EFFECT OF FIRM'S CHARACTERISTICS ON TAX PLANNING IN THE NIGERIAN LISTED DEPOSIT MONEY BANKS

BY

Adebayo John ALADESUNKANMI
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BEING A DISSERTATION PRESENTED AND SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, FACULTY OF HUMANITIES, MANAGEMENT AND SOCIAL SCIENCES KWARA STATE UNIVERSITY, MALETE, KWARA STATE, NIGERIA.

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SUPERVISOR DR. T. A. OLANIYI

JULY, 2020

DECLARATION

I hereby declare that this dissertation title "Effect of Firm's Characteristics on Tax Planning in the Nigerian Listed Deposit Money Banks" is my work and has not been previously presented or submitted by me and to the best of my knowledge, by any other person for any qualification or research institution. I also declare that the information here are mine and those that are not are duly acknowledge by means of references.

Adebayo John ALADESUNKANMI ----------

Sign & Date

CERTIFICATION

This is to certify that this dissertation titled "Effect of Firm's Characteristics on Tax Planning in the Nigerian Listed Deposit Money Banks (DMBs)" was written by Adebayo John ALADESUNKANMI in the Department of Accounting and Finance, Kwara State University, Malete, Nigeria.

Dr. T. A. Olaniyi ----------
Project Supervisor Sign & Date

Dr. Mubaraq Sanni
Co-supervisor ----------
Sign & Date

Dr. Mubaraq Sanni ----------
Head of Department Sign & Date

Professor Hamzat Abdulraheem ----------
Dean, School of Postgraduate Studies Sign & Date

---------- ----------
External Examiner Sign & Date

DEDICATION

This dissertation is dedicated to God Almighty.

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ABSTRACT

The study examines the effect of firm's characteristics on tax planning in the Nigerian Listed Deposit Money Banks (DMBs). The study specifically assessed the effect of profitability, leverage, firm's age and firm's size on tax planning in the Nigerian DMBs. The study adopted ex-post facto research design and the population consists of fifteen (15) Deposit Money Banks (DMBs) whose shares are listed on the Nigerian Stock Exchange as at 31st December, 2018 from which a sample size of twelve (12) banks are selected due to the availability of data. Secondary data was generated data from twelve (12) annual reports and accounts of the sampled banks for a period of seven years (2012- 2018). The data generated from bank's annual reports and accounts were analysed using Panel data regression analysis.The findings reveal that profitability, firm's age and firm's size have significant impact on tax planning while leverage has an insignificant impact on tax planning in the Nigerian DMBs. The study concludes that profitability, firm's age and firm's size influence tax planning system in Deposit Money Banks of Nigeria.The study recommends thatNigerian listed DMB's managements should ensure adequate utilisation of bank's assets to generate sufficient returns and also exploit opportunity embedded in tax planning system to enhance bank's profitability level by engaging professionals such as accountant, tax analyst and legal practitioner to fully take advantage of the loopholes in the tax law to reduce tax burden (liability).

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INTRODUCTION

1.1 Background to the Study

Tax is one of the major instruments of fiscal policy for regulating the economy of any nation and to raise revenue to finance government expenditure. At various times, successive governments in Nigeria have employed the instrument of tax policy to encourage industrial and corporate growth in the private sector (Nwaobia, 2013). Company income tax is one of taxes collected by the government for national development which is levied on the chargeable profits of all companies operating in the country excluding those exempted as specified by the Act (Ezugwu & Akubo, 2014). The inefficiencies in the various tax laws had given different taxpayers, particularly corporate organisations, the opportunity of exploring the loopholes provided in the tax laws through legal or illegal means of reducing the tax liabilities to be paid by them. The legal act is popularly known as tax planning while the illegal system is known as tax evasion. These acts have been traced to be used by various organisations, whether large, medium or small size (Graham, Hanlon, Shevlin & Shroff, 2017; Assidi, Aliani & Omri, 2016).

Tax planning is said to significantly influence the decision making process of management, shareholders and other stakeholders of the organisation (Bauer & Thomas, 2018). Taxation reduces the benefit that shareholders and managers receive from their contractual relationship. A contractual agreement may even be prevented due to the presence of taxation particularly if the manager's expected utility drops

below his reservation utility. Managers of corporate organisation believe that, the tax liability paid has significant effect on the residual return to the organisation which can affect the decision making system like payment of dividend or retention of earnings. These decisions sometimes prompt managers of corporate organisation to result to tax planning towards reducing their tax burden.

Firm's characteristics are essential to the optimal operation, performance and tax system of companies. The characteristics of firm interact to influence expense reduction including tax liability of firm. In the light of present day global challenges, the performance of firms (whether large or small) and level of investors' confidence are hinged on the reduction of expenses including tax expense (Ogbeide, 2017). Companies can be differentiated from each other based on certain characteristics they possess. Such characteristics are referred to as firm's attributes which exist at the firm's level and have the potential to influence the decisions of the managers in the firm. Shehu and Farouk (2014) reported that, firm characteristics as variables affect the decision of the firm both internally and externally over time. Such variables include size, leverage, growth, value, profitability and capital structure. These attributes of firm are usually unique to a specific company and they usually portray certain perception in the mind of the user of information regarding the performance and future of the firm.

Tax planning is the systematic application of professional expertise in ordering the activities of the taxpayer within the approved legal or regulatory frameworks to

minimize the tax liabilities of the taxpayers. Tax incentives, exemptions or deductions offered by the tax authority to the taxpayer have facilitated tax planning activities (Bruce, Deskin & Fox, 2007). Tax incentives are provided by the government to promote voluntary tax compliance, promote export activities, and encourage investment in some specific sectors. Companies influence these incentives to minimise their tax liabilities. These incentives are not targeted to reduce government revenue, they are meant to attract more investment and improve the sophistication of the stock exchange market (Graham, Hanlon, Shevlin & Shroff, 2017). However, the extent to which firms take advantage of these strategies varies from one company to another. Not all companies have equal tax planning capabilities. For instance, the nature of taxes paid by oil and gas industry is quite different from the banking industry.

Firms' characteristics commonly examined in extant literature encompass firm size, industry type, ownership concentration, audit firm size and profitability. These varying characteristics of firm interact to influence expense reduction, including tax liability of firm. The performance of firms and the goal maximization of shareholders wealth is a function of effective firm characteristics like size, leverage, audit quality and profitability. Apart from size, leverage as a component of firm characteristics is very relevant towards the financial well-being of a company. Leverage influences the operation, profitability and size of a firm. Firms that employ considerable amount of debts, whether short term or long term debts often enjoy tax shield which make them

reduce the amount of tax expense paid. Although leverage sometimes adversely affects tax planning of companies, this is however subject to the systematic management in taking into critical consideration the cost and benefit (Uniamikogbo, Atu, & Atu, 2018; Ibrahim, 2017). Profitable firms usually have high tendency of engaging in tax planning in order to reduce their tax liability because the higher the profit reported, the higher the tax liability that would be paid (Ogbeide, 2017; Kubick & Lockhart, 2016). The age of a firm can also influence the level of tax planning practice. This is because as the firm ages, its size increases in terms of growth resulting to increase in tax costs thereby tempting the manager to engage in tax strategies that would lower the tax burden of the firm (Ibrahim, 2017).

The banking industry represents a key sector in every economy as it serves as blood of a nation through provision of fund to various sectors of the nation. Given the importance of the banking sector, there is little attention given to tax planning activities and its inherent opportunities to influence firm's characteristics. Therefore, this study examines the effect of firm's characteristics on tax planning of listed Deposit Money Banks (DMBs) in Nigeria.

1.2 Statement of the Problem

Profitable firms usually have high tendency of engaging in tax planning in order to reduce their tax liability because the higher the profit reported, the higher the tax liability that would be paid. This is because profitable firms could result to manipulating the items in the profit or loss statement like overstating operating

expenses, thereby reducing the tax liability to be paid. A firm that is highly levered could also result into tax planning scheme. This is because the amount paid as interest on the loan borrowed from outside sources of the business is tax deductible, that is, it is part of the allowable expenses under tax laws, thereby reducing the profit that would be subjected to tax. Usually, firms with considerable amount of debts, whether short term or long term debts often enjoy tax shield made possible via tax planning advantages (Ogbeide, 2017; Kubick & Lockhart, 2016).

The age of a firm can also influence the level of tax planning practice. This is because as the firm ages, its size increases in terms of growth resulting to increase in tax costs thereby tempting the manager to engage in tax strategies that would lower the tax burden of the firm. Likewise, firm with large operations tends to have more employees and branches and could use the loopholes in the tax laws via tax planning activities to enhance its profit and create more wealth (Uniamikogbo,Atu,& Atu, 2018; Ibrahim, 2017).

Prior Nigerian studies have examined the influence of firm's characteristics on tax aggressiveness or firm value or earnings quality in different sectors. However, most of these studies did not include firm's age as a proxy of firm attributes despite the strong relationship that has been established in the literature between firm's age and tax planning of firms by other influential studies (Amarjit, Manjeet, Neil & Harvinder 2014; Rahma & Farah 2012; Dietrich 2010; Baik, Chae, Choi & Farber 2010; Ahmad & Noor 2010). Similarly, the existing studies in Nigeria focused on manufacturing

and food & beverages firms and healthcare firms (Ibrahim & Hussaini, 2015; Abdullahi, 2016) and partially exclude DMBs which are mostly significant to the Nigerian economy.

More so, prior literatures provide limited evidences on how firm's characteristics influence tax planning system and had reported inconclusive findings and divergent views in extant literatures as to whether firm characteristics have effect on tax planning. To the best of the researcher's knowledge, research of this nature has not been conducted in the banking sector. Therefore, there are scanty literatures that investigate the influence of firm's characteristics on tax planning of Nigerian listed DMBs. This study filled the gaps identified in the literature.

1.3 Research Questions

The following research questions were put forward to address the research problem:

i. What is the influence of profitability on tax planning of Nigerian listed DMBs?

ii. To what extent does leverage affect tax planning of Nigerian listed DMBs?

iii. What is the effect of firm age on tax planning of Nigerian listed DMBs?

iv. To what extent does firm size affect tax planning of listed deposit money banks in Nigeria?

1.4 Research Objectives

The general objective of this study is to examine the effect of firm's characteristics on tax planning among listed deposit money banks in Nigeria. The specific objectives are to:

i. Examine the influence of profitability on tax planning of Nigerian listed DMBs;

ii. Investigate the extent to which leverage affects tax planning of Nigerian listed DMBs; iii. Assess the effect of firm age on tax planning of listed DMBs in Nigeria; and iv. Determine the extent to which firm size affects tax planning of listed DMBs in Nigeria.

1.5 Research Hypotheses

The following null hypotheses were raised and tested in the course of the study:

H_{01}: Profitability has no significant influence on tax planning of listed DMBs in Nigeria;

H_{02}: Leverage has no significant effect on tax planning of Nigerian listed DMBs;

H_{03}: There is no significant effect of firm age on tax planning in the Nigerian listed DMBs; and

H_{04}: Firm size has no significant effect on tax planning of listed DMBs in Nigeria.

1.6 Justification for the Study

This study is motivated by incessant collapse of industries worldwide and the inability of companies to comprehensively exploit tax planning opportunities available to them. Different studies had been conducted on the effect of firms' characteristics on tax planning but had shown conflicting outcomes. For instance, studies of Akanksha, Jayant and Constanza (2013); Mosota (2014); Kubick and Lockhart (2016); Lanis, Richardson and Taylor (2015); Ana, Antonio and Elisio

(2015); Johansen, Skeie, Sorbe and Menon (2016); Pratama (2017); Anuoar and Houria (2017); Rani, Susetyo and Fuadah (2018); Coopera and Nguyen (2020) amongst others, reported that; various firm characteristics such as firm size, leverage, profitability influence the increase in the level of tax planning activities. In contrast, Ribeiro (2015); Yetty, Eka and Eneng (2016) found that firms' characteristics have negative and insignificant effect on tax planning respectively.

It was observed that most of the studies reviewed were done abroad with scanty studies in the Nigerian context, especially the Nigerian deposit money banks. The studies reviewed in Nigeria focused on manufacturing companies, downstream sector of the oil and gas industry and healthcare sector (see Ezugwu & Akubo, 2014; Olajide & Adetola, 2017; Mohammed, 2017). Therefore, this calls for further empirical investigation into the effect of firms' characteristics on tax planning of listed deposit money banks in Nigeria. The study would assist policy-makers, tax practitioners for better decision making as well as adding to scanty literature in the academic field of knowledge.

The results of this study will contribute to the field of knowledge by enhancing the scanty literature on the effect of firms' characteristics on tax planning with empirical evidence on the subject matter. The result would also serve as a form of reference to future researchers that aimed at investigating on the relationship between firms' characteristics and tax planning. It will also help financial and tax analysts, directors

of companies and other stakeholders in Nigeria and abroad in their various professions or careers.

