TAX PLANNING AND FIRM VALUE: EVIDENCE FROM FINANCIAL SERVICES COMPANIES LISTED IN NIGERIA

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Abstract

The study investigated the tax planning and value of financial services companies listed in Nigeria. A correlational research design was adopted for this study. The population was made up of all the 51 companies in the financial sector of the Nigerian Exchange Group as of December 2021. The sample consisted of 14 companies in the said sector. The sample was purposively selected. The needed data were obtained from the websites of the sampled companies and the Nigeria Exchange Group Factbook from 2016 - 2021. Panel data analysis was used with the aid of Stata version 11 on the overall analysis. Results of the study show that there is a positive and significant relationship between the effective tax rate and the value of financial services companies listed in Nigeria. It was concluded that effective implementation of tax planning will enhance firm value. The study recommended that effective tax planning should be implemented in Nigerian companies to enhance their value and attract investors. Effective procedures should always be put in place such as the use of tax experts to ensure tax planning is achieved with lower cost and good corporate governance practices imbibed to reduce the problem of information asymmetry and ultimately increase firm value.

Keywords: Firm value, Tax planning

1.0 Introduction

The financial performance of a company can be described as an economic measure that reflects its value. The task of a company's management, therefore, is to increase the value of the organization. The enhanced value of the company is usually reflected in shareholder value. Growth, capital expenditures, and net cash flow are all management-related activities that have an impact on the company's value. The value of the company shows the extent of the performance of the company by its management.

The performance of a company is impacted by its tax obligations. Managing tax liability is one method of maximizing company value. Taxes are deductions from a company's profit. The amount of tax burden that must be paid increases with profit, which will have an impact on the company's after-tax profit margin. When a company's after-tax profits decline, the value of the shares will be impacted, which will lower the company's value (Shella & Arif, 2021). One way of exercising control over the tax burden is the financial leverage employed. Leverage is the amount of debt a firm employed. Higher leveraged companies have lower effective tax rates because they use debt deductions to substantially reduce their corporate tax payments (Ftouhi, Ayed & Zemzem, 2014). The amount of debt employed is reflected in the firms' tangible assets used for value creation. Leverage and tangible assets are therefore critical control elements in effective tax planning.

The management of every company works to increase the company's value to further the company's objectives. Increasing or decreasing company value greatly affects the level of prosperity of shareholders. The high value of the company represents the increase in the wealth of shareholders, and the low value of the company also shows the lower level of wealth obtained by shareholders. Companies must be able to process limited resources and be able to optimize productivity to increase the value of the company and one of the ways to manage tax obligations is what we term tax planning. Another name for tax planning is tax avoidance which is a deliberate effort on the part of the taxpayer to eliminate, reduce, or spread tax liability without breaking the tax regulations. According to Vu and Le (2021), the effects of tax planning activities can either be advantageous or costly to businesses. Tax planning is successful if the benefits outweigh the costs. Therefore, the value of the company is enhanced with an ETR which is a product of tax planning. The effective tax rate reflects the percentage of firms' earnings paid as tax to the receiving government.

Financial performance is critical to the going concern of a firm. In Nigeria, multiple taxes and high tax rates have significantly affected the financial performance of businesses. This leads to issues of tax evasion and avoidance and the latter not being an offence is usually practiced by companies but what is not sure is the extent to which the practice affects company value. Previous research explaining the association between tax planning and firm value lack consensus regarding the extent that these variables are related. Many prior studies provide evidence that the value of companies and tax planning are negatively associated. (Vu & Li; Omesi and Appah. 2021; Silvy, 2019; Ebubechukwu & Obada, 2021). On another pedestal, some evidence suggests that Tax Planning has a positive effect on firm value (Oyeshile & Adegbie, 2020; Bhagiawan & Mukhlasin, 2020). Others find some elements of Tax Planning create firm value and other elements are negatively associated with a firm value (Shella & Arif, 2021; Chukwudi, Okonkwo & Asika, 2020; Umeh, Okegbe & Ezejiofor, 2020). Most of the previous studies are in some specific sectors like consumer goods, and food and beverages with scanty studies covering other sectors like financial services companies that are the hallmark of financial back bone of the nation and therefore should not be left out where studies concerning taxes are carried out. This phenomenon warrants additional research on this topic hence the present research. The main objective of this study was to evaluate the effect of corporate tax planning on firm value with evidence from financial services companies listed in Nigeria. Specifically, the paper ascertained the effect of the ETR on Tobin's Q of the studied companies. The hypothesis formulated and stated in the null form is as follows;

Ho: There is no positive and significant relationship between ETR and the value of financial services companies listed in Nigeria.

