax payers to arrange their financial activities by using different strategies to suffer a minimum tax expenditure [3] (Hoffman, 1961). Good tax planning can be enhanced the competitiveness of new firms and it is an important tool in their overall business's strategic planning to reduce heavy current tax liability and response to active and efficient supervision [8] (Vello & Martinez, 2009). There is no universally accepted definition for tax planning. Traditionally tax planning can be introduced as a tool which leads to an increase in profit after tax of corporations, therefore it would be of interest to shareholders. This is the view typically taken in valuation models. Even though reducing tax burden leads to higher profit after tax there may be actual and potential costs which can be caused to prevent firms from maximizing after-tax earnings through tax planning [9] (Aganyo, 2014). Sometimes, tax planning activity can be taken as an alternative source of financing [10] (Edwards, Schwab, & Shevlin, 2013). Because normally financing sources are very costly and difficult sources of funds. These funds can be acquired through tax planning activities because reducing tax payment causes an increase in tax credit so it is a reason to decrease the cash taxes paid. As well as many tax planning strategies do not occur as immediate benefits but, as an upfront investment. Notwithstanding, financially constrained firms simply cannot afford to implement the tax planning strategies even though it has immediate benefits because corporate taxes are a non-discretionary expenditure which all profitable companies must bear and impose by the government [10] (Edwards, Schwab, & Shevlin, 2013). Among the responsibilities of a corporate tax manager, finding strategies to reduce the overall tax burden of the firm is one of the most important responsibilities.

Theoretically, a firm's tax liability is proportionally related to its profitability [6] (Ogundajo & Onakoya, 2016). With the firm's wealth maximization objective, which means increasing the firm's profitability poses more challenges on the firm's ability to reduce tax liability [6] (Ogundajo & Onakoya, 2016). As cited in [6] (Ogundajo & Onakoya, 2016) effective tax planning has been defined by many scholars such as [11] Scholes et.al (2008) as tax planning is a strategy which minimizes the firm's expected discounted after-tax cash flows. Tax planning activity consists of some activities such as tax evasion and tax avoidance, and those that have influence on the financial plans of companies due to variation of state regulations. Also, tax planning can be beneficial as well as disadvantages for the firm, if managers do not confirm govern parties [1] (Kariuki, 2017). There are some arguments between tax evasion and tax avoidance. As mentioned in the previous studies, tax planning is an activity of a firm which is operating legally. So as cited in [2] (Mgammal & Ismail, 2015), [3] (Hoffman, 1961) has argued that tax evasion and tax planning are distinguished. According to [3] (Hoffman, 1961) tax avoidance and tax evasion are legal and illegal. According to the evaluation of the tax system & accounting standard, companies are given many opportunities to increase the wealth of shareholders by managing tax affairs. According to [12] Garbarino, (2011), tax liability activity is very important and manageable cost like other operational costs, because by reducing tax will increase the profitability of corporations. As cited in [2] (Mgammal & Ismail, 2015) the tax planning can be defined as a drawing strategy throughout the year in order to reduce tax liability. In the process of tax planning, there are some activities such as tax implication, understanding the type of expenses subject to tax under the current regulations and effective planning of tax collection practices to ensure prompt payments [1] (Kariuki, 2017). Tax planning is an important part of financial planning as well as areas of financial structure decisions. It offers an opportunity to the tax manager and the company to mitigate the

company's tax liability and improve the financial performance of the firm [6] (Ogundajo & Onakoya, 2016).

Then tax management, tax administration, tax planning and tax avoidance can be introduced as ways of reducing tax legally, when tax payers identify opportunities in the law to reduce tax burden according to [13][14](Desai & Dharmapala, 2006, Gomes, 2016). Finally, the aim of the tax planning is to minimize the tax liability [1] (Kariuki, 2017). Tax planning represents a firm's deliberate efforts to reduce its tax liabilities through either legal or illegal means or strategies. As cited in [6] (Ogundajo & Onakoya, 2016) well-organized economies, paying taxes in business is almost avoidable. Consequently, tax planning tends to give a positive impact on a firm's cash flow and it's after tax rate of returns. However corporate tax planning has a negative impact on government revenue and the compliance cost of collecting taxes so this concept is significant for firms listed on the stock exchanges who may seek to improve on all their tax savings [6] (Ogundajo & Onakoya, 2016).

