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Corporate Tax Planning and Financial Performance of Listed Consumer Goods in Nigeria

Iniobong Udo Sampson Edemeka
Department of Accounting, Akwa Ibom State University, Ikot Akpaden, Nigeria

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Corresponding Author: **Iniobong Udo Sampson Edemeka**

Abstract

The multiplicity of tax laws and heavy tax burden facing companies in developing countries such as Nigeria has resulted in the adoption of different strategies to reduce tax liabilities. The main objective of this study therefore was to examine the effect of tax planning on financial performance of listed consumer goods firms in Nigeria from 2013 to 2022. The measures of tax planning adopted in this study were effective tax rate, tax incentives, debt tax shield and capital intensity. Return on assets was the measure of financial performance. The research design adopted for this study was ex-post facto because secondary data was used. The population of this study consisted of 21 listed consumer goods companies in Nigeria and purposive sampling technique was employed to select 18 of these companies. The ordinary least square regression technique was used to analyze the data and the statistical package employed was E-views version 10. The findings of the study revealed that effective tax rate has a negative and insignificant effect on the return on assets (ROA); tax incentives has a significant positive effect on return on assets; debt tax shield has significant and positive effect on return on assets; capital intensity has a positive but insignificant effect on return on assets of listed consumer goods firms in Nigeria. Thus, it was concluded that tax planning activities impact on the financial performance of listed consumer goods firms in Nigeria. Based on the above it was recommended among others that the management of consumer goods companies should focus on long term tax planning rather than solely concentrating on reducing effective tax rate. The management of consumer goods companies should also explore and take full advantage of available tax incentives by capitalizing on applicable tax incentives provided by the regulatory environment.

Keywords: Corporate Tax Planning, Capital Intensity, Tax Shield, Effective Tax Rate, Financial Performance, Tax Incentives, Returns on Assets, Financial Performance

1. Introduction

1.1 Background to the study

Planning is a management function of an organization and it is beneficial to a firm if it is goal oriented (Umo, 2022) [81]. Tax planning is an aspect or composite part of the management function of planning in an organization. It plays a crucial role in determining the financial performance of businesses and individuals alike. By strategically managing tax liabilities and optimizing financial structures, entities can enhance profitability, cash flow management, and overall fiscal health. Effective tax planning involves understanding tax laws, utilizing available incentives, and implementing strategies tailored to specific financial goals, thereby directly influencing the bottom line and long-term viability of an organization or individual's financial portfolio. The business climate today is characterized by intense competition between companies, which drives it to search continuously for opportunities to reduce burdens and avoid them or improve their revenues. Since tax is among the burdens that the company bears and is obligated to pay on the due date, it becomes imperative to search for appropriate methods and strategies to reduce the amount of tax to the lowest levels or sometimes completely avoided, through good tax planning strategies.

Planning involves the use of appropriate strategies by the management of an organization to achieve well defined goals or objectives (Umo, 2022) [81]. It involves the use of effective, efficient and acceptable strategies to steer the corporate plans and operations towards the achievement of set goals or objectives (Umo, 2023) [82]. Tax planning is described as planning and operation of company activities within the context of existing legislation in such a way that the business achieves the optimal

or best tax position while meeting its objectives (Chukwudi *et al*., 2020) [25]. One of the primary goals of tax planning is to minimize a company's tax liability legally and ethically. By utilizing various tax planning strategies, companies can reduce the amount of taxes they owe to the government, thus maximizing their after-tax profits. Ogundoyo and Onakoya (2016) [59] maintained that tax planning strategies entails a thorough understanding and application of relevant tax shelters and incentives in the tax laws, such as incentives given in recognition of pioneer status, rules applied to the start-up and termination of a business, and allowances given in respect of the acquisition of an asset used for the purpose of a business. By reducing tax payments or deferring taxes through legitimate strategies, companies can free up cash that can be reinvested in the business, used for expansion, or distributed to shareholders. According to Nwaobia *et al*., (2016) [55], by structuring their operations and transactions in a tax-efficient manner, companies can lower costs, price products competitively, and potentially outperform rivals who are less proactive in managing their tax obligations. By implementing tax planning strategies such as effective tax rate, tax incentives, tax shield and capital intensity, companies can ensure sustainable growth and longevity.

Cascio (2006) describes financial performance as the achievement of a target at the work place. Financial performance refers to a company's financial status throughout time, which includes the collection and utilization of cash as assessed by capital adequacy ratio, liquidity, leverage, solvency, and profitability. The ability of an enterprise to manage and control its resources to achieve set objectives is referred to as financial performance (Umo, 2022) [81]. This word is also used as a broad indicator of a company's overall financial health over time, and it can be used to compare similar companies within the same industry or to compare industries or sectors in aggregated. Umo (2022) [81], described financial performances as the degree to which financial goals are being met or have been met. It is the process of calculating the monetary value of a company's policies and operations and implies the company's ability to achieve its financial goals (Umo, 2022) [81].

Effective tax rate is a measure that reflects the total tax provision as a percentage of pre-tax income and gives an indication of how much a company actually pays in taxes relative to its earning. Effective tax strategy that results in a lower effective tax rate can significantly improve the company's financial performance by increasing net income, enhancing cash flow, boosting profitability, creating competitive advantage and thus enhances shareholders' value (Rohaya *et al*., 2018) [72]. Tax incentives can play a strategic role in improving financial performance by providing opportunities for cost savings, investment growth, risk mitigation and competitive advantage. It is important for businesses to evaluate and leverage available incentives to maximize their financial benefits with their broader goals and values.

A debt tax shield refers to the tax advantage that arises when a company deducts interest expenses from its taxable income, resulting in a reduction of its tax liability. This deduction of interest payments lowers the company's taxable income, effectively reducing the amount of taxes it has to pay. The concept of a debt tax shield is based on the premise that interest payments on debt are considered tax-deductible expenses, unlike dividends on equity. By deducting interest expenses from taxable income, companies can lower their effective tax rate, leading to tax savings and an increase in after-tax profits (Graham, 2004) [34]. This can improve financial performance by boosting net income and earnings per share.

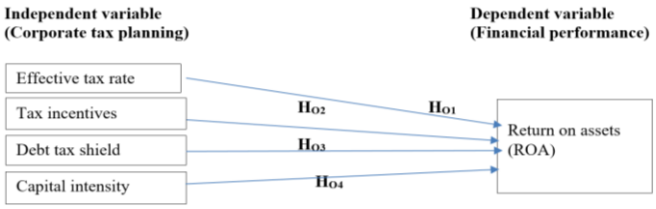
Capital intensity is a measure of how much investment in capital assets is needed to generate a certain level of sales or income. High capital intensity frequently means large expenditures in fixed assets, which can result in greater capital allowance. High capital intensity create higher revenues and returns if fixed asset expenditures result in expanded production capacity, operational efficiency, or enhanced product/service offerings. Companies can establish a constant cash flow situation by successfully managing tax payments, allowing them to satisfy financial obligations, invest in business operations, and capitalize on development prospects. Effective cash flow management as a result of tax planning can improve financial stability and long-term sustainability. Proactive tax planning can help prevent overpayment of taxes and avoid penalties or interest charges related to non-compliance. Such savings can be redirected towards strategic initiatives or used to strengthen the company's financial position. tax planning can significantly affect a company's financial performance by optimizing its tax position, enhancing cash flow, improving profitability, and supporting long-term competitiveness. Careful consideration of tax implications in business decision-making is essential for maximizing value creation and sustaining financial health. Thus, this study was carried out to ascertain the effect of corporate tax planning on financial performance of listed consumer goods firms in Nigeria.

2. Related Literature Review

This section discusses the related conceptual framework, theoretical review and empirical framework.

2.1 Conceptual Framework

Fig 1 below shows the independent and dependent variables in conceptual framework.



Source: Researcher's conceptualization (2024)

Fig 1: Diagrammatical representation of variables relationship

2.2 Conceptual Review

This section presents review of related concepts.

2.2.1 Corporate tax planning

According to Umo (2022) [81], planning is a process that defines the set goals to be achieved by an organization and usually states the procedures and practices necessary to accomplish the set goals. Therefore, tax planning is treated as the set of practices tending to reduce the present value of tax payments and generally increases the after-tax rate of return of investors (Balakrishman *et al*, 2019) [17]. This has been confirmed by (Hanlon & Heitzman, 2010), who state that tax planning represents a continuum of tax avoidance strategies where perfectly legal activities are at one end and more aggressive activities are closer to the other end. It can be understood as the practice of minimizing tax liability by

making the effective use of all applicable allowances, deductions, exemptions, concessions, and rebate, within the framework of law, to lessen the overall income and/or capital gain of the Assets. According to Umo (2022) [81], good planning must systematically steer company operations toward the achievement of well-defined objectives, and, of course, in relation to corporate policies. Thus, tax planning is the planning and operation of company activities within the context of existing legislation in such a way that the business achieves the optimal or best tax position while meeting its objectives. To put it another way, tax planning is a process of reducing income by making the best use of all available exemptions, deductions, refunds, and reliefs. Tax planning is the organization of one's financial and business affairs by properly taking full advantage of all deductions, exemptions, allowances, reliefs, and refunds so that tax burden is kept to a bearest minimum. Tax planning is a legal method of reducing the tax burden that covers all kinds of efforts made by the Tax Payer to save taxes, through ways and means that conform to the legal obligations and are not intended to deceive the law, by false pretense.

Government uses various tax strategies to provide tax relief to taxpayers in order to stimulate investment in certain areas of the economy. Taxation has different implications on the investment, financing and performance of a firm. High tax burden impedes investment and productive capacity of a firm through restriction on financial resources availability. Taxpayers who are aware of effective tax planning can benefit from such tax reliefs by arranging their business activities in such a way that they may take advantage of such reliefs and so pay less tax. Ogundayo and Onakoya (2016) [59] maintained that tax planning strategies entails a thorough understanding and application of relevant tax shelters and incentives in the tax laws, such as incentives given in recognition of pioneer status, rules applied to the start-up and termination of a business, and allowances given in respect of the acquisition of an asset used for the purpose of a business. Raffiu *et al*., (2017) [68] stated that tax payment is a cash outflow to the banks that pay the tax. Paying less tax reduces cash outflow and allows the bank to save money that may be reinvested in other profitable ventures. Oladipupo and Okafor (2013) and Umo (2022) [81] state that the goal of an organization is to maximize wealth through dependable machineries and strategies and one dependable way to do so is through cost minimization. Tax planning strategies refers to the legal activities that businesses engage to manage their revenue and spending with the goal of avoiding, minimizing, or delaying tax within the confines of the tax rules. Pniowsky (2010) [67] stated that tax planning is the practice of organizing one's affairs in order to defer, decrease, or eliminate taxes owed to the government. Tax planning refers to the legal actions taken by taxpayers to reduce their tax liability and generate tax savings. The use of suitable incentive provisions for corporate tax payers based on enabling laws such as the Company Income Tax Act, Personal Income Tax Act, Value Added Tax Act, and other enactments is referred to as tax planning. These laws provide incentives such as the pioneer status incentive, the commencement rule, the cessation rule, the investment allowance, the roll-over loss relief tax exemptions, deductions, rebates, and other tax concessions allowed by tax statutes, on which tax planning by businesses can be built. Tax planning actions can be active or passive depending on the taxpayer's goals in executing a transaction. Yimbila (2017) [87] confirmed that active tax planning strategies is relevant when a transaction is carried out with the goal of lowering the tax burden. A circumstance in which a transaction is carried out without any prior intent or intention to decrease the tax burden is known as passive tax planning. Tax planning arises out of the need to improve financial performance and to enhance shareholders wealth. This had lead managers to diverse strategies to reduce tax liability. Among the strategies is the effective tax planning. Tax planning are strategies that is employed by an organization to legally reduce tax liability. This is done through tax avoidance. The savings are made available to embark on investments opportunities and this would enhance corporate performance.

