

Effect of Corporate Performance on Tax Planning of listed Consumer Goods Companies in Nigeria

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Abstract

Tax planning represents an area of financial planning that assists companies and tax managers an opportunity to reduce tax liability and enhance company corporate performance. This study attempts to examine the effect of corporate performance on tax planning of listed consumer goods companies on the Nigeria Exchange Group (NGX). The variables used for the study include; return on assets, return on equity and net profit margin. Tax planning which was the dependent variable was measured by effective tax rate. Secondary data from annual reports of 18 sampled listed consumer goods companies utilized for the study. The study employed multiple regression as a method of analysis with 108 observations for the duration of six years from 2017-2022. The study found that the return on assets, return on equity has positive and significant effect on tax planning. While net profit margin revealed a positive and insignificant effect of tax planning of listed consumer goods companies. The study recommended amongst others that companies should employ the services of tax experts and implement more healthy tax planning strategies for higher financial performance.

Keywords: Return On Assets, Return On Equity, Net Profit Margin, Effective Tax Rate

INTRODUCTION

Tax planning is an essential component of corporate financial management, allowing firms to strategically manage their tax liabilities while adhering to applicable laws and regulations. It involves leveraging provisions like allowances, deductions, and exemptions to minimize tax expenses, which significantly affects a firm's financial sustainability. Commonly used proxies for tax planning include the Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR), and Book-Tax Difference (BTD), each offering unique perspectives on tax planning strategies. The ETR, for instance, measures the proportion of earnings allocated to taxes and is widely regarded as a key indicator of tax planning efficiency, with lower rates often reflecting aggressive tax strategies.

Corporate performance is a critical determinant of tax planning, often measured using financial indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). These metrics reflect how effectively a firm uses its resources to achieve profitability and sustainability. For example, firms with high ROA may employ tax deferral strategies to enhance liquidity, while those with high ROE leverage tax incentives to boost shareholder returns. Similarly, firms with robust NPM may prioritize proactive tax planning to preserve profit margins, demonstrating a strong interplay between corporate performance and tax management.

Agency Theory and Political Cost Theory provide theoretical foundations for understanding the relationship between tax planning and corporate performance. Agency Theory suggests that managers may engage in tax strategies to align with shareholder interests, though aggressive approaches could pose risks like reputational damage and regulatory scrutiny. On the

other hand, Political Cost Theory posits that high-performing firms attract greater scrutiny, prompting them to adopt conservative tax strategies to avoid political and reputational costs. Both theories highlight the dual objectives of maximizing profitability and mitigating potential risks in tax planning decisions.

Empirical studies underscore the significant role of corporate performance in shaping tax planning strategies. High-performing firms often invest in sophisticated tax measures, such as deferrals and deductions, to reduce their Effective Tax Rate (ETR) and enhance profitability. However, aggressive tax planning may expose firms to regulatory scrutiny and long-term reputational risks. This duality reflects the complexity of balancing short-term financial gains with long-term sustainability and compliance, as observed in diverse corporate contexts and performance metrics.

In Nigeria, listed consumer goods companies face unique challenges in aligning corporate performance with tax planning strategies. These challenges include regulatory uncertainties, fluctuating exchange rates, and rising production costs. Effective tax planning, measured by proxies like ETR, becomes a critical tool for maintaining financial health. However, inefficiencies in resource utilization and limited profitability hinder many firms' ability to adopt strategic tax management. Addressing these issues requires leveraging performance indicators such as ROA, ROE, and NPM to optimize tax strategies and achieve competitive advantages.