1.7 Scope of the Study

This study examined the effect of firms' characteristics on tax planning of listed deposit money banks in Nigeria. The deposit money bank sector serves as a good representation of the banking sector because of its large number of stakeholders as well as it contribution to growth and development of a nation through provision of fund. The study covered 2012 to 2018 periods. This justified 2012 being a year after some tax laws like the personal income tax laws, was reviewed in Nigeria while 2018 is the latest year to which the annual reports of these banks were made available for public access as at the time in which this study was carried out. It should be noted that the study did not consider the corporate governance attributes such as ownership concentration and audit firm attributes on tax planning as they can also affect tax planning activities of banks. However, board size as one of the major corporate governance attributes was used as control variable in this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Firm Characteristics

Firm characteristics can be defined as the wide varieties of information disclosed in the financial statement of business entities that serve as the predictors of the firm's quality of accounting information and performance (Lang & Lundholm, 1993). They can also be defined as the behavioural patterns of company's operation which enables them to achieve their objectives throughout the period of their operations. Company's

characteristics vary from one business entity to another. They can be determined based on the relevant information disclosed on financial statements for a particular accounting period (Stainer, 2006). Mohammed (2017) posited that firm characteristics seem to play an important role in determining the overall performance of corporate entities and ensuring that organisations accomplish set objectives. Wiklund and Shepherd (2005) observed that, firms that are able to align firm attributes with the environmental characteristics perform better than other firms. Dean, Bulent and Christopher (2000) posited that firm characteristics are essential determinants of a firm's performance as well as its success in business.

Empirical studies have been carried out to examine the relationship between firm characteristics and performance of business entities around the globe. Ogbeide (2017) examined firm characteristics and tax aggressiveness of listed firms in Nigeria using pool and panel data for the period 2012 to 2016. The data used was sourced from the annual reports of the selected firms. Both the panel and dynamic panel methods were used to analyze the data generated. Findings from the study revealed that firm size exerts positive and significant effects on tax aggressiveness. There is significant and positive relationship between external audit quality and tax aggressiveness. Leverage is significant and exerts negative relationship with tax aggressiveness. Likewise, interest charges have significant and positive relationship with tax aggressiveness.

Likewise, Uniamikogbo, Atu and Atu (2018) investigated the effect of firm attributes on tax aggressiveness in Nigeria. The specific objectives were to assess the effect of firm size, profitability, liquidity and leverage on tax aggressiveness in the Nigerian banking sector. Data generated from the annual reports and accounts were analysed using descriptive statistic and Ordinary Least Square (OLS) regression. Findings revealed that firm size, leverage, and liquidity have a significant impact on tax aggressiveness while profitability has an insignificant impact on tax aggressiveness in the Nigerian banking sector. Also, Mosota (2014) examined the relationship between firm size and tax aggressiveness. The period of the study was 2008-2013 using 61 listed companies at the Nairobi Stock Exchange. The study used Ordinary Least Square (OLS) regression Model. The result reveals that a positive relationship exists between firm size and tax aggressiveness.

Companies can be differentiated from each other based on certain characteristics they possess. Such characteristics are referred to as firm's attributes which exist at the firm's level and have the potential to influence the decisions of the managers in the firm. Shehu and Farouk (2014) defined firm characteristics as variables at the firm level that affect the decision of the firm both internally and externally over time. Such variables include size, leverage, growth, value, profitability, capital structure, and others. Those attributes of the firm are usually unique to a specific company and equally portray certain perception in the mind of the user of such information. Firm's

characteristics variables examined in this study include profitability, leverage, firm's age, and size whereas, board size is used as control variable.

Firm Profitability

Profitability is an essential factor that facilitates smooth running of any business in today's competitive setting and it has a significant impact on the performance of the institutions, as the financial proficiency of banks can also influence the economic development. Usman (2019) posited that, profitability is the ability of a given investment to earn a return from its use. Maximisation of profit is a very crucial objective for a firm to remain in business and to withstand competition from firms operating in similar industry. It is a major pre-requisite for long-term survival and success of a firm while it is a key pre-condition for the achievement of other financial goals of a business entity (Gitman & Zutter, 2012). Profitability is a core measure of the performance of a firm and it constitutes an essential aspect of its financial reporting. It reveals the firm's ability and capacity to generate earnings at a rate of sales, level of assets and stock of capital in a specific period of time (Margaretha & Supartika, 2016). The major accounting based measures of
profitability is the return on assets (ROA) which is an indicator of how profitable a company is relative to its total assets (Naser & Mokhtar, 2004).

Profitable firms are expected to be more inclined to release more information to show their excellent performance. Aljifri, Alzarouni and Tahir (2014); Singhvi and Desai (1971) claimed that managers are more likely to disclose detailed information when

profitability is high to signal their ability to maximize shareholder value, increase the security of their positions, and justify their compensation. In addition, managers of profitable firms may be proud of their success and disclose more information to the public to promote a positive impression of their performance (Alsaeed, 2006). Profitability as one of the firm's characteristics also identified to have great influence on tax planning of firms. The works of Hashem and Mehdi (2011) shown that return on assets used as proxy for performance of firms is significantly positively related to tax planning, which indicates that when there is any increase on performance of firms, there will be a corresponding increase in tax planning. In line with this, is the studies conducted by Davidson, Stewart and Kent (2005), Klein (2002b) have similar findings which observed that changes in firm's profit influences tax planning system. Profitability is one of the major areas investors give attention when analysing the feasibility of a business. Tulsian (2014) explained that the word profitability comprises two words - profit and ability. Profit refers to the total income earned by the enterprise during a specified period of time, ability is the capacity of firm to earn a given total income in a particular period; while profitability refers to the operating efficiency of the enterprise. It is the ability of the enterprise to make profit on sales; it is the ability of the enterprise to get sufficient return on the capital and employees used in the business operation. While profit report just about the financial and operational efficiency of an enterprise, profitability interpret the profit in relation to

other elements likely to affect profit in order to help in decision making (Tulsian, 2014).

Profitability is the ability of a given firm to earn profit. It indicates how well managers of an enterprise generate earnings by using the resource of the business at their disposal (Dogan, 2013). Profitability is the profit making ability of a business. It is a strong indication of ability to pay dividend and avoid bankruptcy (Tulsian, 2014). Profitability can be measured using return on asset (ROA) and return on equity (ROE) (Iyoha, 2012). Gross profit margin considered the amount made after direct cost of sale have been taken into account, ROA is defined as net income divided by total asset which reflects how well the company is using its real investment to generate profit. ROA is often used to compare the efficiency and operating performance as it looks at the returns generated from the asset financed by the company. For the purpose of this study, profitability is defined as net income divided by total assets.

ROA is referred as the key measure of bank profitability which relied on the average assets value to capture the changes during the fiscal year if any. Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is commonly defined as net income divided by total assets. Net income is derived from the income statement of the company and is the profit after taxes. ROA measures the efficiency with which an asset is used during

the period. It is through the assets that a company generates its profit (Lasisi, 2017). Baulkaran (2014) defined return on assets as the ratio of EBITD and the total assets of the firm. Some analysts prefer this measurement due to its neutrality to tax and depreciation treatments, and the company's source of financing, whether debt or equity. Liu, Miletkov, Wei, and Yang (2015) defined return on assets as operating income before extraordinary income divided by total assets. Extraordinary incomes are not recurrent by nature; they do not arise from normal operations. Example of income of an extraordinary nature is a gain from sale or compensation paid to a company by a foreign government that expropriated
its assets.

Firm Leverage

Leverage was suggested as relevant to explaining variations in the extent of firm's characteristics (Demir & Bahadir, 2014). According to Rajan and Zingales (1995), leverage is the ratio of total liabilities to total assets. It referred to the proportion of debt to equity in the capital structure of a firm (Mohammed, 2017; Salehi, 2009). The financing or leverage decision is a significant managerial decision because it may influence the shareholder's value, risk and the market value of the firm. The ratio of debt-equity has implications for the shareholders' dividends and risk. This affects the cost of capital, the market value of the firm as well as its tax planning system (Pandey, 2007; Salawu & Adedeji, 2017).

Several researchers have studied firms' debt and suggested the determinants of financial leverage by reporting that firm's debt-equity decision is generally based on a tradeoff between interest tax shields and the costs of financial stress (Upneja & Dalbor, 2001). According to the trade-off theory of capital structure, optimal debt level balances benefit debt compared to the costs of debt; hence, the use of debt to a certain debt ratio results in higher value on equity. However, the benefit of debt would be lower than the cost after this level of capital structure. In other words, the more a company uses debt, the less income tax the company pays, but the greater its financial risk. Based on the trade-off theory for capital structure, firms can take advantage of debt to make a better value on equity (Gu, 1993).

Leverage finance refers to the funding of a company or business entity with debt with the hope of improving the firm's financial performance. Leverage financing is commonly employed by a company to achieve a specific or temporary objective, such as acquisition of another business, to influence a buy-out, to purchase shares or fund a one-time dividend, or to invest in self-sustaining cash-generating assets (Pachori & Tatala, 2012). Leverage financing on the other hand refers to the ratio of debt to equity capital of a company. As a result of the payment of interest and repayment of principal amount of the debt, a large part of the firm's cash flow would decrease (Magpayo, 2011). Financial leverage also involved the use of debt to acquire additional assets. It can be financial or operating leverage. Financial leverage is the use of borrowed money to increase production volume and sales as well as earnings

of a company for better performance. It is measured as the ratio of total debt to equity of a firm (Yoon & Jang, 2005). The greater the amount of debt, the greater the financial leverage of a firm and the lower the tax liability. Since interest is a fixed cost which can be written off against revenue, a loan allows an organisation to generate more earnings without a corresponding increase in equity capital which will require increase in dividend payment that cannot be written off against the firm's earnings (Magpayo, 2011).

However, high leverage may be beneficial in boom periods; and it may cause serious cash flow problems in recession periods, because there might not be enough sales revenue to cover the interest payment (Tudose, 2012). In other words, leverage is the advantageous condition of having a relatively small amount of cost yield and a relatively high level of values (Ojo, 2012). Operating leverage is the extent to which a firm commits itself to high level of fixed operating costs which vary with time, such as insurance, rent, salary, with no interest attached to it as compared to the level of variable costs which vary with volume of energy, labour and raw materials (Tudose, 2012). Firms with high level of operating leverage have high break-even points, but when the break-even point is crossed, they show a greater increase in operating income with every increase in sales revenue and greater losses with every drop in sales revenue in comparison with firms that have lower operating leverage (Omolehinwa, 2006).

Firm Age

Firm age is referred to the age of an organisation since inception. Generally, old firms are believed to disclose more information because they are more likely to have established and well-organised professional staff to deal with the technical aspects of their financial statements (Demir and Bahadir, 2014). In addition, managers of younger firms tend to be less experienced in running a listed corporation and complying with regulatory requirements.

Generally, firm growth tends to decrease as it ages (Evans, 1987). In the early stages of a firm's foundation, the firm may exert efforts to improve sales and increase its market share through energetic marketing activities. However, sales and profit increase rate generally slow down as the firm ages. If the firm's growth diminishes, its financial and taxable incomes also experience a decreasing trend. Tax cost decreases along with corporate size and thus, a firm's aggressive tax strategies might be reduced as the firm ages and its growth rate decreases (Yasuda, 2005). Thus, tax planning theory noted that tax planning activities are only desirable when there is a tendency to bring to the bare minimum taxable income without having a negative effect on accounting income (Hoffman, 1961).

Firm Size

Firm size has been variously defined in the literature to refer to the total assets, scale of operations and number of employees among others. Larger firms are assumed to have more resources at their disposal and therefore have the ability to commit them

to several investment opportunities. Athanasoglou, Brissimis and Delis (2005) asserted that increase in company size increases the performance of the bank. Almajali, Alamro and Al-Soub (2012) argued that the size of the firm can influence its tax planning system and financial performance. However, for firms that become exceptionally large, the effect of size could be negative due to bureaucratic and other reasons (Yuqi, 2007). The size of a firm cannot be overruled in determining the value of the firm. Larger firms are prone to having a maximised value than smaller firms. This is obvious in their level of operation, which is expected to be larger than smaller firms.

Most companies expand the size of their business operation for them to grow either in revenue, number of employees, or size of facilities (Pervan & Visic, 2012). Large firms may generate superior performance as they are more able to use economics of scale and scope, and they may organize their activities more efficiently (Majumdar, 1997). Schiner (1996) noted that one of the factors influencing firm size is the availability of workers and other resources in the surrounding community where the business is operating. He further suggested that it is possible for the company to outgrow the communities in which they operate, particularly when they are located in a remote area. Some factors that may indicate that a company has outgrown its operating community in size include; growing at a faster rate than the community labour force, providing more than one third of the local government's funding through taxes, and being responsible for the death of the community, if the company

should shut down (Schiner, 1996). Firm's size is measured in different ways such as asset, employment, sales, and market capitalization.

This study measured firm's size as natural logarithms of firm's total assets which can be easily regressed in order to determine the influence of the firm's total assets on its performance (Driffield, Mahambare & Pal, 2005). A lot of empirical studies have been conducted using firm size. Some of them used firm size as a control variable while others used it as a predictor variable in their studies. However, this study used firm size as independent variable, that is; a proxy among firm's characteristics.