Tax planning activities are traditionally regarded as tax savings devices that transfer resources from the government to shareholders, and thus should increase the after-tax profit of firms (Desai & Dharmapala, 2019) [26]. Thus, tax planning is a conscious effort by taxpayers within the ambit of the law to minimise their tax liability. Bruce *et al* (2019) [22] in their definition of tax planning, combine tax evasion and avoidance as a strategy to reduce tax burden. The authors define tax planning as a broad set of tax avoidance and evasion schemes that affect only the financial arrangements of firms. However, from the technical perspective, tax planning activities are different from that of tax evasion. Ali-Nakyea (2021) [12] asserts that, there is a thin line between tax planning and tax evasion. Therefore, in explaining the concept of tax planning Hoffman (1961) [37] in his tax planning theory suggests that, it is important to differentiate the concept of tax planning and tax evasion in order to avoid unintended consequences of tax planning, for example penalty due to ignorance of a taxpayer about the legal aspect of tax planning. Akapko (2018) [8] posits that, the distinction between tax evasion and tax avoidance (tax planning) lies in the legality of the transaction. Rego (2017) [69] in his study of tax avoidance activities of U.S. multinational corporations explained that, tax avoidance is any tax planning activities to legally reduce the income tax payment. Thus, tax avoidance is usually, the ultimate goal to be achieved by tax planning.

On the contrary, tax evasion is an illegal activity used to reduce the tax liability. For example, under reporting income or stating higher deduction rates. In Ghana, tax evasion is subject to fines and penalty. According to Hoffman (1961) [37], tax evasion connotes the misrepresentation or omission of key financial information in an effort to evade the taxes that are legally enforceable. Tax evasion and avoidance are of great concern to authorities since they relate to public policy in which both may distort the tax burden distribution and in terms economic perspective, they could distort resource allocations (Slemrod, 2019) [76]. Abdul-Wahab (2020) [1] posits that, the fundamental terms to clarify the variation between tax avoidance and tax evasion are “legal” and “illegal”. Bond *et al* (2012) [21] argue that, tax planning activities are distinct from those covered in the theory of tax evasion, where firms illegally manipulate their tax liability.

According to Abdul-Wahab (2020) [1], tax planning activities can be considered as “active” or “passive” depending on the taxpayer’s intentions in conducting a transaction. The author explained that, active tax planning is relevant in a situation where a transaction is carried out with an intention to reduce

the tax burden. Passive tax planning on the other hand is where a transaction is carried out without an earlier intent or purpose to reduce the tax burden. For example, Akakpo (2018) [8] argues that, a tax payer is said to be involved in active tax planning if the purchase of a fixed asset which attracts capital allowance has been done with the aim of reducing the taxable income. However, if the purchase decision did not consider the tax aspect of the transaction, then, the taxpayer is regarded as performing passive tax planning.

For the purpose of this study, tax planning is referred to as manufacturing firms' effort in arranging their financial affairs to reduce their tax liabilities without infringing upon the tax legislations. Manufacturing firms like their industry counterpart engage in aggressive tax planning with the aim of reducing their tax burden (OECD, 2009) in order to maximize shareholders‟ wealth. Thus, tax aggressive manufacturing firms may take full benefits of the allowances and provisions in the tax laws so that they pay no more tax than is necessary.

Some of the measures of tax planning used in this study are effective tax rate, tax incentives, debt tax shield and capital intensity, which are explained below:

***Effective tax rate*:** This is a measure that reflects the total tax provision as a percentage of pre-tax income and gives an indication of how much a company actually pays in taxes relative to its earning. Effective tax strategy that results in a lower effective tax rate can significantly improve the company's financial performance by increasing net income, enhancing cash flow, boosting profitability, creating competitive advantage and thus enhances shareholders' value. Effective tax rate (ETR) has been used extensively by prior researchers to measure the extent to which firms take advantage of tax incentives and different rules between financial reporting and tax reporting (Rego, 2017; Rohaya *et al.*, 2018) [69, 72]. The effective tax rate is the percentage of a company's tax burden that is reduced without a negative impact on its accounting income. It primarily assesses corporations' tax performance by comparing real corporate tax loads to the percentage of a firm's tax expenditure to its profit before tax. Effective tax rate indicated the aggressiveness of a firm's tax planning technique. The average tax rate for a firm or a person is known as the effective tax rate. Individuals' effective tax rates are the average rates at which their earned income is taxed, whereas corporations' effective tax rates are the average rates at which their pre-tax earnings are taxed. The corporate effective tax rate evaluates a company's tax performance.

The effective tax rate considers the impact of deductions, exemptions, credits, and other tax planning strategies that reduce the taxable income and the resulting tax liability. The calculation of the effective tax rate involves dividing the total tax paid by the taxable income and expressing it as a percentage. The effective tax rate allows for a comprehensive analysis of an individual's or company's tax position and provides insights into their tax efficiency. In Nigeria, tax rate (CITA) is 30% of assessable profit. The statutory tax rate minus the effective tax rate is the tax savings. Cash tax savings is a notable concept that denotes the amount of money saved from using the effective tax rate instead of the statutory rate. It arises from the difference between effective tax rate and statutory tax rate multiplied by the profit before tax (Kportorgbi, 2023) [46]. A higher effective tax rate indicates a larger tax burden, whereas a lower effective tax rate suggests a lower tax burden relative to the taxable income. However, effective tax rate is determined by a number of factors, including local tax rules and regulations, an individual's or company's financial status, and the use of available tax planning measures.

Basically, the formula for calculating the effective tax rate can be expressed as:

Effective Tax Rate = (Total Tax Paid / Taxable Income) * 100.

Tax incentive: Tax incentive is a government program that offers special tax benefit, exemptions, deductions, credits ore rebates to encourage certain behaviours or activities that are deemed beneficial to the economy. According to Aguolu (2004) [5] tax incentives are those special exclusions, exemptions, or deductions that provide special credits, preferential tax rates or deferral of tax liability. Tax incentives can take the form of tax holidays, investment allowances and tax credits, accelerated depreciation, special zones, investment subsidies, tax exemptions, reduction in tax rates and indirect tax incentives. The international bureau of fiscal decentralization defines tax incentives as fiscal measures that are used to attract local or foreign investment capital to certain economic activities or particular areas in a country. Tax incentives are much easier to provide than to correct deficiencies in the system, for example, in infrastructure or skilled labor they do not require an actual expenditure of funds or cash subsidies to investors. They are therefore, politically easier to provide than funds. Aguolu (2004) [5] described tax incentive as an exemption or relief granted to an individual or a company to reduce the effect of taxation and thus encourage savings and investment. At another level, it can be difficult to distinguish between provisions that are deemed to be part of the general tax structure and those that provide special treatment. This distinction will become more important as countries may be limited in their ability to adopt targeted tax incentives.

The associated costs of tax incentives can be classified in following main categories: Forgone revenues, these are the losses in tax revenue from tax incentives which mainly come from three sources; the forgone revenue that otherwise would have been collected from the activities undertaken; the forgone revenue from projects that would have been undertaken if the investor did not receive any tax incentives; and lost revenue from investors and activities that improperly claim incentives or shift income from related taxable firms to those firms qualifying for favorable tax treatments. Resource allocation (neutrality) costs which originate when tax incentives create distortions on investment choices among sectors or activities instead of correcting market failures. Enforcement and compliance costs: These costs increase with the complexity of the tax system and the system of fiscal incentives in terms of qualifying and reporting requirements (Abiola *et al*, 2012) [2].

Debt tax shield: A debt tax shield refers to the tax advantage that arises when a company deducts interest expenses from its taxable income, resulting in a reduction of its tax liability (Rohaya *et al.*, 2018) [72]. This deduction of interest payments lowers the company's taxable income, effectively reducing the amount of taxes it has to pay. The concept of a debt tax shield is based on the premise that interest payments on debt are considered tax-deductible expenses, unlike dividends on equity. Tax Shield is an allowable deduction from taxable income that results in a reduction of

taxes owed. Tax shields differ between countries and are based on what deductions are eligible versus ineligible. The value of these shields depends on the effective tax rate for the corporation or individual (being subject to a higher rate increases the value of the deductions). The debt tax shields in debt financing mentioned in the trade-off model is associated with exploiting the tax deductibility of interest, so firms will increase debt to benefit from tax shields. However, firms with other tax shields like investment tax credit deduction and depreciation will decrease debt to benefit from tax shields.

The changes in inflation or changes in the corporate tax code which reduces the real value of tax shields may increase the amount of debt employed. These deductions are substitute for the tax shields, and they have no relation with the method a company chooses to finance its investments. For instance, the stock option plans for employees are interpreted as an important non-debt tax shield (Graham, 2004) [34]. Firms tend to substitute option deductions for interest deductions. The marginal tax savings from an additional unit of debt will decrease when the NDS exists. Therefore, the NDS is negatively related with leverage. Using more of debt capital allows a company to enjoy tax benefits of interest payment because interest is an allowable expense. Similarly, those countries that charge taxes on interest repatriation does so on a very low withholding tax rate compared to withholding tax rate on dividend. Leverage can impact a company's tax liability, potentially reducing or increasing it, depending on various factors and tax planning strategies. In the case of debt financing, one of the primary tax benefits of leverage is the deductibility of interest expenses. Interest payments on debt are generally tax-deductible for businesses, meaning they can be subtracted from taxable income. By utilizing debt financing, a company can reduce its taxable income and, consequently, lower its tax liability. This interest deductibility provides a tax shield effect that can result in significant tax savings (Graham, 2003). In certain jurisdictions, there are tax incentives specifically related to debt financing. These incentives can include tax deductions for interest expenses, ta x credits for certain types of debt instruments, or accelerated depreciation benefits for financed assets. By incorporating debt into their capital structure, companies can take advantage of these incentives to reduce their overall tax liability (Feld & Frey, 2020) [30].

Some countries have thin capitalization rules in place to limit the deductibility of interest expenses when the debt-to-equity ratio exceeds a certain threshold. These rules aim to prevent excessive interest deductions that may erode the country's tax base. Understanding and adhering to these rules is crucial for tax planning to ensure compliance and avoid potential limitations on interest deductibility (Hanlon & Heitzman, 2020) [36]. Also, in terms of strategic debt restructuring, companies can optimize their tax position. This can involve activities such as refinancing existing debt to take advantage of more favourable interest rates or converting certain types of debt into equity to modify the tax treatment of interest payments. Debt restructuring can be part of a tax planning strategy aimed at reducing the overall tax liability of a company.

Capital intensity: Capital intensity refers to the amount of capital (such as machinery, equipment, buildings, and other physical assets) required to produce a unit of output or revenue. It is a measure of how much investment in capital assets is needed to generate a certain level of sales or income. Capital intensity varies across industries and can significantly impact a company's financial performance. The quantity of capital investment required to support a company's operations and create revenue is referred to as capital intensity. It denotes the proportion of a company's fixed assets, such as buildings, equipment, and machinery, to its overall output or sales volume. Capital intensity is an important statistic for determining how much a company relies on capital investments to operate and produce income. In the words of Shahean and Malik (2022) [75], it is the extent of investment businesses make on non-current assets. It can also be referred to as asset tangibility. There exist various advantages associated with capital intensity. Fixed assets, such as buildings, machinery, and equipment, are often required in capital-intensive industries. Over their useful lives, these assets may be eligible for depreciation or amortization deductions. Moreso, some governments provide investment tax credits to encourage enterprises to participate in capital-intensive activities such as R&D, renewable energy initiatives, or equipment upgrades. These credits allow firms to deduct a portion of their tax liability for qualified capital expenditures, potentially resulting in tax savings.

Moreover, businesses in certain countries may be able to claim capital allowances on qualifying capital expenditures. Capital allowances help businesses save money by allowing them to deduct a percentage of the cost of qualified assets from their taxable profits. Higher capital intensity may result in bigger capital allowances, lowering taxable income and tax liabilities. Firm investment decisions, especially in relation to tangible assets, could affect financial performance because tax provision mostly permits companies to write-off the total cost of those assets in a shorter period when compared to their economic activities (Ado *et al*., 2021) [4]. According to Oeta *et al*., (2019) [57], capital allowances results to tax savings that increases after tax returns of a firm.

