IMPACT OF CORPORATE TAX PLANNING ON FINANCIAL PERFORMANCE OF RELIANCE INDUSTRIES LTD.

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Abstract
Corporate tax planning is an important means to reduce tax by any company by using the legitimate benefits of all deductions, exemptions, allowances and rebates. This study attempts to examine the impact of corporate tax planning on the financial performance of Reliance Industries Ltd. The data for our analysis is collected from secondary sources such as annual reports, websites, journals, etc. The following study was planned and developed as a causal predictive design where we used the outputs obtained from multiple regression analysis to test the relationship among variables. The time period of our research covers financial year beginning from FY 2005 to FY2023. Purposive sampling technique was used in order to select the company for our analysis. Reliance Industries can be a valuable contribution to the existing study and it holds the highest market capitalization in its segment. The abstract could potentially provide an overview of the methodology used in analyzing the relationship between corporate tax planning strategies and financial performance of Reliance Industries Ltd., while taking into consideration the specific characteristics of the company. Overall, this paper could provide insights into the impact of corporate tax planning on financial performance of large corporation such as Reliance Industries Ltd., which could be beneficial for both academics and practitioners in the field of corporate finance and tax planning.

Keywords: Corporate Tax Planning, Financial performance, Regression analysis.

Introduction

Reliance Industries Ltd is a multinational conglomerate holding company headquartered in Mumbai, Maharashtra, India. Reliance owns businesses across India engaged in energy, petrochemicals, textiles, natural resources, retail and telecommunications. The Reliance Group, founded by Dhirubhai H. Ambani, is India's largest private sector enterprise, with businesses in the energy and materials value chain. Dhirubhai Ambani founded Reliance as a textile company and led its evolution as a global leader in the materials and energy value chain businesses. The company is ranked 100th on the Fortune Global 500 list of the world's biggest corporations as of 2022. Reliance continues to be India's largest exporter, accounting for 7% of India's total merchandise exports and it has access to markets in over 100 countries. Reliance is responsible for almost 5% of the Government of India's total revenue from customs and excise duty. It is also the highest income tax payer in the private sector in India.

Tax planning is the first step in tax management. It can be done by means of two ways - Tax evasion and tax avoidance. Through tax planning activities, namely taking structured actions so that the tax burden is reduced to as low as possible by utilizing existing regulations to obtain an increase in profit after tax which will have an impact on financial performance; regardless the level of company compliance. Tax planning should nevertheless be carried out with self-control so the attempt to reduce tax is not acceptable by law of evading it. Firms might not only minimize their tax burden but also consider their competitor behaviors when deciding about tax planning. However, tax planning is costly on several margins. Aside from the direct costs of engaging in such activities; managers typically have ensured that these actions are undefined from tax authorities.

The tax planning is a significant element of business strategy which requires attention from managers of all- functional areas in the firm. Many studies suggest that "The financial directors of most quoted firms considered; suggests the reduction of their firm's Effective Tax Rate (ETR) as the main objective of tax planning. Apparently, it is believed by the firms that by reducing the ETR it can benefit the interest of their shareholders. According to the strategy the place & role of tax planning streamlining financial & economic activity of the companies, they have become increasingly necessary. Analyzing the specific mechanism through which tax planning affects the financial performance is important for a thorough understanding of the relation between tax planning and financial performance on one hand and regarding how investors perceive the risk of tax planning on another hand.

The rest part of the paper is structured as follows: - Followed by introduction in first section, the second section deals with literature review. The third section explains the research methodology. Empirical analysis and interpretation of data is shown in section fourth. Finally, the fifth section offers the conclusion of the study.

Literature Review

This chapter presents the review of the related literature for the present study. Research work cannot be completed without the in-depth study of the earlier researchers. The following review of relevant literature is mentioned below:-

Desai and Darmapala (2009) ; studied on the corporate tax avoidance and firm value. The study revealed a positive relationship between corporate tax planning and firm value. Their study analyses the effects of their measure of tax avoidance on firm value, findings suggests that tax avoidance leads to larger increases in firm value at better governed firms.

Chen et al. (2010) did a comparative study on Tax planning and financial performance. The study reveals that there is a positive relationship between tax planning and financial performance. The authors conclude that family firms are less tax aggressive than non-family firms. Since Reliance industries is a family firm the business seeks to use applicable tax concessions and reliefs in line with the spirit of the legislation and will not implement or utilize tax avoidance strategies or seek to exploit uncertainty.

Hoffman's Hypothesis (1961), established the tax planning theory that supported firms rendering corporate returns to other firm uses than flowing to government authorities. Due to the complexity and sophisticated nature of tax process and tax law, loopholes in the legal system are inevitable enabling taxpayers to benefit on the tax positions. He further, explained that tax planning would involve firms using legal means to minimize the tax liability to maximizing on the loopholes in the legal system.

Sabri (2019) examines the impact of corporate tax planning on financial performance and firm value in Malaysia. The study found that tax planning has a positive relationship with financial performance and firm value. Effective tax planning helps companies to reduce their taxes and increase their cash flows, which in turn leads to better financial performance and firm value.