2.0 Literature Review

Three aspects of the literature were reviewed in this study. They include conceptual review, theoretical review, and empirical review. A detailed review of each of these is presented in the subsections below:

2.1 Conceptual Review

The conceptual review provides a detailed explanation of concepts underlying tax planning and firm value. This is discussed in sections 2.1.1 and 2.1.2 below:

2.1.1. Tax planning

Bariyima and Cletus (2014) define tax planning as organizing a company's affairs to take advantage of the most allowances, exemptions, and reliefs possible. The timing of the acquisition and disposal of fixed assets, as well as the likely impact on tax liabilities, are taken into account. Tax planning entails identifying opportunities to reduce or postpone tax liabilities within the confines of the tax law by anticipating a set of circumstances (Armyau & Jamilu, 2016).

Taxes are a deduction from the income of the taxpayer after taking into account the allowable expenses, allowances and reliefs. Therefore, tax planning is the process a business uses to control its revenue, outgoing costs, allowances and reliefs to minimize or eliminate its tax burden under the applicable tax laws. Tax planning, according to Pniowsky (2010), is the process of structuring one's affairs to postpone, minimize, or even eliminate the amount of taxes owed to the government. Tax planning is a term used to describe the legal actions that taxpayers take to lessen their tax liability and to benefit from tax savings. Khalid, Mohammad and Firas (2017). identified the components of corporate tax planning to include if possible and allowed by law, removing the tax through tax exemptions; taking advantage of tax-deductible costs, and using cost-related items rather than non-cost-related ones, such as borrowing money rather than self-funding, in place of non-cost-related items; delaying the due date for payment of the tax as much as possible and taking advantage of all tax exemptions that are specified in the tax law and applicable laws as well as deciding on the ideal legal structure for the concerned enterprise.

The ETR is a crucial indicator of successful tax planning. The average tax rate for a corporation or an individual is known as the effective tax rate. The amount of taxes paid by an organization in relation to its gross profit is the basic summary statistic of tax performance provided by ETR (Ftouhi et al, 2014). The best way to assess the actual costs of corporate taxes is thus to use this metric. This is the tax rate that will be applied to the various taxes that the government has decided to deduct from citizens, businesses, and services. The legal percentage that taxpayers are required to deduct from their incomes is known as the tax rate.

2.1.2 Firm value

The prosperity of a business and the extent to which its managers have been able to use its resources for the benefit of its owners are both reflected in the firm value. A company's performance and wealth maximization are reflected in its firm value (Ilaboya, Izevbekhai, & Ohiokha, 2016). Firm value can be viewed from the financial or market-based perspectives. Thus, financial performance indicators such as return on assets, return on equity, and net profit margin could account for firm value and it can also be viewed from the market-based indicators of share price and Tobin's Q.

An accounting metric called Tobin's Q illustrates how much value management has contributed. Consequently, it is a performance variable in terms of firm valuation (Garg, 2007).

A firm would be better off selling its assets than attempting to use them if Tobin's Q was less than one because it would be more expensive to replace its assets than they are worth. In other words, a high Q ratio shows that the company effectively used leverage to increase the value of its investment, resulting in a company that is valued more in terms of its market value than its book value (Kapopoulos & Lazaretou, 2007). Investor losses occur when Tobin's Q ratio is negative or low.

2.2 Theoretical Review

The study is anchored on the agency theory. An agency relationship exists when the principal uses the second party to benefit from their specialized knowledge or skills (Gomez-Mejia & Balkin, 1992). The agency theory seeks to minimize agency costs resulting from internal controls put in place by the principals to restrain the agent's self-serving behavior (Jensen and Meckling, 1976).

