Does Tax Planning Enhance Profitability? Evidence from Non-Financial Listed Firms in Vietnam

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Abstract

This study analyzes the impact of tax planning on the business performance of non-financial companies listed in Vietnam during the 2019-2023 period. In an increasingly competitive business environment with continuously changing tax policies, developing a sound tax strategy is crucial for businesses to optimize costs, increase profits, and ensure legal compliance. Using quantitative methods on a sample of 816 listed companies across the HOSE, HNX, and UPCOM exchanges, the study measures the relationship between tax planning and enhancing profitability (measuring by ROE). The analysis also controls for variables like firm size, firm age, financial leverage, and operating leverage. The results indicate that tax planning does not have a statistically significant impact on firms' profitability during the research period. This suggests that its effectiveness may be limited under current practices or overshadowed by other financial and operational factors. In contrast, financial leverage significantly and negatively affects ROE, indicating that capital structure management and operational scale are more critical determinants of profitability. The findings imply that Vietnamese listed companies, which largely comply with tax regulations and maintain similar financial structures, gain little immediate profit advantage from tax planning. Nevertheless, tax planning remains important for legal compliance, risk management, and long-term financial strategy. Managers should focus on operational efficiency and leverage optimization, while policymakers should ensure stable and transparent tax regulations.

Keywords: *Tax Planning, Business Performance, Listed Non-Financial Firms, Profitability, Return On Equity*

1. Introduction

In an era of deepening global economic integration and the increasing role of tax policies, tax planning has become a crucial strategic element for businesses. It allows them to legally optimize tax obligations and minimize financial burdens. Unlike tax evasion, legitimate tax avoidance constitutes a lawful and strategic mechanism for cost optimization and competitiveness enhancement. In the context of Vietnamese listed non-financial companies, effective tax planning becomes especially critical due to heightened competition in an open economy and ongoing adjustments in the tax policy framework. Although prior domestic and international studies have extensively documented the importance of tax planning, empirical evidence remains limited in Vietnam, particularly concerning its effects on the business performance of listed non-financial enterprises.

Firm performance plays a vital role in a company's sustainable development. Improving firm performance doesn't just boost profits; it also optimizes resources and strengthens competitive standing. Firm performance is more than just a financial success indicator; it's a critical foundation determining a company's survival and sustainable growth in an increasingly competitive landscape. According to Porter (1985), firm performance reflects a company's ability to optimize resources for maximum profit while maintaining a long-term competitive advantage. From a financial perspective, firm performance is crucial for optimizing capital structure and enhancing fundraising capabilities. Modigliani and Miller (1958) indicate that high-performing companies can reduce their cost of capital, limit reliance on debt, and increase their capacity for investment expansion. Myers and Majluf (1984) also show that firm performance is closely linked to long-term financial strategy, where efficient companies often manage financial risks better and ensure stability in volatile market conditions. Profitability is one of the most fundamental indicators reflecting a firm performance. It measures the company's ability to generate earnings from its business activities after deducting all expenses within a given period (Jackson, 2022). According to Hang and Thuy Linh (2020), profitability is typically assessed through financial ratios such as return on assets (ROA) and return on equity (ROE), which demonstrate how effectively a firm utilizes its resources to create value for shareholders. In addition, profitability is considered

an essential metric that investors use to evaluate a company's financial health and determine whether investing in its shares is worthwhile (Amelia & Sunarsi, 2020). From another perspective, profitability represents a firm's capacity to create sufficient income to cover costs, fulfill reinvestment needs, and contribute to growth, thereby serving as an important criterion for assessing financial management efficiency (Odusanya, Yinusa, & Ilo, 2018). In short, profitability reflects the ability of a firm to efficiently transform resources into economic benefits while ensuring sustainable business performance. Profitability plays a crucial role in evaluating a firm's performance because it captures the outcomes of all managerial, operational, and strategic decisions. It is widely recognized as a primary indicator for measuring business success and assessing management efficiency over time (Richard et al., 2009). Profitability ratios provide insights into how effectively a company converts investments into profits, serving as a central measure for financial analysis and a critical signal for shareholders, creditors, and potential investors (Nishanthini & Nimalathasan, 2013). Furthermore, the level of profitability reflects the enterprise's ability to maintain growth, enhance competitiveness, and ensure long-term financial sustainability. Therefore, profitability is not only a measure of short-term performance, but also a foundation for strategic planning and sustainable value creation for firms.

