

Leverage Tax Benefit, Non-Debt Tax Shield, Default Risk and External Financing Policy of Listed Small and Medium-Sized Transportation Companies: A Panel Data Approach

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Abstract

In today's business domain, the relevance of this Small and Medium Sector (SME) is amplifying day by day. The transportation industry is widely spread and variegated in a developing country like India and comes within as a frontline sector. In spite of being an emanating sector, often this sector has to combat the narrow scope of SME lending. This Paper makes a facile attempt to find interrelationship among leverage, non-debt tax benefits, and debt policy of transportation SMEs. The sample observations of 140 have been considered with a study period from 2015 – 2021. Applying Panel Regression Analysis, the study result unfolds that Business risk is found negatively correlated with Tax Shield. A positive moderately significant correlation with debt procurement cost obscures Non-debt means to generate Tax benefits. Moreover, a significant, inverse association between Non-debt tax cost and leverage is observed that is indicating towards the selection of the Pecking Order Theory. Among conventional capital structure determinates Profitability is strongly, positively affecting leverage decisions, Asset Structure is found significant regressor of the model, supporting the Trade-off theory. A Fixed effect is persistent in all the models and a long-term relationship is observed for most of the models. No particular means of tax benefit is persistent with Leverage and tax benefit models, as the debt policy of firms is ever changing its dimensions with time horizon. Thus, Non-debt tax benefits might be a substitute of traditional debt cost, nevertheless not a stable tax benefit measure.

Key Words: Cost of Debt, Non-debt Tax Benefits, Default Risk, Debt policy, Panel Data, Panel Co-integration

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