

Optimal Tax Behaviour and Corporate Survival: The Nigeria Experience

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Abstract

Every entity operates with the entity concept, which endues management to strategize for survival. This study examined optimal tax behaviour and corporate survival with a focus in Nigeria. Ex-post-facto was adopted and data computed from annual accounts of 52 out of 198 quoted companies were used. Descriptive Statistics, test of normality, outliers, and multi-collinearity tests were carried out to establish the normality of the data. Both fixed and random effects of the generalized least square multiple regressions were conducted and the outcome of the test showed that ETR is a positive but insignificant determinant of EPS while EATS were found to be a positive and significant determinants of EPS of companies in Nigeria. The study concluded that quoted companies are yet to effectively and efficiently explore loopholes in tax laws. The study recommended that companies in Nigeria should urgently explore these loopholes and improve their performance and experts with professional skills should be engaged as not infringe tax laws.

Keywords: effective tax rate, expenses tax savings, earnings per share, qualifying capital expenditure

1. Introduction

Tax, as its name implies, is described as a compulsory levy imposed on the income, profit and property of both individuals and corporate bodies for sole administration of that government which impose it which has no compensatory benefit (Madugba, Ekwe and Mgbokwo, 2015 as cited in Madugba, Okpe and Ogbonnaya 2016). In Nigeria, tax is payable to local, state and federal Governments as specified by various government legislation which in Nigeria came in the form of Decrees and Acts of parliament (Kiabel and Nwikipasi, 2009).

From the above, it can be deduced that the decision to pay tax is not voluntary and at the same time, is seen as a cost by the payer and like other elements of cost, must be planned and controlled in sequence with overall objectives of the business to remain in business. This assertion accounts for tax optimality.

Optimal taxation is used interchangeably with tax planning and tax savings to mean the same thing and is described as all means employed by a taxpayer (Corporate and Individual) to minimize tax burden whose legality is in doubt (Fakile and Uwuigbe, 2013, Abdul-wahab, 2010, Desai and Dharmapala, 2007, Philip, 2003 and Derashid and Zhang, 2003). Tax planning is a financial instrument that financiers of corporations depend on when making management decisions (Albadainah 2018, Richardson and Lanis 2015). Permit to say that one major cost component that affects businesses in Nigeria is the cost of tax. This is owing to high tax rates and various taxes which corporate taxpayers are compelled to pay which has drastically reduced their operating profit (Abdual-Wahab and Holland, 2012, Chadeaux and Rossignol, 2006)

In Nigeria, quoted corporations play an undisputed and significant role in the economy as it employs more than 90% of the Nigeria labour force and as such whatever affects these corporations automatically affects the economy. No wonder the recent disengagement of workers in the corporations which is a manifestation of the high cost of business operation and which corporate tax payment is central to it has shaken the economy and created a lacuna which the government has been unable to proffer solutions.

Besides, is it very derogatory and disheartening to see that despite significant role of the quoted companies in ensuring that government achieves economic stability, that corporate tax rate of thirty percent (30%) on taxable

income and two percent education tax on assessable income, technology taxes, etc are still been expected of them in compliance with current tax regulation in Nigeria. To worsen the situation, the Government is not increasing incentives either; this, however, encourages them to evade taxes thereby reducing the revenue which should have accrued to the government from corporate taxes (Madugba, Ben-Caleb, Agburuga and Lawal, 2020).

Again, every organization is operated following the entity concept. This implies that organizations are established with continuity in mind and at such there ought to be financial and investment plans that ensure the perpetuity of these corporations such plans entails strategies to increase the profitability of the entity which is one of the core objectives of being in business and support financial positioning, attract investment and service the investments (Albadainah 2018, Zarai, 2013).

Furthermore, one indispensable core responsibility of corporate tax managers is to develop and install functional machinery that will curb corporate tax liability (Ogundajo and Onakoya, 2016). This function becomes imperative now that the world is faced with economic dum such as the coronavirus menace coupled with the drastic reduction in oil prices and Nigeria is the hardest hit in that the nation's major income is from oil revenue and importation taxes.

