UNIVERSITY OF CAPE COAST

TAX PLANNING, CORPORATE GOVERNANCE AND PERFORMANCE

OF BANKS IN GHANA

BY

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DECLARATION

Candidate's Declaration

I declare that this thesis is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

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Supervisors' Declaration

We declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

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ABSTRACT

Tax planning is increasingly becoming an area of interest to many organizations including banks due to the potential benefits that firms and shareholders could derive from it. The problem militating against tax planning is the agency cost and other non-tax costs associated with it. To mitigate the agency problem between shareholders and managers, shareholders rely on corporate governance mechanisms in ensuring that managers carry out tax planning to enhance their wealth. This study examined the relationship between tax planning and performance of banks in Ghana in the presence of good governance structures. The study used panel data generated from the annual reports of 18 sampled commercial banks for a ten-year period, 2004-2014. The study employed fixed effect model of regression via GLS based on the outcome of the Hausman (1978) specification test.

The results reveal that, on average, banks in Ghana have high effective tax rate. But foreign owned banks have higher effective tax rate than Ghanaian owned banks, suggesting that Ghanaian owned banks, for the period of study were more effective in managing their tax burden than foreign owned banks. The results also show a significant negative relationship between tax planning and performance. Regarding corporate governance, the results reveal that corporate governance moderate the relationship between tax planning and performance. The study recommends that, banks in Ghana must maintain a system to ensure that management is given monetary incentives for effective tax planning. The study has direct policy relevance for shareholders in monitoring and controlling banks tax planning activities.

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DEDICATION

To my husband, Ekow Wilson-Sey and our lovely son, Justice Kweku

Ayemin Wilson-Sey, for their love and support.

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LIST OF ABBREVIATIONS

BGT   -   Book Tax Gap

BoG   -   Bank of Ghana

CEO   -   Chief Executive Officer

ETR   -   Effective Tax Rates

FINSAP -   Financial Sector Adjustment Program

GLS   -   General Least Square

IFRS   -   International Financial Reporting Standards

OECD   -   Organisation for Economic Co-operation and Development

PAC   -   Policy Advisory Committee

SEC   -   Securities and Exchange Commission

STR   -   Statutory Tax Rate

US   -   United State

CHAPTER ONE

INTRODUCTION

Background of the Study

The growth of every economy depends largely on the soundness of its financial system. Therefore the health of the financial sector is critical in any developing economy making the role of commercial banks more crucial. The banking sector plays an important role in sustaining the economy. Banks are seen as an important part of every economy and represent one of the most essential components of a country's capital (Agyemang, Aboagye & Ahali, 2013). In their basic role, commercial banks serve as financial intermediaries between investors and depositors (Owusu, 2012). Hempell (2002) asserts that, better performance of banks is pro foundation for product innovation, diversification and efficiency of the banks

Thus, the stability of every bank depends largely on better financial performance. To achieve this objective, many banks employ various strategies to minimise cost. One way banks can minimise cost and enhance performance is by reducing their tax burden (Murphy, 2004). According to Wang (2010), corporate tax represents a significant cost to firms and shareholders. Therefore, corporate tax should be managed in much the same way as production cost and other financing cost (Akakpo, 2008). Murphy (2004) argues that, firms are likely to hire tax expert with the aim of reducing their tax burden. Thus, any action that has the potential of reducing corporate tax and increasing after-tax profit would be welcomed by management, as a result, tax planning becomes imperative for management.

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Tax planning refers to the legal utilization of the tax laws to one's own advantage, to minimise the amount of tax payable by means that is within the law (Pasternak & Rico, 2008). According to Tiley (2005), tax planning is what sensible people do in order to reduce their tax liabilities. Tax planning does not imply any conscious wrong doing, but rather finding loopholes in the tax laws which could result in paying less tax than required. Thus, effective tax planning strategies should produce benefit in terms of wealth maximisation for banks. Hoffman (1961) opines that, firms need to understand the prevailing tax laws and apply the laws in a manner that will reduce their tax burden. Scholes, Wolfson, Erickson, Maydew and Shelvin (2005) support the need for banks to engage in dynamic tax planning by responding to subsequent changes in the tax laws. Traditionally, tax planning is seen as activities that transfer resources which would have gone to government to corporate entities (Wang, 2010).

Although tax planning is perceived to increase after-tax profit and enhance shareholders wealth, Hundal (2011) argues that, tax planning represents a serious loss of revenue to governments. According to Slemrod (2004), tax planning activities could have negative effect on government revenue needed for the provision of infrastructure and public utilities. In addition, Slemrod points out that, tax planning can also increase compliance cost of collecting taxes.

Minnick and Noga (2010) argue that, tax planning can be complex and opaque. Minnick and Noga explained that this can lead to managerial opportunism, where opportunistic managers employ tax planning strategies to advance managerial wealth rather than shareholders' (Desai & Dharmapala,

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2006). According to Jensen and Meckling (1976), this can create conflict of interest between managers and shareholders. Therefore, it is important for to hold managers accountable for corporate conduct and performance (Wier, 2002).

Ahmed and Khaoula (2013) assert that, corporate governance plays a crucial role in firms' tax planning activities. They explained that, corporate governance is the key mechanism that monitors managers' behavior and advises them on the identification and implementation of tax planning strategies. Abdul-Wahab (2010) posits that, good corporate governance is important for shareholders in valuing managers' tax planning decision. Minnick and Noga (2010) examined the link between corporate governance and tax planning using a hand-collected data set of S&P 500 firms from 1996 to 2005. They found that, corporate governance influences firms' tax planning behavior. An emerging stream of literature has investigated the role of corporate governance in the relationship between tax planning and performance (e.g. Abdul-Wahab, 2010; Ahmed & Khaoula, 2013; Kawor & Kportorgbi, 2014).

Apart from the agency problem, there are other costs associated with tax planning activities (Ahmed & Khaoula, 2013). These costs include costs directly related to tax planning, additional compliance costs and non-tax cost (Scholes et al., 2005). According to Viava (2007), these costs may outweigh the benefits that firms are expected to derive from the tax planning activities. Empirically, there have been studies conducted in both developed and developing countries that stress on the importance of reducing firm's costs and increasing after-tax profit through tax planning (e.g. Slemrod. 2004;

Auerbach, 2006; Rohaya, Nor'Azam & Bardai, 2008; Abdul-Wahab, 2010; Oyerinde, 2010). Besides, tax planning activities are desirable because they increase a firm's after-tax profits.

A research by the Organisation for Economic Co-operation and Development (2009) suggests that, banks engage in aggressive tax planning. OECD identified two categories of tax planning behavior, firstly, tax planning involving a tax position that is tenable but has unintended and unexpected tax revenue consequences. Secondly a potential tax payer taking a position that is favorable without openly disclosing the uncertainty in the tax law. The OECD (2009) highlights that, given the complex nature of some of the financial products developed by banks and the transactions they undertake, it is difficult for revenue authorities to know that banks are involved in aggressive tax planning activities. The question is how intense is the tax planning activities of banks? In addition, does the tax planning activity enhance their performance? Lastly, does corporate governance play a role in banks tax planning activities?

Statement of the Problem

Corporate tax has been identified by prior studies as cost of doing business (Akakpo, 2008; Rohaya et al., 2008). According to Annuar, Salihu and Obid (2014), corporate tax takes away a greater proportion of firms' pre-tax profit and subsequently reduces their distributable profit. Nwaobia (2013) argues that, corporate tax if not properly managed can have adverse effect on a firm's cash flow and shareholders wealth. To mitigate the effect of corporate tax on banks performance, banks do tax planning in order to reduce their

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corporate-tax-cost of doing business (Akakpo, 2008; Rohaya et al., 2008; OECD, 2009).

From empirical perspective, tax planning increases firm performance (Rohaya et al., 2008). For example, Wang (2010), Chen, Chen, Cheng and Shelvin (2010), Armstrong, Blouin and Larker (2012) found positive relationship between tax planning and firm performance. The positive relationship suggests that, the tax saving derived from tax planning enhances firm performance.

Some previous empirical studies have dispelled the notion that tax planning enhances firm performance. For example, Dyreng, Hanlon and Maydew (2008) and Chashiandani and Martani (2012) reported negative relationship between tax planning and firm performance, suggesting that tax planning does not enhance firm performance. Desai and Dharmapala (2009), Kawor and Kportorgbi (2014) found no relationship between tax planning and firm performance. The mixed results imply that, the relationship between tax planning and firm performance still remain an empirical question.

Great deal of research work has been conducted in both developed and developing countries on tax planning (e.g. Desai & Dharmapala, 2006; Sartori, 2009; Minnick & Noga, 2010; Abdul-Wahab, 2010; Ahmed & Khaoula, 2013). Even though in Ghana studies on tax planning effect on firm performance is scanty. Kportorgbi (2013) conducted a study which focused on tax planning effect on listed firm performance. His study excluded the financial sector because of its unique regulations that are intended to regulate their risk exposure.

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Meanwhile, knowledge of the relationship between tax planning and bank performance cannot be overlooked because, in the financial firms agency cost may be particularly large since banks are by their nature informationally opaque. Also, in Ghana, the banking sector has an entirely different tax planning opportunities. Thus, this study intends to enhance the existing literature on tax planning and firm performance by assessing whether banks in Ghana can take advantage of good corporate governance structures to reduce the agency cost that militate against the tax planning-effect on firm performance.

Purpose of the Study

The main purpose of the study is to examine the relationship between tax planning and performance of commercial banks in Ghana while considering the moderating role of corporate governance.

Research Objectives

Specifically, the study seeks to:

1. Ascertain the level of tax planning activities of banks in Ghana.

2. Examine the relationship between tax planning and bank performance.

3. Assess the moderating role of corporate governance on the relationship between tax planning and bank performance.

Research Questions

The first two objectives are translated into the following research questions:

1. What is the level of banks tax planning activities?

2. What is the relationship between tax planning and banks performance?

3. Does corporate governance moderate the relationship between tax planning and bank performance?

Hypotheses for the Study

From objective 2 and 3 the following null hypotheses have been developed:

1. H_1: There is no relationship between tax planning and bank performance.

2. H_1: Corporate governance does not moderate the relationship between tax planning and banks performance.

Scope of the Study

The study is limited to commercial banks licensed by the Bank of Ghana (BoG). Data for the study spans over a period of ten years (2004 to 2014). However, the focus of the study is on the effect of tax planning on bank performance in the face of good corporate governance structures. The researcher would have loved to extend the study to cover all financial firms in Ghana. But the researcher is constrained by time and funds. The sampled commercial banks are based on data availability. The analysis would be based on the published annual report form 2004-20014. However, some of the commercial banks were not operational in around 2004.

Significance of the Study

There is a general consensus among researchers and academicians that additional research concerning the influence of tax planning on performance

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of banks is needed (Kawor & Kportorbi 2014; Okoye & Akenbor, 2010; Desai & Hines, 2002). This study seeks to respond to such gap.

This study will methodologically, theoretically and practically contribute to the body of knowledge. Besides, by examining the effect of tax planning, this study will provide insights on the implications of tax planning on performance of banks. To sum up, the contributions of this study are highlighted below:

1. This study will add to the knowledge about tax planning activities in Ghana. It will help provide a fair and object analysis of the subject.

2. Contribute to taxation literature by highlighting implications of tax planning on banks return on equity and assets. Since return on equity and return on assets are the proxy for measuring firm performance, corporate organisations' will have a wide number of variables to use to determine their performance.

3. Provide insights to authorities, practitioners and academicians about the implications of disclosed tax information for shareholders. This will go a long way to reduce the agency conflict that usually ensued between the owners and management of banks. Tax authorities will have insight on tax planning as a means of minimising tax obligation rather than classifying them as tax evasion. Practitioners will have a basis to provide comprehensive advice to their clients regarding their tax status.

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Limitations of the Study

i. The study employs econometric approach which is usually stochastic in nature and that has its own problem. Thus, it does not sometimes follow theory.

ii. This study did not consider all the financial institutions in Ghana since some of them do not have available financial statements needed for the study.

iii. The study did not employ all the firm specific factors for the analysis. It was chosen randomly on meeting the purpose and availability of such information

Organisation of the Study

The study is organised into five chapters. Chapter one, introduction, contains the background to the study, problem statement, objectives of the study, research questions based on the objectives, hypotheses for the study, scope of the study, significance of the study, limitations to the study, delimitations and the organisation of the study. Chapter two is generally concerned about review of related literature on tax planning, effective tax rate and bank performance. It also contains scholarly books, articles and other relevant and related works on theories and conceptual issues on the topic under study would be reviewed. It covers the theoretical framework, operational concepts, empirical review and conceptual framework. Chapter three will focus on the methodology adopted for the study. It details the research design, sample and sampling procedure, source of data, data collection method, estimation models and data analysis procedure. Chapter

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four reports the results, discusses the findings and implication of the finding.

Chapter five provides summary, conclusions and recommendations.

CHAPTER TWO

REVIEW LITERATURE OF RELATED LITERATURE

Introduction

This chapter presents a review of the related literature on the study. The chapter begins with an overview of banks in Ghana and a review of both theoretical and empirical literature relating to tax planning and performance. Two theories underpinning corporate tax planning; political power theory and agency theory were reviewed. Next is the review of approaches to bank performance. The study also reviewed literature on corporate governance. Two underlying theories of corporate governance were reviewed; stewardship theory and stakeholder theory. The review also includes empirical studies on tax planning, corporate governance and banks' performance.

Overview of Banks in Ghana

The Ghanaian banking sector has undergone significant reforms from colonial times through independence to the present. Banks are financial institutions that provide a range of financial services to their customers (Ankrah, 2014). Banking business in Ghana started in 1896 during the colonial era when the British Bank of West Africa, now Standard Charted Bank opened its first branch in Accra. The success of the bank attracted other foreign banks such as Barclays bank to the then Gold Coast. In 1953, Ghana Commercial bank was established as the first indigenous bank to reduce the control of the banking sector by the two expatriates' banks. Bank of Ghana was established in 1957 to take control over the management of the country's currency.

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In 1974, many state owned banks and financial institutions were set up to enhance the banking sector. For example, National Investment Bank, Agricultural Development Bank, Bank for Housing and Construction, Merchant Bank and Social Security Bank are some of the banks that were established during that period. These banks raised funds through deposit mobilisation, government supports and foreign loans and also provided commercial and development banking services.

The banking sector has witnessed several reforms. Prior to the reforms, there has been an extensive post-independence government intervention (Owusu, 2012). Banks that were set up between the periods of 1950 to 1980 were either wholly or majority owned by the public sector. Banks interest rates were controlled by the bank of Ghana. Financial sector policies were characterized by severe financial repressions, real interest rates were steeply negative and most of the credit was channelled to the public sector (Antwi-Asare & Anderson, 2000). This triggered series of reforms in the banking sector. For example, in 1988 a Financial Sector Adjustment Programme (FINSAP) was launched. The FINSAP was rolled out in 1986 as part of the then Economic Recovery Program. It sought to address institutional deficiencies of the financial system by restructuring distressed banks, reform prudential legislations and financial liberalization (Owusu-Antwi, 2009). The financial liberalization was introduced with the aim of enhancing efficiency in the resource allocation and promoting competition. The liberalization involved removal of government's control and easing entry restriction into the banking sector. Other liberalization included removal of interest rate control, the composition of banks' lending and the introduction of markets-based

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instruments of money control (Owusu-Antwi, 2009). The introduction of the Financial Sector Adjustment Program (FINSAP) brought about healthy growth and competition in the financial sector (Agyemang et al., 2013).

According to Agyemang et al. (2013), the traditional banking model was classified into three categories. They were commercial banking, development banking and merchant banking. Commercial banks provided retail-banking services to individuals, businesses and households, while merchant banks provided wholesale banking services to large corporation. Development banks focused on providing banking services to specific sectors of the economy. In 2003, Bank of Ghana introduced Universal Banking License to integrate the financial system. According to Bank of Ghana (2011), universal banking eliminated restrictions and allowed banks to engage in all permissible banking business, and this has opened up the financial system for competition, product innovation and entry.

Under the universal banking system, banks are allowed to offer products that were previously the preserve of other traditional banking sectors. Bank of Ghana raised the minimum capital requirement to GHS 70 billion as a requirement for universal banking license. Bank of Ghana (2004) highlights that, well-capitalised and well-managed universal banks will encourage a more competitive and dynamic banking system capable of effective intermediation on the scale needed to support growth in the economy. By 2006, all the banks had complied with the minimum capital requirement for universal banking (Bank of Ghana, 2006).