There is a very important factor of companies which helps and influences on many factors decisions of a firm such as financial decisions, organizational forms and restructuring decisions, payout policy decisions, computation policy and risk management decisions etc. [15] (Graham, 2003). In the literature from one paper has developed a sample theoretical framework which includes tax sheltering decisions within a managerial agency context and it has emphasized the importance of interaction between rent diversion and tax sheltering [16] (Slemrod, 2004). In the literature, it has been estimated the level of tax sheltering activity for a large sample of corporations. They have collected information by using annual reports and they have first generated estimation of the book gap for this firm by following the meteorology [17] (Manzon & Plesko, 2002).

Relevant Theories

There are some theories that have been proved by previous scholars relating to corporate tax planning such as tax planning theory, trade-off theory of capital structure and taxes, political power theory and agency cost theory.

Tax planning theory

The tax planning theory was introduced by [3] (Hoffman, 1961) who has explained that tax planning would involve firms using legal ways to reduce the tax liability by maximizing the loopholes in the legal system [1] (Kariuki, 2017). As cited in the [1] (Kariuki, 2017) theory suggested that a tax plan should be flexible in a way that it can accommodate tax law changes [3] (Hoffman, 1961). Tax planning activity theories introduce concepts and principles that are typically applicable to tax practitioners. Tax planning could not be continued for long except if the activities of tax planning are "flexible", meaning continuity of the strategies [2] (Magmmal & Ismail, 2015). As cited in the [2] (Magmmal & Ismail, 2015) a good tax planning should be always fitted with the person who is handling the subject (tax planning) and it also should have different approaches and different types of taxes and it should have an ability to resolve reflecting interests. As well as good tax planning should always be in good faith that means should be completely honest [3] (Hoffman, 1961).

Trade-off theory of taxes

This theory was introduced by [18] (Myers, 2000) on capital structure, it shows that the capital structure is effected on the tax policy of a firm he has noted that moderate debt ratios could be explained by the trade-off theory, the capital structure trade-off theory basically seeks to explain the strategy adopted

by a firm in the financing of its investments to which could be through equity or debt. The classical version of the hypothesis goes back to [19] Kraus and Litzenberger (1973) who consider a balance between the dead-weight cost of bankruptcy and the tax saving benefits of debt. Often agency cost is also included in the balance this theory is often set up as a competitor theory to the pecking order theory of capital structure.

Political power theory

From a political economy perspective, the tax burden could be linked to company size. In some studies, it was found that small businesses may suffer in terms of the average cost of capital because they cannot benefit from economies of scale. On the other hand, large firms may have more political power to negotiate their tax burden, particularly through trade unions, because they are more mobile and have a greater impact on employment when moving or leaving a market. On the other hand, the political cost theory argues that because of the high visibility and control, large companies will end up paying a higher tax burden [9].

Agency cost theory

According to the agency cost theory, tax avoidance and tax evasion is a strategy which is defined by an employment contract between tax managers and shareholders [20] (Chen & Chu, 2005). [13]Desai & Dharmapala, (2006) have proposed a complementary association between rent extraction and tax shelters as managers' experience reduced cost for rent extraction under the environment of tax sheltering. Even though shareholders would like to achieve an increase in after-tax firm value by providing incentives to managers to use tax shelters, which would serve as tools for rent extraction as well. On the other hand, the agency view of tax avoidance emphasized on the inability of the tax savings through tax planning strategies to transform into the enhancement of after tax return due to agency problem of managerial opportunism of resource diversion [6] (Ogundajo & Onakoya, 2016). As cited in [6] (Ogundajo & Onakoya, 2016), the complex tax avoidance transaction can provide management with tools, masks, and justifications for opportunistic managerial behaviours, such as earnings manipulations, related party transactions, and other resource-diverting activities thus, tax savings may not actually result to increase on firm's after tax rate of return [13](Desai & Dharmapala, 2006).

