RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.COM VI SEM.

SUBJECT: Corporate Tax Planning

SUBJECT CODE: BCH 403

LECTURE: 28

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LECTURE-28

TAX PLANNING IN FINANCIAL MANAGEMENT AND MANAGERIAL DECISIONS.

The capital structure of a company refers to the long-term finances used by the firm. The theory of capital structure is closely related to the firm’s cost of capital. The decision regarding the capital structure or the financial leverage or the financing wise is based on the objective of achieving the maximisation of shareholders wealth.

To design capital structure, we should consider the following two propositions:

- Wealth maximisation is attained
- Best approximation to the optimal capital structure

Factors determining capital structure

- Minimisation of risk:
  - Capital structure must be consistent with business risk.
  - It should result in a certain level of financial risk.
- Control: It should reflect the management’s philosophy of control over the firm.
- Flexibility: It refers to the ability of the firm to meet the requirements of the changing situations.
- Profitability: It should be profitable from the equity shareholders point of view.
- Solvency: The use of excessive debt may threaten the solvency of the company.