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The Concept of Corporate Tax Planning

Kasipillai (2005) defines tax planning as legitimate activities undertaken by firms to manage their income and expenses with the objectives of eliminating, minimising and deferring tax within the ambit of the tax laws. Similarly Pniowsky (2010) defines tax planning as the process of structuring one's affairs in order to defer, reduce or eliminate the amount of taxes payable to government. According to Amankwah (2014), tax planning refers to the taxpayers' effort in arranging their tax liability in a way to reduce the amount of taxes payable by means that are within the law. From these definitions, tax planning can be considered as the legal steps taken by tax payers (banks') to minimise their tax burden in order to obtain tax savings benefit. Therefore, a firm is not a bad corporate citizen if the firm organises its activities in a legal manner to minimize its tax liability. Kportorgbi (2013) suggests that, for tax planning to be effective, the tax payer must fully understand the applicable tax laws and design the schemes to take advantage of the opportunities created by the laws.

Tax planning activities are traditionally regarded as tax savings devices that transfer resources from the government to shareholders, and thus should increase the after-tax profit of firms (Desai & Dharmapala, 2009). Thus, tax planning is a conscious effort by taxpayers within the ambit of the law to minimise their tax liability. Bruce, Deskins and Fox (2007) in their definition of tax planning, combine tax evasion and avoidance as a strategy to reduce tax burden. The authors define tax planning as a broad set of tax avoidance and evasion schemes that affect only the financial arrangements of firms. However, from the technical perspective, tax planning activities are different

from that of tax evasion. Ali-Nakyea (2008) asserts that, there is a thin line between tax planning and tax evasion.

Therefore, in explaining the concept of tax planning Hoffman (1961) suggests that, it is important to differentiate the concept of tax planning and tax evasion in order to avoid unintended consequences of tax planning, for example penalty due to ignorance of a taxpayer about the legal aspect of tax planning. Akapko (2008) posits that, the distinction between tax evasion and tax avoidance (tax planning) lies in the legality of the transaction. Rego (2003) in his study of tax avoidance activities of U.S. multinational corporations explained that, tax avoidance is any tax planning activities to legally reduce the income tax payment. Thus, tax avoidance is usually, the ultimate goal to be achieved by tax planning (Hoffman, 1961).

On the contrary, tax evasion is an illegal activity used to reduce the tax liability. For example, under reporting income or stating higher deduction rates. In Ghana, tax evasion is subject to fines and penalty. According to Hoffman (1961), tax evasion connotes the misrepresentation or omission of key financial information in an effort to evade the taxes that are legally enforceable. Tax evasion and avoidance are of great concern to authorities since they relate to public policy in which both may distort the tax burden distribution and in terms economic perspective, they could distort resource allocations (Slemrod, 2004). Abdul-Wahab (2010) posits that, the fundamental terms to clarify the variation between tax avoidance and tax evasion are "legal" and "illegal". Bond, Gammie and Whiting (2012) argue that, tax planning activities are distinct from those covered in the theory of tax evasion, where firms illegally manipulate their tax liability.

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According to Abdul-Wahab (2010), tax planning activities can be considered as "active" or "passive" depending on the taxpayer's intentions in conducting a transaction. The author explained that, active tax planning is relevant in a situation where a transaction is carried out with an intention to reduce the tax burden. Passive tax planning on the other hand is where a transaction is carried out without an earlier intent or purpose to reduce the tax burden. For example, Akakpo (2008) argues that, a tax payer is said to be involved in active tax planning if the purchase of a fixed asset which attracts capital allowance has been done with the aim of reducing the taxable income. However, if the purchase decision did not consider the tax aspect of the transaction, then, the taxpayer is regarded as performing passive tax planning.

For the purpose of this study, tax planning is referred to as commercial banks effort in arranging their financial affairs to reduce their tax liabilities without infringing upon the tax legislations. Commercial banks like their industry counterpart engage in aggressive tax planning with the aim of reducing their tax burden (OECD, 2009) in order to maximise shareholders' wealth. Thus, tax aggressive commercial banks' may take full benefits of the allowances and provisions in the tax laws so that they pay no more tax than is necessary. Some of the theories underpinning corporate tax planning are considered in the next section.

Theories of Corporate Tax Planning

As highlighted in the preceding paragraphs in this chapter, there have been theories established by scholars with assumptions to form the basis for

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analyzing the benefits and costs of tax planning. Some of the theories that will be reviewed include: agency theory and political power theory.

Agency Theory

Agency theory was advanced by Jensen and Meckling in their 1976 publication. Agency theory is based on the relationship between the principals or owners of the firm and the agents or managers (Elhelaly, 2014). From the agency perspective, the separation of ownership and control in modern corporations is considered the root cause of the agency problem (Fama & Jensen, 1983). According to the agency-view of tax planning, conflicts between firms' owners and their managers may arise because managers who are generally expected to make tax-effective decisions may behave opportunistically and divert corporate wealth for their private benefits (Jensen & Meckling, 1976). Desai, Dyck and Zingales (2007) argue that, self-interested managers structure the firm's transactions to reduce corporate tax and divert the resources for their own benefit.

To reduce agency problem, Abdul-Wahab (2010) suggests that, managers (agents) should be monitored. As a result, shareholders have to incur costs to reduce the agency problem. This cost according to Jensen and Meckling (1976), Fama and Jensen (1983) is referred to as agency cost. The authors explained that, agency costs include monitoring expenditure by the principal (e.g. auditing, compensation, operating rules and budget restriction), bonding expenditure by the agent and residual loss. Thus, to increase banks performance, Desai and Dharmapala (2006) suggest that, shareholders and boards must identify and install appropriate incentives and controls to

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minimise agency costs. Slemrod (2004), Chen and Chu (2005), Crocker and Slemrod (2005) and Tatu, Dragota and Vintila (2010) were among the first to view corporate tax planning within an agency framework. Tatu et al. argue that, managers try to reduce their accounting profit by making expenditures that are not tax deductible.

Previous empirical studies did not show clearly why managers engage in tax planning activities. Desai and Dharmapala (2006) highlight that, manager's use tax planning as an opportunity to shield their managerial opportunism. Amankwah (2014) opines that, managers do not always engage in tax planning for their benefit only, but sometimes they do it for the benefit of shareholders. Thus, shareholders might prefer tax planning especially when the benefit from tax planning is perceived to offset the hidden agency costs that arises from managers who mask their rent extraction activities (Chen et al., 2010).

According to Amankwah (2014), shareholders attitude towards tax planning may depend on the costs and benefits involved in tax planning. Richardson, Lanis and Taylor (2013) posit that, tax planning is not an absolute policy prescription for all firms, it depends to a greater extent on the associated benefits involved. Richardson et al. further explained that, the marginal benefits of tax planning to shareholders include the tax savings firms will derive from it, while the marginal costs include the potential tax fines and penalties to be imposed by the tax authorities, implementation costs, reputational costs, and political costs (Slemrod, 2004; Scholes et al., 2005). There are also potential agency costs in the form of rent extraction by

managers due to the complimentary relationship between tax planning and managerial diversion (Desai & Dharmapala, 2006).

Previous studies have examined corporate tax planning using agency theory (e.g. Desai & Dharmapala, 2006; Desai et al., 2007; Rego & Wilson, 2008; Dyreng, Hanlon & Maydew, 2010; Blaylock, 2012). Desai and Dharmapala, (2006) suggest an agency-view of tax planning, stating that agency costs in the form of managerial rent extraction may occur due to the complimentary relationship between tax planning and managerial diversion. Chen et al., (2010) argue that family firms are less tax aggressive than non-family firms. Chen et al. concluded that family owners appear to forgo tax benefits to avoid the non-tax cost of a potential price discount arising from minority shareholders' concern about family rent seeking masked by tax avoidance activities.

Political Power Theory

The next theory that is mostly used to explain corporate tax planning among firms is the political power theory. Political power theory advanced by Siegfried (1972) maintains that, larger firm's possess superior economic power relative to small firms. The author highlights that larger firms have greater political power and resources to (1) influence the political process, (2) develop expertise in tax planning and (3) organise their activities to achieve optimal tax savings. This implies that, large firms can take advantage of their economies of scale and political power to minimise their tax burden. Nicodème (2007) posits that, large firms have the resources to engage in aggressive tax planning and manipulate the political process in their favour.

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In support of this theory, Porcano (1986) posits that, larger firms have lower effective tax rates (ETRs). McIntyre and Spinner (1986) from the Citizens for Tax Justice considered 250 very large U.S. firms from Fortune 500 and detected that 130 of these firms paid no taxes in at least one year of the observed time period (1981-1985). Rego (2003) finds that, large firms generally engage in more business activities and financial transactions than small firms do, thereby providing more opportunities to avoid taxes.

Robert and Bobek (2004) examined corporate political lobbying efforts during the six-month period that led to the passage of the Taxpayers Relief Act 1997. Robert and Bobek found significant lobbying by firms and targeted PAC contributions to legislators and political parties in positions to make policy recommendations that were to their benefit. This suggests that, firms engage in political activities to influence their tax accounting laws. Dyreng et al. (2008) report that, long-run tax avoiders are larger firms. Mills, Nutter and Schwab (2013) used ETR as a measure of a firm's political costs to investigate the interactive effects of a firm's political sensitivity and the bargaining power on its political costs. The authors found that, firms that rely on government contracts report higher ETRs because their political sensitivity increases. Mills et al. opine that some firms have sufficient political power to eliminate their tax-related political costs.

These theories are relevant to the study because from the agency point of view, a firm might utilize all the strategies to reduce its tax burden in order to increase after-tax profit. However, the tax savings derived from tax planning may not enhance the firm's after-tax profits due to agency problem. The agency perspective of tax planning is of that assertion that, opportunistic

managers employ tax planning strategies and divert the tax savings for their personal benefit at the expense of shareholders. The political power theory believes that, large firms possess political power and economic resources and thus have the capacity to hire professionals to formulate and implement corporate strategies with tax planning inclusive.

Tax Planning Opportunities

Abdul-Wahab (2010) posits that, the existence of loopholes in the tax laws could trigger tax payers to avoid tax without going against the law. This implies that, the loopholes in the tax law could provide opportunity for taxpayers to plan their tax without violating the tax laws. According to Hoffman (1961), the existence of loopholes in tax laws is the reason for more effective tax planning activities. Previous studies classified tax planning opportunities as those that are presented by loopholes in the tax laws or opportunities that exist as a result of firm characteristics (e.g. Hoffman, 1961; Slemrod, 2004; Abdul-Wahab, 2010).

Mullingan (2008) posits that, uncertain tax laws frequently gives rise to exploitation of loopholes in the tax laws by tax payers. The author further explained that, such exploitation is usually not anticipated by the legislature and thus, it amount to taxpayers working within the law technically to reduce their tax burden. Therefore, exploiting these opportunities is legal. However, the tax planning opportunity that is available from the complexity of the law is of great concern to the authorities, since the main purpose of the law is to ensure that tax functions as a social instrument which is related to the ethical or moral functions of tax payers (Aharony & Gava, 2003). Abdul-Wahab

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(2010) suggests that, the authorities should stress on the ethics and moral implications of tax planning to the taxpayers to reduce tax planning opportunities. According to Ali-Nakyea (2008), most tax laws do not take retrospective effect, therefore taxpayers succeed in avoiding tax for the time it takes new legislation to be introduced.

Previous studies suggest that, the loopholes in tax laws could be seen as an opportunity for tax planning activities since one cannot be charged for violating the laws by exploiting the loopholes in the tax laws (e.g. Mulligan, 2008; Abdul-Wahab, 2010; Kportorgbi, 2013).

Constraints of Tax Planning

Firms engaging in tax planning may face some adverse implications in achieving the objective of tax planning. Hoffman (1961) argues that, not all tax planning activities necessarily decrease tax liability to one's desired minimum level. This is because, tax planning is associated with costs and these costs include cost directly related to tax planning, risk of detection by the tax authorities and agency cost (Desai & Dharmapala, 2006).Wang (2010) argues that, these costs could substantially outweigh the benefits derived from tax planning activities.

In addition to the agency cost, Scholes et al. (2005) argue that, there are other non-tax costs associated with tax planning activities. According to Wang (2010), non-tax costs include loss of efficiency in internal control, potential penalty, potential price discount and damage to organizational legitimacy. Chen et al. (2010) posit that, one most significant non-tax cost is the penalty that may be imposed by the tax authority. This cost arises when a

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firm's tax planning activities are detected and disallowed by the tax authorities. Gergen (2002) asserts that, the risk of detection rises when more firms engage in the same tax planning strategy and period of pursuing the strategy extends. Hanlon and Slemrod (2009) argue that, detection by the tax authorities may increase firms cost.

Gallermore, Maydew and Thornock (2013) posit that firms may also face reputational risk for engaging in tax planning activities. According to Annuar et al. (2014), reputational risk has dual effect on the firm. Firstly, the legitimacy of the firm may be questioned by the general public. Secondly, shareholders could also react by discounting the firms share price when they perceive that managers are using tax planning activities to mask rent extraction (Desai & Dharmapala, 2006).

According to Watts and Zimmerman (1986) political cost is another type of indirect costs that may have adverse effect on a firm's cash flow. Political cost result from the reaction of public agencies to corporate tax planning. For firms that operate as government contractors or large firms in general, the risk of public scrutiny is a motive for refraining from tax planning (Mills et al., 2013). The desire to avoid having their financial statement too often and too closely scrutinized by government agencies is another motive that makes firms refrain from tax planning (Han & Wang 1998).

Approaches of Tax Planning

Prior studies in other settings suggest that firms engage in all manner of strategies, methods and arrangements to minimise their tax burden (Dyreng et al., 2009). Abdul-Wahab (2010) argues that, these approaches may not

precisely and appropriately describe tax planning in the future since requisite uncertainty exist, therefore popular approach could be easily detected and shut down by the authorities. As the research is conducted on commercial banks in Ghana, the review has been done based on Ghana's tax law. The approaches reviewed include, transfer pricing, income sharing, involving in tax-favoured investment, modification of income characteristics and organisational structure.

Transfer Pricing

The use of transfer pricing allows firms to shift taxable income from countries with high tax rates to countries with lower tax rates for the purpose of tax advantage (Mulligan, 2008). According to Ali-Nakyea (2008) transfer pricing comprise pricing relating to transactions not conducted at arm's length. OECD (2013) refers to transfer pricing as the shifting of risks and intangibles, the artificial splitting of ownership of asset between legal entities within a group, and transactions between such entities that would rarely take place between independents. In a typical aggressive transfer pricing deal, a company may produce or buy an asset or product through a low-tax foreign subsidiary and then sell it to the parent company at an above-market price (Hanlon & Heitzman, 2010). In this case, the transfer of the asset has not been done at arm's length because the price does not reflect the true value of the assets.

Tax planning through transfer pricing has the effect of subjecting a disproportional amount of profit from the ultimate sale of asset to the subsidiary in a relatively low tax rate jurisdiction (McClure & Lain, 2013). Transfer pricing can be manipulated to shift income from one tax jurisdiction

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with high tax rate to another jurisdiction with low tax rate (Mulligan, 2008). As a result, the authorities try to prevent such manipulation and abuse of transfer pricing by providing anti-avoidance rules. For instance, in Ghana, section 70 of the Income Tax Act, gives power to the tax commissioner to disallow for tax purposes, any transfer price which is not in an arm's length. In addition, the OECD guidelines regarding financial institutions transfer pricing also frowns on non-arm's length transactions (OECD, 2009).

Income Shifting or Profit Sharing

This approach enables tax payers to take advantage of the difference in tax rates among various jurisdictions. Taxpayers using this approach modify the nature of their income so that their profit or could be shared with or shifted parties that are subject to lower tax jurisdictions (Abdul-Wahab, 2010). Akakpo (2008) refers to income shitting as the transfer of income from an entity with higher marginal tax to an entity with lower marginal tax rate. Scholes and Wolfson (1992) argue that, large firms are more active income shifters. Guenther (1994) finds that, large firms involve in more income shifting activities.

Tax planning by way of income shifting is of great concern to the authorities as it has numerous negative implications (Gordon & Slemrod, 2002). To avoid the abuse of this approach, the tax laws in Ghana provide for anti-tax avoidance laws. For example, sub-section 1 of section 69 of the Income Tax Act, 2000 (Act 592) provides an anti-tax avoidance law on income splitting. The Act provides that where a person attempt to share profit with another person, the commissioner may adjust the chargeable income of

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both persons to prevent a reduction in the tax payable as a result of sharing of profit. Scholes and Wolfson (1992) posit that, firms may engage in tax planning through profit-sharing by transferring income from one pocket to another pocket in terms of geographical location.