2.2.2 Financial performance

Umo (2022) [81] describes financial performance as the achievement of a target at the work place. It is complete evaluation of a company's overall standing in categories such as assets, liabilities, equity, expenses, revenue and overall profitability. For internal users, financial performance is examined to determine their respective companies' wellbeing and standing, among other benchmarks (Cascio, 2018). For external users, it is analysed to dictate potential investment opportunities and determine the worth of the company. Financial performance signifies a firm's ability to manage its finances and a subjective measure of how effectively a firm can use its business assets to generate revenue (Umo, 2022) [81] Firm performance can be measured either by financial or non-financial or both. Horngren (2008) [38] classified financial performance into two categories, (1) absolute measure and (2) the relative measure. The absolute performance measure is used to assess performance based on the quantum of profit. While the relative performance measure is use for inter firm comparison. Prior studies used different measures of performance but the ones that have been used extensively are Return on Asset (ROA), Return on Equity (ROE) and Net Interest Margin (NIM) (Yimbila, 2017; Umo, 2022) [87, 81]. Net interest margin measures the spreads between the rates paid on deposits and rates charged on loans. Garcia-

Herrero *et al*, (2019) describes NIM as an imperfect measure of performance because it does not factor in how the manufacturing firms is run. Return on Asset (ROA) and Return on Equity (ROE) are the most widely accepted measure of performance. This study employed return on asset as a measure of financial performance (Umo, 2022) [81].

Return on assets: This ratio measures the amount of return earned on every N1 invested on assets. Return on assets (ROA) is the ratio of Net Income (profit after tax) to total assets (Umo, 2022) [81]. Return on assets shows how effective and efficient the managers of firms are using the firm's assets to generate profits. Thus, a higher ratio shows a higher performance of a manufacturing firm (Umo, 2022) [81]. A substantial number of researchers have used ROA as a measure of firm performance (Inger, 2022) [40]. ROA was preferred as a better measure of financial performance because ROA measures how effectively a company is utilizing its assets to generate profits. By incorporating both the income statement (profits) and the statement of financial position (assets), ROA provides a comprehensive view of a company's operational efficiency and financial health. According to Gideon *et al*, (2019), it allows for easier comparison of financial performance across companies of different sizes and industries. Since it is a ratio that standardizes performance relative to total assets, ROA can be used to compare companies within the same industry or track a company's performance over time. ROA focuses on the core operations of a business by assessing how well assets are being used to generate earnings. It indicates how efficiently management is using resources to generate profits and can help identify areas for improvement in asset utilization or cost control (Umo, 2022) [81]. By linking profitability with asset management, ROA provides a holistic picture of a company's financial performance. Omesi and Appah (2021) [64] note that it highlights the relationship between profitability and the level of investment in assets, which is crucial for sustainable growth and long-term success.

Investors and analysts often use ROA as a key metric to evaluate a company's financial performance and potential for future profitability. A high ROA indicates that a company is generating strong returns on its investments, which can attract investors and drive stock performance. The metric also provides a good line of sight into net margins and assets turnover. However, one major drawback of return on asset is that it is distorted by the off-statement of financial position items (assets acquired through lease) of the firm which understate the value of assets (Kayode & Adegbie, 2020; Umo, 2023) [44, 82]. The author further explained that, this can create a positive bias where ROA is overstated in the evaluation of firm performance. Nevertheless, Rego and Wilson (2019) argue that ROA is one of the most important measures of performance. As an alternative measure of performance, the Return on Equity (ROE) is computed as the ratio of net income to equity. It measures the income earned on each unit of shareholders capital. Return on equity gives an indication of management performance. The shortfall of this measure is that manufacturing firms with high financial leverage tend to generate high ratio. Firms with high financial leverage may be associated with a high degree of risk although these manufacturing firms may register high ROE. ROE is commonly used in conjunction with ROA. To evaluate the performance of consumer goods firms, return on asset (ROA) is used as a measure of financial performance (Umo 2023) [82].

2.2.3 Corporate tax planning and financial performance

Tax planning strategies aim to minimize tax liabilities by taking advantage of applicable tax laws, deductions, credits, and exemptions. By optimizing their tax position, companies can reduce tax expenses, which can directly contribute to increased profitability and financial performance. Lower tax burdens result in higher after-tax profits, enabling companies to allocate more resources towards growth initiatives or enhance shareholder returns. Moreover, tax planning can have a favorable impact on cash flow management, which is critical for a company's financial performance. Companies can establish a constant cash flow situation by successfully managing tax payments, allowing them to satisfy financial obligations, invest in business operations, and capitalize on development prospects. Effective cash flow management as a result of tax planning can improve financial stability and long-term sustainability. Also, tax planning enables businesses to allocate resources and investments more wisely. Companies can free up financial resources that might otherwise be dedicated to taxes by improving tax tactics. These freed-up resources might be used for research and staff development (Umo 2023) [82] and also for capital investments, personnel acquisition, marketing activities, or debt reduction (Umo 2020). Tax planning facilitates effective resource allocation, which can improve financial performance and stimulate growth.

Prior literature has shown that tax planning has significant effect on financial performance. Positive relationship was found in the studies of Ado *et al*. (2021) [4], Olurankinse & Mamidu (2021) [62] and Januri & Hanum (2022) [42]. Kayode & Adegbie (2020) [44] found positive relationship specifically with return on assets (ROA). On the other hand, negative relationship was observed in Adejumo & Sanyaolu (2020) [3], Kayode & Adegbie (2020) [44]. Kurawa & Saidu (2018) [47] also found negative relationship but insignificant. Thus, this study examined the relationship between the different proxies of the independent variable and return on asset (ROA) as follows:

Effective tax rate and return on assets: In a normal perception, the relationship between the effective tax rate (ETR) and financial performance is multi-faceted and can have both direct and indirect effects on a company's financial performance. Firstly, effective tax rate has a direct impact on a company's profitability. A higher effective tax rate means that a greater share of the company's profits is allocated to tax payments, lowering its after-tax profits. This can lead to lesser net income and, as a result, lower profitability. A lower effective tax rate, on the other hand, might enhance after-tax profits, adding to better profitability. The effective tax rate also has an impact on a company's cash flow situation. Higher tax payments might restrict cash flow available for operational needs, expansion plans, or shareholder distributions. A lower effective tax rate, on the other hand, can enhance cash flow, giving greater freedom in managing financial responsibilities and pursuing strategic opportunities.

Previous researches have established that the relationship between effective tax rate and financial performance is mixed with some showing positive and others negative. Kayode & Adegbie (2020) [44] and Richard *et al* (2019) [70] found positive relationship between them. Negative but

insignificant relationship was found in Olurankinse & Mamidu (2021) [62]. Ogundajo & Onakoya (2016) [59], Kurawa & Saidu (2018) [47] and Laurencia & Amalia (2018) [48] found negative relationship.

Tax incentives and return on assets: Firms engage in tax planning with the aim of reducing their tax liability since taxes reduce their profits (Rohaya *et al*., 2018) [72]. Traditionally, tax planning is allowed within the tax laws as it is considered as a legal tax avoidance scheme (Omer *et al*., 2021) [63]. However, not all firms have the same opportunities to carry out tax planning. That is why some firms are more tax aggressive than other firms (Ahmed & Khaoula, 2013) [7]. Thus, firms may engage differently in tax planning due to their size and the capabilities of the firm to undertake tax planning activities. Tax incentive is considered as an important investment for shareholders because of the reduction of the tax burden that weighs significantly firms and shareholders (Chen *et al*., 2020) [23]. The authors further explain that, shareholders may not promote tax planning activities due to the potential costs associated with it. Abdul-Wahab (2020) [1] posits that, tax incentive can positively or negatively affect corporate performance. There is a positive relationship when tax planning enhances shareholders wealth (Desai & Dharmapala, 2019) [26]. The authors find that tightening the tax system is positively associated with higher market performance of firms. In other words, when taxes are considered a burden to society, shareholders positively assess tax planning. In contrast, Desai and Dharmapala (2019) [26] opine that, shareholders might respond negatively if tax planning is viewed as a risk-related activity.

Debt tax shield and return on assets: Companies might possibly increase earnings and improve financial performance by leveraging their capital structure or through debt tax shield otherwise called thin capitalization. It is crucial to highlight, however, that excessive leverage can raise interest and debt payment costs, potentially resulting in decreased profitability and financial performance. The relationship between leverage and financial performance is closely tied to risk. Higher leverage levels imply higher financial risk due to the increased debt obligations. Companies with high levels of leverage may face challenges in meeting debt payments, especially during economic downturns or periods of reduced cash flow. However, when thin capitalization is used as a tax planning strategy, the benefit obtained may high interest payment. One of the key tax implications of leverage is the deductibility of interest payments in deriving taxable income. This deduction reduces the company's taxable income, resulting in a lower tax liability. Therefore, companies that utilize thin capitalization can potentially benefit from lower taxes by deducting their interest expenses, which can positively impact their financial performance. Also, when a company borrows funds to finance its operations or investments, the resulting capital gains or dividends may be subject to different tax treatments.

In the literature, there have been varying result on the effect of thin capitalization and financial performance. Positive relationship between thin capitalization and financial performance were found by Ado *et al*. (2021) [4]. On the contrary, Oeta *et al* (2019) [57] and Erasmus & Uwikor (2021) [29] found insignificant negative relationship. Also, Kayode & Adegbie (2020) [44] found mixed relationships with different proxies of financial performance.

Capital intensity and return on assets: In a general sense, the relationship between capital intensity and financial performance is interconnected and can significantly impact a company's overall financial performance. The capital intensity of a corporation can have an impact on its profitability and return on investment. High capital intensity frequently means large expenditures in fixed assets, which can result in greater capital allowance. High capital intensity create higher revenues and returns if fixed asset expenditures result in expanded production capacity, operational efficiency, or enhanced product/service offerings. Also, capital-intensive investments frequently necessitate significant upfront capital expenditures, which can have an influence on a company's cash flow and liquidity position. High capital intensity may result in increased short-term cash outflows, impacting a company's capacity to satisfy its short-term financial obligations although efficient cash flow management is critical for ensuring enough liquidity and financial stability while embarking on capital-intensive initiatives. The risk profile and financial stability of a corporation can be affected by capital intensity. Because of the considerable investment in fixed assets, companies with a high capital intensity may face greater financial risks. This risk may include market changes, technology obsolescence, and the possibility of unused assets. Effective risk management is critical for sustaining financial stability and reducing negative effects on financial performance.

Findings from previous studies on the effect of capital intensity on financial performance showed varying outcome. For instance, Olayiwola and Okoro (2021) [61]; Kayode and Adegbie (2020) [44] and Olurankinse and Mamidu (2021) [62] found a positive effect between capital intensity and financial performance. On the other hand, Ado *et al*., (2021) [4] found negative relationship. Insignificant relationships exist was found by the studies of Erasmus and Uwikor (2021) [29].

2.2.4 Constraints of tax planning

According to Umo (2022) [81] any form of planning at any level of operations in an organization is susceptible to constraints. Thus, firms engaging in tax planning may face some adverse implications in achieving the objective of tax planning. Hoffman (1961) [37] argues that, not all tax planning activities necessarily decrease tax liability to one's desired minimum level. This is because, tax planning is associated with costs and these costs include cost directly related to tax planning, risk of detection by the tax authorities and agency cost (Desai & Dharmapala, 2019) [26]. Wang (2020) [84] argues that, these costs could substantially outweigh the benefits derived from tax planning activities.

In addition to the agency cost, Scholes *et al.*, (1992) [74] argue that, there are other non-tax costs associated with tax planning activities. According to Wang (2020) [84], non-tax costs include loss of efficiency in internal control, potential penalty, potential price discount and damage to organizational legitimacy. Chen *et al*. (2020) [23] posit that, one most significant non-tax cost is the penalty that may be imposed by the tax authority. This cost arises when a firm's tax planning activities are detected and disallowed by the tax authorities. Gergen (2022) [32] asserts that, the risk of detection rises when more firms engage in the same tax planning strategy and period of pursuing the strategy extends. Hanlon and Heitzman (2020) [36] argue that, detection by the tax authorities may increase firms cost.