Tax planning is a process of organizing and adjusting financial activities to legally minimize tax obligations for individuals and organizations. According to Vasanthi (2015), this process enables the effective use of tax incentives and exemptions while remaining compliant with legal regulations. Hoffman (1961) emphasizes that tax planning reduces tax burdens without affecting accounting income, while Geetha and Sekar (2012) view it as a tool to enhance financial performance. Tax planning contributes to asset maximization and long-term value creation (Desai & Dharmapala, 2009); however, its abuse or improper implementation may lead to legal risks and reduce firm value (Ilaboya, Izevbekhai, & Ohiokha, 2016; Pohan, 2013). Tax planning is a vital financial strategy that helps reduce tax burdens and improve operational efficiency, provided it is carried out lawfully and transparently. Tax planning is a tool that enables individuals and businesses to legally optimize their tax obligations, thereby improving financial performance and enhancing firm value (Desai & Dharmapala, 2009; Vasanthi, 2015). A well-designed tax strategy not only helps reduce costs and maximize post-tax profits, but also supports long-term financial planning and increases the capacity for investment and sustainable development (Geetha & Sekar, 2012; Pratama & Muhammad, 2025). Additionally, effective tax planning enhances legal compliance and reduces exposure to regulatory risks (Pohan, 2013), helping to protect the firm's reputation among tax authorities and investors (Richardson, Taylor, & Lanis, 2013). However, if poorly implemented or lacking transparency, tax strategies may negatively impact corporate financial health. Therefore, it is essential to strike a balance between financial benefits and legal compliance to ensure long-term and sustainable growth in dynamic business environment.

2. Objectives

This study aims to fill that gap. Its overarching objective is to analyze the relationship between and impact of tax planning on the business performance of non-financial companies listed on the Vietnamese stock markets. The study clarifies the concepts, characteristics, and role of tax planning, and quantitatively analyzes the impact of tax planning on the business performance of 816 non-financial companies listed in Vietnam during the 2019-2023 period. The research questions focus on identifying the influencing factors, the extent of their impact, and proposing solutions to improve the effectiveness of tax planning.

3. Material and methods

3.1. Developing hypothesis

Economic Deterrence Theory is developed by Becker (1968), suggesting that firms make tax-related decisions based on a cost-benefit analysis between the gains from tax avoidance and the risk of penalties. Firms are more likely to comply with tax regulations when the expected cost of penalties outweighs the benefits of non-compliance. However, they may still engage in legal tax planning to optimize their tax obligations, reduce costs, and improve financial performance without incurring legal risks. Hanlon and Heitzman (2010) describe tax avoidance as encompassing both legal activities (tax planning) and illegal ones (tax evasion). A firm's tax strategy depends on its desire to maximize profits and the degree of oversight by

tax authorities. The perceived risk of penalties and awareness of tax policies play a crucial role in shaping tax planning behavior and influencing a firm's financial performance.

The relationship between tax planning and firm performance has been widely discussed in the literature, with two main opposing views. On the one hand, proponents argue that effective tax planning enhances firm performance by minimizing tax liabilities, thus increasing after-tax cash flows available for reinvestment, reducing cost of capital, and improving profitability (Desai & Dharmapala, 2009; Hanlon & Heitzman, 2010). According to the agency theory, tax planning can also mitigate agency conflicts by aligning managers' and shareholders' interests through the efficient use of resources (Jensen & Meckling, 1976). Furthermore, strategic tax planning enables firms to allocate resources optimally, gain competitive advantage, and enhance market value (Richardson et al., 2013). On the other hand, critics argue that aggressive tax planning may negatively impact firm performance. Excessive focus on tax avoidance could lead to increased audit risks, penalties, and reputational damage (Hanlon & Slemrod, 2009). According to the political cost theory, firms engaging in aggressive tax planning may attract regulatory scrutiny and public criticism, which in turn increases compliance costs and reduces firm value (Watts & Zimmerman, 1990). Moreover, complex tax avoidance schemes may divert managerial attention from core business activities, undermining operational efficiency (Rego & Wilson, 2012). In the context of Vietnam as a transition economy, where tax regulations are continuously evolving, the impact of tax planning on firm performance remains an empirical question. This study examines whether tax planning, conducted within legal boundaries, serves as an effective tool to enhance profitability and operational efficiency among non-financial listed companies.

Hypothesis: Tax planning have a positive effect on corporate profitability.

