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TAX AGGRESSIVENESS AND FINANCIAL PERFORMANCE OF LISTED INDUSTRIAL GOODS FIRMS IN NIGERIA

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Abstract

The study examines the effect of tax aggressiveness on the financial performance of listed industrial goods firms in Nigeria. The population of the study is made up of the entire listed industrial goods firms in Nigeria. Sample of 10 firms were selected using a census sampling technique and data were collected using secondary sources of data collection from the annual report and accounts of the selected firms. Data for the study were analysed using descriptive and inferential methods of data analyses using STATA 13 statistical software. Findings of the study revealed that GAAP effective tax rate has significant positive effect on return on assets. On the other hand, cash effective tax rate has negative significance effect on return on assets. Based on this, the study concludes that Tax aggressiveness has significance effect on financial performance of listed industrial goods firms in Nigeria and therefore recommends that industrial goods firms should utilize the tax planning opportunities available to them so as to minimize their tax liabilities and improve their performance.

Key Words: Tax planning, Tax avoidance, Tax aggressiveness, Financial performance

1. Introduction

The primary objective of establishing business firms is to maximize shareholders' wealth as a return to their investment. These returns are measured in terms of financial performance or financial competitiveness. To actualize this objective of gaining more returns to investment made by shareholders, firm's management employ different strategies aimed at increasing the distributable profit available to share holders. One of the most important strategy adopted by firms is tax planning. Tax planning involve various strategies used by firms to minimize tax payable to the government thereby leading to lower effective tax rate.

The profitability or accounting point of view defined financial performance as the profit generated using the firm assets; it refers to the profitability of firms measured in terms of the assets used in generating the profit. Financial performance is usually measured using Return on Assets (ROA), Return on Equity (ROE), Earning per Share (EPS), Return on Investment (ROI), Return on Capital Employed (ROCE), Net profit margin, Dividend per Share (DPS) etc. Therefore, in this study financial performance is referred to as returns on assets (ROA). However, it is argued that one of the crucial factors that lead to better financial performance is the extent to which firms engage in legitimate tax planning.

Tax aggressiveness (TA) otherwise referred to as tax planning refers to strategies employ by firm management using the loopholes in the tax laws to pay low or minimum tax leading to lower effect effective tax rate. Tax planning aimed at increasing the distributable profit by reducing tax expenses usually involved extensive strategy used by management to ensure that the firm pays the lowest tax to government. It seen as conscious efforts and a means of wise treatment of economic affairs of an individual, trust or firm, with the aim of obtaining the desired tax benefits, taking in to consideration the legislative and judicial stand (Olawejaju & Olayewola, 2019). By reducing tax payment through tax planning, it means an improvement in financial performance because lower tax payment means higher distributable income.

Firms engage in tax planning resulting from different tax issues purposely to reduce their tax liability thereby increasing their distributable profit as return to shareholders. However excessive tax planning by firms may lead to the breach of tax laws resulting in unnecessary fines there by destroying firm's reputation and ultimately affecting their financial performance. On the other hand, Chukwudi et al. (2020) stress that the major face up to corporate organisations, and specifically

industrial goods firms, is as a result of high rate of tax and multiplicity of other taxes which result in high ETR greater than the statutory company income tax rate. According to Akintoye et al. (2020) high rate of taxes, unfavourable tax policies, inefficiency in the administration of taxes, multiplicity of taxes, non-refund of excess tax paid and non-issuance of tax credit are some of the problems resulting from the Nigerian system of tax that hinders the profitability of manufacturing firms in Nigeria. These tax issues and problems necessitate tax managers to make use of tax planning strategies to ensure the going concern of their companies.

Various studies have been conducted in Nigeria to assess the effect of tax planning on firm's performance. Olayiwola and Olarewaju (2019) examine the effect of tax planning on financial performance of quoted non financial companies in Nigeria, Oyeyemi and Babatunde (2016) examined the influence of corporate tax planning on the financial performance of manufacturing firms quoted on Nigerian Stock Exchange, Chukwudi et al. (2020) determine the effect of tax planning on firm value in quoted consumer goods manufacturing firms in Nigeria. However, Akintoye et al. (2020) examine the effect of Tax Planning Strategies on Profitability of Quoted Manufacturing Companies in Nigeria. While Fagbemi et al. (2019) examine the corporate tax planning and financial performance of systemically important banks in Nigeria.