Tax-favoured Investment

Tax-favoured investment is referred to as investments that are taxed explicitly more lightly than fully taxable bonds (Scholes et al., 2005). In an attempt to promote investment in the economy, governments provide incentives in certain sectors of the economy (Ali-Nakyea, 2008) to attract new investors and at the same time retain the present investors. Governments do this either by providing general tax incentives (i.e. reducing the statutory tax rate) or specific tax incentives to targeted sectors of the economy (Rahaya et al., 2008). These incentives are couched as industry concession under section 11 of Act 592, of the Income Tax Act 2000 (Act 592). For example, in Ghana income derived from loans granted to farming enterprises or leasing companies attract twenty percent concessionary tax rate. Thus, commercial banks who want to reduce their tax burden may take advantage of this opportunity and make more tax savings. Abdul-Wahab (2010) posits that, tax-favoured investments may enjoy different types of tax-favoured status, for example full tax exemption and tax credits. Therefore, commercial banks may invest in tax-favoured investment in order to enjoy tax incentives.

Modification of Income Characteristics

Commercial banks may pursue tax planning through modification of income characteristics. This approach provides an opportunity for tax payers

to change the nature of their income from domestically-received to foreign income. According to Sally (1999) this approach creates incentives for firms to modify the nature of their income in a manner that ensures they achieve minimum tax burden. Kportorgbi (2013) posits that, the techniques involve in achieving this objective requires changing domestic-source income to foreign-source income to enjoy the benefits of double taxation agreements and also modify revenue-income to capital-gain income in order to suffer lower tax rate. According to Bruce et al. (2007) firms reclassify their business income as non-business income and transfer it to low-tax or no-tax jurisdiction in order to reduce their tax burden. Abdul-Wahab (2010) asserts that, firms reclassify their non-business income to business income in order to reduce their tax burden. Since the business income would be eligible for capital allowance deduction and treatment of business losses deductions.

Organisational Structure

Another tax planning approach which could be employed by commercial banks to minimise their tax burden is organisation. This approach involves changing the nature of a firm's business operation with the aim of minimising their tax burden. Abdul-Wahab (2010) explained that reorganisation strategies include amalgamation and mergers, reconstruction, demergers, management buyouts and purchasing their own shares. Prichard and Bentum (2009) posited that, large mining and telecommunication firms in Ghana, after enjoying their tax holidays change their organisation structure and re-surface as a new company to avoid taxes.

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Using sample of U.S. conglomerates, Stonham (1997) finds that, U.S firms benefited from their tax planning through demerger strategies in 1996 where they successfully obtained both U.K. and U.S. tax authorities' approval of a tax-free distribution of the stock dividend to their nationals. This enabled the firms to benefits from of tax exemption, tax shield and lower tax bill. According to Rohaya et al. (2010), taxpayers should conduct a comprehensive analysis before adopting this approach due to the difficulties involved. Although there are no laws in Ghana that frowns on reorganisation, 101 (1) exempt capital gains accruing to or derived by a company arising from a merger, amalgamation or re-organisation of the company, where there is continuity of underlying ownership in the asset of at least twenty-five percent.

Level of Banks Tax Planning Activities (ETR)

Tax planning activities are carried out with the aim of reducing banks tax burden in order to increase after-tax returns and maximise shareholders wealth. An effective tax planning strategy reduces firms' tax burden and enhances performance (Wang, 2010). Thus, tax planning activities undertaken by banks should reflect in their effective tax rate (ETR) which is a proxy of tax planning. Rohaya et al (2008) describe effective tax rate (ETR) as the ratio of a firm's tax expense to pre-tax income. The authors highlight that, effective tax rate reflect the actual tax burden of a firm. Banks are expected to strive to achieve lower effective tax rate (ETR). Graham (2003) posits that, effective tax rate (ETR) can affect firms' decision making and other related aspect such as capital structure, pay out policy and risk management.

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Halperin and Sansing (2006) allude that, the most important objective of a firm's tax department and tax advisors is to reduce the firms effective tax rates (ETRs). Robinson, Sikes and Weaver (2010) assert that, firms that organise their tax department as ''profit center'' have lower effective tax rate than firms that organize their tax departments as ''cost center''. Thus, effective tax rate is seen by some regulatory authorities as an indication of aggressive tax planning activities (Ernst & Young, 2005). Thus, management believe that, reducing a firm's ETR can enhance the firm's performance and shareholders wealth (Gleason & Mills, 2003).

Measurement of Tax Planning

Effective tax rate (ETR) has been used extensively by prior researchers to measure the extent to which firms take advantage of tax incentives and different rules between financial reporting and tax reporting (e.g. Zimmerman, 1983; Rego, 2003; Rohaya et al., 2008). Prior studies used different measures of tax planning depending on the accessibility of data and the interest of the researcher. In measuring the outcome of tax planning, ETR could be the appropriate measure because it exhibits the gap of tax burden between "book-reporting-based" and "taxable income-based" (Abdul-Wahab, 2010).

Substantial amount of studies on tax, either direct or indirect, deem tax saving to be the result of tax planning. The most common measures used by researchers are book-tax gap (Plesko, 2003; Hanlon & Hietzman, 2010) and effective tax rates (Rego & Wilson, 2009; Abdul-Wahab, 2010; Kportorgbi, 2013; Amankwah, 2014). The measure of tax savings is still an issue among researchers due to the debate on the appropriateness of the measure in showing tax planning activities (Armstrong, Blouin, Jagolinzer & Larcker, 2012). This

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is because the tax burden-related data could not be accessed by external parties.

According to Hanlon and Heitzman (2010), effective tax rate is the most suitable measure of tax planning as compared to book-tax gap measure because it can remove measurement errors associated with tax expense on tax credit and foreign income. This study draws on ETRs as a measure of tax planning for two important reasons. Firstly, recent empirical tax research reports that, ETRs encapsulate tax planning (Armstrong et al., 2012). Secondly, ETRs denote the proxy measure of tax planning most frequently used by many academic researchers.

Bank Performance

Cascio (2006) refers performance as the achievement of a target at the work place. According to Chenhall (2005), firm performance can be measured either by financial or non-financial or both. Horngren (2008) classified financial performance into two categories, (1) absolute measure and (1)sss the relative measure. The absolute performance measure is used to assess performance based on the quantum of profit. While the relative performance measure is use for inter firm comparison.

Prior studies used different measures of performance but the ones that have been used extensively are Return on Asset (ROA), Return on Equity (ROE) and Net Interest Margin (NIM). Net interest margin measures the spreads between the rates paid on deposits and rates charged on loans. Garcia-Herrero (2009) describes NIM as an imperfect measure of performance because it does not factor in how the bank is run. Return on Asset (ROA) and

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Return on Equity (ROE) are the most widely accepted measure of performance.

Return on assets (ROA) is the ratio of Net Income (profit after tax) to total assets. Return on assets shows how effective and efficient the managers of banks are using the bank's assets to generate profits. Thus, a higher ratio shows a higher performance of a bank. A substantial amount of researchers have used ROA as a measure of firm performance (e.g. Gupta & Newberry, 1997; Inger, 2012; Ahmed & Khaoula, 2013; Kportorgbi, 2013; Amankwah, 2014).

However, one major drawback of return on asset is that it is distorted by the off balance sheet items (e.g. assets acquired through lease) of the bank which understate the value of assets (Kutsienyo, 2011).The author further explained that, this can create a positive bias where ROA is overstated in the evaluation of bank performance. Nevertheless, Rose and Hudgins (2005) argue that ROA is one of the most important measures of performance in recent banking literature.

As an alternative measure of performance, the Return on Equity (ROE) is computed as the ratio of net income to equity. It measures the income earned on each unit of shareholders capital. Return on equity gives an indication of management performance. The shortfall of this measure is that banks with high financial leverage tend to generate high ratio (Kutsienyo, 2011). Banks with high financial leverage may be associated with a high degree of risk although these banks may register high ROE. ROE is commonly used in conjunction with ROA. To evaluate the performance of commercial banks, both return on equity (ROE) and return on asset (ROA) were used as a

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measure of banks performance.

Tax Planning and Bank Performance

Firms engage in tax planning with the aim of reducing their tax liability since taxes reduce their profits (Rohaya et al., 2008). Traditionally, tax planning is allowed within the tax laws as it is considered as a legal tax avoidance scheme (Omer, 2011). However, not all firms have the same opportunities to carry out tax planning. That is why some firms are more tax aggressive than other firms (Ahmed & Khaoula, 2013). Thus, firms may engage differently in tax planning due to their size and the capabilities of the firm to undertake tax planning activities.

Tax planning is considered as an important investment for shareholders because of the reduction of the tax burden that weighs significantly firms and shareholders (Chen et al., 2010). The authors further explain that, shareholders may not promote tax planning activities due to the potential costs associated with it. Abdul-Wahab (2010) posits that, tax planning can positively or negatively affect commercial banks performance. There is a positive relationship when tax planning enhances shareholders wealth (Desai & Hines, 2002). The authors find that tightening the tax system is positively associated with higher market performance of firms. In other words, when taxes are considered a burden to society, shareholders positively assess tax planning. In contrast, Desai and Dharmapala (2009) opine that, shareholders might respond negatively if tax planning is viewed as a risk-related activity.

Wilson (2009) investigates whether tax shelters can improve firm performance. The author finds a positive relationship between tax shelters and

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firm performance, but mainly for firms with good corporate governance practice. In the same context, Chen et al. (2010) report a positive relationship between tax planning and firm performance. They argue their results from the fact that tax represents the cost of doing business, and any action that has the potential of minimising tax cost reflects in higher firm performance. Similarly, Ayers, Laplante and Schwab (2011) examine the relationship between firm value and deferred tax. The authors find significant relationship between deferred tax and firm performance.

Tax planning may be valued by shareholders using the information on effective tax rate (ETR), which may reflect the activities of tax planning. This is consistent with Slemrod (2004) who argues that shareholders can control management referring to the increase in effective tax rate due to the negative impact on firm performance. Swenson (1999) finds negative relationship between stock prices and effective tax rate (ETR). This could be explained by the significant effects of long-term reduction of ETR on market capitalization. Therefore, shareholders can integrate information on tax planning to assess the performance of the firm. In the same context, Frank, Lynch and Rego (2009) examine the relationship between aggressive tax planning and firm performance. They find that, firms that exhibit aggressive tax planning and financial earnings management strategies at the same time, tend to have associated aggressive investing, financing, and operating and compensation strategies.

Lisowsky, Lennox and Pittman (2013) document a positive relationship between firms that disclose tax reserve in their financial statements and their use of tax shelters as the main mechanism to reduce the

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amount of taxes they pay. Tax savings could also affect firm performance. Atwood and Reynolds (2005) argue that, shareholders are likely to enhance tax losses as a component of tax planning depending on how the component is presented in the financial statements. In Lisowsky et al. (2013), the authors observe a positive relationship between tax planning activities and firm performance. This argument assumes that the cost of tax planning does not exceed the tax savings from tax planning activities.

Although prior studies have reported positive relationship between tax planning and firm performance, other studies reported negative relationship between tax planning and firm performance (e.g. Abdul-Wahab, 2010; Lev & Thiagaraian, 1993). Lev and Thiagaraian (1993) posit that, stock return is negatively related to annual changes in effective tax rate (ETR). The authors explain the result to be due to negative signal to the level of persistence of profits. Abarbanell and Bushee (1997) find a negative relationship between annual changes of effective tax rate (ETR) and abnormal return in examining the underlying relations between accounting-based fundamental signals and security prices. The authors' explain that, the negative relationship may be an indication of the existence of agency costs. Desai and Dharmapala (2009) explain that in an agency setting, tax planning can lead to a reduction in firm performance, when managers have both the opportunity to understate reported accounting profit and the incentive to reduce the corporate income tax burden by understating taxable income. Balakrishnan, Blouin and Guay (2011) argue that, firms that exhibit aggressive tax planning tend to display increased financial and organizational complexity and decreased information transparency.

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In contrast to the above studies, there are other studies that find no direct relationship between tax planning and firm performance. In Cloyd, Mills and Weaver (2003), the authors explain their findings as the influence of non-tax cost on the relationship between ETR and firm performance. In the same context, Desai et al. (2007) find no direct relationship between tax planning and firm performance. They argue that the complex nature of a firm's transaction may make it difficult for stakeholders to fully evaluate the firm's performance, including the tax implications of the transactions.

Corporate Governance

The Cadbury Committee defines corporate governance as a system by which companies are directed and controlled (Cadbury, 1992). Weir (2002) refers to corporate governance the mechanisms by which corporate managers are held accountable for corporate conduct and performance. According to OECD (2004), corporate governance involves a set of relationships between a company's management, board, shareholders and other stakeholders. Corporate governance is referred to as the practises and processes used to direct and manage the affairs of an organisation with the aim of balancing the attainment of corporate objectives with the alignment of corporate behaviour to the expectations of society and accountability to shareholders and other stakeholders (Securities and Exchange Commission [SEC], 2010)

The main concern of corporate governance is to facilitate the efficient use of resource to reduce fraud and mismanagement with the view of maximising shareholders wealth and aligning the conflicting interests of all stakeholders (Cadbury, 1992). According to Gomes (2015), good corporate

governance provides shareholders with strategic management and monitoring of executive administration. Agyemang et al. (2013) allude that, a firm that embarks on good corporate governance practice offers essential information to its shareholders and other stakeholders in order to minimise information asymmetry. Thus, corporate governance can be seen as laid down structures and procedures to mitigate agency problem between management and shareholders.

Abdul-Wahab (2010) posits that, corporate governance can influence firms' tax planning activities. Abdul-Wahab highlights that, shareholders due to information asymmetry rely on corporate governance mechanism in ensuring that management interest is align to their interest. According to Minnick and Noga (2010), the main purpose of management actions and choices should be to maximise shareholders wealth by constantly seeking value maximising projects. However, firms may face agency problem that is characterised by conflict of interest between management and shareholders when management work in their own interest at the expense of shareholders (Jensen & Meckling, 1976). Desai and Dharmapala (2006) argue that managers will always act in an opportunistic manner to the extent that their actions will increase their wealth. Since the details of tax planning related activities are mostly kept in secret to avoid detection by the tax authorities, Desai and Dharmapala highlight managers' opportunities to engage in activities that are harmful to shareholders. Abdul-Wahab (2010) alludes that these actions by management create information asymmetry between shareholders and management which consequently causes agency problems. Thus, tax planning activities are always perceived as opportunistic transactions

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that reflect conflict of interest between management and shareholders. The conflict of interest between management and shareholders can be solved by adopting good corporate governance practice (Desai & Dharmapala, 2009).

According to Owen (2008) corporate governance is important in valuing tax planning decision. The author stressed on two issues that arise from the interaction between tax and corporate governance. Firstly, a set of issues on conflict of interest and secondly, issues about ensuring transparency and quality of management decisions. Minnick and Noga (2010) assert that corporate governance directly plays a significant role in a firm's tax planning activities since governance is responsible for the resource allocation, performance and increasing shareholders wealth. Dyreng, Hanlon and Maydew (2009) in examining the effect of individual executives on firms' tax planning activities, find significant involvement of corporate governance (individual executives) in determining firms' level of tax planning activities.

A considerable stream of literature has discussed corporate governance issues in relation to tax planning and firm performance (e.g. Desai & Dharmapala, 2006; Dyreng et al., 2009; Minnick & Noga, 2009; Abdul-Wahab, 2010; Ahmed & Khaoula, 2013; Kportorgbi, 2013). Desai and Dharmapala (2006) examine the relationship between corporate governance and tax planning with specific reference to equity-based incentive compensation. Desai and Dharmapala find negative relationship between managers' incentive compensation and tax planning. The authors highlight that the negative relationship stems from the corporate governance characteristics adopted by the firms. Desai and Dharmapala argue that, firms

with weak corporate governance are more likely to engage in aggressive tax planning even when management incentives increase.

In addition, Rego and Wilson (2009) examine the relationship between executive compensation and tax planning. They find that, executive incentives lead management to take more risk investment and funding decisions, provided that risk will increase their incentives. The authors found a positive relationship between tax planning and executive incentives.

Corporate Governance Theories

The main theories underpinning corporate governance are agency theory, transaction cost economics, stakeholder theory, and stewardship theory (Mallin, 2010). These theories are very important in explaining corporate governance. This study reviewed stakeholder theory and stewardship theory.

Stakeholder Theory

This theory stipulates that, management should make decisions that take account of the interests of all the stakeholders in a firm (Jensen, 2001). According to the author, stakeholders comprise of individuals or group that affect or can be affected by the welfare of the firm. For example, employees, customers, the community and government officials. The theory supports the notion that, the firm and society are interdependent, therefore the firm serves a broader social purpose than its responsibilities to shareholders (Kiel & Nicholson, 2003). The stakeholder theory holds that, management are expected to serve not only shareholders, but also consider other stakeholders who are affected by the operations of the firm. Therefore management need to clarify the conflicting interest among stakeholders to ensure the best level of

implication from decisions made in accommodating those interest (Abdul-Wahab, 2010).