Gallemore *et al*., (2020) [31] posit that firms may also face reputational risk for engaging in tax planning activities. According to Umo (2022) [81], reputational risk has significant effect on the firm and specifically, the legitimacy of the firm may be questioned by the general public. More also, shareholders could also react to reputational risk by discounting the firms share price when they perceive that managers are using tax planning activities to mask rent extraction (Desai & Dharmapala, 2006). According to Watts and Zimmerman (2019) [85] political cost is another type of indirect costs that may have adverse effect on a firm's cash flow. Political cost result from the reaction of public agencies to corporate tax planning. For firms that operate as government contractors or large firms in general, the risk of public scrutiny is a motive for refraining from tax planning (Mills *et al*., 2013) [50]. The desire to avoid having their financial statement too often and too closely scrutinized by government agencies is another motive that makes firms refrain from tax planning.

2.2.5 Other Tax planning concepts and methods

Tax planning is carried out through the exploitation of fiscal concessions or legal loopholes without violating the law by legitimate means, and this planning is accomplished by several forms or strategies, the most important of which are Dividing the income, Postponing the tax, Shopping through tax agreements, tax havens. The taxpayer resort to avoiding the tax by dividing the income and profits for the purpose of exemption from the tax. This is when all income or profit is less than the taxable minimum, or to avoid high tax rates in light of applying the progressive tax. And the progressive tax encourages the spread of this type of method of breaking income into parts, and thus reduces its taxation, and it seems available in the case of distributing profits to more than one person to avoid the high rate (Wang, 2020) [84].

The tax can be avoided through postponement, by delaying the taxpayer's acquisition of income or profit for years to come, or expediting the depreciation of the installments and deducting the burdens, and achieving a reduction in the tax due during the first years, provided that the payment of the tax is postponed to future years. This type of planning is useful in providing liquidity, whereby the taxpayer has the right to invest the amount of the tax that was postponed, provided that he then commits to pay this amount to the value of the money due to inflation.

One of the forms of tax avoidance is that the taxpayer can transfer his residence from the country that imposes high tax rates to other countries where there are no taxes, or impose taxes at low rates, which constitute for him tax havens or shelters, or remain in the traveler always. Work in the border areas known as offshore is also considered a form of tax avoidance that achieves for those working in these areas a reduction in the tax burden (Wilson, 2018) [86].

Some multinational companies use the so-called transaction transfer rates between these subsidiaries to transfer profits visually from countries with high taxes to countries with low taxes, the purpose of transfer rates is to reflect market prices that would prevail in transactions that It takes place on a commercial basis between two unrelated parties, but these prices are often not easily identifiable, and the public treasury loses annually large sums that were supposed to be as fiscal resources due to the pictorial transfer of profits transferred by internationally active companies, and countries that take the principle of regionalism as a basis for imposing the tax suffer from residency changes, as they are prohibited from imposing taxes on establishments owned by citizens or residents of its land, or its money is invested abroad avoiding the state tax that the owners of these facilities benefit from its services. In case associated enterprises have set conditions for their commercial and or financial transactions other than conditions set with independent enterprises. Where such conditions lead either to reduce the tax base or shift the tax burden from a taxable enterprise to an exempt or non –taxable enterprise. Eta has the right to determine the taxable profit on the basis of the arm's length price (Wang, 2020) [84].

Shopping through tax agreements is a particular form of tax avoidance by multinational corporations. It involves the diversion of Foreign Direct Investment (F.D.I) through a third country to achieve reduction of withholding taxes under favorable tax treaties. International agreements are an important source of preventing double taxation, in addition to the internal laws of countries, where tax double prevention agreements aim to define the conditions for imposing tax on international operations, that is, those operations performed by a person residing in a country within the territory of another country, or with a person residing in another country (Yee *et al*, 2018) [88].

The subject of international double taxation is not considered a foundation if the tax base, such as income or wealth, is taxable by two or more different tax authorities, So that each authority sees that this basis falls within the scope of its tax jurisdiction, In other words, international agreements include provisions, procedures and methods for distributing tax jurisdiction to countries and trying to avoid overlapping of those jurisdictions, as they are the most important source of preventing double taxation, and adopt mechanisms to avoid double taxation, the most important of which are exemption and deduction, in addition to measures to combat tax evasion and prevent Discrimination on the basis of nationality when imposing a tax or any tax obligation, Contracting countries can adopt this agreement with amendments that they deem appropriate, and international companies take advantage of tax agreements to avoid double taxation in selecting the best texts and adapting the positions of the taxpayer to take advantage of the exemptions or reductions available to obtain a discount that helps the taxpayer benefit from tax avoidance. Despite the fact that the essence of the activity or the reality of matters is not consistent with the apparent adaptive conditions with the provisions of the agreements (Timothy *et al*, 2020) [79].

Another method of tax planning opened to companies tis Tax havens. Tax haven is defined as a country that does not impose taxes or impose taxes at low rates, and lacks the mechanism for exchanging information about them, and there is no transparency about them, or regions that enjoy low taxes and provide investors with confidentiality which is necessary for anyone who wants to avoid paying taxes in his country so that the tax administration in his country cannot access information about this money. The OECD in any case defines four criteria that a tax haven fundamentally fulfils; the tax system in the respective country provides for zero or low nominal tax rates, there is no effective information exchange with other countries, there is a lack of or inadequate transparency with regard to disclosure requirements, basic regulations and their implementation are not clearly defined and regulated, economic activity is not a necessary precondition. This results in the conclusion that

investments or transactions are carried out purely for taxation reasons (Morein, 2008) [52].

Tax havens have multiple benefits and uses. At the level of companies, many of them are known as countries or regions that grant tax exemptions or reductions to wealthy individuals and companies to attract money and investments to them, and these havens provide protection and immunity to the wealthy from the prosecutions of international tax investigators and collectors, as it is difficult for them to track the money of the wealthy, which can be subject to large taxes in their countries of origin. Such havens are a cover to protect taxpayers in these countries, help them cover their financial positions and prevent the imposition of international taxes due on them.

2.2.6 Incidence of corporation tax

It is a tax on companies. It is imposed on the net profit of the corporations or joint stock companies. By reducing the fund available for re-investment, the corporation tax militates against expansion and development. Also, the amount available to be distributed as dividends is reduced. This also serves as a disincentive to the investing public. Capital formation is checked thereby. Thus, flow of equity capital is checked. The prices of goods manufacture by such a corporation's rise which may give a place to cheaper substitutes resulting in a shift of resources in their favour.

Further, since corporation taxes discourage investment, the level of national income and employment is reduced. If, however, the corporation which is taxed, maintains the dividend rate by paying dividend out of the undistributed profits, then neither is consumption reduced nor the flow of equity capital checked. A corporation tax, by reducing the earning of the existing firms, discourages the entry of new firms into the industry which may result in a monopoly or a semi monopoly for the existing firms with all the attendant evils. This disincentive effect may lower efficiency. A part of the corporation tax may be shifted to the buyers through a price rise (Wang, 2020) [84].

The problem of incidence of tax on profits is complicated by the fact that there is difference of opinion among the economists about the definition of profits and the elements that compose it. Profit is analogous to rent. In this sense, profit is a surplus earned by the entrepreneur. The price in the market is determined by the marginal producer. Hence, tax on profits, like rent, do not enter into price. It cannot, therefore, be shifted to the consumer. It will be borne by the businessman who pays it. This is Walker's view. This is why it is called direct tax.

According to Umo (2022) [81], the marginal entrepreneur must have profit in the long run. Normal profit is, therefore, not a surplus but a part of the necessary cost (Umo, 2022) [81]. This, however, does not lead us to the conclusion that a tax on profit will be shifted to the consumer; unless the entrepreneur is able to influence the price which he rarely can. For an individual entrepreneur, price in the market is fixed. He believed that a tax on his profit must come out of his own pocket. A general tax on profit, as a rule, is not shifted unless the prices are rising rapidly and the consumers are anxious to buy. This, however, is very rare. Nevertheless, if the tax is on a special one on profits from the particular trade and industry, there will be a tendency on the part of the entrepreneurs to withdraw themselves from such lines. If this happens, the incidence will ultimately be shifted to the consumers of the commodity or the users of the service supplied by the entrepreneurs. A great deal depends on the elasticity of demand and the mobility of capital (Kiel, 2013). However, complete exemption of profits from taxation is not desirable, yet a high tax is highly undesirable. It will put a brake on invention and enterprise and it will cut down revenue and thus hinder modernization of plant.

2.2.7 Tax Incentives in Nigeria

The government of Nigeria has over the years allowed tax incentives and reliefs such as: Pioneer Companies' Tax Holiday subject to a maximum of 5 years is granted to companies with pioneer status on the basis of newness and relevance of the products by the companies. Export free zone exempt profit from tax at a rate of hundred percent (100%). Exemption for profits obtained from export free zone for 3 consecutive assessment years. Solid minerals mining for a new company going into the mining of solid minerals for the first 3 years of its operation. Hotel income exempt from tax- Twenty-five percent (25%) of income is put in a reserved fund to be utilized within 5 years for the building expansion of new hotels, conference centers and new facilities for tourism development. Spare parts fabrication-for a company engaged wholly in the fabrication of spare parts, tools and equipment for local consumption and export; twenty five percent (25%) investment tax credit is allowed on qualifying capital expenditure,

Locally manufactured plant- A fifteen percent (15%) investment tax credit is allowed for a company which produces locally manufactured plant, machinery or equipment. Replacement of obsolete plant - a fifteen percent (15%) investment tax credit for a company which has incurred expenditure for replacement of all obsolete plant and machinery. Investment Tax Relief-Relief is granted for 3 years to companies located at least 20km away from essential infrastructure such as electricity, water, tarred roads and telephone services, when expenditures are incurred on such infrastructure. Investment allowance - a ten percent (10%) tax relief for companies in the first year of purchase of plant and machinery used for agricultural and manufacturing companies. This is in addition to the normal initial and annual allowances. Rural investment allowance-this is granted to companies established in rural areas lacking infrastructural facilities.

According to International Bank for Reconstruction and Development (IBRD) Report (1992), some of the structural criteria to which tax incentives devices may be addressed include development of the domestic market, Balanced regional development, Reduction in unemployment, better utilization of existing capital, Diversification of output, Balance of payment consideration, and Re-direction of investment pattern.

2.2.8 Other measures of financial performance

There are a wide range of performance measures used in literature to evaluate the profitability, effectiveness, efficiency, and overall health of companies. These measures includes accounting measures, market efficiency, liquidity, valuation and other measures. The accounting measures are majorly the profitability indicators and they include return on capital employed (ROCE),net profit margin, gross profit margin, return on equity, return on assets and return on shareholders' fund. Return on capital employed (ROCE) is a ratio that determines the company's profitability and the efficiency with which the capital employed is used to generate profit. The higher the better for the company as a higher ROCE indicates that the entity generates more

earnings per N1 capital invested. It is calculated as a ratio of profit before interest and tax to capital employed. Gross profit margin (GPM) measures the proportion or percentage of sales revenue earned as profit after deducting cost of sales only. It is calculated as the ratio of gross profit to revenue. **Net** profit margin (NPM) ratio measures the proportion of sales revenue earned as profit after deducting all expenses. It is derived as the ratio of net profit to revenue. Return on equity (ROE) measures the return on investment that the shareholders of the company have made. It measures the amount of returns on equity based on current period performance. It is derived as the ratio of profit after tax and preference dividend to total equity.

Market value added (MVA) defined as the difference between the current market value of the firm and the capital contributed by investors. It is a financial metrics that measures the capital that investors have contributed to a company in excess of the market value of the company. MVA measures the amount of wealth that a company is able to create for its shareholders. Tobin's Q is an economic ratio used to compare a company's or index's market value to its book or replacement value. It can be used to measure the relative value of a company's stock or the overall market. According to Ado *et al*., (2021) [4] market capitalization—refers to the total value of all a company's shares of stock. It is calculated by multiplying the price of a stock by its total number of outstanding shares. Market cap allows investors to evaluate a company based on how valuable the public perceives it to be. Investing across market capitalizations can help create a diversified portfolio. It refers to how much a company is worth as determined by the stock market.

