



# IMPACT OF CORPORATE INCOME TAX ON FINANCIAL PERFORMANCE OF SELECTED FMCG COMPANIES

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**Abstract:** This paper examines the how corporate income tax affects the financial performance of selected major FMCG companies. In this paper we have analysed major factors which affects financial performances of major 10 FMCG corporates. We have selected top 10 FMCG corporates as per their share of market revenue. All of the necessary factors that must be taken into account in order to consider the financial performance of selected FMCG companies. In this paper we have included descriptive analysis, correlation analysis and Pooled OLS Regression in order to represent impact of corporate taxation on financial performance of selected FMCG companies. Fast-moving consumer goods are products that sell quickly at relatively low cost. These goods are also called consumer packaged goods. FMCGs have a short shelf life because of high consumer demand (e.g., soft drinks and confections) or because they are perishable (e.g., meat, dairy products, and baked goods). These goods are purchased frequently, consumed rapidly, priced low, and sold in large quantities. They also have a high turnover when they're on the shelf at the store.

**Keywords:** Financial Performances, Corporate Tax, FMCG, Pooled OLS, Correlation

## 1. INTRODUCTION

Taxes are one of the factors that impact investment decisions. Low rate of taxes and high tax incentives can encourage entrepreneurs to set up or expand business. Alterations in the tax rate can impact the scale and composition of investment and business asset creation. Complex tax provisions and different tax treatment across different forms of investment can distort investment decisions. In a recent innovative policy reform, India's corporate income tax system was overhauled with the introduction of optional lower rates in lieu of giving up complex deductions. With effect from assessment year (AY) 2017-18 (corresponding to income arising in the previous year or fiscal year (FY) 2016-17), per section 115BA, domestic manufacturing companies were given the option of switching to a lower basic tax rate of 25% instead of the prevailing basic rate of 30%. For this they had to forego certain deductions and incentives. For AY 2020-21 two further lower rate options were introduced. Section 115BAA applicable to all domestic companies offered a lower rate of 22% for foregoing specified deductions. Section 115BAB offered domestic manufacturing start-up companies an even lower rate of 15% for foregoing a wider set of specified deductions. With these major tax reforms, it is a propitious time to examine how the different tax rates impact different industries and companies.

In this paper we have included descriptive analysis and correlation analysis and Pooled OLS Regression in order to represent impact of corporate taxation on financial performance of selected FMCG companies. The FMCG sector in India expanded due to consumer-driven growth and higher product prices, especially for essential goods. FMCG sector provides employment to around 3 million people accounting for approximately 5% of the total factory employment in India. Fast-moving consumer goods (FMCG) sector is India's fourth-largest sector and has been expanding at a healthy rate over the years because of rising disposable income, a rising youth population, and rising brand awareness among consumers. With household and personal care accounting for 50% of FMCG sales in India, FMCG industry is an important contributor to India's GDP.

**Selected Major FMCG companies as per their Market capitalization:**

S.No.	Selected Major 10 FMCG Corporates	% Share of Revenue in (INR Lakh Crore)
1.	Hindustan Unilever Limited (HUL)	6.05
2.	ITC Limited	5.78
3.	NESTLE	2.48
4.	BRITANNIA	1.22
5.	GODREJ GROUP	1.16
6.	DABUR	0.973
7.	MARICO	0.687
8.	COLGATE PALMOLIVE	0.684
9.	PROCTER & GAMBLE(P&G)	0.535
10.	GLAXO SMITH KLINE(GSK)	0.387

*Source: Financial Statement of Companies*

## 2. LITERATURE REVIEW

A review of the literature allows the researcher to critically evaluate the research in order to synthesize the findings into a coherent whole and helps them gain a deeper understanding of the topic at hand. The obstacles observed are likely to be lessened by the concepts utilized, models implemented, and proposals outlined in earlier studies.

Jens and Schweltnus (2008) examined the effects of corporate income taxes on two of the main drivers of growth, profitability and investment of firms in European OECD member countries over the time period of 1996-2004, through stratified sampling this is found to be true across firms of different size and age classes, except for young and small firms. The results suggest that corporate income taxes reduce investment through an increase in the user cost of capital. This may be partly explained by the negative profitability effects of corporate income taxes if there is an increase in the corporate tax rate.