Based on the empirical studies reviewed, most of the studies produce conflicting results. Many of these studies measured firm performance using market measures, return on assets, return on equity, net profit margin etc. in line with those studies, this study will as well use profitability or accounting measures of financial performances in which Returns on Assets (ROA).

Based on the forgoing the main objective of the study is to examine the effect of TA on the financial performance of listed industrial goods firms in Nigeria and as a result, the following hypotheses were tested by the researcher;

H0₁: effective tax rate has no significance effect on return on assets of listed industrial goods firms in Nigeria.

H0₂: Cash effective tax rate has no significance effect on return on assets of listed industrial goods firms in Nigeria.

2. Literature Review

The concept of tax planning is very important as it relate to financial performance of any company. Tax planning is an activity to obtain a maximum increase in the

owner's wealth by increasing their profitability advantages based on information asymmetry (Desai & Darmapala, 2009). It includes a competent arrangement for the financial transaction (in applicable laws) to reduce tax liability. The revenue authority has recently shown great interest in companies that have been aroused on their operations due to a difficult commercial environment and the search for complex tax evasion mechanisms. This has also been complicated by the transfer pricing models of the company (Olawaju & Olayewola, 2019).

Fagbem et al. (2019) maintain that Tax planning can be conceptualized as a legal act of transferring economic value from the state to the firm through the minimization of the tax liability by taking advantages of loopholes in tax laws and policies. Razal et al. (2018) show that tax planning was an important tool for reducing the tax impact on business liquidity and profitability. Oyeyemi and Babatunde (2016) find that a tax planning strategy usually has a positive impact on a company's cash flows and tax returns. However, tax planning strategies negatively affect government revenue and further increase the cost of tax compliance. Therefore, this idea is important for companies listed on the NSE, which may seek to improve their tax savings.

Tax planning is considered a significant investment for shareholders due to the reduction of the tax burden, which places a heavy burden on companies and shareholders (Chen et al. 2010). Chukwudi et al. (2020) find that there is inequality in the payment of taxes between companies over time. This change in tax payments reflects the practice of tax planning by legal entities. Tax planning is any tax activity that can significantly reduce a company's tax burden, as evidenced by the actual tax rate. However, shareholders are not allowed to engage in tax planning activities due to potential costs (Chen et al. 2010).

Tax planning activities ultimately result in an effective tax rate (ETR) that differs from the corporate tax rate. A company's ability to carry out effective tax planning is reflected in its final ETR. Thus, ETR is an effective feature of tax planning. Therefore, we can conclude that tax planning can be effectively measured by the effective tax rate (ETR) (Izevbehai, & Odion, 2018). The real tax rate is the average tax rate of a company or an individual. The real tax rate for individuals is the average rate at which their income is taxed, while the real tax rate for a company is the average rate at which they are taxed before their profits (John, 2012). However, the effective tax rate (ETR) measures the tax burden of the company and can also examine the performance of the company. Increasing the company's profitability will show investors that the company's value is good and will attract

more investors to invest. This is because investors may know that a company has a higher profit by paying a lower tax rate and offering higher returns to its shareholders. According to Johnson et al. (2012), the real tax rate is used to measure how much an individual, business or company pays taxes as a percentage of their pre-tax income. In other words, this is the average rate at which firm's income will be taxed.

Financial competitiveness as a means of measuring firm's performance financially refers to the measurement of firm performance in financial terms. Thus, according to Tauhid et al. (2020) financial measurements play an important role in corporate structure and growth. It measures profitability, success and improves a company's reputation. According to Alice and Stanley (2016), corporate financial performance is an issue that has received much attention, feedback and interest from financial professionals, researchers and the general public. However, the concept of financial activity can be seen from the perspective of profitability and market value or the value of the business.

Profitability measures performance as revenue minus operating expenses and is usually measured using return on assets (ROA), return on equity (ROCE) and sales (ROS) (Zhang, et al. 2016). ROA is a measure of current transactions most often used in financial research (Ogundajo & Onakoya, 2016). Chukwudi et al. (2020) argue that the value of a company is the assets of the company. This is necessary because it describes the well-being of business owners. The manager, who represents the owners of the company, is responsible for optimizing the value of the company, which is the fundamental goal of every organization.