Performance of companies

Financial performance is evidence to measure how firms have used their assets effectively to generate revenues [1] (Kariuki, 2017). The financial performance of companies is an important factor for a firm which has attracted a lot of attention, interest and comments from stakeholders of the firm such as researchers, the general public as well as financial experts and the management of the firm. The most used accounting measures of financial performance are Return on Assets (ROA), Return on Equity (ROE), and Return on Sales (ROS) [21] (Omondi & Muturi, 2013). The main objective of a firm is to maximize the stockholders' wealth, so firm performance is one of the most important factors which are used to achieve the wealth maximization goal to maximize the wealth of shareholders [22] (Demirhan & Anwar, 2014).

The firm financing decisions involve a broad variety of policy matters. These decisions have an effect on capital structure, corporate governance and company development [23] (Leon, 2013). To get better the performance firms can use more current liabilities to finance assets highly. Because current liabilities have a lower cost than long term liabilities. In growing the number of current assets in relation

to total assets improved performance as measured by both ROA and ROE [24] (Mawangi, Makau, & Kosimbei, 2014).

The debt's capacity causes managers to improve productivity to avoid bankruptcy. Therefore, companies use more debt to increase their financial performance [24] (Tharmila & Arulvel, 2013).

Prior empirical findings

The effect of corporate tax planning on financial performance in Nigerian manufacturing companies has been examined by [6] (Ogundajo & Onakoya, 2016). By using annual reports and accounts of 10 selected firms out of 28 firms listed under the NSE. The generalized least square (GLS) method has been taken to test regression based on the outcomes of Hausman's model estimation test. According to the output of the regression analysis of 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. The study recommended that manufacturing firms in Nigeria should make tax planning as part of the firm's strategic financial planning, employ the service of expertise in tax practices due the complexity and dynamics of Nigeria tax laws and also to effectively utilize all-inclusive tax planning strategies available in order to further influence financial performance positively.

Mucal, et.al, (2014) [25] studied corporate tax planning and financial performance of small scale businesses in Kenya. So they have done this, the tax planning through advertisement expenditure and how tax planning affects financial performance through the legal form of enterprises. The total population was the one hundred and forty nine respondents and the sample is that 30% drawn from each stratum. And data presented in tables and percentages. According to the result of the study, they have found that the influence of tax was planned by capital structure, tax planning in investment, capital assets planning through advertisement expenditure and found that the legal form of small business enterprises should be advised on tax planning. Furthermore, they have recommended that small scale businesses should have NGO to sensitize the respondents as to the need to do formal tax planning as it could increase the profitability of their businesses.

According to the study on corporate tax planning: a study on corporate effective tax rates of Malaysian Listed companies they have examined the level of corporate effective tax rates during official assessment system and self-assessment system tax regime. To get the expected results of their study they have used pooled sample data of 316 companies for the time period of 1993 to 2006. In addition to that, the time period has been divided into two sections one is from 1993 to 2000 (official Assessment) and another one is from 2000 to 2006 (Self-Assessment). According to their findings, they have found that the ETR is less than the statutory tax rate in both time periods. So this study shows that ETR during the self-assessment is lower than the official assessment system tax regime. As well as further they have found that political cost theory suggested that large scale companies pay a lower effective tax rate. In addition, the law ETR highly affected the high leverage companies, greater investments in fixed assets and lower investments in inventory. Finally, they have mentioned from their findings the companies with a high return on assets face a lower return on assets and the results further indicates that companies from trading and service, properties and construction sector face higher ETR and the overall result is the impact of tax intensives to corporate ETR and determinants of corporate ETR [26] (Rohaya, Fadzillah, & Mastuki, 2010).

According to the study on theories and empirical proxies for corporate tax avoidance, they have tried to find and review the literature of tax avoidance with existing theories of corporate tax avoidance.