Rohaya, Nor'Azem and Bardai, (2010) conducted a study on corporate income taxes and revealed an association between income tax and profitability of corporate institutions. The study related to the impact of corporate income tax liabilities on different variables of a firm as gross profit, cost of sales, expenses etc. A sample of 7,306 companies was taken from the hotels and restaurants sector, includes 6,594 in business services and 1,484 in transport manufacturing sectors, for the accounting periods 1995 to 2000. The conclusion was that corporate income tax adversely affects the profitability of corporate institutions but has a positive relationship with the firm size and age of companies.

Apart from these authors, De Mooij et.al, (2001) and Meg (2008) all found a negative relationship between corporate taxation and financial performance.

Age of the firm has used by researchers (Abor 2008, Amidu, 2007 and Scholes, Wilson & Wolfson, 1992) as a criterion for the measure of corporate income taxes that firms may have because as a firms age, it institutes itself as a going concern and therefore increases its capacity to take on more debt making age positively related to debt.

Becker and Holmes (2010) analyze effect of taxation on both firms which are profitable and unprofitable. Investment, Tax, EBITDA, liquidity and firm growth were the main variables. They describe the events in which payout taxes has changed by three percentage points and compare the five years past tax change effect with two years following it. Research findings concluded that payout tax adjustment has an economically considerable adverse effect on allocation of the investment, profitability but has no relationship with the firm growth of the firms.

Jiang (2003) measured the effect of firm size on financial performance in the area of Information Technology (IT) evidenced from U.S.A based on firms listed on New York Stock Exchange. The secondary focuses of the study are first, the Measurement of firm size in terms of employees Ability to Adopt Technology. Secondly, Measure the firm Size in terms of employees Pace of learning new technology have also observed in this Paper. Seventeen North American Industry Classification System (NAICS) Based Industries have taken as Sample including Agriculture, Constructions, Manufacturing, Transportation and Wear housing, real estate and rental leasing, finance and insurance etc. Least Square Regression has been used to test the relationship among variables. The Result indicates that Firm Size has a significant positive correlation with firm performance.

### 3. OBJECTIVE

Impact of Corporate Income Tax on Financial Performance of Selected FMCG Companies.

### 4. HYPOTHESES

Based on the study, objective and as per literature review following hypothesis has been framed.

- There is a negative association between corporate tax and financial performance of selected FMCG companies.
- There is positive association between financial performance and age of companies.
- There is positive relationship between the growth of the firms and their financial performance.
- There is a positive relationship between firm size and financial performance of selected companies.
- There is a positive relationship between liquidity and financial performance of selected companies.

### 5. METHODOLOGY

The current study, which primarily relies on secondary data, aims to investigate the impact of corporate taxation on financial performance of selected FMCG companies in India and examine how these affects financial performance, paying particular attention to the sampled FMCG units.

#### 5.1 VARIABLES

PERF = return on total asset which is measured as the ratio of net profit to total asset.

Performance = Net Profit / Total Asset

CIT (Corporate income tax) = Income tax ÷ operating income × 100

FS (Firm Size) = Natural log of firm's total sales revenue

AGE (Age of firms) = the difference between the year of establishment and years of observation

LIQUIDITY = current asset / current liabilities × 100

GROWTH = (Current Total asset – Previous Total asset) ÷ Current Total asset × 100

#### 5.2 METHODS, TECHNIQUES AND TOOLS

We have included descriptive analysis and correlation analysis and Pooled OLS Regression in order to represent impact of corporate taxation on financial growth of selected FMCG companies.

Descriptive Analysis: A descriptive statistic is a summary statistic that quantifies or summarizes characteristics from a group of data (mean, sd, Obs.)

Correlation Analysis: In order to check impact of independent variable (CIT, Firm Size, Age, Liquidity and Growth) on dependent variable (Performance).

Pooled Ordinary Least Squares: We have simply pooled all 230 observation and estimate one big OLS regression.

#### 5.3 TIME PERIOD

Time period of study is 23 years from 2001-2023.

