

IMPACT OF TAX PLANNING STRATEGIES ON FINANCIAL PERFORMANCE; EVIDENCE FROM SRI LANKAN BANKS

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1. Introduction

In recent years, tax planning has gained prominence among financial institutions in Sri Lanka as a critical tool for minimizing tax liabilities, improving operational performance, and maintaining compliance with regulatory frameworks. Since the corporate tax rate in Sri Lanka is currently high, banks can employ tax planning strategies to reduce their tax burden and liability, thereby enhancing financial performance. This study investigates the impact of tax planning strategies on the performance of Sri Lankan banks.

2. Research Methodology

The researcher adopted a quantitative method to enrich the findings, using capital intensity and thin capitalization as key metrics for tax planning strategies, which serve as the independent variable. The dependent variable is the banks' performance, which is measured by return on assets (ROA). The secondary data was collected through annual reports of sampled banks in Sri Lanka from 2014 to 2023. The sample size is restricted to 15 banks due to data unavailability. To analyze the data, the Panel Data Regression method is used as an analytical tool.

3. Findings and Discussion

The findings reveal that these tax planning strategies negatively and significantly affect banks' performance. While thin capitalization reduces taxable income through higher debt and interest expenses, it ultimately weakens performance. Similarly, increased capital intensity, driven by higher depreciation, results in lower pre-tax profits and diminished overall performance.

4. Conclusion and Implications

In conclusion, this study advances knowledge of tax efficiency in a high-tax context by analyzing capital intensity and thin capitalization, providing original insights that are important for research and practice. In addition to adding to the body of knowledge, these findings help legislators improve tax management strategies that promote long-term expansion in the banking industry.

Keywords: Banks' performance, Capital intensity, Tax planning strategies, Thin capitalization