Faccio and Rossi (2018) investigate the relationship between corporate tax planning, financial performance, and wealth creation in Italian family firms. The study found that companies with effective tax planning strategies had higher financial performance and created more wealth for shareholders.

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Naqvi and Rizvi (2019) examined the impact of corporate tax planning on financial performance in Pakistani companies. The study found that tax planning has a positive relationship with financial performance; as companies that engaged in tax planning strategies had higher profitability, return on assets and return on equity. However, the study also highlighted the importance of ensuring ethical and transparent tax planning practices, to avoid reputational risks for companies.

Alam and Islam (2019) examined the relationship between corporate tax planning, financial leverage, and firm value. The study found that effective tax planning helps companies to reduce their need for financial leverage, which in turn leads to higher firm value. The study also highlighted the importance of considering the macroeconomic environment and tax regulations when implementing tax planning strategies.

Research Methodology
This study aims to determine the casual relationship among variables. Correlation analysis was employed to compute the relationship among the selected variables. We also applied other statistical tools and techniques such as multiple regression analysis; in order to investigate the affect of corporate tax planning on the financial performance of the company. Required financial data for selected variables were obtained from published annual report of Reliance Industries Ltd for a period covering FY2005 to FY2023. The output of both correlation and regression is obtained using SPSS software.

Scope of study
After making an in-depth research in this area; we found that most of the advancements and researches were made in countries like Nigeria, Indonesia, Malaysia, etc. Since, there has been very little research on corporate tax planning particularly done in case of Indian companies. This compelled us to proceed further and conduct our research in this area by applying our own intuition.

Objectives of the research
• To examine the impact of corporate tax planning on the financial performance of Reliance Industries Ltd.
• To implement strategies; that reduces your tax liability and improve financial performance.

The Analytical Model
Based on other models that have been used to test the impact of corporate tax planning on financial performance, the present study adopted the following model:
$$\mathbf{ROE = \alpha + \beta_1 INV\_INT + \beta_2\, CAP\_INT + \beta_3\, LEV + \beta_4\, ETR + \varepsilon}$$
Where,
Dependent Variable:
(a) Firm’s Performance (ROE) = Measured as the proportion of Net Income to Shareholder’s Equity
Independent Variables:
(a) Inventory Intensity (INV_INT) = Inventory/ Fixed Asset
(b) Capital Intensity (CAP_INT) = Fixed Assets/Total Assets
(c) Leverage (LEV) = Long- term debt/ Total Asset
(d) Effective Tax Rate (ETR) = Current income tax / Pre-tax Income.
(e) ε = Error term.

Data Analysis and Interpretations:
H1: There is a significant impact of Inventory intensity on Firm’s performance.

H2: There is a significant impact of Capital Intensity over Firm's performance.
H3: There is a significant impact of Leverage over Firm's performance.
H4: There is a significant impact of Effective Tax Rate over Firm's performance.

Table 1; shows the computation of ROE, Inventory Intensity, Leverage & Tax Planning from FY 2005 to FY 2023:

Financial Years	ROE	Inventory Intensity	Capital Intensity	Leverage	ETR
31st March,2005	0.19	0.21	0.37	0.37	0.16
31st March,2006	0.18	0.16	0.58	0.28	0.15
31st March,2007	0.18	0.13	0.49	0.30	0.18
31st March,2008	0.23	0.17	0.37	0.35	0.15
31st March,2009	0.17	0.11	0.44	0.33	0.16
31st March,2010	0.17	0.19	0.62	0.23	0.15
31st March,2011	0.13	0.24	0.51	0.22	0.20
31st March,2012	0.12	0.34	0.42	0.20	0.22
31st March,2013	0.11	0.41	0.37	0.25	0.20
31st March,2014	0.11	0.40	0.33	0.25	0.22
31st March,2015	0.11	0.34	0.31	0.28	0.24
31st March,2016	0.13	0.25	0.31	0.29	0.23
31st March,2017	0.11	0.25	0.28	0.26	0.25
31st March,2018	0.12	0.15	0.50	0.25	0.27
31st March,2019	0.10	0.17	0.40	0.24	0.28
31st March,2020	0.09	0.14	0.46	0.22	0.26
31st March,2021	0.08	0.15	0.41	0.14	0.03
31st March,2022	0.09	0.17	0.42	0.15	0.19
31st March,2023	0.09	0.16	0.53	0.12	0.22

Regression Analysis:

Table 4; shows the outputs of Regression obtained using SPSS software:
Table 4 (a): Overall Regression Model Output

R-square	Adjusted R square	F (4,14)	p-value
0.862	0.823	21.889	0.001

The above table reveals the regression output; where the dependent variable (ROE) as a measure of firm's performance was regressed on predicting variables namely Inventory Intensity, Capital Intensity, Leverage and Effective Tax Rate (ETR). The study revealed that all the selected independent variables were found to have a significant impact on Return on Equity (ROE); with $F (4,14) = 21.889$, $p<0.05$. Moreover, the coefficient of determination, i.e. $R^2 = 0.823$; indicates that all the explanatory variable were able to explain that 82.3% of the variability in the ROE is due to Inventory Intensity, Capital Intensity, Leverage and Effective Tax Rate (ETR); making this model a good fit.