They have taken the agency cost theory for understanding the interaction between managers and shareholders with respect to corporate tax avoidance strategies. They have calculated corporate tax avoidance by using the financial statement variables. But the relevance of them is that the limitations of firms have engaged in confirming tax avoidance that reduces both and taxable income. Finally, they have found that the tax shelters and uncertain benefits can be used as a proxy for aggressive tax avoidance [27] (Lee, Bobiyanski, & Minton, 2015). As cited in [28] (Gebhart, 2017) tax avoidance broadly as the reduction of the tax plicate taxes” then tax avoidance have defined as “tax planning activities that are legal, or that may fall into the grey area, as well as activities that are illegal. Thus, tax aggressive activities do not necessarily indicate that the firm has done anything improper” [29] (Kim and Zhang, 2016). As mentioned in the literature measuring of corporate tax planning is one of the major challenges because of two reasons such as the sources of getting information of taxes are limited and the other one is that the method of measuring tax avoidance is a captured one. Even though there are some issues of gathering information to calculate tax avoidance. Information can be gathered by using annual reports of companies. Financial reports are the appropriate sources of collecting information relating to tax which are available in companies. When considering the second issue, it is with whether the employed measures capture either confirming aspects of avoidance [30] (Sahilu, Obid, & Annuar, 2013). [13] Desai & Dharmapala, (2006) have studied the corporate tax avoidance and high powered incentive. They have analyzed the relationship between corporate tax avoidance and the growth of high powered incentives for managers. For that, they used a simple model. From that model, they tried to imply that the high powered incentives influence tax avoidance decisions. The model has tested that means the model has generated a testable hypothesis that how the characteristics of governance of firms effect on the tax sheltering decisions. In addition, to run the model, they have constructed an empirical measure of corporate tax avoidance and the components of the book tax gap to show there is no any attributable to accounting calculation. Also, they have examined the link between the measurement of tax avoidance and incentive compensations. According to the regression analysis of their study, they have revealed that the entire sample that they used have shown that result they have suggested for a complementary relationship between diversion and sheltering. According to the prediction of the model, it has been determined that the relationship between tax avoidance and sheltering is a function of a firm corporate entity.

METHODOLOGY

As mentioned in the above, the main objective of this research is to examine the effect of corporate tax planning strategy on the financial performance of companies listed in CSE. There are two variables used to fulfil that purpose, they are Return on Assets (ROA) and Effective Tax Rate (ETR). ROA is used as a proxy to measure the financial performance of the companies. Then ETR is used to measure corporate tax planning. The ROA was measured by dividing profits before tax from the total assets. The dependent variable ETR was calculated by dividing the annual tax expense form the profit before tax.

Sample Design

There are 290 companies listed in the CSE with a Market Capitalization of Rs. 2,839.45Bn as at 31st December 2018. The sample of the study was designed based on criteria namely, the largest and most liquid companies in the Sri Lankan equity market and the sample period was restricted for the period 10 years from 2009-2018. The sample represents seventeen (17) companies which are used to calculate the S&P SL 20 index. The S&P Sri Lanka 20 is designed to measure the performance of 20 of the largest and most liquid companies in the Sri Lankan equity market. Index constituents must be listed

on the CSE and are screened for size, liquidity, and financial viability. The constituents are weighted by float-adjusted market capitalization, subject to a single stock cap of 15%, which is employed to reduce single stock concentration; the index is calculated in real-time using a modified market capitalization weighting scheme. The index was jointly developed by the CSE and the S&P Dow Jones Indices.

The companies which are represented the sample is as follows.

Table2: List of Sample Company

	Code	Name of the Company
1	AAIC	Softlogic Life Insurance Plc
2	AEL	Access Engineering Plc
3	COMB	Commercial Bank of Ceylon Plc
4	CTC	Ceylon Tobacco Company Plc
5	DFCC	Dfcc Bank Plc
6	HNB	Hatton National Bank Plc
7	JKH	John Keells Holdings Plc
8	LLUB	Chevron Lubricants Lanka Plc
9	NDB	National Development Bank Plc
10	NTB	Nations Trust Bank Plc
11	PLC	People's Leasing & Finance Plc
12	SAMP	Sampath Bank Plc
13	SHL	Softlogic Holdings Plc
14	SPEN	Aitken Spence Plc
15	TJL	Teejay Lanka Plc
16	TKYO	Tokyo Cement (Lanka) Plc
17	UBC	Union Bank Of Colombo Plc

Source: Survey data (2020)

Data Collection

Source of data collection was the annual reports of companies for the past 10 year's period of 2009 to 2018. Data from websites also were utilized since the firm has automated their methods of communication. As well as some time data was collected through the other available corporate publications for the past 10 years from 2009 to 2018.