Akintoye et al. (2020) considered the impact of tax planning strategies on profitability of manufacturing companies listed in Nigeria. The study population consists of 52 industrial companies on the Nigeria Stock Exchange on December 17, 2018, where 46 were calculated as a sample size using Taro Yaman's formula. The data was collected from the annual reports of selected companies within 10 years (2008 - 2017). Reliability and validity were based on the regulatory examination of the financial statements. Descriptive and inferential statistics were used for data analysis. The result has shown that TP has no significant impact on ROA of manufacturing companies specified in Nigeria. The Study concludes that tax strategies have a negative and positive impact on the profitability of Nigeria manufacturing companies. The study recommends tax administrators and financial employees to reduce thin capitalization and capital intensity in order to compensate for the source of income for industrial companies and the cost of research and

growth should be applied properly to increase their benefit. Professional tax professionals should also be contacted on tax planning for maximized it benefits.

Fagbemi et al. (2019) examine the planning of tax and the financial performance of systematically important banks in Nigeria. Ex-post facto was approved as a research design in this study and OLS was used to analyze the data for the study. This study has shown that an effective tax rate has a negative and significant impact on economic activity. Thin capitalization has a positive effect on SIBA's financial performance in Nigeria and the capital intensity and rent option has little effect on SIBA's economic performance in the country. The study concludes that company tax planning model affects economic activities according to tax planning strategies. Similarly, the study recommends that tax authorities should carry out tax reforms in which the adaption should be based on the tax level of the companies and that banks should carry out activities that can reduce the effective tax rate.

Oyeyemi and Babatunde (2016) examined the influence of corporate tax planning on the financial performance of manufacturing firms quoted on Nigerian Stock Exchange with annual reports of 10 selected firms from the 28 companies listed in the field of consumer goods. The study used the Generalized least square regression model (based on the result of the Hausman's specification test). The study reveals that aggressive tax planning strategies such as thin capitalization, tax control and other gaps' benefits in the Nigerian tax laws were not fully utilized by the sample firms. The study recommends that Nigeria industrial companies should incorporate in the company's strategic planning, specialized tax practice knowledge and ensure the implementation of integrated tax strategies.

Olayiwola and Olarewaju (2019) investigate the relationship between corporate tax planning and financial performance of quoted non-financial companies. The secondary data used were gathered from 2007 to 2016 annual reports of 47 sample firms from non-financial companies. A panel vector approach was maintained by structural analysis. The results of the study showed that tax savings had a direct link to economic activity and tax avoidance had an adverse relationship with economic activity. The company's tax plan, which enhances tax savings, significantly promotes the performance of non-financial companies. The study recommends that, firms should not only participate in tax planning, but also ensure that their tax planning is legal and that companies immediately save taxes so that they do not pay more taxes and thus achieve better financial performance.

Thanjunpong, and Awirothananon (2019) study the Tax Planning (TP) association with Financial performance (FP) of firms listed on the Thailand Stock Exchange in 2014-2016. The sample size, which does not include the financial sector, is 873 firm-years observations. TP is measured by the actual amount of tax (ETR) and the ratio of tax expense to total assets (taxes / assets), while FP is measured by return on equity. Research has shown that TP has both affect on FP. The result is positive when measured by ETR and negative when the measurement is tax/ assets. As for control variables, BIG4 auditors have a positive effect on FP. The results also show that the ratio between FP and TP (measured by tax / assets) is significantly negative for auditors other than BIG4. The relationship is so weak and irrelevant to the Big4 auditors. Therefore, the results are beneficial to public companies in guiding how to manage funds and resources more efficiently.