Donaldson and Preston (1995) posit that, the aim of the stakeholder theory is to guide and explain the firms' structures and operations with the view that the firm is an entity through which several parties accomplish their objectives. Jensen (2001) opines that, in stakeholder theory, the main concern of management is to react to reduce the social waste to benefit all relevant parties. Thus, stakeholder theory could be perceived as the theory that considers all individuals and groups that are affected by the decisions of management. Letza, Sun and Kirkbride (2004) posit that, stakeholder theory might not be capable of providing better governance, due to the debate on a divergence corporate governance focus in stakeholder theory that is focusing on stakeholders instead of shareholders. Abdul-Wahab (2010) argues that, shareholders are not the only affected parties to be considered in the decision-making process by management. This is due to the contribution of stakeholders in terms capital, skills and other factors.

Stewardship Theory

According to the stewardship theory, managers are stewards whose motives are aligned with the objectives of their shareholders (Davis, Schoorman & Donaldson, 1997). The theory regards directors (managers) as steward of the company's assets and will be predisposed to act in the best interest of the shareholders (Mallin, 2007). The stewardship theory holds that managers are expected to protect the interest of shareholders and make decisions on their behalf. Arthur (2015) asserts that, the sole objective of

managers is to create and maintain a successful organisation in order to maximise shareholders wealth.

According to Donaldson and Davis (1991), managers have varied motives beyond their self-interest. That is they stand for values such as achievements, recognition and responsibility needs, intrinsic satisfaction and pleasure of successful performance, respect for authority, social status and work ethics. The authors highlight that the separation of ownership and control does not constitute conflict of interest but rather enhances effective management and shareholders wealth.

Corporate Governance Mechanisms

Corporate governance mechanisms refer to the procedures employed by firms to solve corporate governance problems (Weimer & Pape, 1999). Corporate governance mechanisms can be grouped into two categories that is internal mechanisms and external mechanisms (Weir & Laing, 2000). Internal corporate governance mechanisms refer to the structural components that serve to mitigate the conflict of interest between shareholders and management, whilst the external mechanisms refer to the component by which actors are external to the direct management of firms (Weir, Laing & McKnight, 2002). Board structure, board monitoring, committee structure, director quality, director shareholdings, debt financing and institutional shareholdings are considered internal governance mechanisms whereas external mechanisms consist of hostile takeover (Weir & Laing, 2000). According to Gillan (2006), the main objective of corporate governance mechanisms is to monitor management operations.

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There are a number of mechanisms that have been set in place to mitigate the conflict of interest between management and shareholders in order to enhance firms' performance. The discussion of this study is limited to board size and non-executive directors.

Board Size

Prior studies on board size have argued that board size is a more effective monitor (e.g. Jensen, 1993). The author argued that, board size should be restricted as larger board size is likely to render most of the directors inactive. Thus, board size could result in a more coherent discussion and save time. In addition, Vafeas (2000) opine that, firms with smaller board size have better monitoring abilities. Similarly, Postma and Sterken (2001) allude that, smaller boards are more effective than larger boards.

There have been conflicting views as to how board size affects monitoring and enhance performance. Prior studies show that board size is related to performance. Loderer and Peyer (2002) examine the relationship between board size and performance using a sample of listed firms. They find negative relationship between board size and performance. The authors highlight that, the negative relationship is as a result of poor governance systems of large boards. Florackis (2005), Cheng, Evans and Nagarajan (2008) and Kportorgbi (2013) observes a negative relationship between board size and performance. It is evident from the above discussions that there is a relationship between board size and firm performance.

In contrast, Zahra and Pearce (1989) find a positive relationship between large board size and performance. Zahra and Pearce gave three reasons for their positive relationship. Firstly, larger boards have a variety of

educational background and skills to enhance firms' decisions. Secondly, larger boards have greater opportunity to secure resources and establish good image for their firm. Lastly, with larger board, chief executive officers (CEO's) are constraint from dominating the board and this help to enhance firm performance. Consistently, Anderson and Reeb (2003), Marchica and Mura (2005) and Belkhir (2009) observe significant positive relationship between board size and firm performance.

Non-executive Directors

Petrovic (2008) refers to non-executive directors as outside directors who offer checks and balances to protect the interest of shareholders. The Cadbury Report (1992) highlights that, the presence of non-executive directors on the board should be effective in enhancing board independence. Non-executive directors are found to be associated with tax planning and performance. Fama and Jensen (1983) posit that a higher proportion of non-executive directors enhances board effectiveness in monitoring managerial opportunism and consequently increases voluntary disclosure. Similarly, Yermack (1996) asserts that, firms with more non-executives directors enhance corporate performance and consequently maximises shareholders wealth. According to Lanis and Richardson (2011), firms with more non-executives directors on their board are likely to have effective monitoring function. (Ahmed & Khaoula, 2013) report a positive relationship between non-executive directors and bank performance. In contrast, Weir et al. (2000) find negative relationship between non-executive directors and performance.

Empirical Studies on Tax Planning

A number of studies have been done on tax planning and firm performance of firms. Tax planning activities are traditionally regarded as tax savings device that transfers resources from government to shareholders, and thus increases firms' after-tax returns (Desai & Dharmapala, 2009). However, tax planning represents significant of cost to firms and shareholders (Ahmed & Khaoula, 2013). As a result, shareholders might factor into their valuation, the risk associated with tax planning.

Desai and Hines (2002) observe a positive relationship between tax planning and firm performance. Their study examines the relationship between strengthening of tax systems and market value of US firms. The study was based on 850 listed firms based in US. The study sample was purposively selected to reflect the characteristics desired by the researchers. The study was cross sectional and the data related to year 2000. The result of the study established that intensive tax planning is related to higher firm performance. Question is why should strengthening of the tax system lead to higher performance? The authors' explain that strengthening the tax system reduces the risk and uncertainty related to tax planning. Once tax planning risks are substantially reduced, net tax savings from the tax planning activities is enhanced and the benefits reflect directly in higher firm performance. One shortfall of Desai and Hines study is that, the methodology used was cross sectional and their data related to a single period. This is a limitation because tax planning issues have an effect which goes beyond one year (Abdul − Wahab, 2010).

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The study of Kibua and Nzioki, (2004) reveal some dimensions and opposing results in the tax planning and firms performance. Their study found tax planning through advertisement as business propaganda expenses with reasonable grounds and sufficient evidence for the position of the study. This reflects why small enterprises do not use this method of tax planning as it may not add value in the eyes of the customers that they so much wish to attract besides the cost component. This assumption of tax planning through advertisement is not legally recognized in all countries yet the effect on performance of firms is significant to be examined. The results of the study found no significant relationship between the independent variable (tax planning) and the dependent variable (performance of small enterprises).

Consistently, there are some factors that most researchers fail to consider in their quest to establish a relationship or effect of tax planning on firms' activities. Some of these unnoticed factors have been considered by the studies conducted by Viava (2007), Friese and Mayer (2008). All these studies established that tax planning has a significant influence on corporate governance by increasing the value of the firm. However, the study noted that tax planning has its associated costs. Such costs include administrative costs for lawyers, cost for accountants and consultants in designing the strategies and the risk of legal challenge by tax the authority and penalty. To be able to measure the full scale of effect of tax planning on firms' performance, cost-benefits analysis is essential. When these factors of costs are taken into consideration, tax planning does not have a clear positive impact on corporate governance. The study of Viava (2007) even pointed out that the penalty and administrative costs associated with tax planning seem to outweigh it benefits.

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Besides, when management engages in transactions designed solely to minimise tax liability, they may mischaracterise such transactions by manipulating financial and operating results in order to avoid the risk of tax audit and penalty.

Upon using a different methodology, the study of Frank, Lynch and Rego (2009) found a link between earnings of management and tax planning practices. They also argue that effective tax planning exists in organisations where managements are compensated for ensuring that effective tax planning is carried out. Further, Robinson, Sikes and Weaver (2010) narrowed tax planning and management compensation and acknowledged that firms that treat their tax departments as 'profits center' pay lesser of taxes. This means that tax managers are compensated for effective tax planning.

In the study of Desai and Dharmapala (2007), they provided a comprehensive study on corporate tax planning, corporate governance and firm performance. Part of the results of the study contradicts the results of most researchers with regards to firms' performance and tax planning (Desai & Hines, 2002; Chen et. al., 2010). The study used 4,492 observations on 862 firms over the period 1993 to 2001. The results showed that the average effect of tax planning on corporate performance is not significantly different from zero. In other words, there is no relationship between tax planning and firm performance. The study employed mediating effect of corporate governance variables. However, it reported a positive relationship between tax planning savings and performance for well-governed firms. Thus, the researcher concluded that corporate governance moderates tax planning-firm performance relationship. This means that corporate governance play

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significant role in ensuring the effectiveness of tax planning. One shortfall of Desai and Dharmapala's study is the proxy for corporate governance. The study used only one (i.e. level of institutional ownership) proxy and this does not give a clear picture of corporate governance influence on tax planning.

Nevertheless, a recent study contrasted the results of Robinson, Sikes and Weaver (2010) that a relation exists between the compensation of tax managers and effective tax planning. This study was conducted by Armstrong, Blouin and Larcker (2012). They documented no relationship between tax directors' compensations and tax planning. The authors concluded that tax matters are influenced more by the top management team than the tax director as an individual. In a way, their position goes back to the assumption that the composition of the board of directors constitutes the fundamental moderating in the establishment of tax planning in an organisation (Desai & Dharmapala, 2006).

Also, Abdul-Wahab (2010) provides a result that also differs from the findings of Desai and Hines (2002); Desai and Dharmapala (2009); Chen et al. (2010). Abdul-Wahab's (2010) study sought to establish a relationship between tax planning savings of firms and their value. The study simultaneously investigates the moderating influence of corporate governance. Abdul-Wahab's study employed 240 firms listed on the London stock exchange from 2005 to 2007. The results indicate a negative relationship between firm value and tax planning. The study further explains the relationship with reference to tax planning cost and risk. The study suggested that costs and risks associated with tax planning have the potential of derailing the benefits that should have accrued to shareholders. The researcher

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maintains that as tax planning activities increases, the tax costs and risks outweighs the benefits. This finding confirms the results reached by Viava (2007); Friese and Mayer (2008).

In Tunisia, the study of Minnick and Noga (2010); Lanis and Richardson (2011) provided impetus to already existing literature. The purpose of the study was to investigate the relationship between the board of directors and tax planning in the Tunisian context. Again, they were to show the importance of the board in strategic tax decisions relating to minimising tax burdens. A result from the study in particular, shows that board's characteristics influence the decision to practice tax planning. Thus firms with strong corporate governance are able to create successful tax minimisation strategies. The research however, finds no evidence to support that all board's attributes contribute to corporate tax minimization. This study also affirms the position that corporate governance variables or attributes have some level of moderating effects on the effectiveness of tax planning and their related impact on firms' performance.

With respect to the board composition, Lanis and Richardson (2011) show that when a company constitute board members with the inclusion of a higher percentage of outside members on the board, it reduces the likelihood of tax aggressiveness. They also found a negative and statistically significant relationship between outside board of director membership and tax aggressiveness. Thus, more independent boards appear to deter tax aggressiveness through better governance. However, Mahenthiran and Kasipillai (2012) found a significant negative but partial relationship between the two variables among Malaysian listed companies. On the contrary, Pathan

and Faff (2013) found that both board size and independent directors decrease bank performance. They show that board structure is particularly relevant for banks with low market power.

The study conducted by Chasbiandani and Martani (2012) committed research relationship between long run tax avoidance behaviour and firm performance in Indonesia. The authors used sample of non-banking and financial firms in Indonesia stock exchange for the period 2010 to 2011. The authors used similar method by Dyreng, Hanlon and Maydew (2008) who measured long run tax avoidance, and firm value (Tobins' Q). Found that long run tax avoidance has a negative significant relationship with firm value, this study suggests that a firm with lower Effective Tax Rate (ETR), has higher firm value. The ability of firms to use the existing law to lower their ETR stands to have the maximum performance so expected.

In Tunisia, the study of Ahmed and Khaoula (2013) contributes to the banking literature by investigating the moderating effects of two sources of the monitoring board (board size and independent outside directors) on the relationship between tax planning and bank performance. The study posited that, the moderating variables can affect either the form or strength of the relationship between tax planning and bank performance. The study chose 18 Tunisian banks over the period of 2000 to 2011. The two moderating variables had different role to play to arrive at the expected outcome. They found that, board size moderate the form of the tax planning-performance relationship whiles independent outside directors influence the strength of that relationship. The results of the study revealed a negative significant relationship between tax planning and bank performance. The negative significant coefficient result

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with respect to BS is consistent with the Trabelsi (2010) finding within Tunisian banks suggesting that a high number of administrators results in a negative effect on performance. The relationship between ETR and ROA proved to be statistically significant and negative for the subgroup consisting banks with above-median independent outside board membership.

In Nigeria, the study conducted by Kiabel and Akenbor (2014) investigated tax planning with the view to determine its impact on corporate governance in Nigerian banks. The study sampled twenty-one (21) recapitalized banks in Nigeria for the period of 2007 to 2011.The findings from this study revealed that there is a positive significant relationship between corporate governance and tax planning in Nigeria banks, but the accruable tax savings do not significantly outweigh tax planning costs. The study also identified that tax planning gives excessive power to management over the resources of the bank, and violates the rules of good corporate governance, though it increases the market value of banks. This is because when bank management engages in transactions designed solely to minimise tax liability, they may mischaracterise such transactions by manipulating financial and operational results. Such mischaracterisation increases the gap between information available to managers and shareholders giving rise to information asymmetry and agency problem.

Therefore, as there is general lack of published research that studies the relationships between tax planning and firms performance in Ghanaian setting, there has been a recent study published in this area. The study by Kawor and Kportorgbi (2014) focused on ascertaining the level of tax planning of firms and to explore the relationship between tax planning and firms' market

performance. The study used 22 non-financial companies listed on the Ghana Stock Exchange over a twelve year period from 2000-2012. The longitudinal correlative designed was used. The results indicate that firms' tendency to engage in intensive tax planning activities reduces when tax authorities maintain low corporate income tax rates. Secondly, tax planning has a neutral influence on firm performance. This finding challenges the general perception that every cedi of tax savings from tax planning reflect in the pocket of investors. This study is flawed in the sense that preceding studies have employed either corporate governance variables or transactional costs associated with tax planning to achieve comprehensive results. None of these moderating variables were employed in the Kawor and Kportorgbi's (2014) studies. Though their study is more recent, it also provides contradictory results of neutrality of tax planning and firm market performance.

Conceptual Framework

From the discussions presented earlier, the emerged of banks performance are clearly inferred. However, there are some variables that not only have direct influence on banks performance, but also play a moderating role. Accordingly, the proposed framework depicts the relationship.
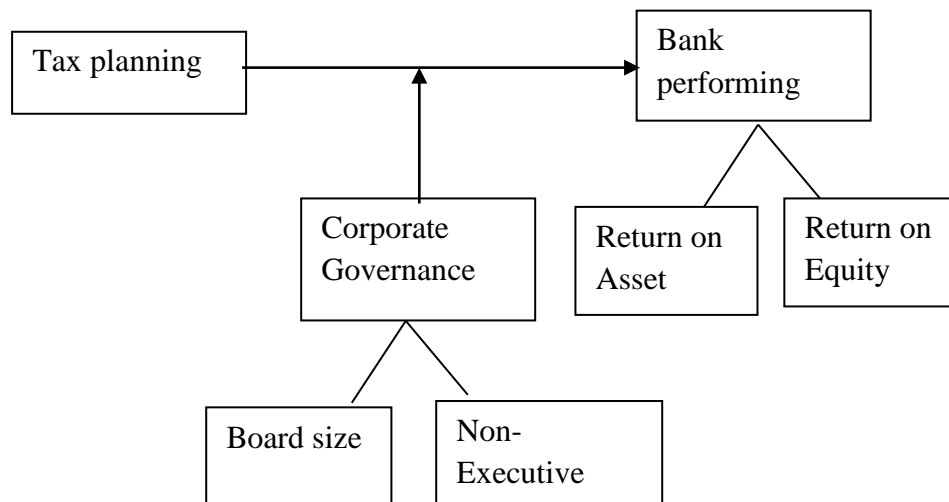
Figure 1: conceptual framework

Source: Yimbila (2016)

The most obvious benefit that firms could derive from tax planning is the tax savings from tax planning activities. Annuar, Salihu and Obid (2014) posit that, tax savings increases firms' cash flow and offer investment opportunities which in turn increases firm performance. However, Ahmed and Khaoula (2013) argue that, tax planning is associated with actual and potential costs which could inhibit firms from maximising after-tax returns. Thus, it is possible for banks to have negative tax savings where tax planning costs outweigh the benefits. The agency view of tax planning suggests that, in agency setting the tax savings derived from tax planning activities may not enhance performance if the firm has weak corporate governance system (Desai & Dharmapala, 2006).