3.2. Measuring variables

Profitability over a specific period of time. It is determined by comparing the total profit to the total investment or the total assets of the business. Financial performance is of great significance to managers, investors, and other stakeholders. In this study, return on equity (ROE) is used as a proxy of profitability. This study measures corporate tax planning via the effective tax rate (ETR) and tax avoidance measure by tax expense to total assets (TAXA). These measures determine the proportion of corporate income tax expense (CIT) relative to pre-tax earnings, as well as to the firm's total assets. Firm age (FAGE), financial leverage (LEV), and operating leverage (OLEV) are used as control variables in the link between tax planning and corporate profitability. Operating measures are depicted in Table 1. The following regression model is employed to test the hypothesis:

$$ROEi,t = \beta 0 + \beta 1\, ETRi,t + \beta 2\, TAXAi,t + \beta 3\, FAGEi,t + \beta 4\, LEVi,t + \beta 65\, OLEVi,t + \varepsilon i,t$$

The research primarily employed secondary data. Financial and tax-related variables were collected from audited financial statements, annual reports, and corporate disclosures of the 816 non-financial listed firms with 4080 firm-year observations. This study adopts a quantitative research design using panel data analysis to examine the impact of tax planning on firm performance among non-financial listed companies in Vietnam from 2019 to 2023.

The research integrates descriptive statistics, correlational analysis, and causal inference to provide comprehensive insights. Initially, the collected data were processed and filtered using appropriate financial ratio calculations and formulas to derive the values of the variables, utilizing Microsoft Excel 2016. Subsequently, the authors conducted data analysis using STATA 17 software.

4. Results and Discussion

The descriptive statistics is shown in Table 1, including the mean, standard deviation, min, and max value of variables.

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Table 1. Descriptive statistical analysis of variables

Variable	Measure	No. of Obs.	Mean	Min	Max
ROE	Net income/Equity	4,080	-0.348	-1908.428	186.272
ETR	CIT expense/Pre-tax income	4,080	0.173	-6.732	5.543
TAXA	CIT expense/Total assets	4,080	0.016	-0.922	22.591
LEV	Total debt/Total assets	4,080	1.323	-832.215	540.873
OLEV	Fixed assets/total assets	4,080	0.261	0	4.9
FAGE	Current year – established year	4,080	6.129	-4	21

The descriptive statistics table provides an overview of the characteristics of the variables used in the research model based on 4,080 observations. The profitability proxy with ROE being negative (mean = -0.348), indicating that many sample firms are experiencing losses in operating activities. Overall, the data demonstrates a wide distribution among observations, highlighting the importance of controlling for these variables in the subsequent quantitative analysis. The correlation analysis results are shown in Table 2.

Table 2. Results of correlation analysis

	ROE	ETR	TAXA	LEV	OLEV	FAGE
ROE	1					
ETR	0.0086	1				
TAXA	0.0008	0.0445**	1			
LEV	-0.1716***	0.0111	-0.0004	1		
OLEV	0.0152	-0.0896***	-0.0027	0.0077	1	
FAGE	0.0036	-0.0132	-0.0113	0.0021	-0.0477**	1
VIF	Mean = 1.01	1.01	1.00	1.00	1.01	1.00

The correlation matrix in Table 2 shows the linear relationships among the independent variables in the model where ROE is the dependent variable. There are no correlation coefficients that exceeds the 0.8 threshold, indicating no multicollinearity issues. Therefore, it can be concluded that the independent variables in the ROE model do not exhibit serious multicollinearity and are suitable for inclusion in the regression analysis.

The study employed panel data estimation using pooled OLS, fixed effects model (FEM), and random effects model (REM). To determine the most appropriate model, the Hausman test was conducted to choose between FEM and REM. The test results (Prob > Chi2 = 0.000 < 0.05) indicated that the REM should be preferred. Furthermore, the Breusch–Pagan Lagrangian multiplier (LM) test was applied to compare pooled OLS and REM, yielding Prob > Chi2 = 0.0214 < 0.05, which confirmed that REM is the most suitable estimation method.

Potential model violations were also examined. The Wooldridge test for autocorrelation in panel data indicated the presence of autocorrelation (Prob > F = 0.0253 < 0.05). To address potential violations of classical assumptions, including heteroskedasticity and autocorrelation, robust standard errors were employed. The estimation results are presented in Table 8.

