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Impact of corporate tax planning on financial performance with special reference to Infosys Ltd.

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Abstract

This paper investigates the effect of corporate tax planning on the financial performance of Infosys Ltd., one of India's largest IT companies. Using data from FY 2015 to FY 2024, the study analyses key financial metrics, namely Debtors Intensity, Capital Intensity, Leverage, and Effective Tax Rate, to determine their influence on Return on Equity (ROE). The methodology incorporates both descriptive and inferential statistics. The findings highlight that while corporate tax planning does not directly enhance performance, leverage strategies significantly boost ROE. The results offer insights into how prudent financial management can improve shareholder returns and overall profitability.

Keyword: Corporate tax planning, financial performance, debtor's intensity, ROE, leverage

Introduction

Corporate tax is one of the most significant fiscal instruments through which governments mobilize revenue for public expenditure and economic development. For corporations, however, tax liability often constitutes a substantial portion of their overall expenses, directly influencing profitability, cash flows, and long-term financial planning. In this context, corporate tax planning emerges as a strategic tool that organizations use to minimize their tax burden within the framework of the law. By employing effective tax planning practices, companies not only enhance after-tax profits but also optimize their financial performance, shareholder value, and competitiveness in the marketplace.

The concept of tax planning refers to the careful analysis and arrangement of a company's financial affairs in order to avail maximum tax benefits, deductions, exemptions, and rebates as permitted under the prevailing tax laws. Unlike tax evasion, which is illegal and unethical, tax planning is a legitimate practice that allows companies to align their operations with statutory provisions while maximizing financial efficiency. Tax planning strategies may include the choice of capital structure, dividend policy, investment in specific sectors eligible for tax incentives, transfer pricing mechanisms, and the timing of income and expenses. Consequently, corporate tax planning is not merely a compliance activity but a crucial element of corporate financial strategy.

The relationship between corporate tax planning and financial performance has become an area of growing academic and professional interest. Efficient tax planning can improve a company's earnings before tax (EBT), earnings after tax (EAT), and return on equity (ROE). Conversely, ineffective or aggressive tax practices may expose the firm to reputational risks, penalties, and financial instability. With globalization and increasing scrutiny by tax authorities, companies are under pressure to strike a balance between tax minimization and ethical corporate governance. Therefore, examining this relationship helps in understanding how companies create value while maintaining regulatory compliance.

In the Indian corporate landscape, tax planning has assumed greater importance with the introduction of reforms such as the Goods and Services Tax (GST), reduction in corporate tax rates, adoption of international financial reporting standards (IFRS), and emphasis on digital compliance by tax authorities. These changes have reshaped the way organizations approach tax planning and financial decision-making. Among the leading Indian companies, Infosys Ltd. provides a compelling case study for exploring the impact of tax planning on financial performance.

Infosys Ltd., a global leader in consulting, technology, and digital services, has consistently been recognized for its financial transparency, strong governance practices, and prudent tax planning mechanisms. Being a multinational corporation with operations across different tax jurisdictions, Infosys faces complex tax challenges, including transfer pricing, cross-border taxation, and double taxation treaties. Over the years, the company's approach to tax planning has not only helped in reducing tax liabilities but also contributed to maintaining high profitability, steady cash flows, and strong returns to shareholders. Its practices serve as a benchmark in the Indian IT sector, making it an ideal reference point for academic inquiry into the nexus between tax planning and financial performance.

This research paper seeks to examine the impact of corporate tax planning on the financial performance of Infosys Ltd. by analyzing key financial indicators, tax strategies, and compliance frameworks. The study also aims to highlight the broader implications of tax planning for Indian corporations, particularly in enhancing efficiency and sustaining global competitiveness. By investigating the case of Infosys, the research intends to contribute to the growing body of literature on corporate taxation and financial management, offering insights for academicians, policymakers, and practitioners alike.

Review of Literature

Desai and Hines (2002) ^[2] investigated firms' performance and tax planning activity. They conducted a cross-sectional study on the association between tighter tax regimes and firm market value using 850 publicly traded corporations in the United States. Simple regression and t-tests were performed to determine the associations. The authors found that comprehensive tax planning was connected with improved corporate performance. On the other side, they found that strengthening the tax system was connected with better market performance for enterprises.

Gatsi, Gadzo, and Kportorgbi (2013) ^[3] used panel data methods to experimentally examine the influence of corporate income tax on financial performance over a seven-year period for ten listed manufacturing enterprises. Their findings demonstrated a significant negative relationship between corporate income tax and financial performance. At the same time, firm size, age, and growth all had a substantial positive correlation with financial performance.