Some of the strategies for tax optimality that can be employed by corporations include transfer pricing, thin capitalization, tax incentive like pioneer status- tax holidays, and conversion of shelter income and tax exemption (Izevbehai and Odion, 2018, Ftouhi, Ayed and Zemzem, 2010).

It is at point that the desire for tax optimality for corporate survival becomes a *sin-qua-non* as it is a medium through which the corporate taxpayers are concerned about all the managerial decisions that concern taxes and the strategies involved in reducing the tax burden without infringement of tax laws. Permit to say that scarcity of literature coupled with the gaps identified above have created the urgent need for a study of this nature to find out the effect of interest tax savings, qualifying capital expenditure, effective tax rate, and expenses tax saving on earnings per share of quoted corporations in Nigeria.

Available studies in the literature are the studies of Albadianah, 2018, Kariuki, 2017, Lisowsky, 2008, Cavazos and Silva (2015), Stickney and McGee (1982), Desai and Hines (2002), Desai and Dharmapala (2007). The above studies are in developed nations of the world. In Nigeria are the studies of Salawu, Ogundipe and Yeye (2017), which focused on the firm value of non-financial quoted companies. The study used an Effective tax rate as a measure of tax saving and Tobin q to measure firm value. Izevbehai and Odion (2018), used the same variables as the former. Oyeyemi and Babatunde (2016) investigated tax savings and financial performance of manufacturing firms but used Return on Assets to measure financial performance while effective tax rate was used as a measure of tax savings with leverage, Size, and age as control variables. Ogbeide and Iyafekhe (2018) were also non-financial quoted companies but this study is considering the entire quoted companies in Nigeria through sample will be a function of availability of data but will consider more measures for tax optimality.

2. Literature Review

Prerequisites of tax optimality

Tax optimality ought to be spearheading corporate decisions because of a naira today worth billions tomorrow. With these thoughts in mind, to achieve effective and efficient tax plans, there is need to define the objectives of the firm and set realistic goals. Adequate knowledge of the prevailing tax legislation cannot be overemphasized. Suffice to say that tax planning should be pro-active in the sense that it does not consider only the present or perhaps existing laws but also what net changes are likely to occur in the tax laws and the economy and how these changes are likely to affect the business of the corporations. For the corporation to actively be in an optimal tax position, tax saving strategies ought to be reviewed as intended transactions are reviewed and adjusted to achieve what could be regarded as a tax-efficient option in the face of legislative and economic changes (Kiabel and Nwikpasi, 2009).

Strategies for Tax optimality

Strategies for tax optimality refer to drastic steps engaged by experts to maximize loopholes created by tax laws in reducing the tax liability of the corporation (Allingham and Sandmo, 1972). Oyeyemi et al (2016) added that the strategies are effectuated through several deductions permitted in existing tax laws; hence, meticulous approaches are needed to dismiss tax evasion temptation. Oyeleke, Erin, and Emeni (2016) pended that these strategies are created depending on management expertise and skill. Some of these strategies include and not limited to:

Effective tax rate: Mendoza, Razin, and Tesar (1994) asserted that effective tax rate is an effective income that averages all income sources and effective tax burden that combines all different burden of tax from various sources of income. Gouveia and Strauss (1994) and Johnson, Rosenberg, and Williams (2012) opine that effective tax rate is the measure of tax paid by individual or corporate bodies as a percentage of their after tax-income. Simply put, the effective tax rate is the aggregate rate at which corporations are taxed. Statistically, it is total tax expense divided by

total taxable income for an individual, while it is the rate at which the pre-tax profit of a firm is taxed (Zimmerman, 1983, Hanlon and Slemrod, 2009, Lisowsky, Lennox and Pitman, 2013).