2.1.2 Corporate Board's Size

The board of directors plays key role among firm characteristics (Afolabi, 2015; Adegbite & Nakajima, 2011; Adams, Hermalin & Weisbach, 2010). An organisation's performance can be affected adversely or positively by the size of its board. There is no consensus from previous studies as to what constitute an acceptable board size for optimal performance of a firm. The interplay of politics and professionalism are involved in the appointment of directors; and this has made it difficult to ascertain the number of directors that is adequate for a firm's optimal performance. Lipton and Lorsch (1992) argued that a board membership of seven to nine directors is considered appropriate for better accountability, quicker decision making, and effective coordination. Other studies have argued that a large board will provide the needed expertise and skill for more effective and robust board oversight

which will affect performance positively (Coles, Daniel & Naveen, 2008). According to Lipman (2007), it is preferable to have not less than four and not more than ten persons on the board of directors. He argued that too many directors in the board can make operation difficult.

Lasisi (2017) posited that there is no absolute size for a board of directors. The appropriate size depends on many factors such as the size of the firm, the complexity of its operations, the experience of its members, and the age of the company since incorporation. Size could be of strength or liability for the company. The bigger the size of the board, the more likely is the experience and quality of the members on board, and the greater its diversity. Unwieldy size would increase bottlenecks, bureaucracy and bickering among the board of directors, and slows down decisions that may adversely affect performance. Research findings have revealed positive and significant associations between board size and performance, measured by Tobin's Q, return on assets, and return on capital employed (Kouki & Guizani, 2015; Xie & Fukumoto, 2013).

Identifying appropriate board size that affects its ability to function effectively has been a matter of continuous debate (Yermack, 1996; Hermalin & Weisbach, 2003). Some scholars have been in favour of smaller boards (Lipton & Lorsch 1992; Yermack, 1996). Lipton and Lorsch (1992) supported small boards, suggesting that larger groups face problems of social loafing and free riding; as board increase in size, free riding increases and reduces the efficiency of the board. On the other hand,

large boards were supported on the ground that they would provide greater monitoring and advice (Pfeffer, 1972; Adam & Mehran, 2003; Anderson, Mansi & Reeb, 2004). Klein (1998) argued that Chief Executive Officer's need for advice will increase with complexity of the organisation. Diversified firms and those operating in multiple segments require greater need of advice (Hermalin & Weisbach, 2003). However, Singh and Harianto (1989) opined that large board tends to improve board performance by reducing CEO domination within board, thereby making it difficult to adopt golden parachute contracts that might not be in the shareholder's interest.

The effectiveness of the board depends on its size (Jensen, 1993). In fact, the size of the board can influence the management policy of the company. It refers to the number of directors on the board. Thus, Lanis and Richardson (2012) reported that the size of the board has a significant effect on the availability of tax aggressiveness. In contrast, Aliani and Zarai (2012) reported the non-significance between the size of the board and tax aggressiveness in the American context. They found out that the number of directors does not influence the strategies to minimize tax expenses. Minnick and Noga (2010) shown that the small boards of directors strengthen the good tax management, while large boards are proving ineffectiveness because of the difficulties in decision-making about tax aggressiveness policy.

2.1.3 Tax Planning

Tax planning according to Obatola (2013) referred to a method by which a tax payer considers all the business economic, social-cultural, political and legal variables at

his disposal and determines the extent to which these variables will have effect on his tax position or that of his business. He further said that, tax planning looks beyond the shores of a country in an attempt to reduce the incidence of tax of an individual or organisation. Tax planning is thus an allowable act as where it is carried out within the limits of the tax laws.

Onoja (2002) defined tax planning as the arranging of one's financial affairs in such a way as to avoid, as far as possible, the payment of tax without breaching the tax laws of the country. In tax planning we have to distinguish between tax avoidance and tax evasion. Tax avoidance denotes those various devices, which have been adopted with the aims of saving and thus sheltering the tax payer's income from greater tax liability which would have been incurred. Going by these definitions, it can be seen clearly that tax avoidance is legal or at least not illegal since one is not probably using the tax laws to limit one's tax liability under the same law. This is because no one is under the obligation to pay more tax than is imposed on him by the tax laws. Tax evasion is obnoxious from moral and legal point of view. Tax evasion is the deliberate refusal of the tax payer to comply with the provisions of the laws in order to avoid the payment or adequate payment of tax (Zubairu, 2014).

Bruce *et al.* (2007) opined that, tax planning exploits both opportunity and loopholes in government tax policies and often involves the use of legal and professional arrangements, wherein organisations shift the burden of tax within the statutorily required limit. To the relevant tax authority, tax planning will undoubtedly lead to

elasticity of taxable income. Tax planning or artificial scheme can be defined as the arrangement or rearrangement of a tax payer's affairs to reduce his tax burden or tax liability. It may take many forms ranging from judicious timing of acquisition and disposal of assets, claims for allowance and relief to sending a director on overseas trips (Oyebanji, 2004).

Desai and Dharmapala (2006) opined that, tax planning can lead to a reduction in firm's value when managers have both the opportunity to undervalue reported accounting profit and the incentive to reduce company income tax liability by understating taxable income. Also, it will be valued negatively by shareholders in a situation where organisation's board is weak. This encourages undervaluation of accounting profit. Where organisation's board of directors is strong, it will be impossible to undervalue accounting profit, so this will have no effect on tax planning. Potential costs can exist such that tax planning can be challenged by a tax administration which can also affect reputational costs (Wahab, 2010). Tax planning is initially believed to increase after tax earnings and also in the interest of shareholders. Dessai and Dharmapala (2006) argued that managers may tend to satisfy their cardinal interest when there is an information asymmetry between managers and shareholders with respect to tax planning. This may result in a negative association between tax planning and firm value.

Erard (1993) discovered that audited taxable income prepared by professional accountants and legal practitioners have more audit adjustments and that tax agents taxable income exhibited non-compliance. Murphy and Byng (2002) explained that

organisations are responding to the demands of their clients by engaging in aggressive tax planning, and they are lured into investment following their trust on the proposal given to them. Sakurai and Braithwaite (2003) indicated that many taxpayers expect their tax agent to imagine an honest role and prepare an accurate return that is presentable and useful to the respective users of the financial statement. However, Attwell and Sawyer (2001) observed that tax experts viewed their clients as the initiators of aggressive tax reporting. In recent years, tax executives have assumed changing their firms tax function focus from managing effective tax rates (ETRs) and tax planning to compliance and accurate financial reporting (Ernst & Young, 2006).

According to Yahia (1996), tax planning is an attempt to utilize legal pitfalls to avoid paying taxes on the grounds that no conditions that involve taxes are available. Nasser (2007) described tax planning as a set of procedures and policies the tax payer follows to minimize the amount of tax due or to be exempted from tax. In a nutshell, tax planning aimed at reducing tax payable to strive for maximum tax benefit. However, when this is achieved through some illegal means, acts or procedures, it is seen as a deceit or fraud and criminal. The means of reducing tax liability through illegal acts is known as tax evasion. However, Sharayri and Momani (2009) stated that tax evasion is the alleviation of tax burden by the tax payer in a way that conflicts with tax legislations in effect. It is manifested through understatement of income and inflation of claims; forgery, fraud, willful default or neglect; non-compliance with the provisions of the Act; failure to answer queries; making of incorrect returns by

omitting or understating any profit liable for tax; providing incorrect information; declaring false statements and returns for purpose of obtaining any deductions, set-off reliefs or refund; knowingly making false representations in a return, account or particulars made or furnished with respect to tax (Part XIII, CITA, 2004; Part XI, PITA, 2004).

Tax planning involves the application of relevant incentive provisions for corporate tax payers based on enabling laws such as the CITA, PITA, VAT and other enactments. An in-depth understanding of the tax policies and other regulations as clearly stated in the nation's government fiscal policies is required for effective tax planning. The Corporate tax planning incentives are contained in the CITA, PPTA and other laws include: pioneer status incentive, commencement rule, cessation rule, investment allowance, roll-over loss relief. Others include business location or area of operation (free trade zone, rural area investment allowances), tax exemption benefits on interest on a loan granted by a foreign company to any business in Nigeria, asset acquisition timing for claims of capital allowances. Several other tax shelters and incentives which a company can take advantage of based on the provisions of CITA, PITA and others (Fowokan, 2009).

Companies Income Tax Act, LFN 2004 contain varying provisions that give the corporate tax manager the opportunity to mitigate the company's tax liability. Consequently, the tax planning strategy tends to give a positive impact on a firm's cash flow and its after tax rate of returns; however, tax planning strategies have a

negative impact on the government's revenue and further, increase the compliance cost of collecting taxes. This concept is therefore significant for firms listed on the NSE who may seek to improve on all their tax savings (Ezejelue & Ihendinihu, 2006).

The Nigerian tax laws treat tax evasion as a civil rather than criminal offence. When a business plans its activities such that the attendant financial implications result in the payment of the least amount of tax possible within the provisions of the laws, the business is said to be engaged in tax avoidance (Kiabel & Nwikpasi, 2001). Therefore, tax avoidance is permissible by law but can only be achieved through adequate tax planning. Tax planning is indispensable if management hopes to minimize the tax cost of operating a business. Tax planning is important because it forces management to utilize and exploit the available resources as best as possible. In tax planning, a company has to structure out an optimal mix of dividend bonus issue for maximum tax and cash flow advantage to be achieved.

In Nigerian taxation, qualifying capital expenditures attract tax incentives in the form of capital allowances (initial and annual). According to Kiabel and Akenbor (2014), capital expenditures could be incurred by a company to create tax advantage and achieve cash flow improvement in the following ways:

(i) A company could acquire qualifying assets of high value which attract high rate of initial and annual allowances in the early years where it has made a huge profit but has no sufficient relief. This will create relief and reduce total

profit for the year. The assets could be disposed later at the most tax advantageous moment to the company.

(ii) Where it is within a company's object clause, a company could also acquire qualifying capital assets and lease them out profitably while enjoying the capital allowances for tax relief.

(iii) Old non-current assets of a company (which had been fully written off) could be disposed for cash and later acquired on lease after it has been fully refurbished. Thus, the sale improves cash position and the lease rental is tax deductible.

(iv) A company could also sell its old non-current assets (which had been fully written off) and buy back the asset after it has been refurbished at current market value as additional qualifying capital expenditure that will attract capital allowances

(v) In a group situation, tax advantage could be achieved with capital expenditure if group companies that have tax reliefs acquire non-current assets that they may not really need and hire them out to members of the group that need them. The group then enjoys the capital allowances and the hiring expenses are tax deductible.

Tax planning requires detailed knowledge of tax legislation and its application to particular circumstances, identifying and taking advantage of loopholes, if any. It should also be noted that tax planning involves taking notes of the applicable taxation

legislation to ensure that the tax laws are properly complied with by taxpayers such that all taxes due are paid as at when due (Zubairu, 2014).

Objectives of Tax Planning

Association of International Certified Professional Accountants (AICPA) observed that tax planning has two main objectives. The first is to minimize the overall income tax liability, while the other is to fulfill financial planning aims with minimal tax results. These goals are achieved through three broad strategies. The first aims to reduce the income tax resulting from an arrangement or a transaction. The second involves shifting the timing of a taxable event, and the third relates to shifting income to another taxpayer, thus, reducing tax liability (AICPA, 2015). Mgammala and Ismail (2015) opined that the main objective of tax planning is to reduce the tax burden and likewise reduces the cost of tax liabilities. Alternatively, tax planning is viewed from two different perspectives. The first, due to the negative impact of managerial opportunism, is the view that tax planning is on par with tax evasion. The other orientation offers a direct solution to this problem. If conducted properly, tax planning activities undertaken within the tax law benefit both managers (agent) and shareholders (principal) and can reduce the tax burden borne by each of the party through effective tax planning strategies (Minnick & Noga, 2010; Sabli & Noor, 2012).

Efficient tax planning works to reduce the tax burden, at the same time, does not bear any costs. This means that tax planning must be practiced with skill and adequate knowledge. It is also significant to observe that the best and optimal target for tax

planning is to maximize the returns after taxes, because the goal of reducing taxes will contribute to the creation of non-tax costs (Scholes, Wolfson, Erickson, Maydew, & Shevlin, 2015). The prime objective of tax planning is to present all items of a financial plan in the most tax-efficient way as possible (Atlas, 2011). Based on the aforementioned, the objective of tax planning should take into account all the components of the financial plan in order to avoid contributing to the creation of new costs borne by the company and help reduce the tax burden in line with the requirements of effective planning for the work of the organisation as a whole (Scholes *et al*., 2015). On the other hand, the objective of tax planning is not to evade payment of tax, but for a taxpayer to optimize his or her tax exposure (Badertscher, Katz & Rego, 2013).

In many cases, the primary goal of tax planning is the application of the laws in such a way they allow business or an individual to reduce the amount of taxable income in any given period. Thus, planning for taxes requires the knowledge of which types of income are currently entitled to be free of taxes. The process also necessitates an understanding of what types of expenses can be considered as legitimate deductions and any conditions that can be used in the application for tax deductions (Jones & Rhoades, 2005).

