Asian Journal of Management and Commerce

E-ISSN: 2708-4523
P-ISSN: 2708-4515
Impact Factor (RJIF): 5.61
AJMC 2025; 6(2): 1573-1577

www.allcommercejournal.com
Received: 11-08-2025
Accepted: 16-09-2025

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Assessing the nexus between corporate tax planning strategies and firm performance: A comprehensive analysis of Hindustan Unilever limited

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DOI: https://www.doi.org/10.22271/27084515.2025.v6.i2q.885

Abstract
Corporate tax planning plays an important role in managing a company's finances by reducing tax liability within legal boundaries while supporting growth and compliance. This study focuses on Hindustan Unilever Limited (HUL), one of India's leading FMCG companies, to understand how tax planning influences financial performance. Using data from 2016-2025, regression analysis was conducted with variables such as capital intensity, leverage, inventory intensity, and effective tax rate (ETR), measured against Return on Equity (ROE). The findings show that capital intensity has a strong positive impact on ROE, leverage shows a moderate effect, while inventory intensity has no significant impact. ETR shows a positive but statistically insignificant relationship with ROE. The results suggest that HUL's profitability depends more on operational efficiency and capital investments rather than aggressive tax planning. This highlights the role of sustainable financial strategies in enhancing firm performance.

Keywords: Tax planning, financial performance, HUL, capital intensity, leverage, ROE

Introduction

Corporate tax planning is a crucial aspect of financial management for any organization, especially in rapidly developing economies like India. According to Barik and Ranawat (2024) [2], efficient tax planning allows businesses to maximize their tax obligations by utilizing available incentives, deductions, and exemptions in addition to guaranteeing adherence to legal requirements. According to García *et al.* (2020) [6], businesses must implement adaptive tax strategies to lower risks and increase profitability in emerging economies due to frequent changes in tax regulations. One of the top Fast-Moving Consumer Goods (FMCG) businesses in India, Hindustan Unilever Limited (HUL), makes a compelling case for analyzing the relationship between corporate tax tactics and firm performance. Christina (2023) [4] emphasized that through increasing profitability and investor confidence, lawful and effective tax planning increases firm value. Gaining knowledge of HUL's tax planning strategy can help one understand how big businesses use tax laws to promote expansion, increase shareholder value, and preserve a competitive edge while staying within legal bounds. Corporate tax planning, which assists businesses in lowering their tax obligations by methodical and legal means, is a crucial component of contemporary company strategy. Multinational corporations employ strategic and governance-based tax planning to reduce tax payments within legal bounds, according to Cooper and Nguyen (2020) [5]. It entails setting up financial activities to maximize the use of tax laws' deductions, exemptions, and incentives.

According to Santoso *et al.* (2025) [8], aggressive tactics may lessen stability and transparency, but effective tax planning and management enhance businesses' financial performance. Companies can manage their money more effectively, cut wasteful expenses, and improve overall financial performance with the help of effective corporate tax planning. By increasing profitability and cash flow, it not only guarantees adherence to legal obligations but also fosters growth. Afzali (2025) [1] went on to say that corporate value and tax efficiency are strongly impacted by organizational culture. Finding a balance between financial efficiency and compliance is the primary goal of business tax planning.

According to Mittal and Sharma (n.d.), a company's tax planning strategy is influenced by corporate governance mechanisms like managerial incentives and board independence. Key financial performance metrics including net profit margin, return on assets (ROA), and profits per share (EPS) can be enhanced by a business that effectively controls its taxes. According to Tiwary (2023) [9], tax planning directly improves long-term sustainability, profitability, and liquidity. However, ineffective tax management can result in fines, cash problems, and a bad reputation among investors. Therefore, ethical tax planning is crucial for preserving a good company reputation and stakeholder trust in addition to financial improvement. Financial success and corporate tax planning are strongly related. Businesses that implement wise tax-saving measures are more likely to produce steady profits and guarantee steady company expansion.

According to Bhattacharjee and Das's (2023) [3] analysis of the impact of tax rates and leverage on business performance, return on equity is strengthened by transparent yet effective tax techniques. Businesses can lower their tax costs, for example, by using tax holidays, claiming depreciation on fixed assets, or taking advantage of export incentives. These savings increase operational effectiveness and open doors for growth. Additionally, accurate financial forecasts and improved decision-making are facilitated by efficient tax planning. Additionally, it draws investors looking for open and financially responsible businesses.