The efficiency parameters measure the efficiency in the utilization of the resources of the entity. Asset turnover measures how efficient an entity is in the use of the entity assets to generate sales. Working capital efficiency ratios measure the efficiency with which the entity has managed its receivables, inventory and trade payables. revenue. It is derived as the ratio of sales revenue to capital employed by the entity (ICAN, 2022). They include Inventory holding period, inventory turnover, trade receivables collection period, trade receivables turnover, trade payables payment period and trade payables turnover. Liquidity or working capital ratios are used in judging the ability of an enterprise to meet its short-term maturing obligations. Liquidity for a business entity means having enough cash, or having ready access to additional cash to meet liabilities when they fall due for payment. The following are the major types of ratios under this category, current ratio, acid test ratio and cash ratio

2.2.9 Determinants of financial performance

The following are the major determinants of financial performance of companies.

Innovation

Financial performance is an important aspect of business operations as it reflects the result of management's efforts in utilizing the firm's resources to maximize shareholder value and is often achieved through innovation (Umo, 2022) [81]. Innovation refers to the process used by firms to examine how skills and resources are utilized to develop new products and services or establish new production systems and operations to meet customer needs (Umo, 2022) [81]. Innovation is necessary for creating value, for example, penetrating new markets, retaining existing market share, and improving competitive advantage. Innovation is a vital component of business strategy. Through innovation, businesses are better equipped to succeed in global competition. Innovation has also become a central focus in academic and industrial research. Numerous studies have recognized the importance of innovation in achieving sustainable competitive advantage in global competition (Ongore & Kusa, 2023) [66].

Firm size

The scale of an enterprise also influences its financial performance. Hvide and Moen (2007) [39] concluded in their study that larger enterprises have better efficiency. Rozaimah *et al*., (2018) argued that larger enterprises outperform smaller ones in exploiting economies of scale in transactions and enjoying higher profitability. Barbour (2022) [18] affirmed that increasing the scale of an enterprise enhances its financial performance. Almajali *et al*. (2022) [13] suggested that the scale of an enterprise can affect its financial activities. However, for massive enterprises, the impact of scale may be negative due to bureaucracy and other reasons (Yuqi, 2017) [89].

Firm Age

The age of an entity has a relationship that affects the financial performance of the business. Many researchers suggest that their operational efficiency tends to decline as businesses operate longer. For example, Sorensen and Stuart (2020) [77] argue that the age of an enterprise impacts its operations. They further contend that the inertia of long-established firms tends to make them inflexible and unable to accurately assess environmental changes. However, long-operating businesses can also become outdated and cause business decline (Agarwal & Gort, 2020) [6]. If performance gradually diminishes as businesses age, this may explain why most of these businesses eventually undergo succession (Loderer *et al*., 2011). On the other hand, several studies indicate that long-operating businesses have high operational performance. He added that mature businesses possess higher skills because they benefit from learning advantages and are less susceptible to the liabilities of newness, resulting in superior performance.

Corporate governance mechanism

The scale of the board of directors is also believed to have an impact on the financial performance of a business. The Board of Directors' scale is used to measure the effectiveness of the board's monitoring activities. The board of directors' scale variable has been found to have a significant positive impact in the studies conducted by Mishra & Kapil (2021) [51] as it provides better monitoring and can prevent managers from acting solely in their interests. In contrast, Cheng et.al., (2018) argues that the scale of the board of directors has a significant negative impact on the business's financial performance because larger boards create difficulties in coordination and communication, thus leading to more conflicts and agency problems (ibid).

Ownership structure

Mishra and Kapil (2021) [51] argue that business owner has a significant positive impact on the financial performance of the business because investors play an active monitoring role, proactively overseeing the activities of the business to reduce agency issues and agency costs. In contrast, Plasko (2023), present a contrasting view, suggesting that business ownership does not significantly impact the financial performance of the business because investors act as passive monitors, only concerned with short term interests. Internal

ownership has a positive impact on the financial activities of the business because internal ownership creates a link between the interests of the agent (manager) and the principal (owner), thus reducing agency issues and agency costs (Jensen & Meckling, 2006) [43]. Conversely, the study conducted by Le *et al* (2022) showed that internal ownership negatively impacts on the financial performance of the business because insiders may try to maintain their position through anti-takeover actions that reduce the business's financial efficiency.

Leverage

In financial management, beverage refers to the use of borrowed funds to generate larger returns by incurring a small cost (Umo, 2022) [81]. Leverage specifically refers to the debt-to-equity ratio in a company's capital structure. The decision to finance or leverage is an important management decision as it affects the profitability and risk for shareholders as well as the market value of the business. The debt-to-equity ratio impacts shareholder dividends and risk, which in turn affects the cost of capital and the market value of the business (Pandey, 2007). Several studies have shown a positive relationship between leverage and financial performance (Berger & Patti, 2016) [19]. However, Gleason *et al*., (2020) [33] and Zeitun & Tian (2007) demonstrate a negative relationship between financial performance and the degree of leverage.

Capital structure

Capital structure, also known as financing structure, refers to the way in which a company finances its operations and investments by utilizing a combination of debt and equity (Akeem *et al*., 2014) [10]. It represents the composition of a company's different funding sources to support its activities and achieve its financial objectives. Understanding the relationship between capital structure and financial performance is crucial for both businesses and investors, as it provides valuable insights into optimal financial decisions that maximize profitability, stability, and overall financial success. The optimal capital structure for a company depends on various factors, including industry dynamics, growth prospects, profitability, cash flow stability, and risk tolerance. Striking an appropriate balance between debt and equity financing is essential to maximize shareholder value, minimize financial risk, and support sustainable growth (Aafi, 1996; Arifa *et al*, 2020) [14, 15].

Liquidity

Liquidity is a vital aspect of a firm's financial management, encompassing its ability to meet short-term obligations and efficiently manage cash flows (Umo, 2022) [81]. Maintaining an optimal level of liquidity is essential for businesses as it ensures smooth operations, supports growth initiatives, and mitigates financial risks. Understanding the relationship between liquidity and financial performance is crucial for managers, investors, and stakeholders in assessing a company's overall financial health and sustainability. Several studies have examined the impact of liquidity on profitability, a key indicator of a firm's financial performance. For example, Durrah *et al*., (2016) [27] found a positive association between liquidity measures, (such as the current ratio) and quick ratio, and profitability indicators (like return on assets ROA) and return on equity (ROE). Bolek, & Wolski (2022) [20] concluded that higher liquidity positively influences profitability and market value of Polish firms. Efficiency measures assess how effectively a firm utilizes its resources to generate outputs. The relationship between liquidity and efficiency has been investigated in various studies.

Accounting Activities

According to Chenhall and Morris (2006) [24], accurate and reliable information stems from a reliable management accounting information system with the criteria of breadth, timeliness, synthesis, and integration. The effectiveness of a business's operations is demonstrated by the interaction between the management accounting information system and the business strategy (Ali *et al*., 2012) [11]. The information the management accounting information system provides plays a crucial role in managerial decision-making. However, a reliable management accounting information system requires information technology readiness.

2.3 Related Theoretical review

This section of the study reviewed the relevant theories that support this theory and these are ability to pay theory and political power theory. These theories are discussed below;

2.3.1 Ability to Pay Theory by Ali-Nakyea (2008)

Ability to pay theory was propounded by Ali-Nakyea in the year 2008. The most popular and widely recognized notion of tax fairness or justice is that citizens should pay taxes to the government in proportion to their ability to pay. The imposition of taxes on the basis of a person's taxable capacity appears to be both rational and just. For example, if a person A's taxable capacity is greater than that of a person B, the former should be required to pay more taxes than the later. It appears that if taxes are levied according to the above-mentioned premise, justice will be attained. Our problems, however, do not end there. The truth is that when we apply this idea into reality, we run into problems. The problem originates from the concept of financial capability. Economists disagree over what should be used to determine a person's ability or willingness to pay. Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea is out rightly rejected on the ground that if a person's earns a large income but does not spend on buying any property, he will then escape taxation. On the other hand, another person earning income buys property, he will be subjected to taxation. Is this not absurd and un-justifiable that a person, earning large income is exempted from taxes and another person with small income is taxed?

It is also asserted by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure, the higher should be the tax and vice versa. The viewpoint is unsound and unfair in every respect. A person having a large family to support has to spend more than a person having a small family. If we make expenditure, as the test of one's ability to pay, the former person who is already burdened with many dependents will have to' pay more taxes than the latter who has a small family. So, this is unjustifiable. Most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay of a person (Ali-Nakyea, 2021) [12].

2.3.2 Tax planning theory by Hoffman (1961) [37]

This theory was propounded by Hoffmann in 1961. The theory posits that taxation, mostly are based on accounting or business concept, thus a firm can modify such activities towards the attainment of reduction in tax liability. He identified some ambiguity and loopholes in tax laws as a result of legislators' unclear intentions and concluded that successful tax schemes work with legal concepts and precise wording of the statute, and compliance with these concepts as it relates to individual firms tends to be advantageous to firms in the form of tax savings. Tax planning, according to Hoffman (1961) [37], aims to shift cash that might otherwise flow to tax authorities to corporate organizations. Tax planning efforts are useful inasmuch as they minimize taxable income to the barest minimum while preserving accounting income. The argument is based on the fact that a company's tax burden is determined by its taxable income rather than its accounting income. Thus, the goal is to increase activities that lower taxable income but have no indirect impact on accounting profit.

According to Ishola *et al*., (2020), Hoffman emphasized four critical aspects of tax preparation. They are as follows: Firstly, correctly handled tax preparation is not a straightforward procedure. Secondly, more gain will be achieved if the tax planning process is handled as a formalized approach. Thirdly, many tax planners do not use tax planning to its full potential, and fourthly, tax planning could assist many taxpayers but few are aware of its benefits. The theory further highlighted that tax planning may not be sustained for a long term if the tax planning activities are not flexible in the sense of continuity of the strategies.

This theory is the anchor theory for this study and is relevant to this study because it emphasizes tax planning and why corporations indulge in tax planning. Corporate entities are there for profit and would do anything to see their profits untouched especially by huge tax liabilities which could reduce profit significantly. This theory explains that there exist loopholes in the tax system which could be utilized by companies to their advantage to reduce excessive tax burden.

2.3.3 Neo-classical theory by Solow (1956)

This theory was developed by Solow (1956) who articulated that the population growth rate and the technical progress plays a critical role in a government's long run growth rate. The theory posits that a good organization is that in which there is a combination of informal and formal sectors. It advocates for low tax rates, tax incentives and limited government spending for firms so that they may flourish and perform well financially. From a neoclassical perspective, individuals and firms respond to changes in incentives, including tax incentives, in a rational and predictable manner. Neoclassical economists argue that tax incentives can affect economic behavior by altering the costs and benefits associated with different activities. For example, a tax credit for investing in renewable energy can reduce the cost of such investments and encourage firms to allocate more resources to this sector. Colmar (2005) indicates that tax incentives offers many benefits like compensation for losses in investments and symbolic signaling effects. Tax cut also causes a rise in labor supply as the workers will be able to increase their work efficiency, effectives and working hours. The government will be able to increase its tax revenue, because due to low tax rates, the firms will submit their taxes effectively and thus tax evasion and tax avoidance will be a thing of the past. Neo-classical economic theory argues that providing tax incentives to one group of investors rather than another violates one of the principal tenets of a good tax system, that of horizontal equity. This inequality distorts the price signals faced by potential investors and leads to an inefficient allocation of capital (Boadway & Shah, 1995).

The justification most often given for special incentives is that there are market failures surrounding the decision to invest in certain sectors and locations, which justify government intervention. Market failures result in either too much or too little investment in certain sectors or locations. The key market failures most often cited; Positive externalities not internalized in the project's rate of return are higher in certain sectors than in others. An example is research and development where investment yields a higher social than private rate of return because not all the technological knowledge can be effectively patented and as such there exists an ex-ante justification for subsidizing research and development investment (Kaplan, 2001). In Neo-classical economic theory, a tax system of horizontal equity to the investors is a 'good tax system' and it prevents prejudice in the provision of tax incentives (Barbour, 2021). Furthermore, the presence of inequality in distribution of tax incentives in particular sectors will discourage investors, and lead to a drop in growth.