Tax Planning follows an honest approach, to achieve maximum benefits of tax laws, by applying the script and moral of law. Therefore the objectives do not in any way contradict the concept of tax laws. The objectives as observed by Zubairu

(2014) include:

(a) Reduction of Tax Liability: An assessee can save the maximum amount of tax, by properly arranging his/her operations as per the requirements of the law, within the framework of the statute.

(b) Minimisation of Litigation: There is a war-like situation between the taxpayers and tax collectors as the former wants the tax liability to be at minimum while the latter attempts to extract the maximum. So, a proper tax planning aims at conforming to the provisions of the tax law, in such a way that incidence of litigation is minimized.

(c) Productive Investment: One of the major objectives of tax planning is channelisation of taxable income to different investment plans. It aims at the optimum utilisation of resources for productive causes and relieving the assessee from tax liability.

(d) Healthy Growth of Economy: The growth and development of the economy greatly depend on the growth of its citizens. Tax planning measures involve generating white money that flows freely and results in the sound progress of the economy.

(e) Economic Stability: Proper tax planning brings economic stability by various techniques such as mobilising resources for national projects or availing ways for investments which are productive in nature.

(f) Employment generation: The amount saved from tax planning is generally invested in commencement of new undertakings or expansion of the business. This creates new employment opportunities in the society.

Measurement of Tax Planning

According to Mgammala and Ismail (2015), tax planning measures used in earlier studies vary, depending on the accessibility of data and the interest of researchers in the general or specific approach to tax planning. Prior researchers utilized different measures of tax planning by utilising both private and public accessible data. In measuring the results of tax planning, they can assess a tax measure to be appropriate because it exhibits the gap between the taxes burden-based "book reports" and "taxable income-based".

Studies such as tax planning and corporate governance: effect on shareholders' valuation by Wahab, 2010; tax planning and corporate governance in Nigerian banks by Kiabel & Akenbor, (2014) and, effect of tax planning on firm's market performance: evidence from listed firms in China by Kawor & Kportorgbi, (2014) had indirectly or directly considered a tax saving to be the result of tax planning.

The mainly popular measures utilized by researchers are book-tax gaps (Mills, 1998; Hanlon & Heitzman, 2010) and effective tax rates (Wahab, 2011; Rego & Wilson, 2012). The measure of tax saving is a constant issue amongst researchers due to a debate on the accuracy of measures in exhibiting tax planning activity (Armstrong, Blouin & Larcker, 2012). This is because tax burden-associated with data cannot be accessed by external interested parties.

In addition, effective tax rate is also a suitable measure of tax planning as compared to book-tax gap measure since it can remove measurement errors associated with tax

expense on tax credit and foreign income (Hanlon & Heitzman, 2010; Wahab, 2011). Generally, ETR provides valuable information on the effectiveness and efficiency of an enterprise's activity and its burden of taxation. The effective tax rate (ETR) approach is able to describe tax planning as an instrument that derives a temporary tax differences and provides a comprehensive overview of changes in tax expense as it represents current and deferred taxes (Hanlon & Heitzman, 2010). The companies that have the smaller value of ETR are those that utilising tax planning opportunities to reducing their taxable income but maintaining their financial accounting earnings. ETR is based on an income statement that generally measures the effectiveness of a tax reduction strategy and leads to high after-tax profits (Saifudin & Yunanda, 2016). The effective tax rate (ETR) is the ratio of total tax expense to profit before tax. The total tax expense may represent taxes that the company pays compared to the companies' earnings.

2.2 Theoretical Review

This sub-chapter focused on different theories that have been developed by many scholars in relation to this topic to explain the independent variable (firm's characteristics) and dependent variable (tax planning). The theories are: agency theory, resource dependency theory, tax planning theory, political economy theory and signaling theory.

2.2.1 Resource Dependency Theory

As the stakeholder theory focuses on relationships with many groups for individual benefits, likewise the resource dependency theory concentrates on the role of board of directors in providing access to resources needed by the firm. Hillman, Canella and Paetzold (2000) contended that resource dependency theory focuses on the role that directors play in providing or securing essential resources for an organisation through their linkages to the external environment (Babalola & Adedipe, 2014). Meanwhile, Wanyama and Olweny (2013) agreed that resource dependency theorists ensure appointment of representatives of independent organisations as a means for gaining access in resources critical to firm's success. For example, outside directors who are partners to a law firm provide legal advice, either in the board meetings or in a private communication with the firm executives that may otherwise be more costly for the firm to secure. It has been argued that the provision of resources enhances organisational functioning, firm's performance and its survival (Daily, Dalton & Canella, 2003). According to Hillman, Canella and Paetzold (2000), directors bring resources to the firm, such as information, skills, and access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy.

2.2.2 Tax Planning Theory

Tax planning theory was formulated by Hoffman in 1958, stated that, the capacity for tax payers to pay tax depends on his capacity to arrange his financial activities in such a manner as to suffer minimum expenditure for taxes. Tax planning is as a result of carefully planning one's tax obligations in such a way that tax liability is reduced by taking advantage of the loopholes in the tax system. This theory argues that efficient corporate entities legally divert cash from tax authorities to the corporate purse (Hoffman, 1961). The theory notes that tax planning activities are only desirable when there is a tendency to bring to the bare minimum taxable income without having a negative effect on accounting income. Therefore, firms should intensify efforts in tax planning activities to minimize the income that is subject to taxation, rather than an accounting profit. He identified some ambiguity and loopholes in tax laws due to unclear intentions of the legislators and concluded that successful tax schemes work with the legal concepts and precise wording of the statute and complying with these concepts very precisely as it relates to individual firm tends to be advantageous to firms in form of tax savings.

Hoffman (1961) stated that there was a positive relationship between the tax planning activities of a firm and its performance to the extent to which the tax benefits derivable from such activities exceeded the cost of tax. Kawor and Kportorgbi (2014) and Ogundajo and Onakoya (2016) sustained the proposition of Hoffman's theory that firms could only derive appreciable tax savings from their activities through a deeper understanding of the ambiguity of and loopholes in tax laws. The theory

suggests tax plans should be reasonable in a way that it can incorporate tax law changes and ought to be personalised. Taxpayer needs a professional invention which is well coordinated to include and support the various types of taxes such as corporate, income, capital gains and gift. Hoffman further added that any tax plan ought to solve possible conflict and tension of the parties involved, time conscious of factor in future tax requirements of the tax payers and should be completely honest (Hanlon & Heitzman, 2009).

Although tax planning theory and the framework explain the tax planning incidence in multiple aspects in terms of its accruable benefits, costs, and realities, the theoretical literature discussing tax planning from the banking industry's perspective are limited, especially in Nigeria, because the existing literature has focused on the manufacturing sector (local and multinational companies); yet, the theory is relevant to this current study because tax planning is as a result of carefully planning one's tax obligations in such a way that tax liability is reduced by taking advantage of the loopholes in the tax system to pay less tax with an aim to enhance firm's value.

2.2.3 Signaling theory

Signaling theory is concerned with understanding why certain signals are reliable and others are not in terms of decision making. The theory looks at the quality and reliability of accounting information sent by a company to its users of accounting information for investment decision making by the potential investors. Spence (1973) posited that a well performing firm distinguishes itself from the nonperforming one by sending a credible signal about its performance to capital markets as well as

potential investors. Signals sent by a firm are the results of its operating activities which would inform investors about the company's future prospects. The theory assumed that managers and shareholders of a company differ in terms of getting access to some vital information about firm operation. Some information can only be accessed by the managers while the shareholders do not have access to such information.

Signaling theory was adopted in this study to buttress firm characteristics represented by profitability, leverage, firm age and firm size. A sound liquidity position of a company shows its ability to meet up with its short term financial need without stoppages in production. Also, effective management and staff would enable a company to maximize its operating efficiency of production thereby leading to an improvement in firm's financial performance and firm value which by implication is showing a good signal to both current and potential investors that the company can continue to operate in line with the going concern concept of accounting as well as satisfying the interest of its stakeholders through wealth maximization. The argument of the theory is relevant in anchoring the study because it holds that accounting information sends signal to the market which influences the investment decisions. This decision is reflected in the price of stock, which is the value of the firm as influenced by tax planning system (Mohammed, 2017).

2.3 Empirical Review

This aspect examined the previous research works mostly related to firm's characteristics (proxied by profitability, leverage, bank's age and firm's size) and tax planning (proxied by Effective Tax Rate) of Nigerian DMBs which are classified under developed, developing and the Nigerian studies.

2.3.1 Studies on Developed Countries

Desai and Hines (2002) provided evidence on firm performance and tax planning behaviour of firms, by investigating the relationship between tightening of tax systems and market value of firms. They used a population of 850 listed US firms and a purposive sample was selected to reflect the desired characteristics. The study was cross sectional in nature and a correlative description design was adopted using data relating to year 2000. Simple regression and t-tests were used to establish the relationships and it was found that, there is relationship between intensive tax planning and higher firm performance. Conversely, the study showed that tightening of the tax system is positively associated with higher market performance of firms.

Bruce, Deskin and Fox (2007) compared financial or accounting tax planning with locational distortions, where organisations move their operations to avoid higher tax liabilities, using instrumental variables regression model for sixteen years (1985 - 2001) panel of state-level data, and concluded that tax planning activity reduces taxable profits in state with high tax and that state corporate income tax bases specifically reduced by seven (7) percent for every one (1) percentage- point increase

in the marginal corporate income tax rate. It was also discovered that various rules are usually ineffective in maintaining corporate income tax bases when there is effectiveness in the combining report requirement. It was further confirmed that tax planning has not reduced the locational distortions of tax policy.

Desai and Dharmapala (2007) provided a more detailed study that combines tax planning, corporate governance and firm's performance. The study used 4,492 observations on 862 United State firms from 1993 to 2001 using panel data that was drawn from the Compustat and Execucomp databases, merged with data on institutional ownership of firms from the CDA/Spectrum database. They measured firms' performance using Tobin's Q and proxy governance quality by the level of institutional ownership. Tax planning was measured using book–tax–gap that is the difference between the income reported to capital markets and tax authorities using two analysis models of the OLS estimation model. The OLS results reveals no relationship between tax planning and firm performance but reports a positive association between tax planning savings and performance for well-governed firms.

Wahab (2010) examined the relationship between tax planning savings of firms and their value. He also investigated the moderating influence of corporate governance by employing 240 firms listed on the London Stock Exchange from 2005 to 2007. He observed tax planning by the difference between the effective tax rate of the entities and the applicable statutory tax rates. He constructed self governance index using corporate governance mechanisms. Firms' value was represented by the

Tobin's Q while the data was analyzed using panel regression analysis model. The OLS model was also used as control. He concluded that there exist a negative relationship between firm value and tax planning activities.

Akanksha, Jayant and Costanza (2013) examined the impact of corporate tax aggressiveness and the role of debt in the U.S.A. The study sample consisted of 9,648 unique firms, over the period 1986-2012. The impact of leverage on tax aggressiveness was tested using the U.S model's predictions. Findings show that leverage deters tax aggressiveness. It was also evident that though leverage reduces tax aggressiveness in absolute value, it exacerbates it when the latter is measured as a proportion of the firm's pre-tax book income. This is consistent with the hypothesis that leverage may actually cause the manager to avoid more taxes in the non-bankrupt states of the world, when the perceived benefits there from are
positive.

Ftouhi, Ayed and Zemzem (2014) investigated tax planning and firm value: evidence from European companies' using regression analysis model (Generalized Least Squares 'GLS' regression). Tobin's q model was adopted by the study to examine the relationship between firms' value and tax planning with firm size, leverage, capital intensity, dividend and earnings management. The study found that tax planning can be considered as steps taken by taxpayers so as to reduce tax liability in obtaining the tax saving benefits. The correlation analysis reveals that the correlation coefficients between various independent and control variables are significant.

Ribeiro (2015) investigated the determinants of effective tax rates: firms' characteristics and corporate governance, selected a sample of 704 non-financial firms listed on the London Stock Exchange between 2010 and 2013. He estimated econometric model on two different ETR measures by using Generalized Least Squares (GLS) cross-section weights. His results shown that larger and more profitable firms have higher ETRs. On the contrary, capital intensity, leverage and research & development expenses have a negative impact on ETRs.

Lanis, Richardson and Taylor (2015) specifically examined the relationship between corporate tax avoidance and the liquidity of a firm. The sample consists of 200 publicly listed Australian firms over the period of 2006-2010. The Ordinary Least Squares (OLS) regression model was used in the study as basis of analysis. The result showed that liquidity is significantly positively related to tax avoidance.

Kubick and Lockhart (2016) investigated the association between tax aggressiveness and corporate debt maturity. The data for the study were obtained from the Compustat and Execucomp databases from 1993 to 2012 covering 10,967 firm-year observations. The result of the panel regression analysis revealed strong evidence that shorter debt maturity is more prevalent for tax aggressive firms. The results survive numerous robustness tests, including controlling for compensationinduced incentives for risk-taking, firm and CEO effects, changes regressions, and instrumental variables estimation. The results suggest that lenders view tax

aggressiveness as a risky activity and therefore restrict the maturity structure of debt to provide a monitoring mechanism for debt contracts with tax-aggressive borrowers. We conclude that tax aggressiveness has a meaningful influence on debt contracting.