#### 5.4 MODEL

$PERF = \beta_0 + \beta_1(CIT)_{i,t} + \beta_2(FS)_{i,t} + \beta_3(AGE)_{i,t} + \beta_4(LIQ)_{i,t} + \beta_5(GROWTH)_{i,t} + \varepsilon$  Whereas;

$\alpha$  = (alpha) shows the constant effecting net profit margin on corporate tax

PERF = return on total asset which is measured as the ratio of net profit to total asset

CIT (Corporate income tax) = Income tax ÷ operating income × 100

FS (Firm Size) = Natural log of firm's total sales revenue

AGE (Age of firms) = the difference between the year of establishment and years of observation Liquidity = current asset / current liabilities × 100

GROWTH = (Previous Total asset – Current Total asset) ÷ Previous Total asset × 100

$\varepsilon$  = Error Term

It Assumes:

- Regression Coefficients are the same for all sampled companies.
- Regressors are nonstochastic; i.e., errors not correlated with explanatory variables.

## 6. RESULTS

**Table 6.1**  
**Descriptive Statistics**

	Mean	Std. Deviation	N
Performance	.346354	.3272628	230
CIT	10.544125	16.2691851	230
Firm Size	3.615161	.5042921	230
Age	82.20	33.548	230
Liquidity	108.846444	109.6668586	230
Percentage Growth	14.811370	29.0544299	230

*Source: Financial Statement of Companies*

Table 6.1 provides the descriptive statistics of the variables used for the study and from the table the financial performance of the selected FMCG companies had an average of 34 % indicating that the performance of the companies is high and can be said the corporate tax principle is in line with the ability to pay principle because after the payment of taxes the companies retain about 34% of their earning. Higher mean value of liquidity shows that companies are creating more assets compare to liabilities. The low standard deviation for performance and firm size highlights that the variables are less risky in their performance and sales revenue whereas, high standard deviation for liquidity shows that among selected FMCG companies, some companies are creating more assets compare to its liabilities while, some companies are creating more liabilities compare to its assets and thus there is larger value of standard deviation. Average Percentage growth of sampled FMCG is near about 15% which shows that current assets are increasing continuously.

**Table 6.2**  
**Correlations**

		Performance	CIT	Firm Size	Age	Liquidity	Percentage Growth
Performance	Correlation Coefficient	1.000					
	Sig. (2-tailed)	.					
	N	230					
CIT	Correlation Coefficient	-.142*	1.000				
	Sig. (2-tailed)	.031	.				
	N	230	230				
Firm Size	Correlation Coefficient	.128*	.935**	1.000			
	Sig. (2-tailed)	.042	.000	.			
	N	230	230	230			
Age	Correlation Coefficient	.275**	-.305**	.308**	1.000		
	Sig. (2-tailed)	.000	.000	.000	.		
	N	230	230	230	230		

Liquidity	Correlation Coefficient	-.235**	-.166*	.133*	-.309**	1.000	
	Sig. (2-tailed)	.000	.012	.044	.000	.	
	N	230	230	230	230	230	
Percentage Growth	Correlation Coefficient	.024**	.013*	-.054**	.080*	.011*	1.000
	Sig. (2-tailed)	.721	.849	.417	.229	.868	.
	N	230	230	230	230	230	230
*. Correlation is significant at the 0.05 level (2-tailed).							
**. Correlation is significant at the 0.01 level (2-tailed).							

Source: Author Estimation

Table 6.2 shows correlations analysis of dependent variable(performance) and independent variable (CIT, Firm Size, Age, Liquidity and growth). The result shows that performance of selected firms with corporate income tax is with coefficient -.142. This means that whenever imposition of tax on an entity increases, reduces the financial performance of sampled companies. Among other variables firm size is also positively associated with performance, firm size is positively associated indicates that whenever companies' sales revenue increases, performance of companies also increases. Liquidity is negatively associated with performance which indicates whenever FMCG companies increases their current assets their performance reduces which is as a result of trade receivables This is particularly true in situations where rising trade receivables are the cause of the increase in current asset. An increase in sales revenue results in an increase in tax obligations, which ultimately restricts the entity's cash flow.

Age and growth of the firms showed a positive association with coefficients of .275 and .024 respectively. The general rule for a company's age is that as it gets older, it learns more about industry and competitor regulations and creates strategic plans to counteract those negative effects, which has a positive impact on overall business performance.