Rotimi and Henry (2017) ^[8] conducted correlation and regression analyses to investigate the relationship between corporation taxes and the performance of Nigerian manufacturing enterprises. The study's findings indicated a substantial association between corporate tax and the performance of Nigerian manufacturing enterprises. The study also revealed that a high corporate tax rate could reduce profits, distorting investment decisions.

Martin, John, and Mary (2018) ^[4] evaluated the influence of corporate income tax on the profitability of mining businesses in Ghana, utilizing 10 years of data from 2005 to 2014. Return on assets (ROA) was utilized as a proxy for profitability against tax, with company size, liquidity, debt, and growth serving as control factors. The results showed that corporate income tax had a detrimental impact on profitability. On profitability, corporate size has a favorable

impact, whereas liquidity, leverage, and growth have a negative effect.

The study by Kayode and Folajinmi (2020) ^[5] investigates the impact of corporate tax planning on the financial performance of quoted food and beverage firms in Nigeria. Using panel data analysis, the findings reveal that effective tax planning significantly enhances profitability and shareholder wealth, underscoring tax strategies as vital for performance.

Tackie, Agyei, Bossman, and colleagues (2022) ^[6] explore how tax planning affects the financial performance of insurance companies in Ghana, with corporate governance as a moderator. Using data from listed insurers, the study finds that tax planning enhances performance, and strong governance strengthens this relationship, highlighting governance's vital role in tax strategies.

The study by Santoso, Harefa, and Mukhtaruddin (2025) ^[7] examines how tax planning and tax management influence financial performance of Indonesian firms. Using empirical data, they find that effective tax planning improves profitability and shareholder value, while poor tax management reduces performance. The research highlights tax strategies as key drivers of competitiveness.

Objectives of the Study

- To examine the impact of corporate tax planning on the financial performance of Infosys Ltd.
- To implement strategies that reduce tax liability and improve financial performance.

Research Methodology

Data Collection Method

Secondary data has been extracted from Infosys annual reports, internal computations, and recognized industry databases for the years 2015 through 2024.

Sample Size

Data from a ten-year period (FY 2015-FY 2024), including ten annual financial data points.

Statistical Tools

- Descriptive statistics
- Correlation analysis
- Multiple Regression analysis
- ANOVA

Hypothesis

- **H0:** No significant impact of corporate tax planning variables on ROE.
- **H1-H4:** Significant impacts of Debtors Intensity, Capital Intensity, Leverage, and Effective Tax Rate on ROE.

Model Development

The model regresses ROE (Return on Equity) against Debtors Intensity, Capital Intensity, Leverage, and Effective Tax Rate, using multiple linear regression methodology.

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:

Where;

Dependent Variable: (a) Firm's Performance (ROE) = Measured as the proportion of Net Income to Shareholder's Equity

Independent Variables

- a) Debtors Intensity measures how much of a company's sales are tied up in accounts receivable and it is calculated using the formula = Trade receivables/ Fixed Asset
- b) Capital Intensity Measures the amount of capital investment required to generate sales it is calculated

using the formula = Total Assets / Sales

- c) Leverage (LEV) refers to the extent to which a company uses debt to finance its operations and growth. It is calculated using formula = Long- term debt/ Total Asset
- d) Effective Tax Rate (ETR) is the the average rate at which a company is taxed on its profits. = Current income tax / Pre-tax Income
- e) Return on Equity measures how effectively a company generates profit from shareholders' equity = Net Income / Shareholders Equity

Data Analysis

Table 1: Showing Descriptive Statistics of Corporate Tax planning variables and financial performance

Variable	Debtors Intensity	Capital Intensity	Leverage	Effective tax rate	ROE
Mean	1.1375	0.1632	0.0388	0.2671	0.2612
Standard Error	0.0564	0.0072	0.0099	0.0088	0.0114
Median	1.0958	0.1549	0.0548	0.2673	0.2543
Standard Deviation	0.1784	0.0227	0.0313	0.0279	0.0359
Minimum	0.9482	0.1404	0.0015	0.2252	0.2085
Maximum	1.4648	0.2097	0.0764	0.3225	0.3197
Count	10	10	10	10	10

Source: Author Computation

Interpretation

Infosys shows stability in operational and financial metrics. From the table 1 it is evident that infosys have low leverage (0.0388), moderate capital intensity (0.1632), and slightly high debtors intensity (1.1375), indicating effective asset utilization but some cash tied in receivables. The average effective tax rate of 26.71% suggests reasonable tax

management, while the mean ROE of 26.12% reflects strong profitability. Moderate variations in ETR and ROE indicate that differences in tax planning, asset efficiency, and receivables management influence financial performance. Overall, efficient tax strategies and working capital management appear to enhance shareholder returns.