Table 5: Sample Skewness and Kurtosis

Sample Size	Skewness	Kurtosis
19	0.374	-1.072

The test statistic of Jarque – Bera is defined as:

JB = (n/6) x (S^2 + C^2/4)

Where,

n = number of observations in the sample

S = skewness of the sample

C = kurtosis of the sample

Under, the null hypothesis of normality, it follows a Chi Square distribution with 2 degrees of freedom, or:

$$JB \sim X^2(2)$$

Therefore, the probability of JB is calculated accordingly.

Table 6; Jarque – Bera test

Jarque – Bera Value	1.352711
Probability	0.508466

Table 6 shows the Jarque – Bera value used for normality test of sample series. The calculated Jarque – Bera value is 1.352711 and probability value is 0.508466; which is more than 5%. It confirms that the sample series is normally distributed.

Table 7: Table of Variance Inflation Factor (VIF)

Variables	VIF
Inventory Intensity	1.426
Capital Intensity	1.519
Leverage	1.109
ETR	1.1081

Table 7; reveals that the VIF value for all selected independent variables. We found that all the explanatory variable mentioned above have a VIF less than 5 which indicates that, this model does not suffers with the problem of multicollinearity.

Table 8: Table of Multivariate Regression Analysis

Variables	Coefficient	Std. Error	t-statistics	Prob.
(Constant)	-0.48	0.042	-1.128	0.278
Inventory Intensity	0.007	0.054	0.126	0.901
Capital Intensity	0.177	0.055	3.232	0.006
Leverage	0.563	0.066	8.588	0.001
ETR	-0.190	0.074	-2.555	0.023

From Table 8; we conclude that the coefficient of intercept is -0.48 which is found to be insignificant at 5% level of significance. Therefore, it indicates that if Reliance Industries Ltd. does not include these selected independent variables then it will lead to a negative ROE and hence firms performance. From the above table it can be concluded that three independent variables out of four is found to have a significant impact on firm's performance (as measured using ROE). In terms of inventory intensity, we found that the regression coefficient of inventory intensity is 0.007; and p-value is 0.901; indicating an insignificant relationship with ROE. Therefore, the result concludes that; a percentage increase in inventory intensity of Reliance Industries Ltd. might not in any way improve the financial performance of the company. The result was found to be consistent with that in Ado et al. (2021). [10]. Capital Intensity with regression coefficient of 0.177 was found to be significant; having p-value = 0.006; indicating a positive and significant relationship with ROE. Additionally, this explains that a significant increase in Capital Intensity will lead to increase in ROE (as a measure of firm's performance) of Reliance Industries Ltd. We found this finding to be consistent with Salawu (2017). [11]. The regression coefficient of Leverage is 0.563; which was found to be significant at 5% level of significance; indicating that the leverage has a significant and positive relationship with ROE. Moreover, this entails that a unit increase in leverage will increase ROE by 0.563. This result does not support the preposition of Abdennadher (2006) [6]; but it supports the preposition of Ogundajo and Onakoya (2016) [12] and Ado et al. (2021). [10]. This study also examined the affect of corporate tax planning on firm's performance (as measured using ROE). This study found a significant and negative relationship between ETR as a tool of tax planning and ROE as a measure of firm value. This result also further reveals that a unit decrease in ETR will tend to increase 0.190 in ROE. Thus, we conclude that a better tax planning will enable Reliance Industries Ltd. to reduce its ETR and achieve a high firm performance in terms of ROE. Therefore, this is the main purpose of tax planning. More interestingly, this study replicates with the result of Desai & Dharmapala (2009), Ogundajo and Onakoya (2016) [12]; but it was found to be inconsistent with the result of Salawu (2017). [11].

Therefore, our analytical model will be:

ROE = **-0.48** + **0.007** INV_INT + **0.177** CAP_INT + **0.563** LEV - **0.190** ETR + ε

Conclusion

The purpose of the study was to determine the impact of corporate tax planning on the financial performance of Reliance industries Ltd. The study offers evidence on the relationship between the four explanatory variables (Inventory Intensity, Capital Intensity, Leverage and Tax Planning) with the outcome variable referred to as financial performance which is measured using ROE. Outcome of regression analysis shows that two out of four explanatory variables namely Capital Intensity and Leverage was identified to be positively and significantly associated with the ROE. ETR was found to have a significant and negative relationship with ROE. Moreover, Inventory intensity was found to be positively related to and was found to be insignificant at 5% level of significance indicating no relationship with financial performance as measured by ROE.

From this study, it can be speculated that Reliance Industries, as a large corporation, could have possibly implemented tax planning strategies to improve its financial performance. Effective tax planning can increase cash flows and profitability of the company, leading to better financial performance and firm value. However, as highlighted in the literature review, ethical and transparent tax planning practices are also important to avoid potential reputational risks. Therefore, it is important for companies, including Reliance Industries, to carefully consider all the factors related to tax planning and their impact on financial performance, to make informed decisions and avoid potential negative consequences.

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