According to the agency theory approach to tax planning, the complexity and ambiguity of tax planning can lead to managerial opportunism. Theoretically, tax planning can result in a decrease in firm value when managers have the chance to understate reported accounting profit or the incentive to lower their corporate incentive tax obligation by understating taxable income (Desai & Dharmapala, 2009).

2.3 Empirical Review

The effect of tax planning on the firm value of non-financial firms listed in Vietnam was investigated by Vu and Le (2021). In that study, tax planning was evaluated using the effective tax rate, and company value was evaluated using Tobin's Q ratio. The study's data came from 513 organisations' audited financial statements and other statistical records between 2015 and 2019. Regression analysis using generalized least squares shows that tax planning has a detrimental effect on firm value. A study in the Nigerian context is necessary because the findings of this study were made in a different economy.

The effects of corporate tax planning and saving on the firm value of listed consumer goods companies in Nigeria between 2015 and 2019 were examined by Omesi and Appah (2021). Ex post facto and correlational research methods were used on a sample size of 26 businesses, as determined by Taro Yamen's formula. The sampled companies' 31 published annual financial statements were the source of the study's data, which was then analyzed using the pooled ordinary least square method. The findings showed that the relationship between the effective tax rate, tax savings, capital intensity, and corporate firm value was negative and insignificant. The study concluded that tax planning (ETR and tax savings) had no bearing on a firm's value The paper, therefore, suggested, among other things, that businesses implement suitable tax planning strategies that would aid in reducing their tax liabilities to enhance their overall corporate value. Only consumer goods companies listed on the Nigeria Stock Exchange (NSE) were covered by this study. It becomes necessary to look into additional NSE industries in this area.

The effect of tax planning on firm value was looked into by Shella and Arif in 2021. From 2016 to 2018, information was gathered from the Indonesia Stock Exchange (IDX). Around 163 manufacturing companies made up the study's entire sample. Ten businesses were purposefully chosen as a sample. Based on the results of a multiple regression test, it was found that while Book Tax Different has a negative impact on firm value, Cash ETR has a positive impact. If more than 10 companies were chosen from the 163 companies, the study's findings might be more reliable for generalization.

Ebubechukwu and Obada (2021) looked at how tax planning affected the success of Nigerian food and beverage companies. The study used an ex Post facto methodology. For 11 years, the population of this study consisted of Nigerian food and beverage companies (2009-2019). Six Nigerian food and beverage companies were chosen using easy and stratified sampling techniques. Data were gathered from the sampled firms' audited annual reports and accounts. The analysis of regression was used. According to the analysis's findings, the performance of Nigerian food and beverage companies is not significantly impacted by the ETR. This study only includes food and beverage companies that are listed on the Nigerian Stock Exchange (NSE). In this context, it becomes necessary to investigate additional NSE industries.

Tax planning and firm value of consumer goods companies listed on the NSE for the years 2009 to 2018 were examined by Chukwudi, Okonkwo, and Asika (2020). With a population of all consumer products companies and a sample size of twenty-one companies, their study employed an ex post facto research methodology. The study's secondary data were compiled from the sampled companies' publicly available financial statements and accounts. The data were analyzed using descriptive and inferential statistics. To produce the inferential statistics, a panel multiple regression model was used. The results of the empirical analysis showed that, in contrast to the book-tax difference, tax planning, as determined by the effective tax rate, has a negative and significant effect on firm value. Only companies that are listed on the NSE are included in this study's consumer goods sector. It becomes necessary to look into more NSE industries in this situation.

Bhagiawan and Mukhlasin (2020) looked at how tax planning affects firm value while controlling factors such as board size, board independence, audit quality, board gender diversity, and audit committee size were taken into account. The study used 266 observational data and manufacturing companies that were listed on the IDX between 2016 and 2018. Regression analysis's findings demonstrated that tax planning increased firm value. The correlation between tax planning and firm value was weakened by other regression analysis findings, the gender diversity of the board of directors, and the size of the audit committee. However, tax planning with regard to firm value was unaffected by board size, board independence, or audit quality. The study was conducted in Indonesia, where tax laws and economic conditions differ from those in Nigeria.