The Fast-Moving Consumer Goods (FMCG) industry is particularly affected by corporate tax planning. According to Barik and Ranawat (2024) [2], tax planning is an essential tool for cost reduction and profitability in sectors like FMCG that have huge sales volumes and low margins. FMCG companies can lower operating costs by placing their manufacturing facilities or warehouses in regions that offer tax incentives. They can also claim deductions on advertising, marketing, and research expenses, which improve their brands and product innovation. Proper GST administration enables smooth supply chain operations and reduces tax-related delays in production or delivery. Additionally, improved reinvestment prospects result from tax planning for FMCG companies. The money saved by tax optimization can be used for product diversity, innovation, and the growth of rural markets. According to Christina (2023) [4] and Santoso *et al.* (2025) [8], these strategies increase stakeholder trust in addition to revenue. Furthermore, upholding transparency in tax-related operations improves the company's standing, fosters customer trust, and draws in new investors. With a particular focus on HUL, this study examines the connection between corporate tax preparation and firm success. It seeks to showcase modern tax planning strategies, evaluate how they affect business performance, and talk about the wider ramifications for corporate governance and policy-making in the Indian business environment.

Literature Review

Tax planning plays a vital role in improving corporate performance and ensuring long-term financial stability. García *et al.* (2020) [6] emphasized that in Peru's commercial sector, frequent tax regulation changes by SUNAT make it necessary for firms to adopt effective tax planning to reduce risks and improve profitability. Cooper and Nguyen (2020) [5] reviewed how multinational enterprises use legal tax planning to minimize tax payments and highlighted that such practices are influenced by strategic, locational, and governance factors. Similarly, Santoso *et al.* (2025) [8] found that efficient tax planning and management improve firms' financial performance, though aggressive strategies may reduce transparency and stability. Afzali (2025) [1] examined Kenyan companies and found that organizational culture strongly influences tax planning, where collaborative cultures achieve better tax efficiency without harming firm value.

Mittal and Sharma (n.d.) noted that corporate governance elements such as board independence and managerial compensation play a significant role in shaping firms' tax planning behavior. Barik and Ranawat (2024) [2] focused on the Indian automobile industry and reported that tax planning affects capital structure decisions, with firms preferring stability over aggressive tax savings. Christina (2023) [4] found that legal tax planning enhances firm value by increasing profitability and investor confidence. Similarly, Tiwary (2023) [9] observed that in Ghana's banking sector, tax planning positively affects profitability, emphasizing the importance of efficient tax management. Lastly, Bhattacharjee and Das (2023) [3] analyzed Reliance Industries Ltd. and concluded that capital intensity and leverage positively impact return on equity, while high tax rates reduce profitability, underscoring the importance of transparent yet effective tax strategies.

Overall, the reviewed studies consistently show that tax planning is crucial for enhancing profitability, ensuring compliance, influencing capital structure, and strengthening firm value. However, they also highlight that overly aggressive or opaque tax strategies can undermine governance and reputation, calling for a balanced approach between tax efficiency and ethical responsibility.

Objective: To evaluate the impact of tax planning strategies on HUL's financial performance.

Research Methodology

Data Collection: For the purpose of this study secondary data is collected from 2016 to 2025 from annual report. Multivariate regression model is used to test the impact of corporate tax planning variables on firm performance. In addition Correlation, Descriptive Statistics is used to represent the data.

Multivariate Regression Model

$$ROEi=\beta 0 + \beta 1(INV\_INTi) + \beta 2(CAP\_INTi) + \beta 3(LEVi) + \beta 4(ETRi) + \varepsilon i$$

Where:

- ROEi = Return on Equity of firm *i*
- β0 = Intercept term
- β1,β2,β3,β4 = Regression coefficients
- εi = Error term
- Inventory Intensity (INV_INT),
- Capital Intensity (CAP_INT),
- Leverage (LEV), and
- Effective Tax Rate (ETR)
- Firm's Performance (ROE).

