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Tax planning instruments and corporate financial performance of listed industrial goods companies in Nigeria

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Abstract
Corporate tax planning has attracted attention of academics and has inevitably become a notable factor that enhances firm's corporate performance. This paper examined the impact of corporate tax planning on the financial performance of listed industrial goods companies in Nigeria. The study used ex-post factor design and utilized panel data. The population of the study consists of twelve (12) industrial goods firms quoted on the Nigerian Exchange Group (NGX) for the period ending 31st December, 2022 and a sample size of six (6) industrial goods firms quoted were selected using a backward filtration process in terms of date of listing commencing from year 2012 backward. Data for the study were collected using secondary source, derived from the annual reports and audited accounts of the selected companies. Data for a period of ten (10) years were collected and analyzed via STATA 14 version. This study used descriptive statistics and regression analysis (OLS) as methods for data analysis. Findings reveals that Capitalization is negative and insignificantly associated with financial performance of listed industrial goods firms, whereas; Research and Development expenditure is positive but insignificantly associated with financial performance of listed industrial goods firms in Nigeria. Premised upon this, the study recommends that companies should improve their financial performance through diversification of their products (thus; making investments in other high-yield assets with tax incentives). And also engage in corporate social responsibility activities.

Keywords: Tax planning instrument, return on assets, research and development, thin capitalization.

1. Introduction

Corporate tax planning also known as tax aggressiveness refers to the policies employed by companies and/or other organizations through the flaws in the tax regulations to pay little or small tax resulting to little impact in their tax obligation. Therefore, the act of engaging in tax aggressiveness which is designed at increasing the net profit by minimizing the tax obligations normally required effective planning by the management with a view to ensuring that the company pays the minimum tax to government (Ibilola *et al.,* 2022). Similarly, it could be seen as a conscious effort and a mechanism of visionary monitoring of economic activities of a company, with the expectation of getting the needed tax advantages bearing in mind the legal and judiciary provisions (Olarewaju & Olayewola, 2019).

Another conception of corporate tax planning is tax aggressiveness by companies. in developed economies, is well documented as an act of tax avoidance. Evidence from prior literatures on tax aggressiveness however, revealed conflicting findings in terms of its legality and legitimacy. In the assertion of Nwaobia and Jayeoba (2016), this strategy deals with instruments like price transfer in respect of transactions between different divisions of companies which are under

similar multinational corporation; firm debt-equity financing involving inter-company credit facilities issued from companies in minimum-tax economies to associate companies in larger-tax economies with a view to minimize the chargeable income in the larger-tax economy; thin capitalization which deals with the proportional associations flanked by debt-equity and ascertains the predictor of claims of the shareholders in the profits and assets of the company, increased expenditure on research and development; income transfer from larger-tax to minimum-tax economies; profit transfer policy by means of restricting business operations (and associated earnings) in the high-tax region through shifting them into associates in the established in a low-tax region (Nwaobia & Jayeoba, 2016).

Previous studies that examined tax aggressiveness such as Oyeyemi and Babatunde (2016), Chukwudi *et al.* (2020), Anouar and Houria (2017), Terry *et al.* (2016), Ezugwo and Akudo (2014) amongst others established a positive sign on tax planning which resulted into an improvement in stockholders' value. Management of corporate entities were thus, motivated to know and utilize the potential available in the tax policy in order to minimize the levies paid to the government.

On the contrary, scholars on tax planning such as Akintoye *et al.* (2020), Olarewaju and Olayiwola (2019), Ozgulbas *et al.* (2006) documented negative correlation on tax planning signifying that the attempt made on tax minimization was just demonstration to the performance of a corporate entity. Based on the foregoing, it is imperative to state that the argument on tax planning is still unresolved as there are major conflicting views amongst scholars regarding its application or otherwise. On this basis, it is pertinent to advance investigation on tax planning instruments (like thin capitalization, research and development expenditure) and its effect on the return on assets of industrial goods companies in Nigeria.

