

Varazdin Development and Entrepreneurship Agency and University North
in cooperation with:
University of Aveiro
Faculty of Management University of Warsaw
Faculty of Law, Economics and Social Sciences Sale - Mohammed V University in Rabat
Polytechnic of Medimurje in Cakovec



Economic and Social Development

68th International Scientific Conference on Economic and Social Development

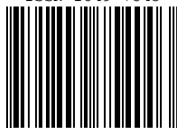
Book of Abstracts

Editors:

Marco Andre da Silva Costa, Abdelhamid Nedzhad, Danijela Lucic



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Due to the Covid-19 restrictions and epidemiological measures, the Program of the Conference has been scheduled online. All Sessions and Presentations have been presented via Discord platform.

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THE EFFECT OF CORPORATE INCOME TAXATION ON COMPANIES FINANCIAL PERFORMANCE - LISTED COMPANIES ON EUROZONE STOCK MARKETS

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ABSTRACT

The performance evaluation of a company might be based on financial and non-financial factors. However, on top of the main key performance indicators is always profitability. The return on assets and the return on equity are the most used ratios/indicators used to determine financial performance. Therefore, taxation is always a factor that influences the profitability of any business. The tax burden, measured by the tax effect or by the effective tax rate, is an important factor determining the financial performance of companies listed on stock markets. The higher the tax burden (i.e., the lower the tax effect or, the higher the effective tax rate), the lower the profitability and, consequently, the financial performance. Therefore, the differences in the tax law might have an impact on profits taxation. This study aims to analyse the effect of corporate income taxation (tax effect) on return on equity (ROE) of listed companies of eurozone stock

markets. The data was collected from listed companies' financial statements in the Eurozone during 2018 (Orbis database). The final sample is based on 750 listed companies from several activity sectors and located in different Eurozone countries. The research results were obtained using the Ordinary Least Square (OLS) regression method. The return on equity average is approximately 12,7%. The tax effect average is approximately 71,4% (i.e., 28,6% in terms of effective tax rate). Therefore, the influence of the tax effect is significant. The results suggest that for the companies listed in the Eurozone stock market, a variation of 1% in the fiscal effect generates a 1,243% variation in the same direction of the ROE. The relationship is positive, as was expected.

Keywords: *DuPont model, regression analysis, ratio analysis, return on equity, tax effect*