Expense Tax Saving Strategy

Tax is always paid after business expenses. Operating expenses are deducted from the available profit and the remaining balance is subject to tax at the prevailing tax rate. Intuitively, companies can inflate their operational and administrative expenses in such a way that would significantly reduce the taxable profit. Companies might increase perquisites and other non-salary benefits to their employees to boost operational costs. The practice in some foreign companies is to pay their staff salary that approximates what they pay in their home countries which is way out of the prevailing salary scale in the local environment rather than surrender such monies to the government as taxes. Paying huge salaries to these staff will boost their morale and benefit the company in the long run. This practice amounts to indirect tax-saving behaviour as it reduces the tax payable of such a company.

Qualifying capital expenditure: In the computation of tax liability, qualifying capital expenditure attracts incentives in the form of capital allowance (initial and annual). A company could acquire qualifying capital expenditure of high value which attracts a high rate of both initial and annual allowances in the early years where it has made a huge profit but has no sufficient relief. By this act, they will create relief and reduce the operating profit. Also, corporations could acquire qualifying capital expenditure and lease them out profitably while enjoying the capital allowance for the tax relief. More so a fixed asset of the firm that has been written off could be disposed of for cash and later acquire on the lease after it has been fully refurbished, at this point the sales improve the cash inflow of the firm while the lease rental is tax-deductible (Madugba et al 2020).

Interest Tax savings: Every company that wants to operate more profitably must find it profitable trying to get an external source of funding. This mostly and primarily comes from leverage more than equity since leverage is preferred to equity due to the complex nature of raising money from the public. Corporate tax rates influence debt financing since debt interest payments are tax-deductible and dividend payment is not. It is therefore logical that higher tax rates will imply greater interest shield benefits and consequently induce more debt financing rather than equity financing. Thus this reason pioneered the study of Modigliani and Miller (1963). At present, there is a general belief that corporate interest on the debt is significant to tax-saving strategy decisions of corporations (Huang & Song, 2006). This is because interest deductions reduce taxable income, which accounts for a decrease in the taxable/chargeable profit both in the current and future state. Interest on debt offers a great tax shield since interest is deducted before taxing profit and corporate firms have no constraints on the incentive to issue debt other than the direct threat of bankruptcy (Modigliani and Miller 1963). As debt interest is tax-deductible for firms, it is taxable as income in the hands of the debt holder.

3. Theoretical Framework

Hoffman's Tax Planning Theory

The Hoffman tax planning theory posits that a taxpayer has the prerogative to direct his activities to the extent that the tax arising from such acts will be minimal. He/she is not under any obligation to engage in activities that will increase the tax payable beyond the minimum tax. If the tax-payer successfully minimizes his tax, to the smallest amount, the tax authority will not mandate him to increase business activities to pay a higher tax. This theory is the basis of tax planning. Hoffman theory stressed that tax planning is good provided it reduces chargeable profit, without forgoing accounting income. This is because the tax payable is a function of taxable profit and not business profit. Tax planning essentially is geared towards accelerating business operations that increase accounting profit but decrease chargeable or taxable profit. Tax Planning is concerned about how a taxpayer can legally reduce a tax liability without infringing on tax laws. This study is anchored on the Hoffman tax planning theory that espouses a strong association between tax planning and firm performance by focusing on the tax-saving behaviour of firms of different sizes.

Empirical Review

Fagbemi Olaniyi and Ogundipe (2019) investigated the effect of tax planning on financial performance considering eight strategically important banks in Nigeria using the pooled ordinary least square method from 2006-2016. The study revealed that tax planning has a negative and significant effect on financial performance

Izevbekhai and Odion (2018) in their study employed Tobin q as a measure of firm value while the effective tax rate was used to measure tax savings. The study covered seven years period from 2010 to 2016 and had mixed findings but recommended that shareholders should be involved in the effective monitoring managers so that their intention of diverting organizational resources for selfish purposes could be reduced.