Variable	Type	Formula	Description
ROE	Dependent	Net Income / Shareholders' Equity	Measures firm's profitability from shareholders' perspective
INV_INT	Independent	Inventory / Fixed Assets	Indicates how much inventory is held relative to fixed assets
CAP_INT	Independent	Fixed Assets / Total Assets	Represents capital intensity of the firm
LEV	Independent	Long-term Debt / Total Assets	Indicates firm's financial leverage
ETR	Independent	Current Income Tax / Pre-tax Income	Measures the firm's effective tax burden

Hypothesis

- **H_0:** Corporate Tax Planning variables do not significantly impact Firm Performance
- **H1:** Corporate Tax Planning variables significantly impact Firm Performance
- **H01:** Inventory Intensity has no significant impact on firm performance
- **H11:** Inventory Intensity has significant impact on firm performance
- **H02:** Capital Intensity has not significant impact on firm performance
- **H12:** Capital Intensity has significant impact on firm performance
- **H03:** Leverage has no significant impact on firm performance
- **H13:** Inventory Intensity has significant impact on firm performance
- **H04:** Effective Tax Rate has no significant impact on firm performance
- **H14:** Effective Tax Rate has significant impact on firm performance

Data Analysis

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

Particulars	Inventory Intensity	Capital Intensity	Leverage	Effective Tax Rate	ROE
Mean	61.63	16.47	0.01	0.26	0.45
Standard Error	0.03	.023	0.00	0.01	0.08
Median	61.2	16.09	0.01	0.25	0.42
Standard Deviation	0.10	0.07	0.01	0.03	0.28
Minimum	0.50	0.08	0.01	0.22	0.16
Maximum	0.86	0.25	0.04	0.31	0.82
Count	10	10	10	10	10

Source: Author Computation

The data represents the firm's financial performance across 10 years. The mean inventory intensity of 61.63 shows that a large share of assets is held as inventory. Capital intensity (16.47) indicates moderate investment in fixed assets. The leverage ratio (0.01) suggests the firm uses very little debt financing. The effective tax rate of 26% reflects a stable tax burden over the years. The mean ROE of 45% shows strong profitability and efficient equity utilization. Low standard deviations indicate consistent performance, especially in leverage and tax rate. Overall, the firm maintains financial stability with high returns and minimal financial risk.

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

Variables	Inventory Intensity	Capital Intensity	Leverage	Effective tax rate	ROE
Inventory Intensity	1				
Capital Intensity	0.3221	1			
Leverage	-0.6245	-0.091	1		
Effective Tax Rate	0.5228	0.7667	-0.598	1	
ROE	-0.3025	0.9809	0.076	0.7246	1

Source: Author Computation
At 5% Sig. level

Table 2 indicate relationships between Inventory Intensity and other financial variables: a moderate positive correlation with Capital Intensity (0.3221), a moderate negative correlation with Leverage (-0.6245), a moderate positive correlation with Effective Tax Rate (0.5228), and a weak negative correlation with ROE (-0.3025), suggesting varying degrees of association between inventory management and company financial metrics.

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

Year	Inventory Intensity	Capital Intensity	Leverage	Effective Tax Rate	ROE
2016	0.86	0.21	0.00	0.31	0.63
2017	0.64	0.25	0.00	0.30	0.67
2018	0.62	0.23	0.01	0.30	0.72
2019	0.61	0.23	0.02	0.30	0.77
2020	0.56	0.25	0.05	0.24	0.82
2021	0.59	0.09	0.01	0.24	0.17
2022	0.66	0.09	0.02	0.24	0.18
2023	0.61	0.10	0.02	0.22	0.20
2024	0.50	0.10	0.02	0.25	0.20
2025	0.51	0.11	0.02	0.25	0.22

Source: Author Computation

Result of Multiple Regression Analysis

Table 5: Overall regression Model output

R Square	Adjusted R Square	F	P- Value
0.981585	0.966853	66.62895107	0.000158948

Source: Author Computation

The above table reveals the regression output; where the dependent variable (ROE) as a measure of firm's performance was regressed on predicting variables namely Inventory Intensity, Capital Intensity, Leverage and Effective Tax Rate (ETR). The study revealed that all the selected independent variables were found to have a significant impact on Return on Equity (ROE); with F = 66.62895107, $P<0.05$. Moreover, the coefficient of determination, for Example, R^2=0.981585 indicates that all the explanatory variable were able to explain that 96.68% of the variability ROE due to Inventory intensity, capital intensity, Leverage, and Effective Tax Rate (ETR)making this model is a good fit.