Data Analysis

ROA is used as a dependent variable because the present study is on financial performance, ETR is used as a measure of tax planning because both effective tax rate and tax savings figures yield the same result since the statutory tax rate is constant over the years of the study, with the underpinning theories of the study, that is Hoffmann's theory and political cost theory. Descriptive data analysis is used to quantitatively describe the features of a collection of data. The aim of a descriptive statistic is to summarize a sample rather than use the data to learn about the population, the population is represented

by the sample. Some measures that are commonly used to describe a data set are measures of central tendency which includes the mean, while measures of variability include the standard deviation, the minimum and maximum value of the variables, kurtosis and skewness. The mean shows the average value of the series, it is calculated by adding up the series and divided by the number of observations. Max and Min are the maximum and minimum values of the series in the current sample. Std. Dev. (standard deviation) is a measure of dispersion or spread in the series. Skewness is a measure of the asymmetry of the distribution of the series around its mean. The kurtosis of the normal distribution is 3. If the kurtosis exceeds 3, the distribution is peaked (leptokurtic) relative to the normal; if the kurtosis is less than 3, the distribution is flat (platykurtic) relative to the normal. Jarque-Bera is a test statistic for testing whether the series is normally distributed. The test statistic measures the difference of the skewness and kurtosis of the series with those from the normal distribution. Probability is the probability that a Jarque-Bera statistic exceeds (in absolute value) the observed value under the null hypothesis; a small probability value leads to the rejection of the null hypothesis of a normal distribution.

Then it is done Correlation Analysis. Under this, it is going to check the association of ETR on ROA. Whether there is a positive relationship or a negative relationship between the variables and whether it is a strong or weak relationship. If the relationship is less than the 0.5 it is a weak relationship and if the correlation value is higher than the 0.5 it is a strong relationship. Next, regression analysis is done to get the overall views of the study. In the regression analysis, it is doing a co-integration test to find out whether there is a long run relationship between ROA and ETR. Just after finding the relationship, Dynamic Ordinary Least Square method (DOLS) is used to find the statistical relationship of ETR and ROA.

ANALYSIS AND DISCUSSIONS

The aim of this study is to examine the effect of corporate tax planning on the financial performance of high performing companies listed in CES. The data has been collected from annual reports of 20 listed companies from 2009 to 2018 which are represented by the S & P SL 20 index. The data were analyzed by using the e-views10. 17 companies were selected as the sample.

Descriptive Analysis

The descriptive analysis shows the preliminary characteristic of the data and the summary of the statistics of variables. The entire statistic is calculated using the observation in the current sample. The descriptive analysis of the companies shows in the table below. The results of that are shown in the Table 3 below. According to the results of Table 3, the mean value of ROA is 15% and the ETR is 39%. According to the mean value of this table, it shows that the series is not widely dispersed from the mean value.

The mean value of ETR describes that the firms have ETR is lower than the statutory tax rate that is, the firms' actual tax liability exceeds their effective tax rate; this is an indication that tax is not properly managed thus resulting into paying more tax than expected. When ETR is less than the statutory tax rate, it reflects tax loss instead of tax savings; this is an indication that firms have not been taking advantage of tax. Planning strategies opened to them within the regulatory framework of Sri Lankan tax laws. The Std.Dev is a measure of dispersion or spread in the series the Std Dev of ROA and TER are shown as 0.24 and 1.49 respectively.

Table 3: Result of Overall Descriptive Analysis

	ROA	ETR
Mean	0.152365	0.390462
Maximum	1.005011	19.55897
Minimum	0.001225	0.000986
Std.Dev	0.244627	1.498383
Skewness	2.264714	12.43665
Observation	170	170

Source: Research findings (2020)

The Skewness is 2.264714, so it allows running the regression analysis as cited in [6] (Ogundajo & Onakoya, 2016). This is expected in the characteristics of the firms that constitute the panel thus the testing for the normality of the series is not applicable in panel data due to the heteroscedasticity of the different firms contained in the panel, therefore, test to correct the abnormality is not conducted [31] (Gujrati, 2010).