Based on the above discussion, corporate governance can play an important role in firms' tax planning activities. Wang (2010) argues that, the benefit from tax planning could result in higher performance only when a firm's corporate governance systems are strong enough to prevent managerial opportunism. This study expects positive relationship between tax planning

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and performance (ROA and ROE).

Chapter Summary

In this chapter, the researcher reviewed literature on corporate tax planning and discussed theories underpinning tax planning. Both theoretical and empirical literature was reviewed. Literature on tax the concept of tax planning and opportunities were reviewed. The chapter further discussed the constraints and approaches of tax planning. As there are several measures of tax planning and bank performance, the chapter discussed the measurement of tax planning and bank performance employed by prior researchers. Finally, the chapter discussed corporate governance and theories underlying corporate governance as well as corporate governance mechanisms.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter presents the methodology of the study. The chapter discussed the study area, the research design including the population, the sample and sampling procedure. The data collection methods, measurement of variables and data analysis procedure are also discussed in this chapter. The summery of this chapter comes last.

Research Design

A research design is the overall plan for collecting data in order to answer research questions. Harwell (2005) posits that, identifying a study's research design is important because it communicate information about the key features of the study. The author further explained that, research design provides the basis for collecting relevant data with minimal cost and effort.

This study adopted quantitative approach. The choice of quantitative approach over the other research approaches such as qualitative and mixed research approach was informed by the assertion of Harwell (2005) that quantitative approach is appropriate if the purpose of the study is to use instrument such as tests or surveys to collect data, and rely on probability theory to test statistical hypothesis that correspond to the research questions of interest. The method allows the result of the study to be generalised from the sample perspective (Bogdan & Biklen, 1998). The study sought to collect numerical data from annual reports of the individual commercial banks in Ghana on tax planning (measured by ETR) and performance (measured by

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ROA & ROE). The study sought to examine the relationship between tax planning, corporate governance and bank performance. In addition, the analysis for the study requires statistical test therefore, it will require deductive reasoning to analyse the data (Bogdan & Birklen, 1998). However, one drawback of quantitative approach is that, it does not allow for an in-depth study of the variables (Mulligan, 2008).

Panel regression model was employed for the study. According to Pesa and Festic (2014), panel regression model controls for the omitted variables that are persistent over time, alleviate measurement of errors and endogeneity bias. Freedman (2005) posits that, regression analysis is used to analyse relationship among variables. The advantage of panel regression model is that it lowers the collinearity between the explanatory variable and dismisses heterogeneous effects (Pesa & Festic, 2014). Since the study seeks to examine the relationship between tax planning, corporate governance and bank performance over ten years period, panel regression model was the preferred choice for the study.

Study Area

The study covered commercial banks that are licensed by the Central Bank often called Bank of Ghana to operate banking activities in Ghana. Bank of Ghana (BoG) exercises oversight responsibility over all the financial institutions in the country. In an effort to ensuring systematic development in the banking sector, the Central Bank (Bank of Ghana) is charged with the responsibility of ensuring that commercial banks conduct themselves within the regulatory framework that govern their activities. For example,

commercial banks are expected to within three months after the end of their financial year, furnish the Central Bank copies of their annual reports and also publish it in the newspapers circulating in the country (Banking Act, 2004). In an effort to ensure systematic development of the banking sector, Bank of Ghana ensures that banking is responsive to the needs of the Ghanaian public (Ankrah, 2014). Although the information provided by the commercial banks is aimed at serving the needs of investors and customers, it also serves as a rich source of data for research. Thus, every research is mainly driven by the availability of data, and therefore it is perhaps the reason that led to the choice of commercial banks for the study. Aside creating and sustaining a stable macroeconomic environment, building a vibrant, safe and sound banking system and supporting a thriving bond market, Bank of Ghana also provides a one-stop information on all commercial banks.

Currently, the banking sector comprise of 28 commercial banks (15 foreign banks and 13 local banks), 138 rural and community banks, 503 microfinance institutions, 3 credit reference bureaux and 60 non-banking financial institutions which include finance houses, savings and loans, leasing and mortgage firms (Bank of Ghana, 2014).

Table 1: *List of Commercial Banks in Ghana as at July, 2014*

S/N	Name of bank	Year of incorporation	Majority ownership
1	Access Bank (Ghana) Ltd	2008	Foreign
2	Agricultural Development Bank	1965	Local
3	Bank of Africa	1995	Foreign
4	Bank of Baroda (Ghana) Ltd	2007	Foreign
5	Barclays Bank Ghana Ltd	1917	Foreign
6	BSIC (Ghana) Ltd	2008	Foreign
7	CAL Bank Ltd	1990	Foreign
8	Ecobank Ghana Ltd	1990	Local
9	Energy Bank (Ghana) Ltd	2010	Foreign
10	Fidelity Bank Ltd	2006	Foreign
11	First Atlantic Merchant Bank L	1994	Foreign
12	First Capital Plus Bank Ltd	2009	Foreign
13	GCB Bank Ltd	1953	Local
14	Guaranty Trust Bank (Ghana)	2004	Foreign
15	HFC Bank Ghana Ltd	1990	Local
16	First Bank of Nigeria	1996	Foreign
17	National Investment Bank	1963	Local
18	Prudential Bank Limited	1993	Local
19	Society-General Bank Ltd	1975	Foreign
.20	Stanbic Bank Ghana Ltd	1999	Foreign
21	Standard Charted Bank Ghana	1896	Foreign
22	The Royal Bank	2011	Local
23	UniBank (Ghana) Ltd	1997	Local
24	Universal Merchant Bank Ltd	1971	Local
25	United Bank of Africa	2004	Foreign
26	UT Bank Ltd	1995	Local
27	Zenith Bank (Ghana) Ltd	2005	Foreign
28	GN Bank Ltd	2014	Local

Source: Bank of Ghana (2014)

Population

A population can be defined as the total number of all units of the phenomenon to be investigated that exist in the area of investigation (Kumekpor, 2002). According to (Ankrah, 2014), it is important to define the population of a study in order to ensure that the sample selected offers accurate representation of the population. Drawing from the definition, the

study population comprise of all 28 commercial banks in Ghana licensed by Bank of Ghana (BoG) as at the period of conducting this study.

Sampling Procedure

Sampling is the selection of some unit from a study's population of interest (Aina, 2002). According to Ankrah (2014), sampling is a technique that allows a researcher to make inference about a population based on the nature of the sample. Kumar (2005) posits that, sampling is the process of selecting a few from a bigger group to become the basis for estimating the prevalence of the unknown piece of information, situation or outcome regarding a bigger group.

The criteria for selecting the sample for the study was based on banks whose annual reports for the period 2004 to 2014 were available. The initial sample consists of 28 commercial banks, a total of 280 bank-year observations for the period of 2004-2014. But due to late entrants, mergers and acquisition within the period, a balanced data panel of 180 bank-year observations for the period were obtained for the study. Furthermore, in the literature review, firms with negative pre-tax income were excluded because negative income creates tax savings that reduces firms ETR in different years due to the carry-forward provisions in the tax laws (Gupta & Newberry, 1997; Rego, 2003; Rohaya, et al., 2008; Abdul-Wahab, 2010).

Following previous studies, the study also excluded commercial banks with negative pre-tax income. This is because commercial banks with negative profit before tax have different financial and tax reporting incentives and ETR with negative values do not have any economic meaning and can distort the

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findings (Rohaya et al., 2008). In addition, commercial banks with incomplete ETR data were also excluded. The sampling process resulted in eighteen (18) commercial banks to give a balanced data set of 180 bank-year observations over the reporting period.

Panel Methodology

To examine the relationship between tax planning, corporate governance and performance from 2004-2014, the study employed panel dataset of all licensed commercial banks (universal banks) in Ghana. Panel data involves the pooling of observations on cross-section of units over several time periods and facilitate identification of effects that are simply not detectible in pure cross-sections or pure time-series studies (Ahmed & Khaoula, 2013). According to Vong and Chen (2009), panel data is commonly used because it has the advantage of giving more information as it consist of both cross-sectional information, which captures individual variability, and time-series information. Thus, panel data helps to identify a common group of characteristics while at the same time take into account the heterogeneity that is present among individual units. Baltagi (2001) posits that, panel data helps in studying the behaviour of banks overtime and across space. However, Torres-Reyna (2007) argues that, one difficulty with panel data is the issue of data collection. According to Bruderl (2005) the general form of panel data can be written as:

$$Y_{it} = \partial_{it} + \beta_i \chi_{it} + \ell_{it} \qquad (1)$$

Where the error term is explained as follows:

$$\ell_{it} = \mu_i + \lambda_t + \varepsilon_{it} \qquad (2)$$

The subscript i represents the cross-sectional dimension and t is the time-series dimension. This means that the same information on a cross-section of commercial banks is surveyed over time and across space. Y_{it} is the dependent variable in the model. x_{it} represents the independent variable. ℓ_{it} is the error term, ∂_{it} is the intercept and the β represent the coefficient in the model whilst μ represent bank specific effect.

Hausman Specification Tests

Panel data model can be estimated using either fixed effect or random effect model (Baltagi, 2001). According to Torres-Reyna (2007) fixed effect model is used when the researcher is only interested in analysing the impact of variables that vary over time. While in random effect model, the variation across entities is assumed to be random and uncorrelated with the predictor or independent variables included in the model. The problem with random effect model is that, some of the variables may not be available therefore leading to omitted variables bias in the model. Torres-Reyna stated that, the basic difference between the fixed effect and random effect estimation technique is the assumption one makes about the likely correlation between the individual, or cross-section specific error component and the 'x' regressors.

To decide between fixed and random effect model, Greene (2008) suggests that, the researcher must run Hausman (1978) specification test. The null hypothesis underlying the Hausman test is that, the fixed effect and random effect estimators do not differ substantially. The test has an asymptotic x^2 distribution. The null hypothesis of the Hausman test states that, random effect model is the appropriate model. In testing the hypothesis the rule of

thumb is that, when the probability value is less than the threshold (i.e. $p <$ 0.05), reject the null hypothesis in favour of the alternative hypothesis. Based on Hausman test, the model was estimated using both fixed effect and random effect model.

Estimation Models

To examine the relationship between tax planning, corporate governance and bank performance, the study employed a regression model that has been widely used by prior researchers (e.g. Abdul-Wahab, 2010; Ahmed & Khaoula, 2013). Ahmed and Khaoula (2013) used it to empirically analyse the moderating effects of board of directors on the relationship between tax planning and Tunisian banks performance. The researcher estimated the models using general least square (GLS) regression. For the purpose of this study, the researcher extended the model by incorporating variables that influence banks' tax planning behaviour. The regression model is estimated using the following equation:

$$PFM_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 AGE_{it} + \beta_5 GROWTH_{it}$$

$$+ \mu_i + \lambda_t + \varepsilon_{it} \qquad\qquad (3)$$

To assess the moderating role of corporate governance on tax planning and bank performance, the above regression model is extended by including two corporate governance interaction variables BS and NED.

$$PFM_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 LEV_{it} + \beta_3 SIZE_{it} + \beta_4 AGE_{it} + \beta_5 GROWTH_{it}$$

$$+ \beta_6 COG_{it} + \beta_7 COG_{it} * ETR_{it} + \mu_i + \lambda_t + \varepsilon_{it} \qquad (4)$$

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Table 2: *List of Variables and Expected Sign*

Variable	Measurement	Expected sign
PFM	Return on asset	N/A
	Return on Equity	N/A
ETR	Effective tax rate	+/-
LEV	leverage	+/-
SIZE	Bank size	+/-
AGE	Bank age	+/-
GROWTH	Bank growth	+/-
COG	Non-executive directors	+/-
	Board size	+/-

Source: Author's construct (2016)

Measurement of Variables

Mulligan (2008) posits that, quantitative studies provide a precise and objective report about a phenomenon. As described in the study design, this study is quantitative and for that matter, it is important to specify how both the dependent (banks performance) and the independent variables (tax planning) are measured.

Dependent Variables

The dependent variables for this study are bank performance measured by Return on Assets (ROA) and return on equity (ROE). ROA is calculated as profit after tax divided by total assets. Whilst return on equity is calculated as profit after tax divided by total equity. ROA and ROE are the most used measure of firm performance (Abdullah, 2004; Belkhir, 2009: Ahmed &

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Khaoula, 2013; Kportorgbi, 2013). ROA and ROE were employed for the study because they are the two measures of performance that relate to how efficient and profitable an entity is. ROA measures the efficiency of a firm and tells how well a firm's resources (assets) have been used to generate income, whereas ROE measures returns on shareholders.

Independent Variables

Plesko (2003) highlight that, the measure of tax rates is a very important stage in every research on taxation. Given the fact that prior researchers used different approaches in measuring tax planning, the choice of such measurement can have considerable effects on the obtained result. Tax planning literature has developed several proxies for tax planning. These proxies include book-tax gap approach (BTG), effective tax rate approach (ETR) and cash effective tax rate approach. The relevance of each approach depends on the studied research questions (Dyreng et al., 2009). The book tax gap (BTG) refers to the difference between income reported to the capital markets (using the International Financial Reporting Standards and the Banking Act) and taxable income. The unexplained excess of the difference between reported income and taxable income is the outcome of tax planning (tax savings). Empirical literature on tax planning indicates that, tax savings is the result of tax planning (e.g. Plesko, 2003; Hanlon & Heitzman, 2010).

The effective tax rate (ETR) approach compares the applicable statutory tax rate (STR) of a bank with it ETR. The unexplained excess of the STR over the ETR is regarded as the outcome in tax planning (tax savings). All things being equal, the greater the gap between ETR and the STR, the

higher the tax savings derived from tax planning activities (e.g. Gupta & Newberry, 1997; Mills et al. 1998; Abdul-Wahab, 2010; Rego & Wilson, 2009; Kportorgbi, 2013). One advantage of ETR is that, data required for the study can be accessed without direct correspondent with the firm or the tax authorities (Abdul-Wahab, 2010). Considering this advantage, the study used ETR as a proxy for commercial banks tax planning. Following Ahmed and Khaoula (2013) the average tax rate was more appropriate for this study compared to the marginal tax rate. The authors explained that, the average tax rate is more appropriate in measuring cash flows.

Substantial amount of prior studies have examined effective tax rate (ETR) as a measure of corporate tax burden (e.g. Zimmerman, 1983; Porcano, 1986; Mills et al., 1998; Rego, 2003; Abdul-Wahab, 2010; Kportorgbi, 2013; Amankwah, 2014). Prior researchers computed ETR as total corporate tax expense divided by pre-tax profit. This suggests that tax planning only seeks to minimise a firm's tax burden. However, tax planning does not only reduce tax burden but also postpone tax payment (defer tax) (Chludek, 2011). Thus to cater for deferment of tax planning objective by commercial banks, this study modified the numerator as total tax expense minus deferred tax expense. Therefore, this study measured ETR as:

ETR= corporate tax expense – deferred expense   X 100

               Net profit before tax

The comparable statutory tax rate is arrived at after adjusting for all the tax reliefs and rebates contained in the Income Tax Act, 2015 (Act 896). These tax reliefs and rebate have the potential of reducing the general statutory tax rate of twenty-five percent (25%). Therefore, it is appropriate to adjust for

these reliefs and rebates in order to draw a meaningful conclusion of the statutory tax rate (STR) and effective tax rate (ETR) difference (tax savings).

Following prior literature, the study also included other control variables such as size, leverage, age and growth.

Bank Size (SIZE)

Size which represents the size of commercial banks is measured as the natural log of total assets. Empirical studies on the relationship between firm size and tax planning have been widely studied yet there are mixed findings. According to the political cost theory, large firms have higher ETR as taxes are part of the political costs that firms are confronted with (Zimmerman, 1983; Watts & Zimmerman, 1986). In contrast, the political power theory assumes a lower ETR because large firm are able to influence the political process in their favor and organise their activities to achieve optimal tax savings (Siegfried, 1972). Empirical studies by Dyreng et al. (2008); Mills et al. (2013) found negative relationship between firm size and performance. On the contrary, Omer, Molloy and Ziebart (1993) and Rego (2003) found a positive relation between firm size and performance. In addition, Shevlin and Porter (1992) reported conflicting results on the relation between firm size and performance.

Leverage (LEV)

LEV, which represents commercial banks capital structure, is measured as commercial banks long term debt divided by total assets. Leverage is found to be associated with tax planning activities since it could indicate the use of debt financing for the purpose of receiving higher interest

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shield (Porcano, 1986; Derashid & Zhang, 2003). Prior studies found mixed result regarding the relationship between tax planning and leverage. For example, Fama and Jensen (1983), Rego (2003), Ahmed and Khaoula (2013) found positive relationship between tax planning and leverage. On the contrary Gupta and Newberry (1997), Derashid and Zhang (2003) found negative relationship between tax planning and leverage. However, Mills, Erickson and Maydew (1998) found no relationship between tax planning and leverage (LEV).