Table 6: Table of Multivariate Regression Analysis

Variables	Coefficient	Std. Error	t-Statistics	Prob.
ROE	-0.83152	0.397308039	-2.092891156	0.090566778
Inventory Intensity	0.281402	0.235331187	1.195769746	0.285397696
Capital Intensity	3.132378	0.546991206	5.726559667	0.002272332
Leverage	5.990451	2.748010737	2.179922862	0.081120888
ETR	1.839822	1.438571155	1.278922938	0.257063616

Source: Author Computation

From Table 6 we conclude that the coefficient of intercept is -0.83152 which is found to be insignificant at 5% level of significance. Therefore, it indicates that if HUL Ltd. does not include these selected independent variables then it will lead to a negative ROE and hence firms' performance. In terms of inventory intensity, we found that the regression coefficient of inventory intensity is 0.281402; and p-value is 0.285397696; indicating an insignificant relationship with ROE. Therefore, the result concludes that; a percentage increase in inventory intensity of HUL Ltd. might not in any way improve the financial performance of the company. Capital Intensity with regression coefficient of 3.132378 was found to be significant; having p-value 0.002272332; indicating a positive and significant relationship with ROE. Additionally, this explains that a significant increase in Capital Intensity will lead to decrease in ROE (as a measure of firm's performance) of HUL Ltd. The regression coefficient of Leverage is 5.990451; which was found to be insignificant; having p-value 0.081120888 indicating that the leverage has a insignificant and positive relationship with ROE. This study also examined the effect of corporate tax planning on firm's performance (as measured using ROE). This study found a insignificant and positive relationship between ETR as a tool of tax planning and ROE as a measure of firm value. This result also further reveals that a unit decrease in ETR will tend to decrease 1.839822 in ROE. Thus, we conclude that a better tax planning will enable HUL Ltd.

Therefore, our analytical model will be

ROE=−0.8315+0.2814(INV_INT)+3.1323(CAP_INT)+5.9905(LEV)+1.8398(ETR)+ε

Findings

1. Model Strength

The regression model is very strong with $R^2 = 0.9816$, meaning 96.68% of the variation in ROE is explained by Inventory Intensity, Capital Intensity, Leverage, and Effective Tax Rate (ETR). The model is statistically significant ($F = 66.63$, $p < 0.05$).

2. Capital Intensity

Has a strong, positive, and significant impact on ROE (coefficient = 3.13, p = 0.002). So, more investment in assets boosts firm performance.

3. Leverage

Shows a positive impact on ROE (coefficient = 5.99), though marginally significant (p = 0.08).
So, a bit of debt seems to help, but it's borderline.

4. Inventory Intensity

Has no significant effect on ROE (p = 0.28), so holding more or less inventory doesn't really change profitability much.

5. Effective Tax Rate (ETR)

While the coefficient is positive (1.83), it's not statistically significant (p = 0.25). So, tax planning doesn't strongly affect ROE for HUL.

6. Intercept

The negative intercept (-0.83) suggests that without these four factors, ROE would be negative - meaning these drivers are crucial.

Suggestions

1. Focus on Capital Efficiency

Since capital intensity significantly boosts ROE, invest in productive assets that generate high returns. Consider automation, tech upgrades, or capacity expansion.

2. Strategic Use of Debt

Carefully increasing leverage could help ROE. But stay cautious - keep risk manageable and use debt for growth-oriented investments only.

3. Inventory Management

Since inventory levels don't really move the needle on ROE, the company can optimize stock levels to reduce holding costs without hurting performance.

Conclusion

This study finds that HUL's performance is mainly driven by how well it invests in assets and manages its resources. Capital intensity has a strong role in improving returns, while leverage adds some support. Inventory levels don't affect much, and tax planning shows only a minor role. This means HUL's success depends more on efficient operations and smart investments rather than heavy tax-saving strategies. Overall, its growth comes from steady business practices and balanced financial choices. The regression analysis for HUL Ltd. indicates that corporate tax planning, measured using the Effective Tax Rate (ETR), has a positive but statistically insignificant relationship with the firm's financial performance, measured by Return on Equity (ROE). Among the independent variables, Capital Intensity shows a strong and significant positive impact on ROE, suggesting that increased investment in fixed assets enhances profitability. Leverage also shows a moderate positive effect, although with marginal statistical significance. Inventory Intensity does not have any significant impact on ROE. Overall, the model explains 96.68% of the variation in ROE ($R^2 = 0.9816$), indicating a strong model fit. However, since ETR was not found to be significant, HUL's financial performance does not strongly depend on its tax planning strategies, unlike in some other companies. This suggests that HUL may rely more on operational efficiency and capital structure rather than aggressive tax planning to drive profitability.

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