Correlation Analysis

Series of correlation test was done for overall companies to find the association of ETR and ROA. The result is shown in the 4 tables.

Table 4: Correlation Matrix

	ROA
ROA	1.0000
ETR	-0.01371

Source: Research findings (2020)

Table 4 shows the results of the Pearson correlation coefficient (-0.01371) of ETR with respect to ROA. It shows there is a strong negative association between return on assets and effective tax rates.

Panel Data Regression Analysis

Stationary test results

The stationary of the overall data series was tested as a summary of Im, Pesaran and Shin W-stat, ADF-Fisher Chi-square and PP-Fisher Chi-square. The results are shown in the table below

Table 5: Unit Root test result

Ser.	Im,	ADF	PP	E.Spe.	Order
ROA	0.042	0.028	0.000	Inter.	1(0)
ETR	0.012	0.000	0.000	Inter.	1(0)

Source: Research findings (2020)

All methods confirmed both variables are stationary at 5% of significant level.

Panel co-integration test

The co-integration test result shows the long run association between the ETR and ROA. The result of the Johansen co-integration test is shown by the table below under the method of Kao Residual Co-integration test

Table 6: Result of Kao Residual Co-integration test

	T-Statistic	Probability
ADF	-6.43328	0.00000

Source: Research findings (2020)

The result in the table depicts that there is co-integration among the variables with a probability value of 0.00 which is less than the 5% level of significance, indicating that there is a long run association between the ETR and ROA.

Panel co-integration output

In order to interpret the overall result of the study I used the panel dynamic least square, the result of that is shown in the table below.

Table 7: Results of Dynamic co-integration least square

Var.	Coef.	St Dev	TStic.	Prob.
ETR	-.5348	0.3379	-1.582	0.119
R squared = 0.866326				

Source: Research findings (2020)

The results of regression analysis of the Panel Dynamic Least Square show that ETR has negative but which is insignificant at 5% level. So it says that a change of ETR leads to decrease the ROA from 53% which is not statistically significant. The results contradict the findings of [13](Desai & Dharmapala, 2006) and the [1] (Kariuki, 2017).and results have been shown by the studies of [9] (Aganyo, 2014), and [6] (Ogundajo & Onakoya, 2016). They have taken the negative impact of corporate tax planning on financial performance.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study focused on how best performing listed companies in CSE make strategies in tax planning to reduce tax liabilities without violating rules and regulations imposed by the Tax Authority. Thus, the objective of this study is to examine how the best-performing companies have used the benefits of the tax law by using the exemption provided by the tax authority and how they have used strategies to reduce the corporate tax liability. According to the result of the analysis, corporate tax planning provides a negative impact on the financial performance of Sri Lankan companies, however, which is

not statistically significant at 5% level. It provides evidence that there is no significant impact from corporate tax planning strategies to the financial performance of listed companies in CSE. Also, the best-performing companies do not use the benefits of the tax law by using the exemption provided by the tax authority and not used strategies to reduce corporate tax liability. This finding implies that the managers of best-performing companies in Sri Lanka are very weak in setting strategies on the corporate tax planning process. Finally, this evidence implies that Sri Lankan firms do not utilize the loopholes embedded in the Sri Lankan tax law efficiently.

Recommendations

The best-performing companies should understand comprehensively the benefits of the tax law by using the exemption provided by the tax authority and make strategies to reduce the corporate tax liability as much as possible. Subsequently, this finding implies that the managers of best-performing companies in Sri Lanka are very weak in setting strategies on the corporate tax planning process. Therefore, they should try to minimize the weak points as much as possible in setting strategies on the corporate tax planning process. Finally, this evidence implies that Sri Lankan firms do not utilize the loopholes embedded in the Sri Lankan tax law efficiently. So, they should take into consideration this matter in setting strategies on the corporate tax planning process in order to maximize the wealth of the shareholders of companies.

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