Neoclassical theory is relevant in this study because it provides a useful framework for understanding the impact of tax planning on economic behavior and market outcomes. By assuming rational decision-making and considering the effects of tax planning on individuals and firms, neoclassical economics helps policymakers evaluate the effectiveness and efficiency of tax planning in achieving their intended objectives. Moreover, neoclassical analysis highlights the importance of considering both the direct and indirect effects of tax planning on resource allocation, market efficiency, and overall welfare. By examining how individuals and firms respond to changes in incentives, neoclassical economists contribute to our understanding of the economic effects of tax policy and the role of government in influencing market outcomes.

2.4 Empirical Framework Summary

Author & Year of Publication	Study Area	Research Methodology Components	Findings	Research gap
Samuel *et al*., (2023) [73]	Nigeria	**OLS** **Expost factor**	debt tax shield, depreciation tax shield and charitable donation tax shield have significant effect on market value of manufacturing companies in Nigeria	- Tobins Q, - 2012 to 2021 - manufacturing companies
Mumba and Marion (2023) [54]	Kenya	**-Multiple regression** **-expost facto** **-simple random sampling**	tax incentives had a significant positive effect on financial performance, as they reduced the cost of capital for manufacturing firms,	- cost of capital
Author & Year of Publication	**Study Area**	**Research Methodology Components**	**Findings**	**Research gap**

Akam *et al*., (2023) [9]	Nigeria	**-OLS Survey design**	capital allowance had a positive and moderate effect on foreign direct investment, while investment tax allowance had a weak, positive and insignificant effect on foreign direct investment.	- oil and gas companies - foreign direct investment - primary data
Bachas *et al*. (2023) [16]	Mixed	**Panel regression analysis**	The findings revealed that small firms generally experience lower effective corporate tax rates compared to mid-sized firms.	- Done outside Nigeria - Firm size
Ebimobowei (2022) [28]	Nigeria	-Multiple regression models	Corporate governance characteristics influences tax planning of listed firms in Nigeria.	- 2015 to 2020
Le, Vu and Nguyen (2022) [49]	Vietnam	Two-stage instrumental variables (IV) regression	The research result shows that the tax planning has a positive effect on company value.	- 2015 to 2019.
Januri & Hanum (2022) [42]	Indonesia	**Partial t-test/ F-test**	The results of the partial (t-test) indicated a positive and significant effect of tax planning on firm value as measured by the ETR. Similarly, the results showed a significant effect of financial performance as measured by ROA on firm value.	- Done outside Nigeria - Firm value - Manufacturing companies
Author & Year of Publication	**Study Area**	**Research Methodology Components**	**Findings**	**Research gap**
Muhammed (2022) [53]	Nigeria	**Robust least square regression analysis and correlation**	The findings revealed that capital intensity and capital structure have a positive and insignificant impact on financial performance, while research and development expenditure have a negative and significant impact. Firm leverage, as a tax planning strategy, has a positive but not significant impact on financial performance.	- Research and development expenditure - Consumer goods sector - 2011-2020
Obiora, Onuora & Mayah (2022) [56]	Nigeria	**Robust least square regression analysis**		- Board multiplicity - Corporate tax avoidance - Healthcare manufacturing sector - 2010-2019
Ogbonna, Emmanuel & Mmesoma (2022) [58]	Nigeria	**Panel data analysis**	The findings revealed that tax aggressiveness and leverage significantly influenced the financial performance of the selected banks in Nigeria. Specifically, tax aggressiveness had a negative effect, while leverage had a positive impact on financial performance. However, managerial ownership did not significantly affect the financial performance of the D-SIBs.	- Managerial ownership - Tax aggressiveness - Return on equity - Deposit money banks - 2012-2021
Author & Year of Publication	**Study Area**	**Research Methodology Components**	**Findings**	**Research gap**
Rini, Dipa & Yudhi (2022) [71]	Indonesia	**Multiple linear regression analysis**	The findings indicated that transfer pricing has a negative effect on effective tax rate (ETR), which serves as a proxy for tax avoidance. Tax havens, on the other hand, have a positive effect on ETR, suggesting an increased level of tax avoidance. However, thin capitalization does not have a significant effect on ETR.	- Done outside Nigeria - Transfer pricing - Tax havens - Thin capitalization - Basic and chemical industrial sector companies - 2017-2020
Tackie *et al*. (2022) [78]	Ghana	**Panel dynamic generalized method of moments (GMM)**	The findings revealed a non-linear association between tax planning, measured by effective tax rate (ETR), and the performance of insurance companies, measured by return on equity (ROE) and return on assets (ROA).	- Done outside Nigeria - Corporate governance - Insurance companies - 2012-2017
Guendez and Korrouche (2022) [35]	Malaysia	**OLS**	Tax planning improve financial performance	- Outside Nigeria
Omesi and Maccarthy (2022) [65]	Nigeria	**-OLS Ex post factor**	positive and significant relationship between investment allowance and return on assets of listed; there is positive and significant relationship between annual allowance and return on assets: There is significant influence of share capital in the relationship between tax incentives and financial performance.	- Manufacturing companies
Author & Year of Publication	**Study Area**	**Research Methodology Components**	**Findings**	**Research gap**
Olayemi and Folajimi (2021) [60]	Nigeria	**-OLS Survey design**	tax incentives (investment allowance, tax holiday, tax credit and tax deferment) have a significant positive effect on the growth in sales revenue of SMEs	- SMEs - Primary data
Vu and Le (2021) [83]	Vietnam	-Longitudinal research pool ordinary least square	Tax planning has a negative effect on firm value.	- 2014 to 2020
Omesi and Appah (2021) [64]	Nigeria	pooled ordinary least square.	Effective tax rate, tax savings and capital intensity had negative and insignificant effect on corporate firm value.	- 2015 to 2019

Ado *et al*. (2021) [4]	Nigeria	**Multiple regression analysis**	The findings indicated that inventory intensity has no significant relationship with Return on Assets (ROA), suggesting that an increase in inventory intensity may not improve financial performance. On the other hand, capital intensity is negatively and significantly related to ROA, Leverage is positively and significantly related to ROA,.	- Inventory intensity
Author & Year of Publication	**Study Area**	**Research Methodology Components**	**Findings**	**Research gap**
Erasmus & Uwikor (2021) [29]	Nigeria	**Descriptive statistics and ordinary least square (OLS) regression analysis**	The findings revealed that the effective tax rate, thin capitalization, and capital intensity have a negative and insignificant impact on the return on equity and earnings per share of quoted banks in Nigeria.	- Thin capitalization - Return on equity - Earnings per share - Net interest margin - The banking sector - 2006-2019
Iormbagah, Abiahu & Ibiam (2021) [41]	Nigeria	**Pearson correlation and multiple linear regression analysis**	The findings indicated that tax mix has a positive but insignificant effect on the net income of listed manufacturing firms in Nigeria, while deferred tax has a negative but insignificant effect on net income.	- Corporate tax mix - Net income - Manufacturing firms - 2014 to 2018
Irmaslian, Dewi & Waharini (2021)	Indonesia	**Multiple linear regression analysis**	The findings revealed that profitability and capital intensity have a negative impact on tax avoidance, while inventory intensity and thin capitalization do not significantly affect tax avoidance.	- Done outside Nigeria - Inventory intensity - Tax avoidance - Manufacturing companies - 2015-2018
Kemmanang (2021) [45]	Africa	**Two-step systems GMM approach**	The findings aligned with existing literature, indicating that TCRs have a negative effect on FDI inflows.	- Thin capitalization rules (TCRs) - Foreign direct investment (FDI) - 2005-2018
Author & Year of Publication	**Study Area**	**Research Methodology Components**	**Findings**	**Research gap**
Olurankinse & Mamidu (2021) [62]	Nigeria	**Pooled regression analysis**	The results indicated that the effective tax rate had a non-significant negative effect on return on equity, while tax savings had a non-significant positive effect. However, both capital intensity and firm size had a significant positive impact on return on equity.	- International Financial Reporting Standards (IFRS) - Firm size - Development Banks - 2012-2019
Umeh *et al*., (2020) [80]	Nigeria	**Multiple linear regression analysis**	This study found that Effective tax rate (ETR) impact negatively on firm value, but this impact was statistically significant.	- **ROE** - **Manufacturing company**
Arifa *et al*. (2020) [15]	Pakistan	**Two-step systems GMM approach**	They found that return on equity (ROE), capital adequacy ratio (CAR), return on assets (ROA), gross profit margin (GPM), and fixed asset ratio (FAR) exhibit significant relationships with total debt to equity ratio (TDE) and long-term debt (LTD) before and after the crisis.	- Done outside Nigeria - Gross profit margin - Fixed asset ratio - gross profit margin - Capital adequacy ratio - Return on equity - Power and energy sector

Source: Researcher's compilation 2024

3. Research Methodology

This chapter explained the techniques and approaches used in carrying out the empirical assessment of the effect of corporate tax planning on financial performance of consumer goods companies of Nigeria. It discussed the research design, the population of study, sample size and sampling techniques, sources of data collection, method of data analysis, model specification and operationalization of data. This chapter provided an overview of the analysis techniques and patterns used in the study.

3.1 Research design

This study used ex-post facto research design. The ex-post-facto research design tries to determine, establish, or measure the relationship between one variable and another, or the impact of one variable on another, without the researcher manipulating the variables. *Ex-post-facto* research design was suitable for this study because the study made use of secondary data.

3.2 Population of the study

The population of this study consisted of all consumers' goods companies listed on the floor of the Nigeria Exchange Group for the period 2013-2022. According to the Nigerian Exchange Group (2022) factbook, the total number of consumer goods companies listed on the Nigeria Exchange Group at the end of 2022 financial year was 21 companies. These companies were Bua food plc, Cadbury Nigeria plc, Champion Breweries plc, Dangote Sugar plc, DN Tyre plc, Four mills plc, Golden Guinea Nigeria plc, Guiness Nigeria plc, Honeywell Flour plc, International Breweries plc, Mcnicoles plc, Multi-trex integrated, NNig Flour plc, Nascon Allied plc, Nsetle Nigeria, plc, Nigeria Breweries plc, Nigeria enamelware plc PZ cussons plc, Unilever Nigeria plc, Union dicon salt plc and Vitafoam Nigeria plc.

3.3 Sample size determination

The researcher adopted purposive sampling technique to select eighteen (18) out of twenty-one (21) consumer goods firms. To obtain this homogeneous sample, the researcher deselected the company that got listed or merged and acquired after the study period (2013) and got delisted before the end of the study period (2022). Therefore, BUA Foods Plc, was deselected. Also, firms who do not have complete published annual reports of the years covered in this study were also deselected, the companies were Multi-trex Nigeria Plc and Dunlop Tyres Plc. After these, the final

sample size remained 18 companies.

3.4 Source of data collection

The main source of data collection for this study was secondary data. The data was sourced from annual reports and accounts of the selected consumer goods firm in Nigeria. The reason for using the secondary data was based on the fact that the data was assumed to be reliable, suitable and adequate for the nature, scope and objectives of the study.

3.5 Method of data analysis

This study employed the Ordinary Least Square regression technique to examine the interaction among the variables and estimate the relevant data. The OLS was preferred as a method of data analysis due to its simplicity, interpretability, flexibility, robustness and widespread usage in research and practice. Time series data was be collected on annual basis on variables captured in the model. The OLS based multiple regression analysis was used to test the hypotheses.

Decision criteria: Accept the null hypothesis if the probability value (P-value) is greater than 0.05 (5%). Otherwise reject the null hypothesis and accept the alternative hypothesis.