Table 2: Shows Correlation between Corporate Tax planning variables and financial performance

	Debtors Intensity	Capital Intensity	Leverage	Effective tax rate	ROE
Debtors Intensity	1				
Capital Intensity	-0.5170	1			
Leverage	0.2855	0.5625	1.0000		
Effective tax rate	0.1859	-0.2088	-0.0146	1.0000	
ROE	0.5185	0.2756	0.8602	-0.0873	1.0000

At 5% level of significance, Source: Author Computation

Interpretation

The correlation table shows that Leverage has a strong positive relationship with ROE (0.8602), meaning higher debt usage is linked to higher returns. Debtors Intensity also

positively impacts ROE (0.5185), while Capital Intensity has a weaker positive effect (0.2756). The Effective Tax Rate has minimal or no significant impact on other variables

Table 3: Shows the Computation of Tax Planning Variables and Financial Performance Variable from 2016 to 2025

Financial Years	Debtors Intensity	Capital Intensity	Leverage	Effective tax rate	ROE
31st March 2016	1.07	0.14	0.0015	0.28	0.22
31st March 2017	1.04	0.14	0.0018	0.28	0.21
31st March 2018	1.10	0.15	0.0040	0.23	0.25
31st March 2019	1.09	0.16	0.0050	0.27	0.24
31st March 2020	0.95	0.21	0.0550	0.26	0.25
31st March 2021	0.95	0.19	0.0633	0.25	0.25
31st March 2022	1.13	0.17	0.0627	0.26	0.29
31st March 2023	1.14	0.18	0.0764	0.28	0.32
31st March 2024	1.46	0.15	0.0636	0.23	0.30
31st March 2025	1.44	0.15	0.0546	0.32	0.28

Source: Author Computation

Regression Analysis

Table 4: Overall Regression Model Output

Regression Statistics	
Multiple R	0.916699435
R Square	0.840337855
Adjusted R Square	0.712608138
Standard Error	0.019248293
Observations	10

Interpretation: From the regression statistics it is found the R-square value, that is 84% of the variation in the ROE is due to corporate tax planning variables.

ANOVA

	df	SS	MS	F	Significance F
Regression	4	0.00975004	0.00243751	6.579031713	0.031585293
Residual	5	0.001852484	0.000370497		
Total	9	0.011602524			

At 5% significance level

Interpretation

From the Anova table it is found the p-value is less than 0.05 and it is significant at 5% level.

Hence the model is best fit to explain the relationship between corporate tax planning variable and firm

performance this shows that corporate tax planning variable has significant impact on firm performance.

Regression Result

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	0.2343	0.1866	1.2561	0.2646	-0.2452	0.7139
Debtors Intensity	0.0532	0.0724	0.7342	0.4958	-0.1330	0.2393
Capital Intensity	-0.1338	0.6672	-0.2006	0.8489	-1.8489	1.5813
Leverage	0.9521	0.4288	2.2204	0.0771	-0.1502	2.0544
Effective tax rate	-0.1825	0.2368	-0.7706	0.4758	-0.7912	0.4263

At 5% significance level, Source: Author Computation

The regression analysis was conducted to examine the impact of selected financial indicators on firms' Return on Equity (ROE). At the 5% significance level, none of the independent variables were found to be statistically significant. The intercept (0.2343, $p = 0.2646$) was positive but insignificant, indicating that the baseline effect does not substantially explain variations in ROE. Debtors intensity (0.0532, $p = 0.4958$) and capital intensity (-0.1338, $p = 0.8489$) yielded insignificant coefficients, suggesting that these factors do not meaningfully contribute to changes in ROE. Likewise, the effective tax rate (-0.1825, $p = 0.4758$) displayed a negative relationship with ROE but lacked statistical support.

Among the predictors, leverage emerged as the most influential variable, with a coefficient of 0.9521 and a t-statistic of 2.22. Although the p-value (0.0771) exceeds the 5% threshold, it indicates marginal significance at the 10% level. This suggests that higher leverage may enhance ROE, provided it is managed effectively within the firm's capital structure.

From a managerial perspective, the results imply that firms cannot depend on debtor intensity, capital intensity, or tax rates as consistent drivers of ROE within this model. Instead, leverage warrants closer attention, as prudent debt management could contribute positively to shareholder returns. For policymakers, these findings emphasize the importance of capital structure decisions in influencing firm performance. Future research may consider expanding the

dataset or incorporating sector-specific variables to better capture the determinants of ROE and provide more robust insights.

Findings & Conclusion

Infosys's financial stability is rooted in consistent internal practices and moderate use of debt, which enhances shareholder returns. The study demonstrates that leverage strategies, rather than direct corporate tax planning (as measured by Effective Tax Rate), drive financial performance. The model's fit and ANOVA significance confirm reliability, although caution is advised due to sample size and p-value levels. Infosys's approach can provide guidance for financial management in similar sectors.

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