Oyeshile and Adegbie (2020) examined for ten years, between 2008 and 2018, the impact of corporate tax planning on the financial performance of listed food and beverage firms in Nigeria, with a population made up of 15 listed food and beverage firms. In this investigation, regression analysis was combined with ex post facto research. They found that the corporate tax planning variables of the ETR, capital intensity and thin capitalization did not significantly improve the financial performance of Nigeria's listed food and beverage companies. It is necessary to repeat this study in other NSE sectors because it was limited to using companies that manufacture foods and beverages.

In their 2020 study, Umeh, Okegbe, and Ezejiofor evaluated the impact of tax planning on the company value of Nigerian consumer goods firms that are publicly traded. Understanding how business value is impacted by book tax disparities (BTDs) and the ETR were the specific objectives. The research design for this study was ex-post facto. A sample size of 21 firms was selected from the population of all non-financial enterprises listed on the NSE based on the availability of financial statements for the chosen firms. The ten years' worth of annual financial reports that were made public during that time served as the study's data source (2009-2018). Ordinary least square regression demonstrated a negative relationship between the ETR and firm value. But despite having a positive effect on business value, the book-tax difference (BTD) was not statistically significant, according to the analysis. Consumer goods companies in this study are restricted to those that are listed on the NSE. In this case, it becomes necessary to investigate additional NSE sectors.

In manufacturing companies listed on the IDX for the years 2014 to 2018, Melisa, Sharifuddin, and Iman (2020) assessed the impact of tax planning on firm value. The descriptive method is the kind of research technique used. The study's sample consisted of 125 manufacturing firms that were traded on the Indonesia Stock Exchange. Purposive sampling, which was used, resulted in the selection of 25 companies. According to the study's findings, tax planning significantly reduced firm value. A small ETR value will increase the value of the company; on the other hand, a high ETR value will decrease the value of the company. Due to variations in tax laws and economic conditions, a study's conclusions based on structures in Indonesia might not be accurately applied in Nigeria.

The impact of corporate tax planning on firm value was examined by Silvy (2019). Manufacturing firms listed on the IDX between 2014 and 2016 make up the population used in this study. Purposive sampling was used to choose the sample, which included 43 businesses. The hypothesis was put to the test using multiple regression. The empirical findings demonstrate that, in contrast to tax planning measured by the effective cash rate and tax savings, tax planning measured by the cash effective tax rate has a negative impact on firm value. Since the study's findings were based on data collected up until 2016, they should be updated with results from another study. A new study can be conducted because there have been enough changes in the extra five years.

In their 2019 study, Timothy, Izilin, and Ndifreke examined Nigerian corporate tax planning, board compensation, and firm value. All profitable non-financial, non-oil and gas, and non-listed companies on the NSE from 2008 to 2015 make up the study's population. Over eight years, from 2008 to 2015, the sample consisted of 71 profitable non-financial, non-oil and gas publicly traded companies on the NSE. It includes 516 firm-year observations in a sample. A positive relationship between tax planning, board compensation, and firm value was found using the Generalized Least Square (GLS) regression method. Board compensation, however, was unable to moderate the relationship between tax planning and firm value. Since the study was based on data collected up until 2015, its findings need to be updated with another study. The additional 7 years of change are sufficient to carry out the new study.

Dada (2017) looked into Nigerian business performance and tax planning. The study made use of an ex post facto design. As of April 2012, there were 240 companies listed on the NSE, making up the entirety of the population. In the banking, insurance, and manufacturing industries fifteen companies were chosen using straightforward and stratified sampling techniques. Ten years' worth of these companies' financial statements (from 2003 to 2012) were examined. According to the research, tax planning had little to no impact on how well businesses performed. A new study is required to revalidate study findings based on data collected up to the year 2012.

Tax planning and firm value: Empirical evidence from the Nigerian consumer goods industrial sector was studied by Nwaobia, Kwarbai, and Ogundajo (2016). This study used an ex-post facto research design. As of December 31, 2012, there were 80 manufacturing companies listed on the NSE. It was deliberate to select a sample of 10 consumer goods companies representing a range of sizes. 50 firm-year observations for the years 2010 to 2014 were included in the study. Descriptive and inferential statistics were used to analyze the data, with a panel regression model being the main focus. ETR, dividend, and firm age are positively and significantly related to firm value, while firm size, leverage, and tangibility have a negative impact on firm value. The combined effect of the considered tax planning proxies on the firm value was significant. A new study is required to revalidate study findings based on data collected up to the year 2014.