Coopera and Nguyen (2020) examined the relationship between multinational enterprises and corporate tax planning with a review of literature and suggestions for a future research agenda in the United Kingdom. The study employed a survey method on the academic literature on the MNEs and corporate tax planning to examine the extent of knowledge on this topic and identify areas that we hope will stimulate interest among IB scholars for further research. The study found materials across disciplines that are relevant to IB readers. The researchers examined one hundred and twenty (120) articles in 51 scholarly journals and classic books published during the period 1966-2017. The study identified the key mechanisms and the firm characteristics that may influence corporate tax planning.

2.3.2 Studies on Developing Countries

Kawor and Kportorgbi (2014) sought to ascertain the level of tax planning of firms and explore whether there is relationship between tax planning and firms' market performance. They employed 22 non-financial companies in Ghana Stock Exchange market over a twelve year period from 2000 - 2011 using the
longitudinal correlative design. The study found that firms' tax savings decrease as tax authorities reduce the statutory corporate income tax rates. This means a

reduction in tax leakages as a result of intensive tax planning of firms when tax authorities maintain low corporate income tax rates.

Mosota (2014) examined the relationship between firm size and tax aggressiveness. The period of the study was 2008-2013 using 61 listed companies at the Nairobi Stock Exchange. The study used Ordinary Least Square (OLS) regression Model. The result reveals that a positive relationship exists between firm size and tax aggressiveness.

Ana, Antonio, and Elisio (2015) investigated the determinants of effective tax rates: firms' characteristics and corporate governance using 45 publicly-listed Porto corporate groups within 2010–2013 periods. The study employed the Ordinary Least Squares (OLS) regression and found a positive relationship between profitability and effective tax rates. The study states that firms with high profitability are most likely to engage in tax avoidance practices in order to reduce

their tax liabilities.

Yetty, Eka and Eneng (2016) studied the role of leverage on corporate tax avoidance in Indonesia using manufacturing firms listed on Indonesian Stock Exchange for the period 2010-2014. The study used the purposive sampling technique to select 108 firms. This study used secondary data such as published annual reports and accounts during the observation year. The multiple linear regression equation was used and the study results revealed that leverage does not have a significant effect on tax avoidance.

Pratama (2017) examined the effect of company characteristics, corporate governance and aggressive tax avoidance practice focusing on Indonesian Companies. The research selected 70 companies in Indonesia as a sample. The company characteristics were proxied by profitability, leverage, age and size. Corporate governance was proxied by the size of the board of commissioners, the proportion of independent commissioners, audit firms and the audit committee. Data were obtained from the companies' financial statements for the years 2011– 2015. Multiple linear regression was used for the analysis. This research showed that several company characteristics proxies, namely age, profit and size, significantly affected tax avoidance practices. Several corporate governance proxies, audit firm, audit quality and size of the board of commissioners, were also found to affect tax avoidance.

Anouar and Houria (2017) examined the significant relationship that exists between tax avoidance and firm size. The study used 57 listed Moroccan corporate groups, over 2010–2014 periods. The study adopted multiple regression models. The study indicates that highly indebted firms are likely to take advantage of the main characteristics of debt-capital in order to avoid a significant corporate tax burden. It added that tax considerations have made debt financing, the preferential form of financing in areas with high taxation.

Rani, Susetyo and Fuadah (2018) analyzed the effects of the corporate's characteristics on tax avoidance and the effects of moderation of earnings

management on the relationship between the corporate's characteristics and tax avoidance in Indonesia. The corporate's characteristics in this study are proxied by the profitability, the leverage, and the size. The study selected 49 manufacturing companies listed on the Indonesia Stock Exchange of the period of 2012-2016 as samples that were selected by using the cluster random sampling technique. The result of the panel data regression with random effect model shows that the characteristics of a company, namely the profitability and the size have a significant negative effect on tax avoidance, whereas the leverage has a significant positive effect on tax avoidance. The action of the earnings management is able to moderate the effects of the profitability and the leverage on tax avoidance. However, the action of the earnings management is unable to moderate the effects of the size on tax avoidance.

2.3.3 Studies on Nigeria

Ezugwu and Akubo (2014) studied the effect of high corporate tax rate on the profitability of corporate organisations in Nigeria. The study used the down-stream oil sector of the economy as the population which comprises forty-five (45) corporate organisations that pay their corporate taxes, as obtained from Federal Inland Revenue Service, Lagos office. Data collected was tested using regression analysis. Findings show that high corporate tax rate will impact negatively on realized profit. The study thus depicts a direct positive relationship between corporate tax rate and realized Profit.

Ilaboya, Obasi and Izevbekhai (2016) investigated firm-specific characteristics impact on effective tax rates. The study utilised a sample of 87 companies quoted on the Nigerian Stock Exchange between 2008 and 2014. The econometric model specified for the study was estimated using panel data regression approach with a preference for the fixed effect model based on the result of the Hausman test. The result of the study showed that a negative relationship exists between the explanatory variables of leverage, capital intensity, and effective tax rate. Implying that preponderance of debt over equity financing and huge investment on noncurrent assets tends to minimise corporate tax liabilities. The result reports a positive relationship between profitability, firm size, the moderating variable of ownership concentration and effective tax rate.

Olajide and Adetola (2017) examined the impact of tax planning on firms' performance of listed companies in Nigeria. The research adopted survey and expost-facto design. Financial statements of selected companies such as manufacturing, banking and insurance sectors, between 2003 and 2012 were analyzed using panel data regression model. The population of the study comprises 240 listed companies on the Nigerian Stock Exchange market as at April, 2012 using simple and stratified sampling techniques, fifteen companies were sampled for the study, five companies from each of the sectors under study. The result indicated that tax planning exerts insignificant effect on reported earnings.

Ogbeide (2017) examined firm characteristics and tax aggressiveness of listed firms in Nigeria using pool and panel data for the period 2012 to 2016. The data used was sourced from the annual reports of the selected firms. Both the panel and dynamic panel methods were used to analyze the data generated. Findings from the study revealed that firm size exerts positive and significant effects on tax aggressiveness. There is significant and positive relationship between external audit quality and tax aggressiveness. Leverage is significant and exerts negative relationship with tax aggressiveness. Likewise, interest charges have significant and positive relationship with tax aggressiveness.

Mohammed (2017) investigated the impact of firm characteristics on firm value of listed healthcare firms in Nigeria. The study identifies the extent to which the selected firm characteristics affect the firm value of the healthcare firms in Nigeria. Panel data was used with the adoption of ex-post facto design. The study formulated five hypotheses and used panel data regression to analyze the secondary data extracted from the annual reports and accounts of the ten firms for the period 2008 to 2015. Firm value was represented by two proxies; share prices and Tobin's Q. The study found that firm size has positive significant impact on the firm value of listed healthcare firms in Nigeria. The study also found that liquidity has negative significant influence on the firm value of listed healthcare firms in Nigeria suggesting that excess liquidity position will be counter-productive to the firms because it decreases their value. It was also reported that leverage has negative and significant

effect on firm value implying that high leverage does not lead to increase in value of the firm.

Uniamikogbo, Atu and Atu (2018) investigated the effect of firm attributes on tax aggressiveness in Nigeria. The specific objectives were to assess the effect of firm size, profitability, liquidity and leverage on tax aggressiveness in the Nigerian banking sector. Data generated from the annual reports and accounts were analysed using descriptive statistic and Ordinary Least Square (OLS) regression. Findings revealed that firm size, leverage, and liquidity have a significant impact on tax aggressiveness while profitability has an insignificant impact on tax aggressiveness in the Nigerian banking sector.

2.4 Summary and Gaps Identified in the Literature

This aspect focused on the concepts of tax planning and firm characteristics as considered in the study. It also reviewed the relevant theories that evaluate the relationship between the firm's attributes and tax planning. Furthermore, past empirical studies on the effect of firm attributes were reviewed and were divided into studies conducted in international and local area. The international studies were viewed from studies carried out in developed and developing countries. The empirical review revealed that there exist literature gaps on the subject matter as they reported conflicting result (positive, negative and insignificant results). It was observed that most of the literatures reviewed were conducted in developed countries such as United State of America (see Desai & Hines, 2002; Bruce, et al.

2005; Desai & Dharmapala, 2007; Akanksha, *et al.* 2013), United Kingdom (see Wahab, 2010; Ribeiro, 2015; Coopera & Nguyen, 2020) and Australia (see Kubick & Lockhart, 2016) while little studies were conducted in the developing economies (see Mosota, 2014; Ana, *et al.* 2015; Yetty, *et al.* 2016; Patama, 2017; Anuoar & Houria, 2017; Rani, *et al*. 2018). The few studies conducted in Nigeria had left some gaps unfilled.

Institutionally, the studies carried out in Nigeria had focused on downstream sector of the oil and gas industry (see Ezugwu & Akubo, 2014), healthcare sector (see Mohammed, 2017) while others did not choose any sector in particular. It was discovered that none of these studies examined the effect of firm characteristics on tax planning in the Nigeria banking industry despite its contribution to the Nigerian economy. Conceptually, the studies reviewed in the Nigerian context had not considered examining the effect of firm age on tax planning in Nigerian companies as the studies in Nigeria had largely used profitability, leverage, firm size, liquidity and capital intensity (see Ezugwu & Akubo, 2014; Ilaboya, *et al*. 2016; Mohammed, 2017; Ogbeide, 2017; Olajide & Adetola, 2017; Uniamikogbo, *et al*. 2018).

Furthermore, most of the previous studies had employed the assumption of agency theory (see Ilaboya, *et al*. 2016; Mohammed, 2017; Ogbeide, 2017) or political cost theory (see Patama, 2017; Anuoar & Houria, 2017; Rania, *et al.* 2018). This study therefore employed the assumptions of tax planning theory and signaling theory in

explaining the relationships between firm's attributes (profitability, leverage, banks age and bank size) and tax planning (effective tax rate).

2.5 Theoretical Framework

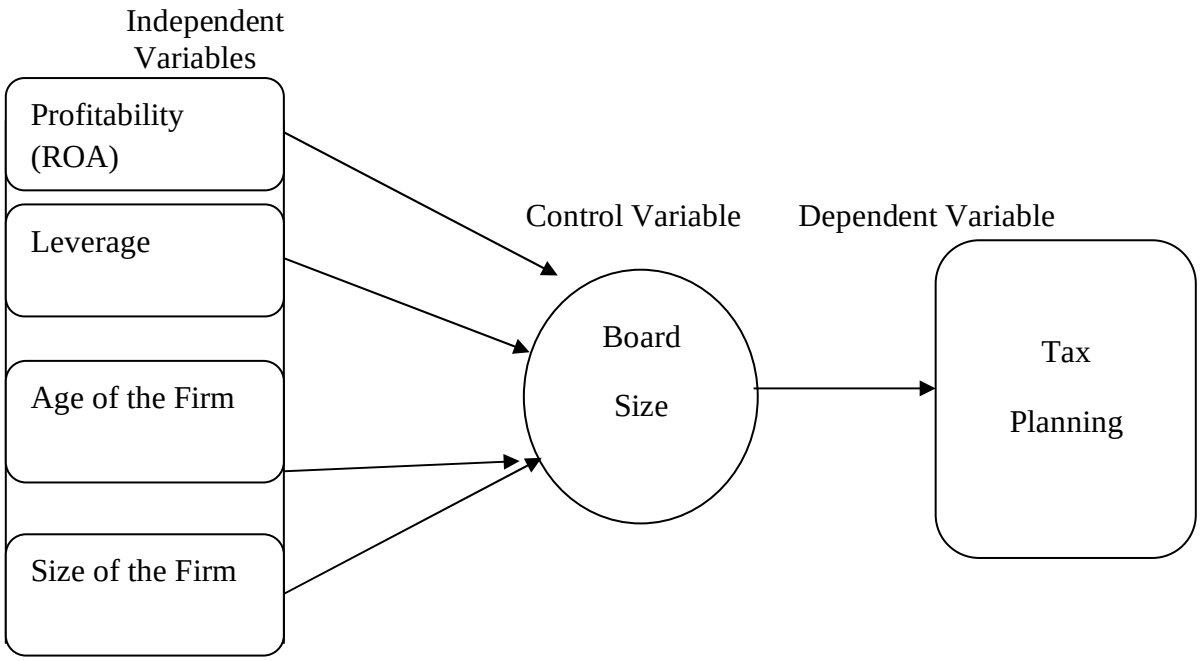
A theoretical framework establishes a vantage point and perspective through which the researcher views a research problem. It is the selection of a logical framework (Charema, 2004). Therefore, this study is anchored on the assumptions of tax planning theory and signaling theory.

Tax planning theory considers that efficient corporate entities legally divert cash from tax authorities to the corporate purse (Hoffman, 1961). The theory notes that tax planning activities are only desirable when there is a tendency to bring to the bare minimum taxable income without having a negative effect on accounting income. Therefore, firms ought to intensify efforts on tax planning activities to minimize the income that is subject to taxation, rather than an accounting profit. Hoffman (1961) stated that there was a positive relationship between the tax planning activities of a firm and its performance to the extent to which the tax benefits derivable from such activities exceeded the cost of tax. Recent contributions (Inger, 2012; Kawor & Kportorgbi, 2014; Ogundajo & Onakoya, 2016) to this theory have agreed upon the proposition of Hoffman's theory that firms could only derive appreciable tax savings from their activities through a deeper understanding of the ambiguity of and loopholes in tax laws.

