

**IMPACT OF TAXATION ON CAPITAL STRUCTURE OF  
LISTED COMPANIES IN SRI LANKA**

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## ABSTRACT

Taxation and capital structure are broad topics and there are lots of studies have been done by the researchers in the world. Governments use taxation to encourage or discourage certain economic decisions. Taxation is main determinant explained the capital structure because the tax benefit associated with use of debt.

This study is carryout to find the impact of taxation on capital structure of listed companies in Sri Lanka. Therefore most profitable and taxable Sri Lankan 20 listed companies are used for the sample of the research. Required data are collected from the secondary source of annual reports of companies and published other reports on the performance and financial information of the companies. Collected data analyzed by the use of statistical package of social science (SPSS 19.0) and presented by tables and graphs.

In this study, dependent variable that is, capital structure of the companies, is measured by debt to equity ratio. Independent variable that is, taxation is measured by effective tax rate. Considering control variables, firm size is measured by annual turnover and profitability is measured by return on assets. According to Partial correlation analysis, findings showed that taxation has insignificant weak negative relationship with capital structure and multiple regression analysis showed that taxation has no significant impact on capital structure of selected listed companies in Sri Lanka. But Pearson correlation analysis obtained a different result other than the result from Partial correlation analysis. It showed a weak positive significant relationship between taxation and capital structure of selected companies.

Considering control variables, firm size has significant moderate positive relationship with capital structure and significant positive impact on capital structure of selected listed companies in Sri Lanka. Profitability has significant weak negative relationship with capital structure and significant negative impact on capital structure of selected listed companies in Sri Lanka.

**Keywords:** Taxation, Capital Structure, Listed Companies, Firm Size, Profitability

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