Chukwudi et al. (2020) determine the Impact of tax planning on the value of Enterprise in Consumer Goods Manufacturers in Nigeria. The specific objectives are: to determine the impact of the effective tax rate (ETR) on the strong value of Nigerian consumer goods companies. Consider the impact of book tax difference (BTDs) on the strong value of Nigerian consumer goods companies. Ex-post facto research design was approved for the study. Based on the availability of financial statements of selected companies from the population of all non-financial companies listed on the Nigerian Stock Exchange, a sample size of 21 companies was selected. The survey data are derived from the published financial statements of non-financial corporation for the ten-year period 2009-2018. Ordinary least square regression was used to test three hypotheses formulated with e-viewing 9.0. The study showed that ETR had a negative impact on strong value, and this impact was statistically significant. However, research has found that book tax difference (BTD) has Positive effect on strong value, but this effect was not statistically significant. Therefore, the study recommends, among other things that since the impact of the ETR is statistically significant and should therefore be used as a determinant of enterprise value in Nigeria.

Izevbekhai & Odion (2018) Investigate the relationship between tax planning and enterprise value. The study uses a sample of eighty-seven (87) companies in the Nigerian Stock Exchange. The survey data was a combination of time series and cross-sections covering the period from 2010 to 2016 with a survey of six hundred and nine (609) firm-year observations. The study uses panel regression techniques to evaluate balanced table data. The explanatory variables of tax planning were measured by the actual amount of taxes and savings, and the Tobin's Q was used to measure firm value. The negative relationship was observed to have a strong

significance between effective tax rate and firm value. Control variables about firm size and capital intensity are reported as mixed results, and leverage reported a negative result. Moderate institutional property variables also showed volatile results. Among other things, the study suggests that stakeholders should be involved in effective monitoring of deficiencies to reduce their intentions to divert organization resources to their selfish needs, and that company should adopt good governance practices so that information asymmetry between managers and shareholders can be mitigated and therefore increase the value of the company.

Razali et al. (2018) determine the impact of tax planning on the value of companies listed on the Malaysian Stock Exchange. The tax planning indicators in this study are the effective tax rate (ETR) and book tax difference (BTD). Data were collected from 387 samples from the 2014-2016 data stream. After controlling company size, leverage, asset vulnerability, age and dividend. Regression results show that ETR has a significant positive relationship with firm value, while BTD has a slight negative relationship with firm value. Research suggests that a proxy ETR is a better way to determine business value than a BTD.

Ftouhi et al. (2015) examine whether corporate tax planning behavior increases firm value in European context. The effect of tax planning on firm value depends on the tax savings and the effective tax rate (ETR) of tax deductions in the financial statements. Arguing that tax planning negatively affects firm value due to higher agency costs, this study analyzes a sample of 73 companies included in the Euro Next 100 Index between 2008 and 2012. The study assumes a component of tax savings where the value of company is negatively related to permanent differences. Furthermore, the study found that the corporate ETR is lower than the statutory tax rate. In fact, the increase in the difference between the tax rate and the effective tax rate results in tax savings. In this case, tax planning can be seen as a measure taken by the taxpayer to reduce their tax liability in order to obtain tax benefits.

The theory that underpins this study is Hoffmann's theory of tax planning, which states that efficient firms legitimately divert the funds of the tax authorities to the corporate treasury (Hoffman, 1961). The theory states that tax planning activities are desirable only when there is a tendency to achieve minimum taxable income without affecting accounting income, based on the fact that the company's tax liability is based on the former and not the latter, which means that the tax is charged on taxable income.

According to Akintoye et al. (2020) Hoffmann's theory of tax planning was proposed by Hoffmann in 1961. The theory states that taxation is primarily based on business or accounting concepts that allow companies to change such activities to reduce their tax liability. However, recent contributions (Kawor & Kportorgbi, 2014; Ogundajo & Onakoya, 2016) align this theory with Hoffman's proposed theory that companies can achieve significant tax savings through a deeper understanding of ambiguities and loopholes in tax laws. Based on this, this theory can be seen as an appropriate theory to be used in examining the effect of tax planning on firm performance. Therefore, this study is based on the Hoffmann's theory of tax planning.