Based on the foregoing background, it is evident that corporate tax practices have the potentials of enhancing corporate's financial performance. Hence, every minimization of levies paid affects the earnings reported in the annual financial reports and accounts of the company. This is consistent with the primary aim of establishing the company which is maximization of shareholders value. Hence, efforts made to reduce the tax obligations are in tandem with that goal. By minimizing tax obligation through tax aggressiveness instruments, it signifies an increase in return on assets (financial performance) since the smaller the tax obligation the greater the level of improvement on financial performance (return on assets).

1.1 Research Objectives

The main objective of this research is to investigate the impact of tax planning instruments on the financial performance of listed industrial goods companies in Nigeria. While the specific objectives are:

(i) To examine the impact of thin capitalization on return on assets of industrial goods companies in Nigeria;
(ii) To examine the effect of research and development on return on assets of industrial goods companies in Nigeria.

1.2 Hypothesis of the study

Consistent with the research objectives, the following hypotheses were formulated in null form:

H_{01}: Thin capitalization has no impact on the ROA of listed industrial goods companies in Nigeria;

H_{02}: Research and development expenditure has no impact on the ROA of listed industrial goods companies in Nigeria.

2. Literature Review

2.1 Concept of Tax Planning

The term "tax aggressiveness" is highly essential as it connects to financial performance of every entity. Tax aggressiveness is a process of getting huge increase in the shareholders' value by enhancing their earnings potential asymmetric information (Desai & Darmapala, 2009). It involves a strategic decision for the financial activities (under specific legislations) to minimize tax obligation. The tax agency has just of recent; indicate concern for corporate entities that have been provoked on their business activities as a result of harsh business condition and the desire for strong tax evasion mechanisms. This is also aggravated by the transfer pricing policies of the corporate entity (Olarewaju & Olayewola, 2019). Tax aggressiveness can be defined as the lawful process of shifting financial gain from the state to the company by means of reducing the tax obligation by reaping the benefits of tax legislations and strategies (Fagbem *et al.,* 2019). Tax aggressiveness was an essential instrument for minimizing tax effect on corporate financial status and earning (Razal *et al.,* 2018). It was discovered that tax aggressiveness policy normally possesses a positive influence on an entity's fund movements and tax returns.

2.2 Tax Planning Instruments

Tax planning instruments refers to the strategies, methods or tactics used in undermining tax obligation. The prior studies such as (Fagbemi *et al.,* 2019; Nwaobia *et al.,* 2016; Ogundajo & Onakoya, 2016; Nanik & Ratna, 2015) explored the basic tax aggressiveness instruments of a corporate entity which comprises of thin capitalization, research and development expenditure, corporate debt-equity financing, earnings transfer from a high-tax region to a low-tax territory. Although, these instruments adversely influence public revenue generation but also enhance the level of compliance. Hence, the strategy is essential for corporate entities that are quoted on the Nigerian Exchange Group (NGX) that could be interested in enhancing their tax reserves (funds).

2.2.1 Thin capitalization

The concept is a technique employed by corporate entities with a view to streamline their fund through possessing a greater proportion of the debt-equity bench mark. The corporate entities employing the tax aggressiveness technique might be interested to pay a huge proportion of interest expenditures as tax legislations consider interest expenditures as tax-chargeable. Consequently, the tax obligation will be minimized (OECD, 2012). Thus, thin capitalization may be perceived as the tool employed by corporate entities for the great proportion of the debt as compare to equity in order to reap the advantage or gain of the interest on the debt in tax legislations which is a chargeable deduction. The manner in which a corporate entity selects it funding sources is vital since there are various fiscal consideration for numerous sources of financing. A corporate entity might usually select amongst debt funding or equity funding. It was also contended that corporate funding strategies could influence the linkage of capital providers' expectations with that of management (Ribeiro, 2015; Kraft, 2014).

2.2.2 Research and development expenditure

The term research and development expenditure is a segment concerned with corporate investment activities which leads to smaller effective tax rates. There exist various fiscal reliefs by means of numerous legislations that enhance investment in research and development (Hanlon & Heitzman, 2010). The concept refers to the effort of a firm put in for the creation, inauguration and enhancement of its goods and services. It can be defined as a sequence of investigation functions

aimed at improving existing goods, services and methods or to bring about enhancement of fresh goods, services and techniques. It should b noted that research and development is in most cases not carried out with the motive of immediate gain (profit). Rather, it is intended for a long-run investment of a business entity. The tax system in Nigeria encourages firm to embark on research and development by allowing the cost incurred to be deducted. It can therefore, be stated that investments in research and development helps in reducing the amount of tax obligations.