3.0 Methodology

A correlational research design was adopted for this study. The design is suitable for explaining the interrelationship between variables employed in the study. The population is made up of all the 51 companies in the financial sector of the Nigerian Exchange Group as of December 2020. The sample consisted of 15 companies in the said sector. The sample was purposively selected. The needed data were obtained from the websites of the sampled companies and the Nigeria Exchange Group Factbook.

3.1 Model Specification

The multiple Linear Regression model was used to establish the association between tax planning and firm value with Tobin's Q measured as the market value of a company divided by its assets replacement cost a proxy for firm value while ETR was measured as income tax expense divided by income before tax as a proxy for tax planning. Leverage and asset tangibility were used as control variables as captured in the model below. They were determined as total debt to total assets and percentage of tangible assets to total assets respectively. The model is stated below:

$$TOBINSQ_{it} = \alpha_0 + \beta_1 ETR_{it} + \beta_2 LEV_{it} + \beta_3 ATG_{it} + e_{it}$$

Where;

$TOBINSQ_{it}$ = Value of firm i at time t

α_0 = Intercept

ETR_{it}= Effective tax rate of firm i at time t

LEV_{it}= Leverage of firm i at time t

ATG_{it}= Asset tangibility of firm i at time t

e_{it}= error term in the prediction process of firm i at time t

The result obtained from the data gathered was used to test the formulated hypotheses. Panel data analysis was used with the aid of Stata version 11 on the overall analysis.

4.0 Results and Discussion

4.1 Results

Table 1: Descriptive Statistics

VARIABLE	OBS	MEAN	STD. DEV	MIN.	MAX.
Tobin's Q	84	1.3389	0.6332	-0.16	2.99
ETR	84	0.3744	1.4181	-1	10.3
LEV	84	0.3328	1.3342	-2	10.2
ATG	84	1.2320	0.3707	0.44	2.46

Source: Authors computation using Stata version 11

The Table above represents descriptive statistics for all the study variables used in the study. From the table, TOBINSQ has a mean of 1.3389 with a standard deviation of 0.6332, and minimum and maximum values of -0.16 and 2.99 respectively. The standard deviation is less than the mean, which is an indication of low variability in the value of listed financial services companies in Nigeria. ETR has a mean of 0.3744, a standard deviation of 1.4181, and minimum and maximum values of -1 and 10.3 respectively. LEV shows a mean of 0.3328, a standard deviation of 1.3342, and a minimum and maximum of -2 and 10.2 respectively. The mean relating to ATG is 0.1.2320 with a standard deviation of 0.3707 while the minimum and maximum stood at 0.44 and 2.46 respectively.

The correlation between tax planning and firm value based on proxies employed in the study is as shown below:

Table 2: Correlation Matrix

	TOBINSQ	ETR	LEV	ATG
TOBINSQ	1.0000			
ETR	0.2574	1.0000		
LEV	0.2633	0.0047	1.0000	
ATG	0.3153	0.0518	-0.0877	1.0000

Source: Authors computation using Stata version 11

The correlation matrix above shows a positive relationship between tax planning and the firm value of financial services companies in Nigeria. The implication is that the value of financial services companies in Nigeria increases as effective tax planning strategies are implemented. From the table, the correlation coefficients of ETR, LEV, and ATG are 0.2574, 0.2633, and 0.3153 respectively. The correlation coefficients among the independent variables too are not too high which could have affected the findings of the study. The implication is that the data used for the study is free from multicollinearity problems. A test for multicollinearity was also conducted to further check the presence or otherwise of multicollinearity. The result shows the absence of multicollinearity in the data set used. The result is presented in the table below:

Table 3 Test for Multicollinearity

Variable	VIF	T-VALUE
ETR	1.07	0.937949
LEV	1.12	0.896715
ATG	1.07	0.936908
Mean of VIF	1.08	