3. Methods and Design

The study adopts an ex-post factor research design base on the fact that it makes use of historical data. The population of the study is made of the entire listed industrial goods firms for the period of 2010 to 2019. Census sampling technique was adopted by applying filters. For firm to be part of the sample it must be listed on or before 1st January 2010 and remain listed up to 31st December 2019, the firm must also publish its annual reports and accounts for the relevant years. Based on this, the study arrived at a sample of 10 firms. Data for the study were collected using the secondary method of data collection from the annual reports and audited accounts of the selected firms. Data for a period on 10 years were collected and analysed using STATA 13 statistical software using descriptive and inferential statistical techniques. The model for the study was adapted from the model of Fagbemi, et al. (2019); Kawor, & Kportorgbi, (2014) and Ogundajo, & Onakoya, (2016) with little modifications. The study model was presented below:

$$ROA_{it} = \alpha_0 + \beta_1 GAAPETR_{it} + \beta_2 CASHETR_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$$

Where:

ROA = Return of assets measured as profit after tax divided by total assets (Ogundajo & Onakoya, 2016)

GAAPETR = GAAP Effective tax rate measured as the total tax expense scaled by pre-tax accounting income (Fagbemi et al. 2019; Kawor, & Kportorgbi, 2014).)

CASHETR = Cash effective tax Rate

LEV = Leverage as control variable measured as long term debt divided by shareholder's fund (Kawor, & Kportorgbi, 2014).

B1-3 = Coefficient of independent variable, ε = Error Term, α = constant intercept, i = firm, t = year

4. Data Presentation and Analyses

The purpose of this section is to provide detail analyses of the data collected. The covers descriptive statistics, regression result, diagnostic and post estimation test as

well as discussion of findings and test of hypothesis. Table 1 provide the result of descriptive statistics.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	100	.0955973	.1302389	-.7610825	.4285075
GAAPETR	100	.1605824	.3101554	-1.757055	1.589572
CASHETR	100	.1693709	.2398613	-.2616341	1.174365
LEV	100	.155912	.1411502	0	.6398022

Source: STATA 13 OUTPUTS, 2022

The result of descriptive statistics was depicted in table 1. The table show the total number of observations, mean, standard deviation as well as maximum and minimum mean. The purpose of these analyses is to summarize the entire data set. From the table, the total number of observations for all the variables stands at 100 which represent 10 firms in 10 years. ROA has a mean of 0.095 and a standard deviation of 0.130 with minimum and maximum mean of -0.761 and 0.429. the mean implies that on average, listed industrial goods firms have about 9.5% and the least ROA is about 76% loss while the highest return is about 42.9% profit. On the other hand GAAPETR has mean of 0.161 the mean that the selected firms have an average GAAPETR of about 16.1%. The standard deviation of 0.310 which is not par away from the mean indicate that all firms have similar GAAPETR throughout the period under consideration and the lowest and highest GAAPETR stands at -176% and 159% respectively.

On the other hand, CASHETR has an average mean of 16.9% with lowest and highest CASHETR of -261% and 117% respectively. The deviation of 0.23 also implies that must firms CASHETR are within the same range and not par away from the mean. Finally, LEV has a mean of 15.6% with standard deviation of 0.14 with minimum mean of 0% and maximum mean of 63.98% respectively.

Table 2: Shapiro-Wilk W test for normal data

Variable	Obs	W	V	Z	Prob>z
ROA	100	0.79683	16.774	6.255	0.00000
GAAPETR	100	0.69572	25.123	7.152	0.00000
CASHETR	100	0.85237	12.189	5.547	0.00000
LEV	100	0.84989	12.393	5.584	0.00000

Source: STATA 13 OUTPUTS, 2022

Table 2 shows the result of Shapiro-Wilk W test for normal data. The assumption of this test is that the data is not normally distributed. It is common for continuous data not to be normally distributed. From the result, all variables both dependent and independent variables are not normally distributed because all variables have a probability chi2 value of 0.0000 which are all significant at 1% and signifies that all variables are not normally distributed. This problem is cured by using robust standard error.

Table 3: VIF test for multicollinearity

Variable	VIF	1/VIF
CASHETR	1.48	0.677412
GAAPETR	1.36	0.734291
LEV	1.17	0.853649
Mean VIF	1.34	

Source: STATA 13 OUTPUTS, 2022

The VIF test for multicollinearity test was presented in Table 3. The multicollinearity assumption states that the independent variables should not correlate. A VIF value of 4 and above indicate the presence of multicollinearity. From the table all variables have a VIF value of less than 4 which imply that there is no multicollinearity problem among the independence variables.