2.3 Concept of Corporate Financial Performance

Financial performance refers to the degree to which financial objectives has been accomplished. It is the process of measuring the results/outcomes of a firm's policies, activities and operations in monetary terms (Yusuf *et al.,* 2022). Firm's success is therefore, explained by its performance over a certain period of time. Furthermore, it is in line with the expectation of the company to assess its performance. However, this is a management segment dominated with absence of reliability in respect of organizational performance. Although, similar studies measure performance through various parameters such as ROA, ROE and PBT which were the acronyms for return on assets, equity and earnings (profit) before tax respectively. For the purpose of this study, ROA was employed as the most suitable performance indicator. This is rooted from the fact that ROA reveals the quantum generated by a corporate entity in regards to its assets. ROA therefore, indicates the entity's capacity to utilize its resources and generate returns.

2.4 Review of Empirical Studies

Extant researches like that of Akintoye et al. (2020) examined the effect of tax aggressiveness instrument on performance of manufacturing firms quoted in Nigeria. The research work employed 52 quoted firms from the industrial goods sector as the population of the study. A sample size of 46 firms was employed for duration of ten (10) years spanning from 2008 to 2017. Findings from the study revealed that tax reduction instruments are having both positive and negative effect on the performance of quoted manufacturing firms Nigeria. This study therefore, seeks to carry out a similar study using a more current time-frame (2018-2022) to determine whether the findings of Akintoye *et al.* (2020) is overwhelming in the Nigeria's industrial goods sector or not.

In the work of Fagbemi *et al.* (2019), they examined the influence of tax aggressiveness on profitability of listed Deposit Money Banks in Nigeria. The research design employed in the study was ex-post facto while regression analysis was used to test the hypotheses of the study. The findings showed that thin capitalization has positive significant impact on profitability of listed DMBs in Nigeria.

In their own perspective, Chukwudi *et al.* (2020) investigated the impact of tax strategy on the performance of consumer goods companies in Nigeria. This corresponds with the research work conducted by Ibilola et al. (2022) which focused on investigating the impact of tax aggressiveness on profitability of industrial goods companies in Nigeria. The sample size of the study comprises of (10) listed companies which were obtained through the census sampling technique. The results of the regression analysis showed that thin capitalization is positively and significantly influencing the return on assets of the industrial goods companies in Nigeria. On the contrary, research and development expenditure is negatively but significantly affecting the return on assets of the industrial goods companies in Nigeria.

Olayiwola and Olarewaju (2019) examined the nexus between tax strategy and

profitability of listed non-financial companies in Nigeria. Data was collected from the secondary sources through the annual reports and accounts of 47 listed firms. The study was conducted for a duration of (10) years ranging from 2007 to 2017. The findings from the study indicated that tax savings has strong connection with profitability of the listed companies in Nigeria while tax avoidance is negatively related with the profitability of the listed companies in Nigeria. Had it been more current period (2018-2022) was used and captured in the study, more reliable empirical evidence could have been established.

In their own part, Thanjunpong and Awirothananon (2019) also studied the effect of tax strategies on the performance of quoted companies in Thailand for a period of three (3) years ranging from 2014 to 2016. The results revealed that tax strategies instruments have significant effect on performance of quoted companies in Thailand. Izevbekhai and Odion (2018) examined the association linking tax aggressiveness and firm value. A sample size of 87 listed firms were used in the panel data. The findings from the 609 firm-year observations have been obtained for the duration of seven (7) years spanning from 2010 to 2016. The results from the study revealed that tax planning instruments have positive significant effect on firm value in Nigeria.