3.6 Model specification of the study

The econometric model used in establishing the relationship between tax planning and financial performance was adopted from the study of Olarewaju and Olayi (2019) and modified to suit this study as presented below:

Financial performance =f(tax planning)

$$ROA_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 TIE_{it} + \beta_3 DTS_{it} + \beta_4 CAI + u_{it} \quad (i)$$

Where

ROA = return on asset
ETR = effective tax rate
TIE = tax incentives
DTS = debt tax shield
CAI = Capital intensity
β_0 = constant slope to be estimated
β_1 –β_3 = intercept to be estimated
U = error term

3.7 Measurement of variables

The variables used in this study were tax planning being the independent variable and it was proxied by effective tax rate, debt tax shield, tax incentive and capital intensity. the dependent variable of this study was financial performance and it was proxied by return on assets (ROA)They were measured as stated below;

Independent variables

Effective tax rate: This was derived as a ratio of income tax expense to profit before tax as was used by Olarewaju and Olayi (2019).

Tax incentive: This was measured as a logarithm of investment allowance as was done by Olarewaju and Olayi (2019).

Debt tax shield: This was measured as a product of interest expense and tax rate as was used by Muhammed (2022) [53].

Capital intensity: This was measured as the ratio of non-current assets to total assets as was done by Muhammed (2022) [53].

Dependent variable

Return on asset: This was measured as a ratio of profit for the year to total assets as was used by Januri and Hanum (2022) [42].

3.8 Operationalization of the variables

The variables are operationalize as shown in Table 1 below;

Table 1: Operationalization of the variables

S. No	Variables	Measurement	Source	Appriori Expectation
1	Return on Asset	Ratio of profit for the year to total assets.	Januri &Hanum (2022) [42]	+
	Independent variable			
2	Effective tax rate	The reconciled value of effective tax rate in the financial statement (income tax expense divided by profit before tax).	Olarewaju and Olayi (2019)	+
3	Tax incentives	Log of investment allowances	Olarewaju and Olayi (2019)	+
4	Debt tax shield	Interest on debt (total debt multiply by cost of debt multiply by tax rate)	Muhammed (2022) [53]	+
5.	Capital intensity	Non-current assets/total asset	Muhammed (2022) [53]	+

Source: Researcher's compilation(2024)

3.9 Limitation of the study

A major limitation of this proposed study was that it only focused on the effect of effective tax rate, tax incentives, debt tax shield and capital intensity on financial performance without considering other measures of tax planning such as thin capitalization. Another limitation of this study was that only the listed consumer goods companies were used as the case study while the non-listed consumer goods companies, other manufacturing companies, banks and other financial institutions were not considered. The implication of this would be that the findings of this study would not be generalized to other sectors of the economy.

4. Data Presentation, Analysis and Discussion of Findings

This work examined the effect of corporate tax planning on financial performance of consumer goods companies listed on the floor of the Nigeria Exchange Group for the period 2013-2022. This section of the study presents the data collected, the analysis and discussion of findings made by the researcher in the course of the study.

4.1 Data presentation

In testing for the effect of corporate tax planning on the financial performance of listed consumer goods companies in Nigeria, the researcher conducted panel least square regression analysis and then proceeded to check (diagnose)

for inconsistencies with the basic assumptions of the least square regression technique. The diagnostics tests carried out included tests for normality, multi-collinearity, autocorrelation and homoscedasticity. The researcher also performed some preliminary regression analyses including descriptive statistics and correlation matrix. The dataset used for the analysis is as attached in appendix B.

4.1.1 Descriptive statistics

In this section, the study provided some basic information for both the explanatory and dependent variables of interest. Each variable was described based on the mean, standard deviation, maximum and minimum. Table 2 displays the descriptive statistics for the study.

Table 2: Descriptive statistics of the effect of corporate tax planning on financial performance of consumer goods firms in Nigeria

	ROA	ETR (%)	TIE (N'000)	DTS (N'000)	CAI
Mean	0.070234	52.83967	198439.3	1054920.	0.491326
Median	0.035991	30.00000	11876.00	153005.6	0.490358
Maximum	6.174312	4108.000	1984527.	9809243.	1.709602
Minimum	-2.359907	-128.0000	783.0000	360.0000	0.150000
Std. Dev.	0.562481	310.2771	370600.7	1913106.	0.270122
Skewness	7.603346	12.58201	2.534469	2.398816	0.261641
Kurtosis	85.48086	164.0982	9.660038	8.656174	4.079091
Jarque-Bera	52757.51	199393.9	525.3768	412.5719	10.78695
Probability	0.000000	0.000000	0.000000	0.000000	0.004546
Sum	12.64213	9511.140	35719082	1.90E+08	88.43863
Sum Sq. Dev.	56.63282	17232667	2.46E+13	6.55E+14	13.06094
Observations	180	180	180	180	180

Source: Researcher's computation (2024)

From Table 2 above, the average return on assets (ROA) in the consumer goods sector from 2013-2022 was 7%, the lowest return was -236% and the highest was 617%. However, the standard deviation of 56% shows that financial performance (return on assets) in the sector is on the high side. For effective tax rate (ETR), the average was 52.8%, minimum was -128% (tax credit) and maximum was 4108%. ETR was however, relatively high in that sector (SD = 310%). Reporting further, the lowest tax incentive ever given to a company was N783,000 while the highest was N1,984,527,000. Average and standard deviation (N198,439,300 and N370,600,700 respectively) shows that the consumer goods sector enjoys high tax incentives.

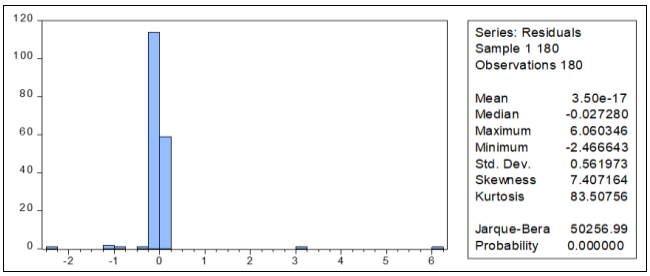
In the consumer goods sector also, smallest tax avoided because of debt was N360,000, the highest was N9,809,243,000 and the average was N1,054,920,000. The tax avoided in this sector was relatively average (not high, not low) as the standard deviation was N1,913,106,000.

Finally, capital intensity showed a minimum of 15% of non-current assets in total assets, maximum was 171%. The sector average was 49%. The capital intensity in the sector was however, relatively low with a standard deviation of 27%.

4.1.2 Test of Regression Assumptions

4.1.2.1 Normality of residua test

Regression models assume that the error terms are normally distributed. This particular assumption needs to be met for the p-values of the t-tests to be valid. A violation of normality can distort confidence intervals for forecasts and cause difficulties in determining the significance of model coefficients. Although, as noted by Ord (1975), "not all were convinced of the need for curves other than the normal". In Pearson (1905), by the turn of the century, the majority of informed opinion had accepted that population might not follow a normal distribution. The general rule in this case is that a variable is not normally distributed if its probability value is significant at 1% or 5%, otherwise it is not. Several statistical tools have been developed in the literature to test the normality of residua but for this study we use the Jarque-Bera statistics and its p-value to check this and this in presented in Fig 2 below.



Source: Researcher's estimation (2024)

Fig 2: Jarque-Bera normality test

The Jarque-Bera statistics shows a probability value of 0.00000 which is less than 0.05. Therefore, we reject the null hypothesis. This implies that the dataset does not follow a normal distribution. However, despite the absence of normality, the researcher would still proceed with the Ordinary least square regression analysis but depending on the probability statistics against the t-statistics for interpretation and policy recommendation as suggested by Gujarati (2004).

4.1.2.2 Autocorrelation Test

The least square regression model also assumes that there is no autocorrelation or serial correlation of the residuals in the model. To test this, the Durbin Watson statistics was used (Durbin & Watson, 1950). For this assumption to hold, the Durbin Watson statistics must be somewhere between 1.5 and 2.5. Refer to the regression output (Table 4.5) for this. The statistics show that there is no autocorrelation in the residuals (2.344795).

4.1.2.3 Multicollinearity Test

The regression model also assumes the absence of multicollinearity in the independent variables. It is a situation where one or more independent variable can be expressed as a combination of other independent variables. This can be detected by observing the Variance Inflation Factor (VIF). The VIF should be less than 10 for this assumption to hold. The diagnostic is shown below.

Table 3: Variance inflation factor analysis for the independent variables

	Coefficient	Uncentered	Centered
Variable	**Variance**	**VIF**	**VIF**
C	0.009245	5.151700	NA
ETR	1.88E-08	1.033639	1.004349
TIE	0.000328	2.842295	1.169298
DTS	5.84E-16	1.547556	1.185176
CAI	0.026250	4.592370	1.061358

Source: Reseacher's computation (2024)

From the VIF statistics, all the independent variables have centered VIFs less 10. Therefore, there is no multicollinearity in the model.

4.1.2.4 Homoscedasticity

This holds that error terms of the regression model should have a constant variance across all levels of the independent variables (Smith, 2005). Homoscedasticity in E-views can be assessed through the Breusch-Pagan Godfrey test for heteroskedasticity. The null hypothesis for this test is there is no heterogeneity in the model and the alternate is that there is heterogeneity in the model. The test is presented below.

Table 4: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	2.172847	Prob. F(4,175)	0.0740
Obs*R-squared	8.516729	Prob. Chi-Square(4)	0.0744
Scaled explained SS	332.0991	Prob. Chi-Square(4)	0.0000

Source: Researcher's computation (2024)

The probability value of the heteroskedasticity test above shows the probability value of 0.0744 which is insignificant at 5% level of significance. Therefore, we accept the null hypothesis; meaning there is no heteroskedasticity in the model. The result shows that the assumption of homoscedasticity of the pooled OLS regression has not been violated. Hence, the study proceeds with the Ordinary least square regression for the analysis.

4.2 Data analyses

4.2.1 Correlation analysis

In statistics, the value of the correlation coefficient varies between +1 and -1. When the value of the correlation coefficient lies around ± 1, then it is said to be a perfect degree of association between the two variables. As the correlation coefficient value goes towards 0, the relationship between the two variables would be weaker. Usually, in statistics, we measure three types of correlations: Pearson correlation, Kendall rank correlation and Spearman correlation. Pearson correlation is widely used in statistics to measure the degree of the relationship between linear related variables. Kendall rank correlation is a non-parametric test that measures the strength of dependence between two variables. Spearman rank correlation test does not assume any assumptions about the distribution of the data and is the appropriate correlation analysis when the variables are measured on a scale that is at least ordinal. In this study, the Spearman rank correlation is employed since the data employed does not come from a normal distribution. The result obtained from the Spearman correlation is presented below;

Table 5: Correlation analysis for the relationship between corporate tax planning and financial performance

	ROA	ETR	TIE	DTS	CAI
ROA	1.000000				
ETR	-0.013576	1.000000			
TIE	0.415091	0.313765	1.000000		
DTS	0.232702	-0.039899	0.362547	1.000000	
CAI	0.025331	-0.019194	0.180132	0.212960	1.000000

Source: Researcher's computation (2024)

According to the correlation matrix above, there is no association between return on assets (ROA) and effective tax rate (ETR) (-0.013576). Conversely, there is a positive and moderate correlation between tax incentives (TIE) and return on assets (ROA) (0.415091). Finally, there is no correlation between capital intensity (CAI) and financial performance (ROA) (0.025331), while there is a weak but positive association between debt tax shield (DTS) and ROA (0.232702). It is typical for all variables to have a perfect correlation (1.000000) with themselves. Since the correlation coefficients are moderate, there is no room to suspect the presence of multicollinearity.

4.2.2 Regression analysis

In order to test the effect of effective tax, rate, tax incentives, debt tax shield and capital intensity (measures of tax planning) on return on assets being a measure of financial performance, the ordinary least square regression analysis was used and this is presented in Table 6 below.