Table 4: Breusch and Pagan Lagrangian multiplier test for random effects

	Var	sd = sqrt(Var)
ROA	.0169622	.1302389
E	.0138568	.1177149
U	.000375	.0193658
chibar2(01)	0.29	
Prob > chibar2	0.2953	

Source: STATA 13 OUTPUTS, 2022

Table 4 display the result for Breusch and Pagan Lagrangian multiplier test for random effects. The assumption for panel effect test is that there is no panel effect test among the data set. The table shows a chibar2 value of 0.29 and prob>chibar2 value of 0.2953 which is not significance at 5% and as a result signify the presence of panel effect among the data set and therefore GLS regression model will be used.

Table 5: Random-effects GLS regression

ROA	Coef.	Robust Std. Err	Z	P>z	[95% Conf.	Interval]
GAAPETR	.099156	.0277868	3.57	0.000	.0446949	.1536172
CASHETR	-	.0516702	-2.38	0.017	-	-
	.1230165				.2242881	.0217448
LEV	.2544727	.0410773	6.19	0.000	.1739626	.3349828
_cons	.0608346	.0163609	3.72	0.000	.0287678	.0929014
R-sq:	0.1586					
overall						
Wald	41.77					
chi2(3)						
Prob > chi2	0.0000					

Source: STATA 13 OUTPUTS, 2022

The GLS regression result was shown in Table 5. From the table, the ROA regression model has a wald chi2 value of 41.77 and prob>chi2 value of 0.0000. This indicate the fitness of ROA model. Similarly, the table shows an overall R-square value of 0.1586 which implies that about 15.86% of change in industrial firms financial performance of industrial goods firms is explain by their tax planning activities of the firm and as such about 84.14% of change in firms financial performance is explain by other factors.

From the table GAAPETR has a positive coefficient of 0.099156 and p-value of 0.000 which is significance at 1%. This implies that GAAP effective tax rate has a positive significant effect on ROA of the selected firms. On the other hand CASHETR has a negative coefficient of -0.1230165 and p-value of 0.017 which is also significance at 1%. This implies that CASHETR has a negative significance effect on ROA of listed industrial goods firms in Nigeria. Finally, LEV as control variable has a positive coefficient of 0.2544727 and p-value of 0.000 which is also significance at 1% and implies that LEV has a significant positive effect on ROA of the selected firms.

Base on the regression result from table 5. The study revealed that GAAP effective tax rate has a significant positive effect on financial performance of listed industrial goods firms in Nigeria represented by return on assets. This implies that the more the selected firms try to increase their tax planning activities through GAAP effective tax rate the better their financial performance in terms of ROA. This might be as a result of increase in after tax profit through tax savings. This is in line with

the findings of Kawor, & Kportorgbi, (2014); Thanjunpong, & Awirothananon, (2019) and contradict with that of Ogundajo, & Onakoya, (2016). Based on these, the null hypothesis one is rejected to signify the significant positive effect of GAAPETR on financial performance of listed industrial goods firms in Nigeria. On the other hand, CASHETR has a negative significance effect on financial performance of listed industrial goods firms in Nigeria represented by ROA. This implies that the more firms increase their tax planning activities through CASHETR the lower their financial performance in terms of ROA this is in line with the findings of Kawor, & Kportorgbi, (2014); Thanjunpong, & Awirothananon, (2019) and contradict with that of Ogundajo, & Onakoya, (2016). Based on these findings, Hypothesis two is also rejected to imply that CASHETR has a significant negative effect on financial performance of listed industrial goods firms in Nigeria.

5. Conclusion and Recommendations

The study was carried out to examine the effect of tax aggressiveness on the financial performance of listed consumer goods firms in Nigeria. Based on the findings of the study and test of hypothesis, the study concludes that tax aggressiveness has a significant effect on financial performance of listed industrial goods firms in Nigeria. However, the effect is positive in terms of GAAP effective tax rate and negative in terms of CASH effective tax rate. Based on the above conclusion, the study recommends among others that listed industrial goods firms should within the confine of tax law maintain an optimum effective tax rate as a planning tool. However, the firms should not engage in an excessive tax planning as it may lead to poor performance. This is reflected in the firms CASHETR which negatively affect their performance. Government should also note that a moderate tax planning activities by industrial goods firm is capable of improving their financial performance which ultimately leads to an improved economic growth and development.

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