Signaling theory is concerned with understanding why certain signals are reliable and others are not in terms of decision making. The theory looks at the quality and reliability of accounting information sent by a company to its users of accounting information for investment decision making by the potential investors. Spence (1973) posited that a well performing firm distinguishes itself from the nonperforming one by sending a credible signal about its performance to capital markets as well as potential investors. Signals sent by a firm are the results of its operating activities which would inform investors about the company's future prospects. The theory assumed that managers and shareholders of a company differ in terms of getting access to some vital information about firm operation. Some information can only be accessed by the managers while the shareholders do not have access to such information.

2.6 Conceptual Frameworks

Figure 2.6.1 indicates the variables used in this study. Firm's characteristics (such as profitability, leverage, firm age and firm size) are used as independent variable, tax planning as dependent variable proxied by effective tax rate while board size as control variable. This model does provide the linkage that exists between firm's characteristics and tax planning in Nigerian listed DMBs. **Figure 2.6.1**



Source: Author's Survey (2019)

CHAPTER THREE

METHODOLOGY

3.1 Research Design

The study adopted correlational and ex-post facto research design because the study measures the relationship between firm characteristics and tax planning in the Nigerian listed deposit money banks. These research designs are preferred when the goal is to establish cause and effect relationship usually using quantitative method. It

is also useful in modeling positivist research paradigm where the study is assumed to be distinct from the researcher and the outcome of the research is free from bias and subjectivism.

3.2 Population and Sample of the Study

The population for this study covers all the listed deposit money banks on the Nigerian Stock Exchange as at the time the research work was carried out. There were fifteen (15) deposit money banks listed on the Nigerian Stock Exchange as at 31st December 2018. Hence, the sample size of this study constitutes the twelve (12) deposit money banks listed on the floor of the Nigerian Stock Exchange (NSE Fact book, 2018). The choice of the listed DMBs used for this study was based on availability of complete set of data from NSE Fact book, 2018. The three banks (Eco, Polaris and Unity bank) discarded were due to geographical factor/foreign currency dominant and non-availabilityof data.

3.3 Sources and Method of Data Collection

The data used for this study are secondary data derived from the audited financial statements of the banks listed on the Nigerian Stock Exchange (NSE) between the year 2012 and 2018. The annual reports were obtained from the website of the Nigerian Stock Exchange. The data collected covered seven years of Nigerian DMBs audited annual reports and accounts. The data were analysed and used to reach logical conclusion on firm's characteristics and tax planning among listed deposit money banks in Nigeria.

3.4 Method of Data Analysis

The data sourced from the annual reports of the sampled banks were analyzed using descriptive and inferential statistics. The descriptive statistics were used in showing the snapshot of the large set of data extracted from the financial statements of the sampled banks. The descriptive statistics employed were the mean, standard deviation, minimum and maximum values. Panel regression analysis was used to investigate the extent to which firm's characteristics (such as: profitability, leverage, bank's age and size) affect tax planning (effective tax rate) within the period of 2012 to 2018. Panel data estimation technique was adopted because the data for the study comprises of both time series and cross sectional observations. Panel regression analysis minimises the bias that will emanate if individual company is aggregated (Gujarati, 2015). It also enriches empirical analysis in such a way that may not be possible if either only time series data or cross sectional data is used single handedly (Kothari & Garg, 2014).

Before the hypotheses were tested, the data collected for the study through the annual reports of the sampled banks were subjected to some diagnostic tests such as normality distribution test (using Shapiro-Wilk test for data normality), correlation matrix test, and multicollinearity test, heteroskedasticity test in order to ascertain the validity and reliability of the large set of data collected. Hausman test was conducted to choose between fixed-effect and random-effect regression in order to test the hypotheses as well as proffer answer to the research questions raised in chapter one.

3.5 Model Specification

The model used in this study was adapted from the framework of Ogbeide (2017) where he ascertained the influence of firm characteristics on tax aggressiveness in Nigerian listed firms. Ogbeide (2017) model was stated as:

$$ETR_{it} = \alpha_i + ETR_{it} - 1 + \beta_1 FSIZE_{it} + \beta_2 AUDTQ_{it} + \beta_3 LEV_{it} + \beta_4 INTC_{it} + \varepsilon_{it}$$

Where $\beta_1 - \beta_4$ are parameters of estimation. The subscripts $_i$ and t refer to individual firms and time period (2012 - 2016) respectively. ETR represents tax aggressiveness of the sampled firms and ε is the error term. The inclusion of the lagged dependent variable $ETR_{it} - 1$ is meant to take care of potential endogeneity of the independent variables which included likelihood of omitted variables, simultaneity and variable measurement error in the context of dynamic panel data method. FSIZE= Firm Size; AUDTQ = audit quality; LEV = leverage and INTC=

Interest charges.

Thus, the model used in this study is a follow up of affirmed research work for the accomplishment of the current research objectives. Ogbeide (2017) model was modified to measure the effect of firm's characteristics on tax planning of listed DMBs in Nigeria. This study used audited annual reports and accounts from 2012 to 2018 periods. The mathematical and stochastic form of the models in this research is stated in algorithm as follows:

$$ETR_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 LEV_{it} + \beta_3 AGE + \beta_4 SIZE_{it} + \beta_5 BS_{it} + e_{it}$$

ETR = Effective Tax Rate (representing tax planning)

ROA = Return on Assets (Proxy to Profitability)

LEV = Leverage

AGE = Age of the bank

SIZE = Size of the company BS

= Board Size

α = Intercept of the model **or** autonomous Effective Tax Rate β_1,

β_2, β_3, β_4&β_5 = Parameters of the models

i, t = Constant (i.e. i = Number of banks; t = Number of year/period"7") e

= Error term

3.6 Measurement of Research Variables

The dependent variable for this study is tax planning which was proxied with effective tax rate. The independent variable is firm characteristics and was proxied with profitability, leverage, bank's age and firm size. The study employed board size as control variable. Table 3.6 shows how the variables were measured.

Table 3.6 Measurement of Variables with a-priori Expectations

Variables	**Construct**	**Measurement**	**Previous studies**	**a-priori Expectations**
Effective Tax Rate	ETR	Measured using Effective tax rate which was computed as total tax expenses divided by pretax income	(Salawu & Ayodeji, 2017); (Jeong, 2015)	+/-

Profitability	ROA	Measured with return on asset which is computed as Profit after tax divided by total assets.	(Lasisi, 2017); (Iyoha, 2012),	+/-
Leverage	LEV	Measured with total debt divided by total asset	(Mohammed, 2017); (Salehi, 2009)	+/-
Age of the bank	Age	Measured with number of years in which the bank had been incorporated	Demir & Bahadir (2017)	+
Size of the company	Size	Measured with natural logarithm of total assets of the bank	(Ogbeide, 2017; Lasisi, 2017)	+
Control variable				
Board Size	BS	Total number of members in board of directors serving in the bank	Salawu & Ayodeji (2017)	+

Source: Field Survey, (2019).

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Descriptive Statistics

The descriptive statistics showed the basic characteristics of the data collected in form of mean, standard deviation, as well as minimum and maximum values for each of the dependent and independent variables. Descriptive statistics were used to enable

researcher summarises and organise data in an effective manner to enhance understanding of the data (Chava & Davids, 2009).

Table 4.1 Descriptive Statistics Variable Mean Standard deviation Minimum value Maximum value

ETR	0.145	0.112	-0.020	0.711
ROA	0.797	0.038	0.703	0.869
LEV	0.875	0.046	0.763	1.026
AGE	49.679	31.766	21	24
FSIZE	9.208	0.322	8.390	9.775
BS	14.310	2.820	7	20

Source: Author's Computation, 2019

The result in table 4.1 reveals the mean value of effective tax rate (ETR) at 0.145 with maximum and minimum values of 0.711and -0.020 respectively, and the standard deviation of 0.112. The difference between standard deviation and mean is 0.033 indicating a moderate variability around the mean. This implies that ETR is moderately spread across listed Deposit Money Banks in Nigeria. Likewise, the range of maximum and minimum ETR is 0.731 indicating a moderate ETR across the sampled banks. Thus tax planning across listed Deposit Money Banks in Nigeria is within the same range.

Also, the mean of profitability is indicated by 0.797 indicating 78% average return on asset, while the standard deviation is 0.038 representing the average variability of

return on total asset among the sampled banks within the period covered by the study. This implies that the level of profitability among the banks is widely spread. Some banks tend to record relatively higher level of profitability than others. The minimum and the maximum as shown by the tables are 0.703 and 0.869
respectively. Hence, the range is 0.166 implying that there is narrow gap between the highest profit and lowest loss.

Furthermore, the mean for leverage is 0.875 indicating the average level of leverage across the sampled banks and the standard deviation of leverage is 0.046. The difference between the mean and the standard deviation is 0.829. This is an indication of large variations in the leverage ratio around the mean. It means that there is a very wide variation in the debt capitalisation status of the sampled banks. The minimum and maximum are 0.763 and 1.026 respectively. Thus, the range between minimum and maximum is 0.263 which is minimal as compared with that of standard deviation which reveals a very wide gap between the bank with lowest debt capital and one with the highest debt capital.

Likewise, firm age has a mean value of 49.679 with a standard deviation of 31.766. The difference between the mean and the standard deviation is 17.913. This is an indication that there is low variation in the firm age ratio around the mean. However, the minimum and maximum values are 21 and 24 respectively. This
reveals a very wide gap between the bank with lowest age and one with the highest age.

The average firm size is 9.208 and the standard deviation is 0.322 indicating a very low variability among the variables. It means that most of the banks are within the same range in terms of their total asset. This is because all the banks are expected to comply with 25 billion minimum capitalisation requirements. The minimum and the maximum firm size are 8.390 and 9.775 respectively. This implies that the range is 1.385, indicating a very low range in total asset owned by the banks. It implies that the difference between the largest bank and the smallest is small.

Lastly, board size (BS) has a mean value of 14.310 with a standard deviation of 2.820, minimum and maximum values of 7 and 20 respectively. This indicates that the number of directors representing on board by the banks under consideration are adequate being that they maintain the range stipulated by law.

4.2 Diagnostic Tests

Robustness tests (preliminary tests) are conducted to test the validity of the statistical inference of a regression model. The robustness tests conducted for this study include multicollinearity test and heteroskedasticity test.

4.2.1 Correlation Matrix of Dependent and Independent Variables

The correlation matrix shows the relationship between each two pairs of variable in the regression model. The level of correlation between the variables is very important because excessive correlation may distort the standard error of estimation and lead to a wrong conclusion (Ahmad, 2014). The correlation matrix also serves as a preliminary test for multicollinearity. However, in this study, further test of

multicollinearity was conducted through variance inflation factor (VIF) and heteroskedasticity test.

Table 4.2 Correlation Matrix of Dependent and Independent Variables Variable

ETR	**ROA**	**LEV**	**BS**	**AGE**	**FSIZE**
ETR	1.0000				
ROA	-0.0987	1.0000			
LEV	-0.0209	-0.0612	1.0000		
BS	0.1066	0.0454	-0.0658	1.0000	
AGE	0.2146	-0.2630	-0.1828	0.2317	1.0000
FSIZE	0.1427	0.4484	-0.0792	0.2475	0.0548	1.0000

Source: Author's Computation, 2019.

The correlation matrix shows the relationship between each pair of variables. The relationship between each independent variable and the dependent variable are expected to be strong while the relationship between each pair of independent variable is expected to be low. This is because, according to Gujarati and porter (2009), a correlation coefficient between two independent variables above ± 0.8 is considered excessive and may indicate the existence of multicollinearity. However, Table 4.2 shows that all the correlation coefficient between the pairs of the independent variables is less than 0.8, thus, suggesting that the four independent variables can be well fitted into one regression model.

The correlation matrix in table 4.2 shows the relationship between the dependent and independent variables as well as among the independent variables themselves. While bank age and bank size (with results of 0.215 and 0.143 respectively) exhibit positive relationships with ETR, other independent variables like ROA and LEV (that is -0.099 and -0.021 respectively) have a negative relationship with ETR. In fact, board size that was used as control variable with result of 0.107 equally exhibits positive relationship with ETR. The strength of relationship between variables measured by the Pearson Product Moment Correlation showed that the association between the variables is relatively small and was below a threshold of 0.8, suggesting absence of the problem of multicollinearity in the predictor variables. However, the tolerance values and the variance inflation factor (VIF) are

two good measures of assessing multicollinearity between the independent variables in a study.

4.2.2 Multi-collinearity Test - Variance Inflation Factor (VIF)

Multicollinearity test is conducted to check the presence of harmful correlation between the explanatory variables that could distort the regression result. In this study, multicollinearity test was conducted using Variance Inflation Factor (VIF). According to Gujarati (2004), when VIF value is more than 10 and/or when the tolerance value is less than 0.1 then there is a strong indication of the presence of multicollinearity.