Bank Growth (GROWTH)

Growth could play a very important role in banks tax planning. Dyreng et al. (2008) provide evidence that firm size and growth may play a role in tax management. The authors found that, small firms with higher growth have higher tax rates. Bank growth is measured as current interest income less previous interest income divided by previous current income. Wang (2010) found positive relationship between firms' growth and performance.

Bank Age (AGE)

Bank could play an important role in banks tax planning activities. This is because institutional knowledge in tax planning is a function of age and accompanying experience of managers in tax matters in an organisation (Nwaobia, 2013). In this study, bank age is measured as natural log of bank age. Prior studies like Dyreng et al. (2008), Dietrich and Nwaobia (2013) found that firm's age positively drives tax planning activities. Ansah (2015) reported a negative association between age and performance. However, Utkir (2012) found no relation between firm age and performance.

The moderating variables of corporate governance have two proxies, board size (BS) and non-executive directors (NED).

Board Size (BS)

BS is the number of directors serving on the banks board. BS is measured as a log of number of directors serving on banks board.

Non-executive Directors (NED)

NED is measured as the number of outside independent directors divided by the total number of directors serving on banks board.

Data Collection

The study employed secondary data, which is mainly the annual financial report of individual banks from the Ghanaian banking sector for the period 2004 to 2014. The advantage of secondary data is that, it is easily accessible, saves time, relatively cheap and can be obtained quickly (Owusu, 2013). One drawback of secondary data is that, it can be misleading and irrelevant since the purpose for which the data was collected may not be appropriate to the present situation (Johnson, 2014).

Thus, three reasons informed the choice of secondary data for the study. First of all, the data required for the study could not be obtained through primary source. Secondly, the financial performance data of most commercial banks can be obtained from either their published or unpublished annual report which offered a basis for the analysis. Finally, an authentic overview of the performance of a given bank can only be computed from the financial

statement for a given period. The secondary data on bank was obtained from the Banking and Supervisory Department of the Central Bank of Ghana.

Data Analysis Procedure

The study used panel data to examine the relationship between tax planning and bank performance while considering the moderating role of corporate governance. The study employs descriptive statistics to understand the level of banks tax planning activities. Test for statistical significant was employed to check if there are significant differences in Ghanaian owned banks and foreign owned banks effective tax rate (ETR). Correlation matrix and variance inflation factor (VIF) test was conducted to check for the existence of correlation among the explanatory variables. In the estimation phase, Hausman (1978) specification test was used to determine the appropriate estimator between fixed effects and random effects. The model was estimated using general least square (GLS) regression model to mitigate heterosecedasticity problem. GLS is applied when there is certain degree of correlation among the explanatory variables.

The significance effect of the explanatory variables on the dependents variables was evaluated at ($p < 0.05$) significant level using T-statistics. The estimation was carried out with the use of Stata IC13 software.

Chapter Summary

This section of the study described how the research was undertaken; it discussed the study area, the study design of which the quantitative design was used for the study. The model estimation, variable definition, population and its respective sampling size were also described after which how the data was

analysed also followed suit. The main data source for the study has been revealed as secondary and these data were collected from the audited annual financial statements of commercial banks. The section ended with the chapter summary.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the results and discussion for the study. It begins with the descriptive statistics results, followed by the results of the correlation analysis and variance inflation factor (VIF) tests showing the level of association among the explanatory variables used in the regression model. Results from the fixed effect panel regression model are then discussed. Inferential analyses are done alongside the presentation of the estimated results to help explain the relationship between tax planning and performance of banks in Ghana.

Descriptive Statistics

The descriptive statistics shows the mean, standard deviation, minimum and maximum of the dependent and independent variables as well as the control variables. Table 3 below presents the results of the descriptive statistics.

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Table 3: *Descriptive Statistics for the Variables*

Variables	Obs	Mean	Std. Dev.	Minimum	Maximum
ROA	194	0.03397	0.03784	-0.10536	0.36436
ROE	194	0.25489	0.46944	-4.39896	3.59116
LEV	194	0.85665	0.08670	0.02369	0.99108
SIZE	194	12.97525	1.29472	9.13855	15.55063
AGE	197	1.66633	1.33182	0.69897	11
GROWTH	191	0.43811	0.85798	-0.96950	6.99674
BS	186	9.46774	1.55321	7	12
NED	186	0.66503	0.08341	0.44444	0.85714

Source: Field Survey, Yimbila (2016).

Table 3 shows that on average ROA are lower compared to ROE. The mean value of ROA is 0.03397 and standard deviation 0.0378 with a minimum and maximum value of -0.10536 and 0.36436 respectively. This shows that on average Ghanaian banks are able to generate 3.397 percent returns on their Total Asset. The mean of 0.03397 compared with the standard deviation of 0.0378 suggests that the panel has a closely observed performance when it comes to ROA.

ROE is significantly higher than ROA. ROE has a mean value of 0.25489 and standard deviation 0.4694. ROE seems spread around the mean given that the minimum and maximum observed for all the banks are -4.3989 and 3.5911 respectively. This implies that on average, banks are able to generate 25.5 percent on their investment for shareholders.

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In Table 3, the results support previous empirical studies that found that banks in Ghana are highly levered. Debt account for about 86% of total assets. Leverage (LEV) shows a mean of 0.85665 and standard deviation 0.08670. Leverage seems spread around the mean given the minimum of 0.02369 and a maximum of 0.99108. This implies that the average use of debt by banks is 85.665 percent whereas the lowest degree of reliance on debt is 2.369 percent and the highest reliance is 99.108 percent.

The average SIZE of the sampled banks is 12.97525 with a standard deviation of 1.29472 suggesting a closely dispersed observation for the size of banks in the panel used for the study. SIZE ranged between a minimum of 9.13385 and a maximum of 15.55063. Banks age (AGE) ranged between a minimum of 0.69897 and a maximum of 11. The mean of 1.66633 and standard deviation 1.33182 shows the spread of individual banks age (AGE) away from the mean. GROWTH has a minimum of -0.96950 and a maximum of 6.99674. A mean of 0.438111 and standard deviation of 0.85798 is observed. The indication is that GROWTH seems spread around the mean.

In terms of corporate governance, board size (BS) recorded a mean of 9.467742 with a standard deviation of 1.55321. This indicates that on average 9 directors serve on boards of banks in Ghana, whereas the minimum number of directors who serve on board is 7 and the maximum is 12. Non-executive directors (NED) recorded a mean of 0.66503 and a standard deviation of 0.08341 with minimum and maximum values of 0.44444 and 0.85714 respectively. This implies that on average 66.5 percent of banks directors in Ghana are non-executive. This is an indication that, on average, the executive

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directors serving on banks boards in Ghana are less than the total number of directors on the board.

Level of Tax Planning Activities of Banks in Ghana

In objective 1, the study sought to determine the level of tax planning activities of banks in Ghana. Banks are expected to strive to achieve lower effective tax rates (ETR) as it shows how efficient a bank is in managing it tax liabilities in order to maximise shareholders wealth. Table 4 presents the summary statistics of the effective tax rates for all banks in Ghana and then that of Ghanaian owned banks and foreign owned banks in Ghana.

Table 4: *Comparison of Tax Planning (ETR) of Ghanaian Owned Banks and Foreign Owned and Banks*

Sector	N	Mean	Std. Dev.	Minimum	Maximum
Foreign banks	96	26.31111	16.65172	-40.6945	85.94
Local banks	92	24.34107	20.88425	-27.01	158.42
Total	188	25.34704	18.817	-40.694	0.2383
Statistical significance Pro (T > t) = 0.0324					

Source: Field Survey, Yimbila (2016).

On average, the overall ETR is 25.34704 with a standard deviation of 18.181712 ranging from -40.69454 minimum and 0.2383 maximum. The mean value of ETR indicates that the average effective tax rate of banks in Ghana is slightly higher than the statutory tax rate of 25%. This is an indication that taxes are not properly managed by banks in Ghana. As a result, banks are paying more taxes than expected. This implies that banks have not

been taking advantage of the tax planning opportunities available to them in regulatory framework of the tax laws in Ghana.

Table 4 shows that, foreign owned banks recorded a mean value of 26.311 and standard deviation 16.65172 with a minimum and maximum of -40.6645 and 85.94 respectively. The results for Ghanaian owned banks indicate that, on average the ETR for Ghanaian owned banks is 24.34107 with a standard deviation 20.88425 ranging from minimum and maximum values of -27.01 and 158.42 respectively.

On average, foreign owned banks recorded the highest effective tax rates (ETR's) of 26.3 percent which is above the overall mean percentage point, whilst Ghanaian owned banks recorded 24.3 percent. The results in Table 4 clearly show that foreign owned banks have higher effective tax rate than Ghanaian owned banks given that their mean is higher. This suggest that, foreign owned banks seems to engage more in conservative tax planning than Ghanaian owned banks for the period studied. Conservative tax planning means foreign owned banks are not effective in managing their taxes to reduce their tax burden compared to Ghanaian owned banks with lower ETR.

The result in Table 4 clearly shows the extent of variations in both Ghanaian owned banks and foreign owned banks tax planning activities. The variation in the banks ETR is an indication of the differences among Ghanaian banks in their tax planning effort supporting the argument by Murphy (2004) that not all firms have the same level of inclination toward aggressive tax planning activities. This result contradicts the findings of Demirguc-Kunt and Huizinga (2001) who found that foreign banks have lower effective tax rate than their local counterpart in the host country. This result contradicts the

notion that banks are highly regulated and as a result may not be able to engage in tax planning activities.

The p-value of 0.0324 for the test of statistical significance indicates that there is a statistical difference between foreign owned banks ETR and Ghanaian owned banks ETR. Based on the test of statistical significance results in Table 4, it can be concluded that Ghanaian owned banks are more tax aggressive than foreign owned banks. Therefore the study concludes that there is a statistically significant difference between Ghanaian owned banks ETR and foreign owned banks ETR.

Test of Multicollinearity

Before proceeding with the regression analysis there is the need to conduct correlation analysis in order to test for the presence of multicollinearity among the regressors. The correlation coefficients represent the linear relationship between two variables. For the purpose of this study, the threshold for the correlation matrix is 0.50. Table 5 below provides the results of correlation matrix.

Table 5, shows the correlation between the explanatory variable and control variables. The result confirms some level of correlation between the dependent variables (ROA and ROE) and the independent variable (ETR) as well as the control variables (LEV, SIZE, AGE, GROWTH and sector dummy).

From the above correlation results, there is a positive 0.4037 correlation between return on assets (ROA) and return on equity (ROE). The

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correlation is significant with a p-value of 0.000 which is less than ($p < 0.05$) significance level.

The correlation between ETR and performance (ROA) is positive 0.0249 but not statistically significant. This suggests that banks that engage in tax planning activities do not experience significant increase in performance. The correlation between ROA and other control variables LEV (0.2401), SIZE (0.3859) and AGE (0.2309) is positive and significant. This implies that the higher the level of LEV, SIZE and AGE, the higher the level of banks performance (ROA).

GROWTH is positively (0.1268) correlated with ROA but not statistically significant. SIZE is positively associated with ROA, ROE and LEV. The association is significant. There is a positive significant association between SIZE and BS (0.0826). NED (0.1072) and BS (0.0826) are positively associated with ROA but not statistically significant. This suggests that board size (BS) and non-executive directors (NED) have no significant effect on banks performance.

Table 5: *Pearson Pairwise Correlation Results*

Variables	LnROA	LnROE	LnETR	LnLEV	LnSIZE	LnAGE	LnGROWTH
LnROA	1						
LnROE	0.4037*	1					
LnETR	0.0249	0.1569*	1				
LnLEV	0.2401*	0.0442	0.0292*	1			
LnSIZE	0.3859*	0.1701*	0.0911	0.2131*	1		
LnAGE	0.2309*	0.0410	0.0277	-0.0767	0.1321	1	
LnGROWTH	0.1268	0.0416	0.1547*	-0.0297	-0.1160	0.0652	1
LnBS	0.0826	0.0403	0.0148	0.3335*	0.2301*	-0.3121*	-0.1362
LnNED	-0.1072	-0.0730	0.2603*	0.1599*	0.0571	0.0081	0.2321*
Dummy	0.2247*	0.0046	0.1964*	-0.0868	0.0457	0.2086*	0.0318

Source: Field Survey, Yimbila (2016).

The correlation results presented in Table 6 reveal that the correlation between most of the variables is low. Correlation only explains the relationship between the variables but does not guarantee the existence of multicollinearity that is collinearity condition due to the combine effects of two or more variables (Hair, Black, Anderson, & Tatham, 2006). Therefore, it is important to test for signs of multicollinearity among the explanatory variables, to avoid the problem of multicollinearity. The study further relied on variance inflation factor (VIF) test to test for signs of multicollinearity among the explanatory variables. Variance inflation factor measures how much the variance of the estimated coefficient is inflated as a result of multicollinearity. Table 7 presents results of the VIF values of the variables based on the test. In testing for multicollinearity, the rule of thumb is that any value above 5.00 shows high multicollinearity (Kutner, Nachsheim, & Neter, 2004). Table 6 presents the result of the test.

Table 6: *Result of the Variance Inflation Factor (VIF) Test*

Variables	VIF	1/VIF
LnETR	1.09	0.917694
LnLEV	1.21	0.824894
LnSIZE	1.26	0.791783
LnAGE	1.05	0.668045
LnGROWTH	1.06	0.944549
LnBS	1.47	0.679380
LnNED	1.42	0.704373
Mean VIF	1.28	

Source: Field Survey, Yimbila (2016).

Table 6 shows that, all the explanatory variables of the variance inflation factor (VIF) values as well as the mean value are less than the threshold (5). This indicates that, the presence of multicollinearity between the variables is minimal. The multicollinearity test results confirms the correlation matrix results in Table 6 above that multicollinearity is not a problem for the study. Therefore, all the explanatory variables can be included in a panel regression model at a time.

Tax Planning and Bank Performance

The general least square (GLS) panel regression used for investigating the relationship between tax planning and banks performance was estimated using panel data from the financial reports of sampled banks in Ghana. Before conducting the panel regression analysis, there was the need to determine whether to use fixed effect or random effect model. Therefore, the model was subjected to Hausman (1978) specification test to determine the most appropriate model for the study. The null hypothesis of the Hausman test states that random effect model is the appropriate model. In testing this hypothesis, the rule of thumb is that when the probability value is less than the alpha (i.e. $p < 0.05$), reject the null hypothesis in favour of the alternative hypothesis. Table 7 and Table 8 below presents the results of the Hausman (1978) specification test.

Table 7: *Hausman Test between Fixed and Random Effect Model for ROA*

	Coefficients			
	(b)	(B)	(b-B)	squrt (diag (v_b-V_B))
Variables	Fixed	Random	Difference	S. E.
LnETR	-0.01939	-0.00994	-0.00945	0.00147
LnLEV	1.01975	0.01320	0.00654	0.01631
LnSIZE	0.00325	0.00856	-0.00531	0.00132
LnAGE	0.00967	0.00393	0.00574	0.00548
LnGROWTH	0.00302	0.00363	-0.00061	0.00123

Notes: chi2 (7) = (b-B)'[(V_b-V_B) ^ (-1)] (b-B) = 55.99; Pro>chi2 = 0.0000

Source: Field Survey, Yimbila (2016).

Table 8: *Hausman Test between Fixed and Random Effect Model for ROE*

	Coefficients			
	(b)	(B)	(b-B)	squrt (diag (v_b-V_B))
Variables	Fixed	Random	Difference	S. E.
LnETR	-0.16449	-0.10383	-0.60660	0.01169
LnLEV	1.13062	1.06954	0.06107	0.12498
LnSIZE	0.02123	0.05058	-0.02935	0.01075
LnAGE	0.03830	0.01738	0.02092	0.04916
LnGROWTH	0.02128	0.03132	-0.01003	0.00990

Notes: chi2 (7) = (b-B)'[(V_b-V_B) ^ (-1)] (b-B) = 35.44; Pro>chi2 = 0.0000

Source: Field Survey, Yimbila (2016).

From Table 7 and 8 the results of the test show probability values of 0.0000 and 0.0000 respectively which are less than the alpha ($p < 0.05$). Therefore, the study rejected the null hypothesis that random effects model is the appropriate model, and accepted the alternative hypothesis, indicating that, fixed effects model is the most appropriate model for the study. Table 9 below presents the regression results for accessing the relationship between tax planning and banks performance.

Table 9: *GLS Regression Results with ROA as the Dependent Variable*

	Fixed effects		
Variable	Coefficients	Standard error	Sig
LnETR	-0.0193	0.0039	0.000
LnLEV	0.0197	0.0371	0.596
LnSIZE	0.0032	0.0024	0.179
LnAGE	0.0096	0.0058	0.098
LnGROWTH	0.0030	0.0020	0.147
Constant	0.0503	0.0322	0.121
R- Square		0.1767	
Prob > F		0.0000	
F (5, 143)			

Source: Field Survey, Yimbila (2016).