Consequently, it is anticipated that manufacturing organizations' ages will positively affect their financial performance. Growth implying that an increase in the asset a size leads to an increment in profit simply because an addition of an efficient asset has the possible effect of increasing the volume of production hence increases the turnover of the company which will finally reflect in the earnings after corporate taxation.

## 6.1 REGRESSION RESULT

Table 6.3

### Model Summary<sup>b</sup>

Model	R Square	Adjusted R Square	Durbin-Watson
1	0.653	0.562	1.567
a. Predictors: (Constant), Percentage Growth, Liquidity, CIT, Age, Firm Size			
b. Dependent Variable: Performance			

Source: Author Estimation

Table 6.4

### Regression Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		t	p-value
		B	Std. Error		
1	(Constant)	.289	.203	4.838	.000*
	CIT	-.005	.002	-3.253	.001*
	Firm Size	.074	.055	1.352	.03*
	Age	.003	.001	4.245	.000*
	Liquidity	-.051	.000	-2.929	.613
	Percentage Growth	.121	.001	1.550	.013*
a. Dependent Variable: Performance					
* Significant at the 0.05 level					

Source: Author Estimation

Table 6.4 shows regression result of the study where dependent variable is performance of the sampled FMCG firms and independent variables are (CIT, Firm Size, Age, Liquidity and Growth). From table 5.5.1.3 we can see that CIT has a negative relation with financial performance with coefficient of -0.005 the hypothesis that there is a negative relation between financial performance and corporate income tax is accepted at significance level of 5 percent. Firm size showed a positive relationship with financial performance having recorded a coefficient of .074. It means size of firm contributes 7.4 percent in financial performance of sampled firms this is due to the fact that as businesses get larger, they adopt methods that enhance their market share and allow them to serve a wider range of customers. If this is the case, then their growth in size would have to be matched by an increase in their financial performance and thus hypothesis that there is a positive relationship between firm size and financial performance is accepted. With a coefficient of 0.003 and a significance level of 5 percent, and increase in the age of the FMCG companies positively reflect on their financial performance such that the companies' increases their customer based and improve on their operational efficiencies to improve production as well sale which has its bearing on financial performance. From this back drop, the hypothesis that, the ages of the manufacturing companies have a positive impact on financial performance is accepted. In relation to liquidity because the results showed an insignificant relation with financial performance, the hypothesis of a positive relation between liquidity and financial performance is rejected because the alpha of 0.613 is far above benchmark of significance level of 5 percent. Growth of the sampled FMCG companies shows a positive relationship meaning that the growth of companies reflects in their financial performance with a coefficient of .121 and significance level of 5 percent and thus hypothesis which states a positive relationship with financial performance is accepted. From the foregoing discussions, the final model estimation from the regression analysis is stated as;

$$\text{PERF} = 0.289 - 0.005(\text{CIT}) + 0.074 (\text{FS}) + 0.003(\text{AGE}) + 0.121 (\text{GROWTH}) + \varepsilon$$

The above regression model showing the value of constant is 0.289, indicating that when corporate income tax and firm size values become zero the value of performance will be remaining 28.9 percent. The constant value does not lie between its upper and lower confidence intervals revealing its significance.

The value of R<sup>2</sup> for the predictors (corporate income tax, firm size, age, liquidity and growth of the firms) is 65.3%. Corporate income tax, firm size, age, liquidity and growth are predicting return on asset by 65%, which reflects the overall strength of association in the Regression model. Adjusted R<sup>2</sup> suggests an additional predictor for the model. Here its value occurs 56% and P < 0.05. It reveals that there is no immediate need of an additional independent variable as corporate income tax, firm size, age, liquidity and growth are good enough for explaining the variation in financial performance.

## CONCLUSION

The current study focused on exploring the relationship between corporate tax and financial performance. The study covered major 10 FMCG companies for a period of 24 years spanning from 2000 to 2023. The descriptive-causal research design was employed with the pooled OLS regression methodology as the analysis method. The study has found that, there is a significant negative relation exist between corporate income tax and financial performance on the other hand firms' size, age of the firm, growth of the firm shows a significant positive relationship with financial performance. Given these circumstances, it is advised that FMCG companies hire tax professionals to assist with tax planning in order to lower their net tax obligations and improve their financial performance. Again, they should increase their asset size and ensure efficient use of those assets to reflect in the production turnover of the companies.

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