Table 4.3 Variance Inflation Factor Variable VIF 1/VIF

ROA	1.41	0.709822
FSIZE	1.37	0.731309
AGE	1.22	0.821105
BS	1.12	0.890947
LEV	1.05	0.953430
Mean VIF	1.23	

Source: Author's Computation, 2019.

The multicollinearility test from Table 4.3 shows that all the VIF values are less than 10 and the tolerance values are not less than 0.1. In addition, the mean VIF as indicated by the table 4.3 is 1.23. The result means that there is no evidence of multicollinearity among the explanatory variables**.** Multi-collinearity problem is said to occur if the variance inflation factor (VIF) is greater than 10 (Gujarati, 2004).

4.2.3 Test for Heteroskedasticity

In order to test for the existence of Heteroskedasticity, the Breusch-pagan / Cook-Weisberg test for heteroskedasticity is conducted.

Table 4.4 Test for Heteroskedasticity

Chi 2	Prob.
0.22	0.642

Source: Author's Computation, 2019.

The results revealed that chi^2 is 0.22 and Prob. >chi2= 0.642. Since the p-value is greater than 0.05, that is not significant; it implies that there is no heteroskedasticity problem. However, the researcher conducted Hausman test (shown in table 4.4) in order to choose between the fixed and random effect models.

4.2.4 Hausman Test

The Hausman test is usually performed in order to test for the model that is more appropriate between fixed effect and random effect in testing the hypotheses. If a significance p-value is generated, the null hypothesis is rejected and fixed effect model is opted for, and random effect is selected if otherwise. The test enabled the researcher to choose the most appropriate between the fixed and random effect models.

Table 4.5 Hausman Test

Chi 2	Prob.
25.66	0.0001

Source: Author's Computation, 2019.

Table 4.5 shows the result of the hausman test indicating a p-value of 0.0001which is less than 5% significant level, implying that fixed effect model is the most appropriate in testing the hypotheses. Hence, this study used the result of the fixed effect regression model to test the research hypotheses stated in chapter one.

4.3 Analysis of Regression Results

Based on the result of the Hausman test, the best model to interpret from the previous results conducted is fixed effect regression model. The results in table 4.3 is used to

provide answers to the research questions as well as testing the hypotheses stated in chapter one.

Table 4.6 Fixed-effect Regression Results

Variable	Coefficient	Standard Error t-statistics	P-value
ROA	-1.809237	0.4514067	-4.01	0.000
LEV	0.4592524	0.775355	0.59	0.556
AGE	-0.0191671	0.0108515	-1.77	0.082
FSIZE	0.4367067	0.2161025	2.02	0.047
BS	0.016636	0.0058495	2.84	0.006
R^2 (within)	0.4717			
F-statistic	5.00			
Prob.	0.0006			

Source: Author's Computation, 2019.

To evaluate the effect of firm's characteristics on tax planning among listed deposit money banks in Nigeria between 2012 and 2018, the fixed effect regression techniques was employed and the result is attached to the appendix. The dependent variable is Effective Tax Rate (ETR), independent variables are profitability, leverage, firm age and firm size; while the control variable is board size. All these variables had earlier been explained in this study.

The R-square value shows the level at which the explanatory variables explain the dependent variable. Table 4.6 reveals that the R-square is 47.17%. This means that the firm's characteristics variables in the study explain the variation in effective tax

rate (ETR) to the tune of 47%. The value of F - statistic is 5 with probability of chi2 = 0.0006. The probability of chi2 is significant at 1%, indicating that the model is fit. This serves as a substantial evidence to conclude that the firm's characteristics variables selected for the study are suitable and as well as capable of impacting firm's characteristics on tax planning of listed DMBs in Nigeria. Findings from the regression result reveals that three of the independent variables (profitability, firm age and firm size) have significant impact on tax planning of DMBs, while leverage does not have a significant impact on tax planning of deposit money banks in Nigeria.

4.3.1 Restatement and Test of Hypothesis One

H_{01}: There is no significant relationship between profitability and tax planning in the Nigerianlisted DMBs

Table 4.6 shows that profitability has a t-value of -4.01 and a coefficient of -1.81 with a p-value of 0.000. The result signifies that profitability is significant but negatively related to tax planning. The significant level as indicated by the p-value means that profitability exert influence on tax planning, while the negative coefficient depicts negative relationship between profitability and tax planning.

Therefore, an increase in return on assets (profitability) brings about decrease in effective tax rate (tax planning system). Hence, the study has established enough evidence to reject the null hypothesis one of this study. Consequently, the study shows that listed Nigerian deposit money banks' managers are utilising bank's assets

to generate returns but not as adequate as to exploiting opportunity embedded in tax planning system.

4.3.2 Restatement and Test of Hypothesis Two

H_{02}: Leverage has no significant impact on tax planning in the Nigerian listed DMBs

The result of table 4.6 reveals that leverage has t-value of 0.59, coefficient of 0.46 and p-value of 0.56, indicating that; leverage has an insignificant positive influence on tax planning of DMBs in Nigeria. The result confirmed that the study did not find substantial statistical evidence to reject the null hypothesis two of this study. This implies that leverage is not one of the major factors that influence tax planning of DMBs in Nigeria.

4.3.3 Restatement and Test of Hypothesis Three

H_{03}: Firm's age does not significantly impact tax planning in the Nigerian listed DMBs

The table 4.6 results show that firm age has a t-value of -1.77, coefficient of -0.02 and a p-value of 0.082, indicating that firm age is significant. The level of significance indicated that firm age has a strong influence on tax planning. Hence, the study has established enough evidence to reject the null hypothesis three of this study. Thus, the inverse effect (with coefficient of -0.02) is as a result of assertion noted in the literature that firm growth tends to decrease as it ages. Sales and profit

increase rate generally slow down as the firm ages. If the firm's growth diminishes, its financial and taxable incomes also experience a decreasing trend (Evans, 1987; Yasuda, 2005).

4.3.4 Restatement and Test of Hypothesis Four

H_{04}: No significant relationship exist between firm's size and tax planning in the Nigerian listed DMBs

The results from Table 4.6 show that firm size has a t-value of 2.02, coefficient of 0.44 and a p-value of 0.05, indicating that firm size is statistically significant at 5% in each of the estimations. The result means that firm's size is statistically significant and positively relates to tax planning. This result has found substantial evidence to reject the null hypothesis four of this study. The implication of this result is that firm size has a strong influence on tax planning of DMBs in Nigeria. This means that, the bigger the size of the firms the higher the effective tax rate (tax planning system). Likewise, this implies that larger banks tend to possess better capacity to boost tax planning activities over time.

4.4 Discussion of Findings

Firm characteristics were ascertained to determine the level of tax planning among the sampled firms and were statistically significant within the periods under review except for leverage which reported insignificance.

From the test of hypotheses and analysis of results, it was discovered that Profitability (ROA) is statistically significant but negatively related to tax planning (ETR) as indicated in the table 4.6. The significant level means that profitability has a strong influence on tax planning, while the negative coefficient signifies inverse relationship between profitability and tax planning of listed DMBs in Nigeria. This means as return on assets (profitability) increases, tax planning decreases, which indicate a low level of tax planning system.

The finding is in agreement with the *a-priori* expectation of the study. The finding is also in line with result of Uniamikogbo (2018) who opined that profitability exerts a negative relationship with tax planning but negates the view of Ana *et al.* (2015), Ezugwu and Akubo (2014) and Ilaboya *et al*. (2016) who reported that profitability exerts a positive relationship with tax planning.

The finding is also in conformity with the argument that profitability is a core measure of the performance of a firm and it constitutes an essential aspect of its financial reporting of which profitable firms are expected to source for more information that would facilitate excellent performance and equally aid tax planning activities. This is further justifies by signaling theory that a well performing firm distinguishes itself from the nonperforming one by sending a credible signal about its performance to the capital markets as well as potential investors. Signals sent by a firm are the results of its operating activities which would inform investors about the company's future prospects (Spence, 1973).

The empirical result of hypothesis two reveals that leverage has an insignificant relationship but positive influence on tax planning of DMBs in Nigeria. Conventionally, leverage is expected to exert negative effect on tax liability due to the interest element. The interest element serves as tax shield which firms use to minimize tax liability. Therefore, the positive and insignificant effect of leverage on tax planning suggests that the sampled firms in this study did not utilise the tax shield of the interest element to reduce their tax burden. This result supports the apriori expectation of the study. Likewise, the finding support Uniamikogbo (2018) which says leverage exerts a positive relationship with tax planning. Meaning that, the high debt of a firm can positively influence her tax planning.

The result opposed the findings of Yetty *et al.* (2016); Ilaboya *et al.*(2016) and Ogbeide (2017) who found that leverage is significant and exerts negative relationship with tax planning (meaning that most of the time, highly levered firms are faced with high interest expense. Since interest expense is tax deductible, it tends to lower the effective tax rate (Ogbeide, 2017). The findings also indicate that tax planning as an act of minimising tax payment (liability) to get more profit which would enforce managers to take advantage of leverage via debt financing to raises the interest costs and reduces company's profit as well as ETR. This assertion is sustained by tax planning theory which considered efficient corporate entities to legally divert cash from tax authorities to the corporate purse (Hoffman, 1961). The theory notes that tax planning activities are only desirable when there is a tendency

to bring to the bare minimum taxable income without having a negative effect on accounting income.

The empirical result of hypothesis three showed that bank's age exerts negative statistical relationship with tax planning in the Nigerian listed DMBs. This indicates that firm age is significant but negatively relates to tax planning. The level of significance indicates that firm age has a strong influence on tax planning, while the negative coefficient signifies negative relationship between firm age and tax planning. This result contradicts the *a-priori* expectation as the researcher expects that the older the firms, the better will be their tax planning system. Also, the result negates the finding of Demir and Bahadir (2014) which opines that bank's age exerts positive relationship with tax planning.

This result is in line with signaling theory which opines that certain signals are reliable and others are not in terms of decision making. Signals sent by a firm are the results of its operating activities which would inform investors about the company's future prospects (Spence (1973). Generally, firm growth tends to decrease as it ages (Evans, 1987). In the early stages of a firm's foundation, the firm may exert efforts to improve sales and increase its market share through energetic marketing activities. However, sales and profit increase rate usually slow down as the firm ages. If the firm's growth diminishes, its financial and taxable incomes also experience a decreasing trend. Tax cost decreases along with corporate size and thus, a firm's tax

planning activities reduces as the firm ages and its growth rate decreases (Yasuda, 2005).

The empirical result of hypothesis four indicates that positive and significant relationship exist between firm's size and tax planning in the Nigerian listed DMBs as shown in the results of table 4.6. This means that firm's size is statistically significant and positively relates to tax planning. The implication of the result is that firm size has a strong influence on tax planning of DMBs in Nigeria. An increase in firm's size will also cause increase in the effective tax rate (tax planning system). This result supports the *a-priori* expectation as the researcher expects that increase in firm size would lead to aggressive tax planning system in the Nigerian listed DMBs. The finding of this study corroborate the findings of Uniamikogbo *et al.* (2018), Ogbeide (2017), Ilaboya *et al.* (2016) and Mosota (2014) which reported positive relationship between firm's size and tax planning system. However, it is inconsistent with the studies conducted by Salaudeen (2017), Kim and Im (2017), Dharma and Ardiana (2016), Dyreng *et al*. (2008), Richardson & Lanis (2007), and Rego (2003) show that the size has a negative significant effect on tax planning.

Likewise, the finding is buttressed by resource dependency theory that, appointment of representatives of independent organisations as a means for gaining access to viable resources critical to firm's success is mostly possible by a large firm. For example, outside directors who are partners to a law firm provide legal advice, either in the board meetings or in a private communication with the firm executives that

may otherwise be more costly for the firm to secure. These professional advises and contributions enhance organisational performance (its survival) and also improve her tax planning system (Wanyama & Olweny, 2013; Daily, Dalton & Canella, 2003). Generally, large companies do more commercial activities and financial transactions than small businesses (Rego, 2003). Rani *et al.* (2018) noted that, the company's size plays a role in tax management and finds that small companies have higher tax rates.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study was conducted to examine the effect of firm's characteristics on tax planning in the Nigerian listed Deposit Money Banks (DMBs). The major problem of this study is mixed submission on findings by scholars (researchers) on firm's characteristics and tax planning system in organisations. The specific objectives include: to examine the influence of profitability on tax planning of Nigerian listed

DMBs; to investigate the extent to which leverage affects tax planning of Nigerian listed DMBs; to assess the effect of firm age on tax planning of listed DMBs in Nigeria and to determine the extent to which firm size affects tax planning of listed DMBs in Nigeria. The hypotheses were presented in null forms in line with the problem of studies, research questions and objective of the studies. The research work covered seven (7) years, from 2012 to 2018.

The study reviewed extant literatures on firm's characteristics and tax planning system via three major sub headings: the conceptual, theoretical and empirical review. To enhance the understanding of the subject matter, the conceptual review examined firm's characteristics, profitability, leverage, firm's age, firm's size, tax planning and tax planning measurements. Likewise, the theoretical review discussed tax planning theory, resource dependency theory and signaling theory.