Table 3. Results of regression analysis with Robust Standard Errors

ROE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
ETR	1.155	1.215	0.95	.342	-1.226	3.536	
TAXA	.028	.043	0.64	.525	-.057	.113	
LEV	-.311	.147	-2.11	.035	-.599	-.022	**
OLEV	2.171	2.303	0.94	.346	-2.342	6.684	
FAGE	.032	.035	0.92	.357	-.036	.101	
Constant	-.899	1.328	-0.68	.498	-3.503	1.704	

Mean dependent var	-0.348	SD dependent var	30.041
Overall r-squared	0.030	Number of obs	4080
Chi-square	7.617	Prob > chi2	0.179
R-squared within	0.056	R-squared between	0.007

*** $p<.01$, ** $p<.05$, * $p<.1$

The regression results reported in Table 3 show that tax planning with two proxies effective tax rate (ETR) and and tax burden to total assets ratio (TAXA) have p-values of 0.342 and 0.525, respectively. Since both values are greater than the 5% significance level ($p > 0.05$), it can be concluded that tax planning has no statistically significant effect on the ROE of non-financial listed firms in Vietnam during the study period. Although the regression coefficients of ETR (1.155) and TAXA (0.028) are positive, suggesting a potential positive impact, the lack of statistical evidence indicates that the study does not find an actual relationship between tax planning, as measured by these indicators, and firm performance (ROE). This result may be explained by the fact that listed firms in Vietnam tend to prioritize tax compliance over the implementation of sophisticated tax optimization strategies, causing tax-related benefits to be insufficient to significantly affect shareholders' returns.

The empirical results do not support the hypothesis that tax planning significantly enhances firm performance, as measured by ROE. Both proxies of tax planning, the effective tax rate (ETR) and the tax burden to total assets ratio (TAXA), exhibit positive but statistically insignificant coefficients, indicating that tax planning does not have a measurable effect on profitability among non-financial listed firms in Vietnam during the study period. This contrasts with the theoretical expectation that effective tax planning can increase after-tax cash flows, reduce agency conflicts, and improve firm value proposed by several scholars (Desai & Dharmapala, 2009; Richardson et al., 2013). The lack of significance may reflect the particular institutional and economic context of Vietnam. As a transition economy with evolving tax regulations, Vietnamese listed firms appear to prioritize compliance over aggressive or sophisticated tax optimization strategies. Consequently, the potential benefits of tax planning, such as reduced tax liabilities or enhanced resource allocation, may be insufficient to translate into observable improvements in shareholder returns. These findings suggest that, in emerging markets like Vietnam, the effectiveness of tax planning as a tool for enhancing firm performance may be limited, highlighting the importance of considering local regulatory, market, and governance conditions when evaluating the role of tax strategies.

Regarding the control variables in the model, financial leverage (LEV) exhibits a statistically significant association with ROE at the 5% level ($p = 0.035$), and the coefficient is negative ($\beta = -0.311$). It may seem to contradict DuPont, since higher leverage raises the equity multiplier and can mechanically lift ROE. In practice, more debt often increases interest costs, financial constraints, and distress/agency costs. If the after-tax cost of debt exceeds the marginal operating return, net income to shareholders falls, so ROE can decline despite a higher equity multiplier. The negative coefficient in our model therefore suggests that, for Vietnamese firms in the sample, incremental leverage is more likely to erode shareholders' returns rather than enhance them, possibly indicating that many firms operate beyond an optimal leverage range or face borrowing conditions under which debt financing is costly relative to their operating profitability. In this context, capital structure decisions appear to have a more immediate and economically meaningful link to profitability than tax-related strategies, as the tax planning variable does not show clear short-term effectiveness in the model. From a managerial perspective, the results emphasize the importance of

optimizing capital structure, managing the cost of debt, and strengthening operating efficiency (e.g., improving cash-flow generation and interest coverage) to protect equity returns. Meanwhile, the remaining control variables (OLEV and FAGE) are not statistically significant ($p > 0.05$), suggesting limited explanatory power for ROE in this specification. Meanwhile, the remaining control variables, including operating leverage (OLEV) and firm age (FAGE), have p-values greater than 0.05 (0.346 and 0.357, respectively), indicating that they are not statistically significant and do not have a meaningful impact on ROE in this model.

5. Conclusion

This study investigates the impact of tax planning on the performance of 816 non-financial listed firms in Vietnam, using two proxies for tax planning: the effective tax rate (ETR) and the tax burden to total assets ratio (TAXA). The empirical results indicate that tax planning does not have a statistically significant effect on firm performance, as measured by ROE. Although the coefficients of both ETR and TAXA are positive, the lack of statistical significance suggests that tax planning, within the current regulatory and market environment, does not substantially enhance profitability. These findings have important implications for both practitioners and policymakers. For firms, the results suggest that prioritizing strict tax compliance over aggressive tax optimization may be more appropriate in the Vietnamese context, where regulatory scrutiny and evolving tax rules may limit the effectiveness of sophisticated tax strategies. For policymakers, the study highlights the need to consider how tax regulations influence corporate behavior and firm performance, particularly in transition economies. Future research could explore other performance measures or consider firm-specific characteristics to further understand the role of tax planning in emerging markets.

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