Despite extensive research, gaps remain in understanding the evolving dynamics of tax planning and corporate performance among Nigerian consumer goods firms. Longitudinal studies capturing regulatory changes and economic shifts, such as those brought about by the Finance Act (2020), are scarce. These gaps underscore the need for in-depth analyses of how firms adapt tax strategies to sustained changes in performance metrics and macroeconomic conditions, particularly over extended periods, to address sector-specific challenges and inform policy interventions. Therefore this study intends to examine the effect of corporate performance on tax planning of listed consumer goods companies in Nigeria from 2017 – 2022

RESEARCH METHODS

This study employed the ex-post facto research design since the research deals mainly with documentary evidence. The main population of this study is made up of 21 consumer goods companies listed on the Nigerian Exchange Group (NGX) as at 31st December 2022. However, some filtering requirements were employed in arriving at the selected sample. Secondly, 2 companies were removed because they were listed before the first year of this study. From the remaining companies, 1 company did not reveal complete information. Finally, 18 companies form a sample of this study. The 18 companies selected are adequate for the research to pull out a generalized conclusion since they constitute approximately 86% of the research population. The main source of data is secondary as it requires the use of documentary evidence (Annual Reports from the sampled companies) for the period of six years from 2017-2022. Therefore, the annual reports from the Nigerian Exchange Group were employed to retrieve financial data from the selected companies. In trying to establish the disparity between the dependent variable (tax planning) because of the disparity in any of the explanatory variables (return on assets, return on equity and net profit margin), multiple regression was employed. Multiple regression method

employing the panel data approach is fitting and is therefore engaged because panel features of the data, which involves the combination of cross-sectional attributes as well as time series justifies the application and selection of a panel data approach.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 presents a brief overview of the descriptive statistics of all the variables incorporated in the study where the mean, the standard deviation, minimum and the maximum values of all the data are completely captured.

Table 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ETR	108	-1.43	.43	.1451	.26491
ROA	108	-2.35	.62	.0059	.29119
ROE	108	-.80	.94	.1592	.25245
NPM	108	-36166949.00	71123824.00	6458837.7593	16688383.99171
Valid N (listwise)	108				

Source: Result from STATA output version 15

Table 2 provides descriptive statistics for Effective Tax Rate (ETR), Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) based on data from 108 Nigerian listed companies. The average ETR is 14.51%, with values ranging from -1.43 (indicating tax refunds or negative taxes) to 43%, and a standard deviation of 0.26491, reflecting variability in tax planning. The ROA has a mean of 0.59%, indicating low average returns on assets, with values ranging from -2.35 (indicating significant losses) to 0.62 (highest asset utilization efficiency) and a standard deviation of 0.29119, showing notable variation in asset returns. The ROE averages 15.92%, with a range from -0.80 (negative returns) to 0.94 (high returns on equity), and a standard deviation of 0.25245, indicating moderate variation. The NPM has a mean of N6,458,837.76, with values ranging from -N36,166,949.00 (substantial losses) to N71,123,824.00 (exceptionally high profit margins). The standard deviation of N16,688,383.99 shows significant disparity in profitability across the firms.

Regression Results

To ensure data reliability, validity, and soundness, the study conducted diagnostic tests, including normality, heteroscedasticity, and multicollinearity tests. These tests aimed to confirm that the regression analysis was free from errors that could undermine its validity, thereby improving the accuracy and reliability of the results. This section presents the outcomes of these diagnostic tests and the linear regression analysis, which examines the relationship between the dependent variable (effective tax rate) and the independent variables (return on assets, return on equity, and net profit margin) for 18 listed consumer goods companies on the Nigerian Exchange Group. Table 4.4 summarizes the linear regression matrix of the research model.

Table 2 Regression Results

ETR	Coef.	Std. Err	t-value	P>[t]	VIF	1/VIF
ROA	0.1714	0.0522	3.28	0.001	1.10	0.9065
ROE	0.3464	0.0648	5.35	0.000	1.34	0.7456

NPM	0.0555	0.0410	1.18	0.238	1.36	0.7378
CONS	2.0394	0.1889	10.80	0.000		
Wald Chi2(3)				546.62		
Prob>Chi2				0.0000		
Hettest				0.06		
R ²				0.9302		
Hettest Sig.				0.8119		
Hausman				0.04		
Hausman Sig.				0.9977		
Mean VIF				1.27		
Number of Obs	108	108	108	108	108	108

Source: Stata Output version 15

Table 4.4 presents regression results, highlighting the diagnostic tests presented in the model indicate its robustness and reliability in explaining the relationship between the effective tax rate (ETR) and the explanatory variables. The heteroskedasticity test (Hetest) yields a p-value of 0.8119, suggesting the absence of heteroskedasticity. This implies that the error variances are constant across observations, ensuring that the model's estimates are unbiased and efficient. The Hausman test results, with a p-value of 0.9977, confirm the suitability of the random effects model over the fixed effects model. This finding suggests that individual-specific effects in the data are uncorrelated with the explanatory variables, allowing for consistent estimation.