Source: Authors computation using Stata version 11

A heteroskedasticity test was also conducted on the sampled data to check for the presence or otherwise of a variation in the error term. The result shows the absence of heteroskedasticity in the dataset based on the chi^2 value and probability of chi^2 at 0.33 and 0.5665 respectively. The implication is that the dataset used is not heteroskedastic. More so, the normality test was also conducted to check for outliers in the dataset used, the result shows probability levels at 0.82113, 0.09274, 0.24499, and 0.25858 representing TOBIN'S Q, ETR, LEV, and ATG respectively. The implication is that the dataset is normally distributed. To determine the appropriate model (fixed effect and random effect), the Hausman specification test was conducted, and the result revealed that the random effect model is the most appropriate based on a chi^2 probability of 0.4376. To further ensure that the dataset has panel elements, a Lagrangian Multiplier test was conducted. The result confirmed the presence of panel elements in the dataset used. Consequently, the result presented and analyzed in this study is based on the random effect model as shown in the table below:

Table 4: Summary of Random Effects Model

Variable	Beta Coef.	z-values	Prob.>z
TOBIN'S Q	0.744528	3.58	0.000
ETR	0.077115	2.09	0.037
LEV	0.0974035	2.44	0.015
ATG	0.4327083	3.10	0.002
R^2			0.2413
Wald Chi^2			5.15
Prob. Chi^2			0.0003

Source: Authors computation using Stata version 11

The table above shows R^2 (0.2413) which is the prediction power of the independent variables over the dependent variable. The r^2 shows that over 24% of the changes in the dependent variable (Firm value proxied as TOBIN'S Q) of Nigerian financial services companies are jointly explained by the independent variable (ETR controlled by Leverage and Asset Tangibility). The table also shows Wald Chi^2 (5.15) with Chi^2 Probability (0.0003) which suggests the fitness of the model. The r^2 also shows that 75.87% of the changes in the dependent variable can be explained by factors not included in the model. The implication is that other factors influenced firm value which is different from those captured in the study model. The nature of the relationship between tax planning and firm value as shown by the z-value =2.09 and p-value = 0.037 indicates that ETR has a positive and significant association with firm value. Similarly, the control variables, LEV and ATG are positive and significant. Therefore, the null hypothesis of the study is rejected and the alternative accepted that there is a positive and significant relationship between ETR and the value of financial services companies listed in Nigeria.

4.2 Discussion of Findings

The relationship between firm value and the effective tax rate is positive indicating an increasing firm value resulting from the ability of firms in the financial services sector of the Nigerian stock exchange to generate an effective tax rate. The relationship is positive and significant given the beta coefficient, z-value, and p-value of 0.077115, 2.09, and 0.037 respectively. The strong positive association between tax planning and firm value can be attributed to the effective tax planning activities of financial services companies. This is consistent with Bhagiawan and Mukhlasin (2020), Usman, et al (2020), and Oyeshile, and Adegbie (2020) who reported either a positive or significant relationship between tax planning and firm value or both but inconsistent with Vu and Le (2021), Omesi and Appah (2021), Thu, Vinh (2021), Chukwudi, et al (2020) who found either insignificant or negative relationship between effective tax rate and firm value. Based on the result, the hypothesis that states that the effective tax rate has no significant and positive relationship is therefore rejected and the alternative hypothesis accepted 5% significant levels.

The two control variables employed in the study (leverage and asset tangibility) also demonstrated a positive and significant association with firm value. The association is depicted by the beta coefficient, z-value, and probability of z at 0.0974035, 2.44, and 0.015 respectively for Leverage and 0.4327083, 3.10, and 0.002 for asset tangibility respectively. The implication is that the control variables have a contributory effect on increasing the overall value of firms in Nigeria. The result is inconsistent with Nwaobia, et al (2016) who reported a negative and insignificant relationship between control variables such as leverage and asset tangibility.

5.0 Conclusion and Recommendations

The study was carried out to investigate the effect of tax planning on the firm value of listed financial services companies in Nigeria. The result indicated a positive and significant association between tax planning and the firm value of the financial services companies investigated. The control variables (leverage and tangible assets) also show positive and significant levels at 5%. The findings show that effective implementation of tax planning will enhance firm value.

Based on the findings, the study recommended that effective tax planning should be implemented in Nigerian companies to enhance their value and attract investors. Effective procedures should always be put in place such as the use of tax experts to ensure tax planning is achieved with lower cost and good corporate governance practices imbibed to reduce the problem of information asymmetry and ultimately increase firm value.

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