Table 6: Regression analysis for the effect of corporate tax planning on financial performance of consumer goods firms

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.093638	0.096153	2.927838	0.0071
ETR	-2.48E-05	0.000137	-0.180690	0.8568
TIE	0.170631	0.018124	2.583814	0.0125
DTS	7.90E-09	2.42E-08	2.126166	0.0380
CAI	0.068172	0.162019	0.420765	0.6744
R-squared	0.348158	Mean dependent var		0.070234
Adjusted R-squared	0.335012	S.D. dependent var		0.562481
S.E. of regression	0.568359	Akaike info criterion		1.735259
Sum squared resid	56.53069	Schwarz criterion		1.823953
Log likelihood	-151.1733	Hannan-Quinn criter.		1.771221
F-statistic	2.850158	Durbin-Watson stat		2.344795
Prob(F-statistic)	0.027942			

Source: Researcher's computation (2024)

The OLS regression model above shows an F-statistic of 2.850158 with p-value of 0.027942 indicating that overall, the corporate tax planning has significant effect on financial performance of the listed consumer goods under study. The model gave an R-squared value of 0.348158 which means that 35% of the changes in the dependent variable can be explained by the independent variables of this study. However, the unexplained part is captured in the error term.

4.3 Test of hypotheses

The regression results in Table 6 is used to test the following hypotheses:

Hypothesis 1

Ho_1: Effective tax rate has no significant effect on the return on asset of consumer goods firms.

From the regression output in Table 6, effective tax rate (ETR) has a regression coefficient of -2.48E-05 and a p-

value of 0.8568 which implies that effective tax rate has a non-statistically significant effect on financial performance (ROA) of listed consumer goods companies in Nigeria. On that note, the null hypothesis (Ho) was accepted and the alternate hypothesis was rejected. The null hypothesis was further accepted due to the fact that the t-calculated (-0.180690) is less than the critical value of t (1.973534).

Hypothesis 2

Ho_2: Tax incentives have no significant effect on the return on asset of consumer goods firms.

From the regression result also, tax incentives (TIE) show a positive regression coefficient of 0.170631 and a p-value of 0.0125. This entails a significant relationship with financial performance (ROA). On this note, the null hypothesis was rejected and the alternate was accepted. T-cal value (2.583814) was also found to be more than the critical t (1.973534) which supports that the null should be rejected. Hence tax incentive has a positive and significant effect on financial performance of listed consumer goods companies in Nigeria.

Hypothesis 3

Ho_3: Debt tax shield has no significant effect on the return on asset of consumer goods firms.

Results from the regression analysis suggests the rejection of the null hypothesis in hypothesis 3. This is as a result of a positive coefficient (7.90E-09) and a p-value (0.0380) at 5% significant level. The t-calculated (2.126166) also is greater than its critical value (1.973534**)** which implies that Debt tax shield (DTS) has a significant effect on the financial performance (ROA) of listed consumer goods companies in Nigeria.

Hypothesis 4

Ho_4: Capital intensity has no significant effect on the return on asset of consumer goods firms.

The result obtained from the OLS regression in Table 6 shows that capital intensity (CAI) has a positive regression coefficient of 0.068172 and a p-value of 0.6744. This entails a non-statistically significant positive relationship with return on assets. On this note, the null hypothesis was accepted and the alternate was rejected. T-cal value (0.420765) was also found to be less than the critical t (1.973534) which supports acceptance of null hypothesis. It means that capital intensity has no significant effect on the return on assets of listed consumer goods companies in Nigeria.

4.4 Discussion of findings

Effective tax rate and financial performance

The result obtained from OLS regression result in Table 6 revealed that effective tax rate (ETR) [Coef. = -2.48E-05; p – value = 0.8568] has a negative and insignificant effect on the financial performance of listed consumer goods companies in Nigeria when measured using return on assets (ROA). This implies that the increase in effective tax rate would have no effect negative but insignificant effect on financial performance of listed consumer goods firms in Nigeria. It should be noted here that a higher effective tax rate indicates a larger tax burden and low cash savings, whereas a lower effective tax rate suggests a lower tax burden relative to the taxable income and thus substantial cash savings. The findings of this study indicates that a unit increase in effective tax rate would insignificantly reduce financial performance through reduced cash or tax savings. This entails that effective tax rate should be kept as low as possible to improve financial performance even though this lacks significant evidence in this study. Also, Firms may employ various legal tax planning strategies to minimize their tax liabilities, which could result in fluctuations in their ETR without necessarily impacting their overall financial performance. This finding is supported by Olurankinse and Mamidu (2021) [62] who also found an insignificant relationship in the negative direction. Contrary to this, Kayode and Adegbie (2020) [44], and Richard *et al*., (2019) [70] found significant positive relationship between effective tax rate and financial performance. Also, Ogundajo and Onakoya (2016) [59], Kurawa and Saidu (2018) [47] and Laurencia and Amalia (2018) [48] found significant negative relationship between them.

Tax incentives and financial performance

The result obtained from OLS regression result in Table 6 revealed that tax incentives [Coef. = 0.170631; p-value = 0.0125)] has a significant positive effect on financial performance of listed consumer goods companies in Nigeria. This implies that the more companies activate and benefit from the tax incentives given to them the government the more their financial performance would improve. This means that the higher the tax incentives received by consumer goods companies, the higher their financial performances, or the lower the incentives, the lower the performance. Chen *et al*. (2020) [23] posited that potential positive relationship between tax incentives and firm performance is due to the fact that tax represents the cost of doing business, and any action that has the potential of minimizing tax cost reflects in higher firm performance. This finding is supported by Lisowsky, Lennox and Pittman (2019) who document a positive relationship between firms that disclose tax reserve in their financial statements and their use of tax shelters as the main mechanism to reduce the amount of taxes they pay.

Debt tax shield and financial performance

The result obtained from OLS regression result in Table 6 revealed that debt tax shield [Coef. = 7.90E-09; p – value =0.0380) has significant and positive effect on financial performance of listed consumer goods companies in Nigeria when measured using return on assets (ROA). This implies that the higher the amount of money saved as a reason of using debt and paying interests, the higher the financial performance. Maximizing the tax deductibility of interest payments by structuring debt appropriately can reduce the firm's overall tax burden and improve profitability. Lowering the cost of debt through favorable financing terms, such as low-interest rates or longer repayment periods, enhances the attractiveness of debt financing and increases the value of the tax shield.

This is evident in Graham (2003) who holds that interest payments on debt are generally tax-deductible for businesses, meaning they can be subtracted from taxable income. He added that; by utilizing debt financing, a company can reduce its taxable income and, consequently, lower its tax liability. This interest deductibility provides a tax shield effect that can result in significant tax savings (Graham, 2003) which could lead to increase in profits. This finding is supported by that of Ado *et al*. (2021) [4] who found positive relationship between thin capitalization and financial performance. On the contrary, Oeta *et al*., (2019)

[57] and Erasmus and Uwikor (2021) [29] found insignificant negative relationship between them.

Capital intensity and financial performance

The result obtained from OLS regression result in Table 6 revealed that capital intensity [Coef. = 0.068172; p-value = 0.6744) has a positive but insignificant effect on financial performance of listed consumer goods firms when measured with return on assets. This implies that increase in capital intensity would lead to little or no increase in financial performance. In other words, use of more non-current assets in the asset structure does not significantly influence return of asset. In industries where capital intensity is a standard feature (e.g., manufacturing, utilities), variations in capital structure may have less impact on financial performance compared to industries with lower capital requirements. Economic factors such as interest rates, market demand, and competitive pressures can outweigh the tax implications of capital intensity, diminishing the significance of tax planning efforts focused solely on capital structure. Firms with high capital intensity may focus more on optimizing operational efficiency and asset utilization rather than solely relying on tax planning strategies to improve financial performance.

Similar finding (insignificant relationship) can be found in Erasmus and Uwikor (2021) [29] who also lacked evidence on this relationship. This finding is however, contrary to the findings of Kayode and Adegbie (2020) [44]; and Olurankinse and Mamidu (2021) [62] who found a significant positive effect between capital intensity and financial performance and also, Ado *et al*. (2021) [4] who established a significant negative relationship.

5. Summary, Conclusion and Recommendations

5.1 Summary of findings

The study investigated the effect of corporate tax planning on financial performance of consumer goods companies listed on the floor of the Nigerian Exchange Group from 2013 to 2022. The independent variable of the study being corporate tax planning was proxied by effective tax rate, tax incentives, debt tax shield and capital intensity while the dependent variable being financial performance was proxied by return on assets (ROA). The major theories supporting this study are ability to pay theory and the tax planning theory. The results of empirical findings with respect to each objective of the study are as follows:

1. The result obtained from OLS regression result in Table 6 revealed that effective tax rate (ETR) [Coef. = -2.48E-05; p – value = 0.8568] has a negative and insignificant effect on the financial performance of listed consumer goods companies in Nigeria when measured using return on assets (ROA). This implies that the increase in effective tax rate would have no effect on financial performance of listed consumer goods firms in Nigeria.
2. The result obtained from OLS regression result in Table 6 revealed that tax incentives [Coef. = 0.170631; p-value = 0.0125)] has a significant positive effect on financial performance of listed consumer goods companies in Nigeria. This implies that a unit increase in tax incentives would increase return on assets by of listed consumer goods firms in Nigeria by 17%.
3. The result obtained from OLS regression result in Table 6 revealed that debt tax shield [Coef. = 7.90E-09; p – value =0.0380) has significant and positive effect on financial performance of listed consumer goods companies in Nigeria when measured using return on assets (ROA). This implies that the higher the amount of money saved as a reason of using debt and paying interests, the higher the financial performance.
4. The result obtained from OLS regression result in Table 6 revealed that capital intensity [Coef. = 0.068172; p-value = 0.6744) has a positive but insignificant effect on financial performance of listed consumer goods firms when measured with return on assets. This implies that increase in capital intensity would lead to little or no increase in financial performance. In other words, use of more non-current assets in the asset structure does not significantly influence return of asset.

5.2 Conclusion

Based on the result of the analysis, it could be concluded that corporate tax planning influences financial performance of listed consumer goods companies in Nigeria. It can be said that effective tax rate does not have a significant influence on financial performance, tax incentives have a positive influence on financial performance, debt tax shield has a significant positive effect on financial performance and capital intensity has no significant influence on the financial performance of listed consumer goods companies in Nigeria.

5.3 Recommendations

In line with the findings of this study, the following recommendations were made:

1. Despite the fact that effective tax rate has an insignificant effect on financial performance, it is still crucial for businesses to closely monitor their effective tax rates. To guarantee tax efficiency without adversely affecting financial performance, the management of consumer goods companies should focus on long term tax planning rather than solely concentrating on reducing effective tax rate
2. The management of consumer goods companies should explore and take full advantage of available tax incentives, as the study found a significant positive effect of tax incentives on financial performance. This suggests that companies can enhance their return on assets by capitalizing on applicable tax incentives provided by the regulatory environment.
3. Given the significant positive effect of debt tax shield on financial performance, the management of consumer goods companies should carefully consider their capital structure and leverage opportunities. Strategic use of debt can contribute to higher return on assets, and firms should explore ways to optimize their debt tax shield within acceptable risk parameters.
4. Considering that capital intensity has a positive but insignificant effect on financial performance, the management of consumer goods should carefully evaluate their resource allocation decisions. They can explore ways to enhance operational efficiency, manage capital investments effectively and allocate resources in alignment with the factors that have a more significant impact on financial performance.

5.4 Contribution to knowledge

This study contributes to knowledge by providing evidence on the effect of corporate tax planning on financial performance of listed consumer goods companies in

Nigeria. The findings contribute valuable empirical evidence regarding the impact of various tax-related factors on the financial performance of listed consumer goods companies. This could add to the existing literature on corporate finance and taxation by providing insights into the specific effects of effective tax rates, tax incentives, debt tax shield, and capital intensity within the consumer goods industry. The research findings offer practical implications for strategic decision-making within consumer goods companies. By demonstrating the significance of tax incentives and debt tax shield in driving financial performance, the study provides actionable insights for financial managers and executives seeking to optimize their tax strategies and improve overall performance. The findings may have policy implications for tax regulations and incentives targeting consumer goods companies. By highlighting the positive impact of tax incentives and debt tax shield, the research could inform policymakers and regulatory authorities about the potential benefits of creating tax environments that support these elements, ultimately contributing to discussions on tax policy reform.

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