Razali et al. (2018) examined the influence of tax aggressiveness on performance of listed companies in Malaysia. The study was conducted for a period of three (3) years ranging from 2014 to 2016. Effective tax rate and book tax difference were employed as the proxies for tax aggressiveness instruments. Data was collected from the secondary sources for 387 companies as the sample size of the study. The results from the regression analysis shows that all the predictors of tax aggressiveness jointly have positive significant influence on performance of listed companies in Malaysia. Although, the data employed in the study was carried away by period gap (2014 to 2016. By conducting similar study in the Nigerian context, more recent and reliable empirical evidence could have been documented.

Indeed, all the foregoing studies indicated similar but conflicting results using different variables and constructs. Even though, all their findings generally showed similar association between corporate tax aggressiveness instruments and profitability of the listed companies.

2.5 Underpinning Theories

Some relevant theories were seen to be connected to this study. These includes; the tax avoidance theory and the socio-political theory.

2.5.1 Tax avoidance theory

This theory was pioneered by Stieglitz (1986) which stated that the rules of tax avoidance is very strong to the extent that encourage the rational tax payer to eradicate every tax on capital earnings and eventually every tax on salary earnings. It was further contended that tax legislations frequently alter the potentials or tendencies for avoiding taxes. According to the theory, there exist three major tax rules that are related to tax avoidance which comprises the tax deferral, tax arbitrage amongst persons and tax arbitrage amongst earning stream receiving various tax considerations. Tax avoidance theory is linked to this study since the current study is about tax planning instruments which is aimed at undermining tax liability.

2.5.2 Socio political theory

This theory was advocated by Ogbonna and Appah (2012). The theory states that a tax system is required that aimed at satisfying not only personal interests but one that caters for the yearnings and expectations of the entire society. The society is an embodiment of persons and corporate tax societies like the listed industrial goods companies. as a result, the tax structure should be tailored towards the expectation of the society in general rather

than the single individual and corporate entities that constitutes the larger society (Chigbu & Akujuogbi, 2012). This theory is linked to this study for the fact that industrial goods companies operate in the sociopolitical environment where assumptions of the theory (like personal interests, yearnings and expectations of the entire society) are tenable.

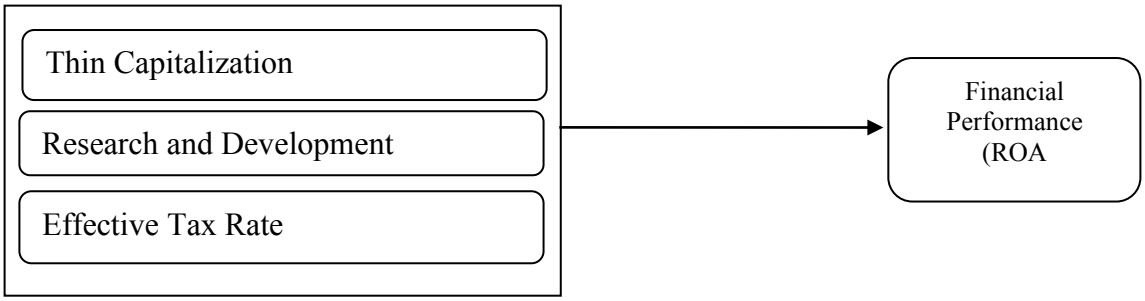
2.5.3 Tax planning theory

This theory was pioneered by Hoffman in (1961) and the overall idea about the theory was based on the fact there are various ways and means by which managers of corporate entities can deploy with a view to minimize their tax obligations. It is therefore, employed by corporate entities in order to gain tax saving advantages. Under this theory, the amount of taxable income that could have been initially paid or remitted to the relevant tax agency have been reduced or even minimized by the firm managers to the benefit of the company. Hence, this theory is related to the study since it involves the use of various techniques, instruments and strategies by managers with a view to gain tax advantage through reducing the amount of tax obligation than it ought to be. Since, the construct of the tax planning theory is mostly based on business or accounting concepts, thus a firm can modify such activities towards the attainment of reduction in tax liability. This theory is therefore selected to underpin the study.