The empirical studies reviewed relevant literatures to identify gaps and establish a theoretical backing. The empirical reviews are based on studies on developed countries, developing countries and Nigeria which include the work of Ribeiro (2015), Ftouhi *et al.* (2014), Mosota (2014), Rani *et al.* (2018), Ilaboya *et al.* (2016), Ogbeide (2017) and Uniamikogbo *et al.* (2018). The empirical works revealed inconsistency in findings of previous studies which necessitate the present research work. Tax planning and signaling theories serve as theoretical framework that underpinned the study.

The study adopted ex-post facto research design, the population of the study was fifteen (15) DMBs as at 2018 when this research wok was carried out and sample from the population of the study covered the available data of twelve listed Deposit Money Banks on the Nigerian Stock Exchange. The data were sourced via audited annual reports and were analysed by the use of Panel data regression model and Pearson product moment correlation analysis. Panel data estimation technique was adopted because the data for the study comprised both time series and cross sectional observations. Before the hypotheses were tested, the data were subjected to some diagnostic tests such as normality distribution test (using Shapiro-Wilk test for data normality), correlation matrix test and heteroskedasticity test in order to ascertain the validity and reliability of the large set of data collected. Hausman test
was conducted to choose between fixed-effect and random-effect regression in order to test the hypotheses as well as proffer answer to the research questions
raised in chapter one.
The results of the analysis revealed that all firm's characteristics except for leverage are statistically significant when measured with tax planning of Nigerian listed DMBs, this means that, firm's characteristics exert significant impact on tax planning of the Nigerian listed DMBs. However, the study reveals that leverage has a positive relationship with effective tax rate but not statistically significant when measured with tax planning system of Nigerian listed DMBs.

5.2 Conclusion

The study examined the effect of firm's characteristics on tax planning in the Nigerian listed Deposit Money Banks (DMBs). Based on the analysis carried out, the study's findings include that, profitability, leverage, bank's age and firm's size influence tax planning system in Deposit Money Banks of Nigeria as reveal thus:

Although, profitability is statistically significant but negatively impacted effective tax rate (tax planning) which implies that bank's managers are utilising bank's assets to generate returns but not as adequate as to exploiting opportunity embedded in tax planning system. This means profitability level of the bank is not sufficiently influenced by her tax planning system.

Leverage has positive but insignificant effect on effective tax rate which entails that the sampled firms in this study did not utilise tax shield of the interest element to reduce tax burden. The high debt of a firm can positively influence her tax planning system.

Bank's age has negative but significant effect on tax planning, which implies that, the age of the banks can influence their tax planning system. Thus, older banks have better tax planning system because of experiences and level of professionalism reported in their operations as displayed by their financial reports.

Firm's size is statistically significant and positively influences tax planning system.

This implies that firm's size has strong influence on tax planning of DMBs in Nigeria as larger firms enjoy more investors' confidence and patronage relative to their smaller counterparts. This means that an increase in firm's size will also cause increase in tax planning system which birth greater opportunistic behaviour.

Overall, the study concludes that, firm's characteristics can positively impact tax planning of listed Deposit Money Banks in Nigeria.

5.3 Recommendations

The following recommendations are proffered in line with the findings and conclusions of the study.

(i) The result of the findings indicated that, profitability significantly influence tax planning but maintained inverse relationship with tax planning system of listed DMBs in Nigeria. Therefore, Nigerian listed DMB's managements should ensure adequate utilisation of bank's assets to generate sufficient returns and also exploit opportunity embedded in tax planning system to enhance profitability level. This would be achieved by engaging professionals such as accountant, tax analyst and legal practitioner to successfully take advantage of the loopholes in the tax system (via tax planning activities) to positively influence profitability of DMBs. If the Nigerian listed DMBs utilise tax planning opportunities (incentives) provided in the tax laws (as contained in CITA, PITA and others) would surely reduce their tax burden (liability).

(ii) The findings showed that leverage is positive but insignificantly affected tax planning of the sampled firms. This implied that DMBs did not utilise tax shield (of the interest element) to reduce their tax burden. Thus, the management of listed DMBs in Nigeria should moderate the level of leverage in their capital structure in order to improve tax planning system. They should avoid situations where they are highly leveraged since this can lead to bankruptcy if they are unable to make payment on their debt. However, they should take advantage of leverage to minimise tax liability and effective tax rate.

(iii) The result of findings on firm's age indicated that firm age is significant but negatively related to tax planning. This means that, age of a firm is also paramount when addressing tax planning system of firms. The older banks and the new banks should engage in tax planning system to minimise tax liability. Irrespective of the age of the bank, Nigeria DMBs should engage professionals to take advantages (incentives) in the tax laws to reduce cost, enhance profit and accomplish bank's objectives. Banks boards of directors should ensure quality of work and services delivery as firms age. Firms should exert appreciable efforts to improve sales and tax planning activities as long as the organisation exists. CBN should encourage all banks (old and new) to engage the service of accountant and tax analyst to enhance bank's tax planning system.

(iv) The result of findings indicated that firm's size is statistically significant and positively relateed to tax planning. The effectiveness of tax planning of firms can be measured by their firm's size. Therefore, the management of Nigerian DMBs should ensure that their banks expand within the control limit with the aim of achieving an optimal size so as to enjoy the economies of scale which will ultimately result to effective tax planning system. Larger and smaller banks should involve in a good tax planning system to reduce tax burden (liability).

5.4 Limitation and Delimitation to the Study

The findings of this study are limited to four firm's characteristics (such as: profitability, leverage, bank's age and firm's size) and effective tax rate was used to proxy tax planning while board size is used as control variable of the sampled listed Deposit Money Banks in Nigeria. There are other variables that can be used to proxy firm's characteristics and tax planning which are not captured in this study.

Another limitation is that the study did not capture all the listed deposit money banks in Nigeria under the reviewed periods due to unavailability of data of the concerned banks. Likewise, the research work did not cover non-listed banks and other banks which would have increased robustment and acceptability of the results. However, these limitations did not affect the empirical findings of this study in any way, due to

the adequate empirical supportive evidence available in the study as the results are reliable and fit for policy formulation.

5.5 Contribution to Knowledge

This study focusses on assessment of firm's characteristics and tax planning among listed deposit money banks in Nigeria. Previous researchers have examined impact of firm's attributes on tax planning among non listed banks and manufacturing industries in Nigeria and outside Nigeria. Based on the extant literatures, it was discovered that none of these studies has used firm's age as a proxy to firm's characteristics and board size as control variable, as they were considered vital in firm's attributes of an organisation. There are fewer research work from scholars in this area, yet the researcher ensure that comprehensive information and analysis are obtained to make this research work unique and invaluable to scholars (researchers), organisations and concerned parties to achieve their aims. Hence, this study is unique as it examines the effect of firm's characteristics on tax planning among listed Deposit Money Banks in Nigeria in the IFRS adoption era.

5.6 Suggestion for Further Studies

The study examined the impact of firm's characteristics on tax planning among listed deposit money banks in Nigeria. In order to have more robust results on firm's characteristics and tax planning in the Nigerian industries, the following are suggested for future researchers:

(i) To consider both listed and non-listed banking institutions in order to obtain more robust work that would influence more reliable and acceptable conclusion.

(ii) To make comparison among banking sector, insurance companies and manufacturing firms and to examine the roles of firm's characteristics in the attainment of tax planning system.

(iii) To consider other variables that can be used to proxy firm's characteristics and tax planning.

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APPENDICES

(R)

```
 /__    /   ____/   /   ____/
___/   /   /___/   /   /___/   12.0   Copyright 1985-
2011 StataCorp LP
  Statistics/Data Analysis            StataCorp
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```

1. Descriptive Statistics

```
. summarize etr roa lev bs age fsize
```

Variable	Obs	Mean	Std. Dev.	Min	Max
etr	84	.1447835	.1121651	-.019914	.710637
roa	84	.7971419	.0379759	.7027645	.8685993
lev	84	.875493	.0464275	.7633566	1.026106
bs	84	14.30952	2.819793	7	20
age	84	49.67857	31.76615	21	124

	84	9.207527
	.3217015	8.390413
fsize	9.774934	

2. Correlation Matrix

```
. correlate etr roa lev bs age fsize
(obs=84)
```

	etr	roa	lev	bs	age	fsize
etr	1.0000					
roa	-0.0987	1.0000				
lev	-0.0209	-0.0612	1.0000			
bs	0.1066	0.0454	-0.0658	1.0000		
age	0.2146	-0.2630	-0.1828	0.2317	1.0000	
fsize	0.1427	0.4484	-0.0792	0.2475	0.0548	1.0000

3. Normality Test

```
. swilk etr roa lev bs age fsize
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z

	84		0.82001
	12.860		5.612
etr	0.00000		
	84		0.95686
roa	3.083	2.473	0.00669
	84		0.94328
lev	4.053	3.074	0.00105
	84		0.98294
bs	1.219	0.435	0.33196
	84		0.79417
age	14.707		5.906
	0.00000		
	84		0.97520
fsize	1.772	1.257	0.10446

4. OLS Regression Model

```
. reg etr roa lev bs age fsize
```

Source	SS	df	MS	Number of obs =	84
				F(5, 78) =	1.34
Model	.082612521	5	.016522504	Prob > F =	0.2563
Residual	.961611922	78	.012328358		
Total	1.04422444	83	.012581017		

```
R-squared     =  0.0791
Adj R-squared =  0.0201
Root MSE      =  .11103
```

etr	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
roa	-.4192665	.3809175	-1.10	0.274	-1.177615	.3390821
lev	.0419508	.2688401	0.16	0.876	-.4932688	.5771704
bs	.0011501	.004579	0.25	0.802	-.0079659	.0102662
age	.0005764	.0004234	1.36	0.177	-.0002666	.0014193
fsize	.0668213	.0443006	1.51	0.136	-.0213745	.1550171
_cons	-.2180793	.4599732	-0.47	0.637	-1.133816	.697657

5. Variance Inflation Factor

```
. vif
```

Variable	VIF	1/VIF
roa	1.41	0.709822
fsize	1.37	0.731309
age	1.22	0.821105
bs	1.12	0.890947
lev	1.05	0.953430
Mean VIF	1.23	

6. Test for Heteroskedasticity

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of etr

         chi2(1)      =
0.22          Prob >
chi2  =   0.6422
.  xtset  id  year
panel variable:  id
(strongly
balanced)
```

```
time      variable:
year, 2012 to 2018
delta:  1 unit
```

7. Fixed Effect Model

```
.
. xtreg etr roa lev bs age fsize, fe

Fixed-effects (within) regression
Number of obs      =        84
Group variable: id
Number of groups   =        12

R-sq:  within  = 0.2717
Obs per group: min =         7        between =
0.2201                                        avg
=       7.0        overall = 0.0280
max =         7



F(5,67)            =      5.00 corr(u_i, Xb)  = -

0.9935                          Prob > F           =

0.0006
```

etr	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
roa	-1.809237	.4514067	-4.01	0.000	-2.710249	-.9082259
lev	.4592524	.775355	0.59	0.556	-1.088363	2.006868
bs	.016636	.0058495	2.84	0.006	.0049604	.0283116
age	-.0191671	.0108515	-1.77	0.082	-.0408267	.0024925
fsize	.4367067	.2161025	2.02	0.047	.0053643	.8680492
_cons	-1.693053	1.557044	-1.09	0.281	-4.800925	1.414819
sigma_u	.6373412					
sigma_e	.09532984					
rho	.97811711	(fraction of variance due to u_i)				

F test that all u_i=0: F(11, 67) = 3.52 Prob > F = 0.0006

```
. est store fe
```

8. **Random Effect Model**

```
. xtreg etr roa lev bs age fsize, re

Random-effects GLS regression                   Number of obs      =
84
Group variable: id                              Number of groups   =
12

R-sq:  within  = 0.1792                         Obs per group: min =
7       between = 0.0367                                       avg =
7.0       overall = 0.0730                                     max
=         7

                                                Wald chi2(5)       =
6.93 corr(u_i, X)   = 0 (assumed)                    Prob > chi2
=    0.2262
```

etr	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
roa	-.6053378	.3890896	-1.56	0.120	-1.367939	.1572638
lev	.0652324	.5742969	0.11	0.910	-1.060369	1.190834
bs	.0030426	.0048035	0.63	0.526	-.0063721	.0124572
age	.0536273	.0589548	0.91	0.363	-.0619219	.1691765
fsize	.0776585	.0470551	1.65	0.099	-.0145677	.1698847
_cons	-.214269	.4334039	-0.49	0.621	-1.063725	.6351871

sigma_u	.02082728
sigma_e	.09607444
rho	.04488536 (fraction of variance due to u_i)

. est store re

9. Hausman Specification Test

. hausman fe re

	(b) fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
roa	-1.809237	-.6053378	-1.2039	.2288608
lev	.4592524	.0652324	.39402	.5209208
bs	.016636	.0030426	.0135934	.0033381
age	-.0191671	.0536273	-.0727944	.
fsize	.4367067	.0776585	.3590483	.2109173

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 25.56
Prob>chi2 = 0.0001
(V_b-V_B is not positive definite)