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The Impact of Taxation on Investment Decisions of Listed Commercial Banks in Sri Lanka

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ABSTRACT

Purpose: Tax is a compulsory charge by the government. Every country uses a tax system and is compulsory. It has an influence on business decision-making. Hence the main aim of this study was to investigate the impact of corporate tax on the investment decisions undertaken by the Banking sector of Sri Lanka.

Design/ Methodology/Approach: Two key variables; the average tax rate and the effective income tax rate were taken as the independent variables after controlling the firm size. The Return on Investment (ROI) was taken as the dependent variable. Data collection was carried out with a sample of 10 listed Licensed Commercial Banks (LCBs) for the period from 2011 to 2020.

Findings: The panel regression results revealed that both the average tax rate and the effective income tax rate have a significant negative impact on ROI, mentioning that the reduction of tax rates increases Investment.

Originality: The findings suggest that lower corporate tax rates stimulate investment. Hence in Sri Lanka, huge fluctuations in tax policies with the changes of the political parties should be eliminated, and it is needed to establish an appropriate or suitable fiscal system or a tax system in the country that will lead to generating sufficient revenue for the organizations.

Keywords: *Corporate Income Taxation, Investment Decision, Average Tax Rate, Effective Average Income Tax Rate, Licensed Commercial Banks*