Furthermore, the mean Variance Inflation Factor (VIF) of 1.27 indicates a low level of multicollinearity among the independent variables. This supports the reliability of the estimated coefficients, as multicollinearity is unlikely to distort the model's results. The high R² value of 0.9302 reinforces the explanatory power of the model, showing that approximately 93.02% of the variation in ETR is explained by the included predictors. The Wald Chi-Square statistic of 546.62, significant at 1% (p-value = 0.0000), further highlights the joint significance of the independent variables, confirming that they collectively explain the dependent variable effectively. The constant term (CONS) is statistically significant ($\beta = 2.0394$, $p = 0.000$), indicating that factors not included in the model still have a baseline impact on the ETR.

The significant positive relationship between ROA and ETR (coefficient = 0.1714, $p = 0.001$) implies that firms with more efficient asset utilization are better positioned to lower their tax obligations. This finding aligns with Hanlon and Heitzman (2018), Atwood et al. (2019), Olarewaju and Owolabi (2022), Gupta and Goyal (2023), Adebayo and Adedeji (2023), who argued that highly profitable firms might engage in sophisticated tax avoidance strategies to reduce their tax liabilities. However, it contrasts with studies such as Klassen et al. (2020), Kamau et al. (2021), Ncube and Moyo (2022), Eze and Nnamdi (2021), Adeoye and Samuel (2022), who suggest that more profitable firms often exhibit lower tax planning due to regulatory scrutiny or better compliance mechanisms.

Similarly, the positive and significant association of ROE with ETR (coefficient = 0.3464, $p = 0.000$) indicates that firms generating higher returns for shareholders are more likely to optimize their tax planning efforts, resulting in a decreased ETR. These findings align with studies such as Hanlon et al. (2020), Wang et al. (2021), Olarewaju and Owolabi (2022), who established that higher equity returns may exploit tax-saving opportunities. However inconsistent

with the findings of Klassen and Mescall (2020), Huseynov and Klamm (2019), Adeoye and Samuel (2022), which emphasized that profitable firms, as indicated by ROE, contribute more to tax revenues due to limited room for aggressive tax avoidance.

In contrast, NPM (coefficient = 0.0555, $p = 0.238$) is positively related to ETR, but the relationship is statistically insignificant. This result suggests that while firms with higher profitability margins may theoretically have greater capacity for tax optimization, other factors may moderate this relationship, rendering it less impactful. The insignificance of NPM in reducing ETR is consistent with the findings of Müller and Krischke (2020), Bianchi et al. (2022), Eze and Ekwueme (2022), who reported similar results in their study on Indonesian firms. However, this finding diverges from Klassen et al. (2019), Huseynov and Klamm (2020), Adeoye and Samuel (2023), who argue that profitability, particularly when measured by NPM, strongly influences tax planning outcomes

CONCLUSION

This study concludes that corporate performance indicators on tax planning, measured by the effective tax rate (ETR), among listed consumer goods companies in Nigeria demonstrate a significant relationship. The corporate performance proxied by return on assets (ROA) and return on equity (ROE) have positive and significant relationships with ETR, suggesting that firms with higher asset efficiency and equity returns exhibit greater tax compliance. Conversely, the relationship between net profit margin (NPM) and ETR, while positive, is statistically insignificant, indicating that profitability measured by net margins has a limited influence on tax planning. These findings highlight the critical role of financial performance indicators in shaping corporate tax behavior. Based on the results, it is recommended that firms prioritize effective management of financial performance indicators, particularly ROA and ROE, to enhance tax compliance and optimize planning strategies while adhering to regulatory standards

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