Table 9 presents the results of the fixed effects panel regression model that tests the relationship between tax planning and banks performance. The R-square for the model is 0.1767, this indicates that the explanatory variables explain 17.67 percent of the variations in banks performance (ROA). This is

consistent with Ahmed and Khaoula (2013). The model is significant with a p-value of 0.000 which is less than ($p < 0.05$) significance level. From Table 9 all the variables except ETR are positively related to the dependent variable (ROA). The relationships are insignificant except for ETR.

The result shows significant negative relationship between ETR and banks performance (ROA) at ($p < 0.05$) significance level. The coefficient of ETR 0.0193 indicates that a 1% increase in ETR leads to 0.0193% decrease in banks performance (ROA). Although the effect seems very small, it could have a greater impact on banks performance. The negative relationship between ETR and performance suggest that tax planning can decrease banks performance due to management opportunistic behaviour (Desai & Dharmapala, 2009) and other risk related to tax planning, for example risk related to investigation by tax authorities. This results support the argument by the agency theory that, in agency setting tax planning can decrease firm performance especially in cases where managers have the opportunity to understate reported accounting profits and incentives to reduce tax liabilities by understating taxable income.

Apart from the agency problem, the results also confirm the argument that tax planning can potentially reduce after-tax profit because it represents a significant cost to firms and shareholders (Ahmed & Khaoula, 2013). These costs include costs directly related to tax planning activities, additional compliance costs and non-tax cost which prevent banks form maximising after-tax profits from tax planning activities. Viava (2007) clearly pointed out that, the costs associated with tax planning activities may outweigh benefits

that firms are expected to derive from the activities. Therefore care must be taken when it comes to banks engaging in tax planning activities. This result partly supports Abdul-Wahab's (2010) argument that, tax planning negatively affects firm performance due to managers' moral hazard.

This result supports prior studies like Swenson (1999), Lev and Thiagarajan (1993), Dyreng et al. (2008), Abdul-Wahab (2010), Ahmed and Khaoula (2013) who found a negative relationship between tax planning and firm performance (ROA). In contrast, Frank, Lynch and Rego (2003), Wilson (2009), Chen et al. (2010), Wang (2010), Lisowsky et al. (2013) found positive relationship between tax planning and firm performance.

From Table 9 the coefficient of LEV is positive but not statistically significant (p-value = 0.596). The result suggests that there is no significant relationship between LEV and banks performance (ROA). The result is consistent with prior studies like Nwaobia (2014) who found no significant relationship between leverage and performance.

The results in Table 9 indicates that SIZE and AGE are positively related to bank performance (ROA), but not statistically significant with p-value of 0.179 and 0.098 respectively. This implies that the SIZE of a bank regardless big or small does not have significant effect on the bank performance. Likewise, the AGE of a bank whether old or young has no significant effect on bank performance. This result confirms the findings of Utkir (2012) who found no significant relationship between AGE, SIZE and performance (ROA).

The coefficient of GROWTH is positively related to performance (ROA), but not statistically significant (p-value = 0.147). This implies that, there is no significant relationship between GROWTH and bank performance (ROA). To appreciate the general least square (GLS) results better, Table 10 presents the results of the return on equity (ROE) model.

Table 10: *GLS Regression Results with ROE as the Dependent Variable*

Fixed effects			
Variable	Coefficients	Standard error	Sig
LnETR	-0.1644	0.0363	0.000
LnLEV	1.1306	0.3385	0.001
LnSIZE	0.0212	0.0219	0.336
LnAGE	0.0383	0.0529	0.470
LnGROWTH	0.0212	0.0189	0.262
Constant	0.7058	0.2942	0.018
R- Square		0.1057	
Prob > F		0.0000	
F (5, 143)		6.39	

Source: Field Survey, Yimbila (2016).

Table 10 presents the results of the fixed effects panel regression model that tests the relationship between tax planning and banks performance using ROE as the dependent variable. From return on equity (ROE) model, the R-square for the model is 0.1057. This shows that the explanatory variables explain 10.57 percent of the variations in banks return on equity (ROE). This corroborates Ogundajo and Onakoya (2016). The model is significant with a

p-value of 0.000 which is less than ($p < 0.05$) significance level. This suggests that the model is fit for the study. Similar to the results reported in Table 9, all the variables except ETR recorded a positive relationship with the dependent variable (ROE). The relationships are not significant for all the variables except ETR and LEV.

From Table 10, the result shows that effective tax rate (ETR) is negatively related to banks ROE and is significant with a p-value of 0.000 which is less than ($p < 0.05$) significance level. The estimated coefficient of ETR 0.1644 indicates that a 1% increase in ETR will cause 0.1644% reduction in ROE. Comparing the results with the initial results recorded in Table 9, a consistent negative relationship between tax planning and performance is recorded, but at a higher magnitude of the ETR's coefficient of 0.1644. This suggests that, as ETR increase, there is a reduction of 0.1644 percent in ROE. This confirms the findings of Constantin (2012) who found a negative relationship between tax planning and return on equity. The result largely confirms the results recorded in Table 9.

From Table 10 the result shows that, LEV is positive and significant with a p-value of 0.001 which is less than ($p < 0.05$) significant level. Thus, the estimated coefficient of LEV 1.1306 shows that, a 1% increase in LEV leads to 1.1306% rise in ROE. Comparing the results with the initial results recorded in Table 9, a consistent positive relationship is recorded between LEV and banks performance. Although the result shows positive relationship, the relationship is significant with a p-value of 0.001. This implies that highly geared banks tend increase their performance because they benefits from

interest tax deductible expenses which tends to reduce their tax burden and enhance performance. This result supports the argument that, increased debts-equity enhances shareholders wealth (Ward & Price, 2006). This findings is consistent with prior studies like Fama and French (2002), Rego (2003), Ward and Price (2006), Ahmed and Khaoula (2013) who found a positive relationship between LEV and firm performance. On the contrary, Gupta and Newberry (1997), Derashid and Zhang (2003), De Wet (2006) and Ruf (2008) found negative relationship between tax planning and LEV.

Similar to the result in Table 9, the coefficients of SIZE, AGE and GROWTH are positive but not statistically significant with p-values of 0.336, 0.470 and 0.262 respectively. This suggests that, there is no significant relationship between SIZE, AGE GROWTH and banks performance (ROA). The results confirm the results recorded in Table 9 above.

The results recorded in Table 9 and 10 do not support hypothesis 1 that predicts no relationship between tax planning and banks performance.

1. H_1: there is no relationship between tax planning and bank performance.

The hypothesis was tested at 95% confidence level with an expected error of 5%. The rule of thumb is that the null hypothesis is rejected when the p- value is less than the threshold alpha of 0.05 (i.e. $p < 0.05$). From Table 9 and 10 the p-value for tax planning and performance (ROA and ROE) are 0.000 and 0.000 respectively. These are below the threshold alpha of 0.05, therefore we reject the null hypothesis that ''there is no relationship between tax planning and banks performance''.

Tax Planning, Corporate Governance and Banks Performance in Ghana

To investigate the role of corporate governance on the relationship between tax planning and bank performance, the study further estimated the model by including two corporate governance variables (i.e. NED and BS).

Before running the regression results, there is the need to establish whether to use random effect or fixed effect model. Table 11 and 12 below presents the Hausman test results.

Table 11: *Hausman test between Fixed and Random Effect Model for ROA*

	Coefficients			
	(b)	(B)	(b-B)	squrt (diag (v_b-V_B))
Variables	Fixed	Random	Difference	S. E.
LnETR	9.32127	9.31328	0.00798	0.36731
LnLEV	0.02406	0.00024	0.02382	0.01431
LnSIZE	0.00432	0.00717	-0.00285	0.00136
LnAGE	0.00952	0.00422	0.00529	0.00544
LnGROWTH	0.00296	0.00372	-0.00076	0.00128
LnNED	9.23145	8.14984	1.06080	-
LnBS	-9.34608	-9.33020	-0.01588	0.36902

Notes: chi2 (7) = (b-B)'[(V_b-V_B) ^ (-1)] (b-B) = 48.75; Pro>chi2 = 0.0000

Source: Field Survey, Yimbila (2016).

Table 12: *Hausman Test between Fixed and Random Effect Model for ROE*

	Coefficients			
	(b)	(B)	(b-B)	squrt (diag (v_b-V_B))
Variables	Fixed	Random	Difference	S. E.
LnETR	82.93282	78.66891	4.26390	3.77848
LnLEV	1.10327	1.07190	0.03136	0.12039
LnSIZE	0.03194	0.05021	-0.18268	0.01002
LnAGE	0.03568	0.00881	0.02687	0.04783
LnGROWTH	0.02170	0.02988	-0.00818	0.00964
LnNED	83.29153	78.83432	-4.30964	3.78609
LnBS	84.73338	83.5509	1.18247	5.23453

Notes: chi2 (7) = (b-B)'[(V_b-V_B) ^ (-1)] (b-B) = 19.73; Pro>chi2 = 0.0062

Source: Field Survey, Yimbila (2016).

From Table 11 and 12, all the probability values are below the alpha ($p < 0.05$). Therefore, the study rejected the random effect in favour of the fixed effect model. Table 13 presents the result for the regression analysis.

Table 13: *GLS Regression Results for ROA and NED*

Variable	Coefficients	Standard error	Sig
	Fixed effects		
LnETR	9.2069	3.9216	0.020
LnLEV	0.0241	0.0375	0.522
LnSIZE	0.0039	0.0024	0.109
LnAGE	0.0095	0.0058	0.101
LnGROWTH	0.0029	0.0020	0.166
LnNED	9.2106	3.9245	0.020
LnNED*ETR	-224.771	3.9238	0.020
Constant	0.0480	0.0444	0.281
R- Square		0.1502	
Prob > F		0.0000	
F (7, 134)		5.25	

Source: Field Survey, Yimbila (2016).

Table 13 presents the result of the fixed effect panel regression model used to investigate the role of corporate governance on the relationship between tax planning and banks performance. The R-square for the model is 0.1502. This indicates that the explanatory variables explain 15.02 percent of the variations in banks return on asset (ROA). The R-square for the model is consistent with Ahmed and Khaoula (2013). The model is significant with a p-value of 0.000 which is less than ($p < 0.05$) significance level. This suggests that the model is fit for the study.

From Table 13 the result shows that, the coefficient of ETR is positive 9.2069 and significant with a p-value of 0.020 which is less than ($p < 0.05$) significance level. This indicates that a 1% increase in ETR leads to 9.2069% increase in ROA. The result of the analysis shows that, the previous negative and significant relationship between tax planning (ETR) and bank performance (ROA) no longer holds, when bank governance interaction variable NED is included in the model. This suggests that, bank governance (NED) moderate the relationship between tax planning and performance. Thus, NED appears to involve itself directly in banks tax planning activities. This result supports the argument that good corporate governance practice is important to shareholders particularly in the case of tax planning (Desai & Dharmapala, 2009). Similarly, corporate governance act as a control mechanism to mitigate the agency conflict between management and shareholders (Jensen & Meckling, 1976).

Interestingly, the coefficient of the governance interaction variable NED is negative 224.771 and significant, suggesting that, the inclusion of a higher proportion of non-executive directors on banks board could significantly reduce banks tax aggressive behavior. This result supports the political power theory's line of argument that non-executive directors are more concern about attracting negative attention, which could result in tarnishing the image of the bank. The result is consistent with prior studies like Desai and Hines (2002), Wilson (2009), Chen et al. (2010), Minnick and Noga (2010) who found positive relationship between tax planning, corporate governance and firm performance. On the contrary Hanlon and Slemrod

(2009), Abdul-Wahab (2010), Ahmed and Khaoula (2013) found negative relationship between tax planning, corporate governance and firm performance.

The coefficient of NED is positive 9.2106 and significant with a p-value of 0.020 which is less than (p < 0.05) significance level. This indicates that, a 1% increase in NED leads to 9.2106% increase in performance (ROA). This implies that a higher percentage of non-executive directors' on banks board leads to higher performance. This result confirms Kyreboah-Coleman (2007) arguments that, non-executive directors are likely to bring to corporate board the attitude of independence and objectivity needed to improve performance. This findings is consistent with the findings of Jensen (1993), Yermack (1996), Vafeas and Theodorou (1998), Minnick and Noga (2010) who found positive relationship between non-executive directors and performance. In contrast, Weir et al. (2002) and Abdullah and Bushee (2012) found negative relationship between non-executive directors and performance.

The coefficient of LEV after the inclusion of NED is still positive 0.0241 and statistically insignificant (p-value = 0.522). Bank size (SIZE) is still positive 0.0039 and insignificant (p-value = 0.109). AGE is positive 0.0095 and insignificant (p-value = 0.101), GROWTH is also positive 0.0029 and insignificant (p-value = 0.166). This suggests that, the corporate governance variable NED has no significant effect on the relationship between Ghanaian banks' LEV, SIZE, AGE, GROWTH and performance (ROA). The results confirm the positive but not significant relationship between LEV, SIZE, AGE, GROWTH and performance recorded in Table 9 and 10.

Table 14: *GLS Regression Results for ROA and BS*

Fixed effects

Variable	Coefficients	Standard error	Sig
LnETR	9.3212	3.9302	0.019
LnLEV	0.0240	0.0375	0.523
LnSIZE	0.0043	0.0025	0.088
LnAGE	0.0095	0.0058	0.103
LnGROWTH	0.0029	0.0020	0.158
LnBS	9.3090	3.9270	0.019
LnBS*ETR	-227.61	3.9324	0.019
Constant	0.1360	0.1967	0.491
R- Square		0.2158	
Prob > F		0.0000	
F (7, 134)		5.27	

Source: Field Survey, Yimbila (2016).

Table 14 presents the results of the fixed effect panel regression model used to investigate the moderating role of corporate governance on the relationship between tax planning and banks performance. The R-square for the model is 0.2158. This indicates that the explanatory variables explain 21.58 percent of the variations in banks return on asset (ROA). This is consistent with Ahmed and Khaoula (2013). The model is significant with a p-value of 0.000 which is less than ($p < 0.05$) significance level suggesting that the model is fit for the study.

After the inclusion of BS in the basic model, the result reveals that ETR is still positive and significant ($p < 0.019$) at ($p < 0.05$) significant level. The coefficient of ETR 9.3212 shows that a 1% increase in ETR leads to 9.3212% increase in performance. Comparing the results with the initial results in Table 13, a consistent positive relationship between tax planning (ETR) and performance (ROA) is recorded but at a larger magnitude of ETR's coefficient. This suggests that BS moderate the relationship between tax planning and performance of banks in Ghana. This result supports Richardson et al. (2013) assertion that, corporate governance plays an important role in influencing and promoting firms' tax planning activities which tend to support bank performance.

However, the coefficient of BS is negative 227.61 and significant suggesting that, board size decreases bank tax planning-performance relationship. This result supports Kportorgbi's (2013) assertion that, large board size (BS) could decrease firms' performance, since the cost incurred in keeping large board may outweigh the benefit that accrue to shareholders. This result is consistent with prior studies like Minnick and Noga (2010).

The result shows that BS is positively related with banks performance (ROA) and is significant with a p-value of 0.019 which is less than ($p < 0.05$) significance level. This shows that a 1% increase in board size leads to 9.3090% rise in ROA suggesting that, BS has effect on the tax planning activities of banks in Ghana. The result supports Zhara and Pearce (1989) assertion that, large board size can enhance bank performance because, they have the opportunity to secure resources and establish favorable image for a

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firm. Again, large board size may increase banks performance given the wide variety of industrial background and skills available for effective decision-making and monitoring of management. This results confirm the findings of prior studies like Zahra and Pearce (1989), Anderson and Reeb (2003), Marchinca and Mura (2005) and Belkhir (2009) who found positive relationship between board size and firm performance. In contrast, Vafeas (2000), Florackis (2005), Ahmed and Khaoula (2013) and Kportorgbi (2013) found negative relationship between board size and firm performance.

Table 14 shows that LEV, SIZE, AGE and GROWTH after the inclusion of BS are positively related to bank performance (ROA). But the relationship is not statistically significant. This is implies that, BS has no significant effect on LEV, SIZE, AGE, GROWTH and performance (ROA). This result confirms the insignificant relationship between LEV, SIZE, AGE, GROWTH and ROA as recorded in Table 13.