2.6 Conceptual Framework

The outcome variable is financial performance proxied by return on assets (ROA) and the explanatory variables are tax planning instruments represented by thin capitalization, effective tax rate and research and development expenditure. The framework is presented below:

Figure 1: Conceptualization of Variables



Source: Researcher's Compilation (2023)

3. Methodology

This study employed ex-post facto as the research design for the study based on the time-series data. While twelve (12) listed industrial goods companies were used as the population of the study, only six (6) listed companies were employed as the sample size of the study as at 31st December, 2022.

Table 1: Population of the Study

S/N	Companies	Ticker	Date of Listing
1	Beta Glass Plc	BetaGlass	July 2, 196
2	Dangote Cement Plc	DangoCem	October 26, 2010
3	Bua Cement Plc	BuaCem	January 9, 2020
4	Cap Plc	Cap	May 24, 1978
5	Cutix Plc	Cutix	August 12, 1987

S/N	Companies	Ticker	Date of Listing
6	Notore Chemical Plc	Notore	August 2, 2018
7	Premier Paints Plc	Premier Paints	March 7, 1995
8	Berger Paints Plc	Berger	December 14, 1973
9	Austin Laz & Company Plc	Austinlaz	February 29, 2012
10	Tripple Gee & Co. Plc	Tripple G	December 19, 1991
11	Meyer Plc	Meyer	May 10, 1979
12	Grief Nigeria Plc	Vanleer	March 18, 1998

Source: Nigerian Stock Exchange Group, (2022)

In an attempt to extract the sample, six (6) industrial goods firms quoted in the Nigerian Exchange Group were employed using purposive sampling technique. The data were obtained by extraction method from the audited financial reports and accounts of the listed firms during the period of the study. The study period was ten (10) years ranging from 2013 to 2022.

Table 2: Sample Size of the Study

S/N	Companies	Ticker	Date of Listing
1	Dangote Cement Plc	DangoCem	October 26, 2010
2	Cutix Plc	Cutix	August 12, 1987
3	Premier Paints Plc	Premier Paints	March 7, 1995
4	Austin Laz & Company Plc	Austinlaz	February 29, 2012
5	Tripple Gee & Co. Plc	Tripple G	December 19, 1991
6	Grief Nigeria Plc	Vanleer	March 18, 1998

Source: Extracted from Table 1 (Population of the Study)

The filtering process of sample selection was done purposively using two criteria. The company must have been listed on or before the year 2012 (for its annual reports to accommodate the ten years period ranging from 2013 to 2022. And secondly, backward filtration process in terms of date of listing commencing from year 2012 backward. Hence, most companies listed in year 2012, 1998, 1995, 1991 and 1987 were selected.

3.1 Variables Measurement

The study comprises of explanatory and outcome variables. The outcome variable is financial performance and the explanatory variable (tax planning instruments) was proxied by thin capitalization, research and development expenditure and effective tax rate.

Table 3: Measurement of Variables

Variable	Type	Measurement	Source
Return on Assets	Outcome	Profit Before Tax /TA	Olayiwola and Okoro (2021).
Thin Capitalization	Explanatory	Long term debt divided by total shareholders' equity.	Oyeyemi *et al.* (2016)
R & D Expenditure	Explanatory	Proxied with dummy where we recorded 2 for companies that said cost was incurred, 1 for companies engaged in R & D but did not expressly stated the amount and 0 for companies that did not embark on R & D for the period under study.	Jost *et al.* (2015)

Source: Extracted from Figure 1 (Conceptual Framework of the Study)

3.2 Model Specification

In order to analyze the hypotheses of the study, the following econometric model was specified as follows:

$ROA_{it} = \beta_0 + \beta 1THCit + \beta 2RDE_{it} + \mu it$……(i)

Where:

ROA = Return on Assets

THC = Thin Capitalization

RDE = Research and Development Expenditure

β_0 = *Intercept*

$\beta_1 - \beta_2$ = Coefficient of the explanatory variables

i= Listed industrial goods companies

t= period of the study (2013 – 2022)

μit= error term

4. Results and Discussion

The data for this study was obtained, presented and analyzed using descriptive statistics, correlation matrix ad regression results.