Table 15: *GLS Regression Results for ROE and NED*

| | Fixed effects | | |
Variable	Coefficients	Standard error	Sig
LnETR	82.9328	35.7840	0.022
LnLEV	1.1032	0.3428	0.002
LnSIZE	0.0319	0.0225	0.160
LnAGE	0.0356	0.0529	0.502
LnGROWTH	0.0217	0.0190	0.257
LnNED	83.2915	35.8099	0.022
LnNED*ETR	-2024.46	35.8039	0.022
Constant	0.7688	0.4052	0.060
R- Square		0.2176	
Prob > F		0.0000	
F (7, 134)		5.32	

Source: Field Survey, Yimbila (2016).

Table 15 presents the results of the fixed effect panel regression model used to investigate the moderating role of corporate governance on the relationship between tax planning and banks performance. The R-square for the model is 0.2176. This indicates that the explanatory variables explain 21.76 percent of the variations in banks return on equity (ROE). This is consistent with Ahmed and Khaoula (2013). The model is significant with a p-value of 0.000 which is less than ($p < 0.05$) significance level. All the variables except NED recorded positive relationship with the dependent

variable ROE. The relationship is significant except for SIZE, AGE and GROWTH.

Similar to the results recorded in Table 14, a consistent positive and significant (0.022) relationship is recorded between tax planning (ETR) and performance (ROE) at ($p < 0.05$) significance level, when NED is introduced in the basic model but at a larger magnitude of ETR's coefficient estimate. This shows that, a 1% increase in ETR leads to 82.9328% rise in ROE. Thus, there is an increased possibility of banks succeeding in long-term tax planning activities (Dyreng, Hanlon & Maydew, 2008). The result supports Abdul-Wahab's (2010) assertion that, corporate governance plays a significant role in banks tax planning-performance relationship.

The coefficient of the governance interaction variable NED is still negative 2024.46 and significant confirming the result recorded in Table 13. This result does not support Yermack's (1996) argument that, more independent directors on a firm's board increases performance. The results confirm the positive relationship between tax planning and performance recorded in Table 14. This result supports the findings of Desai and Hines (2002), Desai and Dharmapala (2009), Armstrong et al. (2012) who found a positive relationship between tax planning and firm performance.

The results show that, NED is positively related to ROE, the relationship is significant with a p-value of 0.022 which is less than ($p < 0.05$) significant level. The coefficient of NED 83.2915 indicates that a 1% increase in NED leads to 83.2915% rise in ROE. Compared to the previous results recorded in Table 14, a consistent positive relationship is recorded between

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NED and performance but at a larger magnitude 83.2915 of NED coefficient estimate. The change in NED coefficient suggests that as the number of non-executive directors on banks board increases performance also increases by 74.0846 percentage points. This suggests that NED is an important motivator of banks tax planning activities. This results contradict the notion that non-executive directors may be worried about attracting negative attention to the firm and so may not willing to divert corporate resources for active tax management. This result confirms the previous results recorded in Table 13.

Leverage of banks (LEV) after the inclusion of corporate governance variables NED in the basic model recorded a positive and significant relationship between LEV and ROE. The estimated coefficient of LEV 3.4817 shows that, a 1% increase in LEV leads to 3.4817% rise in ROE. This implies that corporate governance has significant effect on banks leverage (LEV). This kind of result is expected because leverage is largely determined by corporate governance systems. The result supports the argument by Rego and Wilson (2009) that, higher leveraged firms use debt deductions to significantly reduce their tax liabilities in order to increase shareholders wealth. This findings is in line with the findings of Fama and French (2002); Ward and Price (2006), Ahmed and Khaoula (2013) who found positive relationship between leverage and firm performance. In contrast, Derashid and Zhang (2003), De Wet (2006) and Ruf (2008) reported negative relationship between leverage and firm performance.

Similar to the results recorded in Table 14, SIZE is still positive 0.0319 and insignificant with p-value of 0.160 after the inclusion of NED in the basic

model. This implies that corporate governance has no significant effect on banks size (SIZE) and performance. The result confirms the positive insignificant relationship between SIZE and performance recorded in Table 10. In the same vein, the result reveals that after the inclusion of the corporate governance variable NED in the model, the coefficient of AGE 0.0356 is positive and but not statistically significant (p-value = 0.502). This suggests that corporate governance has no effect on bank age (AGE) and performance. The result confirms the initial results recorded in Table 13 and 14.

Comparing the result with previous result in Table 14, a consistent positive insignificant relationship is recorded between GROWTH and ROE after the inclusion of the bank governance variable NED in the model, suggesting that corporate governance has no influence on relationship between the GROWTH and performance. This result confirms the results recorded in Table 13 and 14.

Table 16: *GLS Regression Results for ROE and BS*

	Fixed effects		
Variable	Coefficients	Standard error	Sig
LnETR	85.2425	35.7764	0.019
LnLEV	1.1096	0.3418	0.001
LnSIZE	0.0359	0.0228	0.119
LnAGE	0.0347	0.0528	0.512
LnGROWTH	0.0266	0.0189	0.255
LnBS	84.7333	35.7418	0.019
LnBS*ETR	-2251.09	35.7965	0.018
Constant	2.2890	1.7912	0.208
R- Square		0.2220	
Prob > F		0.0000	
F (7, 134)		5.46	

Source: Field Survey, Yimbila (2016).

Table 16 provides the findings of the fixed effects panel regression model used to test the role of corporate governance on the relationship between tax planning and banks performance. The R-square for the model is 0.2220 suggesting that the explanatory variables explain 22.20 percent of the variations in the return on equity (ROE). The model is significant with a p-value of 0.000 which is less than ($p < 0.05$), therefore the model is appropriate for the study.

Table 16 shows a consistent significant and positive relationship between ETR and ROE after the inclusion of corporate governance variable

BS in the basic model. The coefficient of ETR 85.2425 shows that a 1% increase in ETR leads to 85.2425% rise in ROE. Compared to the results in Table 14 the coefficient of ETR has increase at a larger magnitude of 85.2425 confirming the initial findings recorded in Table 14 that BS plays a significant role when it comes to banks tax planning-performance relationship. The result shows the importance of corporate governance to shareholder particularly among banks with a reduced possibility of succeeding in long-term tax planning activities (Dyreng et al., 2008).

However, a consistent negative 2251.09 relationship is recorded when BS interact with tax planning confirming the result recorded in Table 14. The result supports prior studies that found positive relationship between tax planning, corporate governance and firm performance and contradicts studies that reported negative relationship between tax planning, corporate governance and firm performance as discussed in Table 13, 14 and 15 respectively.

From Table 16 the results show that the coefficient of BS is positive and significant with a p-value of 0.019 which is less than ($p < 0.05$) significant level. This shows that a 1% increase in board size leads to 84.7333% increase in ROE. This suggests that large board size increases banks performance. This result contradicts the argument that large board size contributes to costs and also causes delay in decision-making which could affect performance of the banks. Florackis (2005) provides evidence that, large board could negatively relate to firm performance due to the difficulties in coordination, communication and decision-making as compared to smaller boards. This

finding contradict the prior studies like Florackis (2008) and Vafeas (2000) who found negative relationship between large board size (BS) and performance. However, the result confirms Barnhart and Rosestein (1998) and Dalton and Dalton (2005) findings of positive relationship between board size (BS) and firm performance.

Leverage (LEV) is positively related to ROE, the relationship is significant with a p-value of 0.001 at ($p < 0.05$) significant level. The estimated coefficient of leverage 1.1096 indicates that a 1% increase in LEV leads to 1.1096% rise in ROE. This result confirms the initial findings in Table 15 that BS has effect on banks leverage (LEV) resulting in increased performance. The result is consistent with prior studies that reported positive relationship between LEV and firm performance as reported in Table 15.

Similar to the result in Table 15, the coefficient of SIZE, AGE and GROWTH after the inclusion of the corporate governance interaction variable BS is still positive but not statistically significant with p-values of 0.119, 0.512 and 0.255 respectively. This suggests that corporate governance has no significant effect on the relationship between SIZE, AGE, GROWTH and bank performance in Ghana. These results confirm the positive but not significant relationship between SIZE, AGE, GROWTH and banks performance across the four estimated models presented in Table 9, 10, 13, 14 and 15. Thus, based on the results from the analysis it can be concluded that corporate governance moderate the relationship between tax planning and bank performance.

The results from Table 13, 14, 15 and 16 reveals that the p-value for tax planning and ROA as well as ROE after the inclusion of the two corporate governance variables (BS and NED) are 0.020, 0.019, 0.022 and 0.019 respectively. The new p-values are below the alpha ($p < 0.05$). Hence the results fail to support hypothesis 2 that predict that corporate governance does not moderate the relationship between tax planning and bank performance in Ghana. The hypothesis is:

2. H_1: corporate governance does not moderate the relationship between tax planning and bank performance.

Thus, the p-value falls below the threshold alpha of 0.05. Therefore, the study rejects the null hypothesis that ''corporate governance does not moderate the relationship between tax planning and bank performance. The regression results show that corporate governance moderate the relationship between tax planning and bank performance.

Chapter Summary

The chapter presented and discussed the results obtained from the analysis. Descriptive statistic for the dependent and independent variables as well as the control variables were presented, followed by the correlation and variance inflation factor (VIF) test which indicated that multicollinearity is not problematic for the model. The Hausman (1978) test for model selection used showed that the fixed effect model was the most appropriate model for the study. In addition, the relationship among the variables were analysed and discussed. The variables were jointly significant in explaining performance of banks in Ghana. Corporate governance variables were included to test the

moderating role of corporate governance in the relationship between tax

planning and performance. The various results were presented in tables.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary of the study and draws conclusion based on the findings. It also provides recommendations to relevant stakeholders on the issue and suggestions for further studies.

Summary

The study sought to investigate the relationship between tax planning and performance of banks in Ghana whilst considering the moderating role of corporate governance. Tax planning activities are carried out with the aim of maximising shareholders wealth. However, the activities are influenced by tax planning related costs and benefits as well as agency problem. As a result, literature suggests the importance of corporate governance in dealing with the agency problem. The study, firstly investigated the level of banks tax planning activities. Secondly the study examined the relationship between tax planning and performance. Lastly, based on the argument that, corporate governance could moderate firms' tax planning activities, the study investigated the moderating role of corporate governance in the relationship between tax planning and performance.

Theoretical and empirical literature relating to tax planning, corporate governance and performance were reviewed. The various definitions of tax planning and the reasons for which firms engage in tax planning was discussed. Theories underpinning the study were discussed. The main theories discussed were political power theory, and agency theory in relation to tax

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planning. Additionally, stewardship theory and stakeholder theory were also discussed in relation corporate governance. The study also discussed the costs and benefits of tax planning as well as the strategies involved in the activities. Further, the role of corporate governance in the relationship between tax planning and performance was also discussed. The conceptual framework for the study was designed to explain the relationship between tax planning and performance as well as the moderating role of corporate governance in the relationship.

The study employed quantitative approach. Panel dataset of individual commercial banks was used for the study. The sample for the study consisted of licensed commercial banks in Ghana. Based on the Hausman (1978) test, fixed effects regression model was used for the analysis. Data was obtained from Bank of Ghana Supervisory Division covering 18 banks over a period of 10 years (2004-2014). Based on literature a set of variables were used for the study. Banks performance as used in the study was measured by return on asset (ROA) and return on equity (ROE). Tax planning was measured as effective tax rate (ETR) whilst corporate governance was measured by board size and non-executive directors (NED). To control for the potential effect of firm specific factors on bank performance, the study controlled size, leverage, age and growth factors that were found by prior studies as related to tax planning.

Investigating the level of banks tax planning activities (ETR), the study discovered that banks in Ghana have high effective tax rate, meaning on average, the effective tax rate of Ghanaian banks is higher than the statutory

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tax rate. This is an indication that tax is not properly managed by the banks resulting in banks paying more tax than expected. That is instead of the banks having tax savings from the tax planning activities, the computation of the effective tax rate revealed that most banks have tax loss instead of tax savings. The study also revealed that, on average, foreign banks have higher effective tax rate than local banks confirming the argument that not all firms have the same level of inclination towards aggressive tax planning activities (Murphy, 2004). The test for statistical significance results also revealed that, there is significance difference between local banks ETR and foreign banks ETR.

Examining the relationship between tax planning and performance of banks, it was revealed that, tax planning is negatively associated with banks performance. A higher estimated coefficient of tax planning is recorded when ROE use as a proxy for performance and lower estimated coefficient of tax planning is recorded when ROA is used as a proxy for performance. The results supported the preposition of the agency theory that tax planning can lead to a reduction in firm s' performance due to managerial opportunism (Desai & Dharmapala, 2006) and tax planning related costs which may inhibit banks from maximizing after-tax profits (Ahmed & Khaoula, 2013).

The study also discovered that the control variables that proxy the extent of banks tax planning activities are positively associated with both ROA and ROE. The association is insignificant except leverage that has significant association with ROE. It was concluded that the results does not support hypothesis 1 which predicts that there is no relationship between tax planning and performance of banks in Ghana.

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On the issue of corporate governance, two governance variables were included in the model to access the role of corporate governance on the relationship between tax planning and performance. The results revealed that, tax planning is positively associated with ROA and ROE. It was also discovered that higher tax planning coefficient estimate is associated with higher return on equity (ROE). Whereas lower tax planning coefficient estimate is associated with low return on asset (ROA). This result confirms the argument that corporate governance can act as a controlling mechanism to reduce the agency problem between management and shareholders in order to increase performance (Jensen & Meckling, 1976). The results support Desai and Dharmapala (2009) arguments on the importance of corporate governance practice to shareholders tax panning valuation.

It was also discovered that, larger proportion of non-executive directors contribute to higher performance. This confirms the argument by Minnick and Noga (2009) that independent directors may be willing to divert resources for tax planning activities by way of ensuring good performance. Larger boards were also found to be associated with higher performance confirming Jensen and Meckling (1976) argument that, larger boards tend to improve firms' board effectiveness and support management to reduce agency cost which increases performance.

The results showed that, board size and non-executive directors have significant association with leverage when ROE is use a proxy performance. The results support Rego and Wilson (2009) that higher leveraged firms use debt deductions to significantly reduce their tax burden in order to increase

shareholders wealth. The results, however, failed to support hypothesis 2 that predicts that corporate governance does not moderate the relationship between tax planning and performance of banks.

Conclusions

It can be deduced from the findings that most of the banks in Ghana are not managing their tax properly suggesting that, the banks have not been able to efficiently exploit the loopholes embedded in the tax laws of Ghana to reduce their tax burden. This study found that on average banks in Ghana have high effective tax rate. However, in comparing the ETR of both foreign and local banks, it was found that foreign banks have higher effective tax rate whilst local banks have low ETR, suggesting that local banks are able to manage their tax properly than foreign banks. Therefore it can be concluded that, local banks are pursuing tax planning activities more aggressively than foreign banks.

Secondly, the results found a negative association between tax planning and performance suggesting that tax planning has a negative influence on banks performance. The result is consistent with the agency theory argument on tax planning and performance where managerial opportunism or other tax planning related cost, for example administrative cost and non-tax cost can prevent banks from maximizing after-tax profit from tax planning activities.

Interestingly, the negative relationship between tax planning and bank performance no longer hold when governance variables (board size and non-executive directors) are introduce in the basic model. The study found a

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significant positive relationship between tax planning and performance. Confirming Abdul-Wahab (2010) arguments that corporate governance moderate the relationship between tax planning and performance. Therefore, it can be concluded that corporate governance moderates bank tax planning-performance relationship.

Recommendations

Based on the findings of the study, the following recommendations are made to be considered by the banks in Ghana.

1. Shareholders must maintain a system to ensure that management is given monetary incentives for effect tax planning. This will help solve the agency problem where management exploit shareholders through tax planning activities.

2. Shareholders must review the banks governing board to include more non-executive directors to serve as control mechanism and also enhance performance. Thus, non-executive directors can provide useful knowledge and experience from their own industry to help in the banks tax planning and also ensure good performance.

3. Shareholders must institute measure to promote corporate transparency in order to reduce the risk associated with potential expropriation of shareholders wealth by management.

4. Managers of banks must engage the services of qualified tax expert and consultant for effective tax planning. This is because tax planning requires the experience of knowledgeable practitioners' to produce effective results. The tax laws are complex for an average manager to

navigate, understand and fully exploit the loopholes and incentives embedded in it for effective tax planning.

5. Management must do an extensive analysis of the costs and benefits associated with tax planning before engaging in the activities. These include the tax savings benefit from tax planning, cost of executing the strategy, the risk of detection by the tax authorities and the penalty that may be imposed by the authority.

Suggestions for Further Research

The findings of this study provide the following avenues for further studies.

1. A study that can explore other tax planning measures such as book tax gap (BTG) to further explain the tax planning activities of banks in Ghana.

2. A study that will explore other corporate governance variables such as institutional ownership, board compensation and board entrenchment to further explain the effect of corporate governance on tax planning

3. A study that will focus on identifying the specific transactions that are more influential in banks tax planning activities.

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