Table 4: Descriptive Statistics

Variable	Observation	Mean	Std Dev.	Min.	Max	VIF
ROA	60	6.9134	1.6629	0.5565	9.814	
THC	60	0.5873	0.3277	0.0019	0.9969	1.04
RDE	60	0.712	0.5481	0	2	1.02

Source: STATA Output Result, (2023)

With regards to the information in table 4, it shows the descriptive result in respect of the variables; ROA, THC and RDE respectively. The value of 60 signifies the total number firm-year observation for the study. The result further describes each of the variable in terms of its mean (average), the deviation from the mean (standard deviation), the lowest value (minimum) as well as the highest value (Maximum). It also describes the level of multicollinearity amongst the variables.

Table 5: Correlation Matrix

Variable	ROA	THC	RDE
(1)	1.0000		
(2)	0.0665	1.0000	
(3)	0.2234	0.1081	1.0000

Source: STATA Output Result, (2023)

Based on the result table 5, it shows the correlation information which describes the association between the explanatory variables both individually and simultaneously. It is highly interesting that the result signifies a perfect correlation amongst the variables. By implication, there was no problem of high correlation amongst the variables as none of the explanatory variables have a correlation value that is greater than or equal to 0.50 which serves as a signal for redundancy in the variables of the study. Hence, the result implies absence of high correlation amongst the variables of the study. Thus, there is no problem of singularity of data in the study.

Table 6: Regression Result

Variables	Coefficient	T-Values	P-Values
Constant	7.1462	14.36	0.000
THC	-0.1767	-0.28	0.778
RDE	0.4466	1.2	0.229
R^2			0.1018
F-Statistics			2.34
Prob.			0.08

Source: STATA Output Result, (2023)

From the table 6 depicted earlier, it shows the value of R^2 to be 0.1018 signifying that the coefficient of determination has a cumulative power to explain about 10.18 percent of the total impact of tax planning instruments on return on assets (ROA) of the listed industrial goods companies in Nigeria. By implication, 89.82 percent of the remaining impact of tax planning instruments on ROA was explained by other factors or variables that have not been captured in the model of the study.

With regards to the model fitness test, the F-statistics shows a value of 2.34 signifying that the model of the study is good, adequate and well-fitted. By implication, the explanatory variables of the study are properly selected, combined and treated. This is confirmed by the probability value of 0.08 which is significant at 10 percent level of significance. The result is similar with those of Ribeiro et al, (2015) and Ghaffar and Klan (2014).

Table 7: Summary of Hypotheses

Hypotheses	Expected Result	Decision
Thin capitalization has a significant effect on the ROA of listed industrial goods firms in Nigeria.	Significant	Rejected
Research and development expenditure has a significant effect on the ROA of listed industrial goods firms in Nigeria.	Significant	Rejected

Source: Author's Compilation Based on Regression Results, (2023)

5. Conclusion and Recommendations

5.1 Conclusion

The primary aim of this study is to investigate the impact of tax planning instruments on return on assets of listed industrial goods companies in Nigeria. Based on the empirical evidence, it is concluded that tax planning has a significant impact on return on assets of listed industrial goods companies in Nigeria. Although, both explanatory variables; Thin capitalization, research and development expenditure, have insignificant impact on the ROA of listed industrial goods companies in Nigeria.

5.2 Recommendations

Based on the conclusion drawn on findings, it is recommended that companies should improve their financial performance through diversification of their products (thus; making investment in other high-yield assets with tax incentives), as well as engaging in corporate social responsibility activities. it is also recommended that a moderate tax policy for industrial goods companies in Nigeria is likely to enhance their performance financially through return on assets. If effectively articulated, it will

boost economic growth and development at large.

More so, the frontier for further study in corporate tax strategy should be focused on the character dimension of the tax aggressiveness policy since it concerns both the financial and non-financial services industry of the Nigerian economy. Again, exploring the coverage of the research inquiry with respect to parameters that describe tax planning and financial performance is of paramount importance.

5.3 Policy implications

It is pertinent to suggest that industrial goods companies in Nigeria should formulate deliberate policies that will minimize their tax liability using instruments of tax planning such as thin capitalization and research and development expenditures.

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