Ogbeide and Iyafekhe (2018) found that few companies in the manufacturing sector are fully engaging in tax planning while a greater percentage is yet to explore it. The study, therefore, suggested that organizations should create a tax department and should be headed by a tax expert.

Shabbir, Waheed and Mahmood (2017) examined the relationship between tax optimization and the value of the firm in Pakistan considering a data of 381 firms excluding firms in the financial sector from 2009 to 2014 using the random effect model to analyze the panel data series. The study shows that tax optimization accruals and audit quality increase firm value.

Salawu, Ogundipe, and Yeye (2017) in an eleven (11) years study covering 2004 to 2014 with data sourced from annual accounts of companies quoted in Nigeria stock exchange found that no causality between firm value and tax planning.

Salawu & Adeladu (2017) investigated the impact of corporate governance on tax planning of non-financial quoted firms considering a sample of 50 firms from 2004-2014 using the Generalized Method of Moments. The results reveal a positive and significant relationship between effective tax rates and the value of the firm.

Yimbila (2017) in her thesis examined the relationship between tax planning in the context of corporate governance the study included 18 banks over a period of 10 years. The findings of the study indicate that the effective tax rate of the Ghanaian banks was higher than the statutory tax rate, thus implying that tax planning is not being optimized by Ghanaian banks.

Similarly, Dada (2017) empirically investigated the effect of tax planning on the performance of listed firms in Nigeria from 2003-2012. 15 firms across 3 sectors were examined. Using a multiple regression model, the study revealed that tax planning had a positive but insignificant effect on corporate performance.

Assidi, Aliani, and Omri (2016) examined links between the value of a firms and tax optimization in both listed and non-listed firms in Tunisia from 2000-2010.. Findings reveal that listed firms were better in tax optimization.

Ogundajo and Onakoya (2016) studied the impact of tax planning on financial performance in ten selected firms in the consumer goods segment of the Nigerian stock market using the generalized least square technique. The study determined that tax planning among Nigeria firms have not been optimized as loopholes in the tax laws system has not been comprehensively exploited.

Ftouhi, Ayed, and Zemzem (2015) studied the effect of tax planning on the value of the firm using 73 firms in the EUROZONE from 2008-2012. Using correlation and the generalized least square techniques the study finds a negative and significant relationship between tax planning and the value of the firm. This is in line with the agency cost theory.

4. Materials and Method

The study adopted ex-post-facto research design. This design is adopted because data for both dependent and independent variables already exist and are not subject to bias. The population of the study is 198 actively quoted companies in Nigeria were selected and the period of study was 2013-2018. The data for the study were sourced from the annual reports and accounts of the companies in our study which cut across the various sectors of Nigeria's economy. Base on the availability of data required for study, fifty-two (52) companies were selected. Descriptive statistics, Normality test comprising outliers and multi-collinearity were carried out. Fixed and random effects both of the panel data regression were used to test the hypotheses and with the help of Hausman test, the most preferred of the regressions were made and used for interpretation.

Table 1. Operationalization of variables

Variable	Variable code	Measurement	Classification of variable	As by priori authors
Earnings per share	EPS		Dependent	
Effective tax rate	ETR	Total tax expenses divided by tax accounting income	Independent	Derashid and Zhang (2003) Atwood and Reynolds (2008)
Expenses tax savings	EATS	All non-taxable expenses incurred	Independent	

Source: Authors' definition of variables, 2020.

4.1 Model Specification

To proffer solution to the hypotheses of this study, the general form of the linear relationship was adopted as stated below

$$Y_{it} = \alpha + \beta X_{it} + \mu_{it} \tag{1}$$

From the above formula, Y_{it} represents the dependent variable which in this study is Earnings per share (EPS) whereas α is constant, βX_{it} represents the independent variables which in this study are Effective tax rate (ETR) Expenses Tax-Savings (EATS). μ_{it} represents error term which accounts for other variables not included in this model.

Therefore incorporating both the dependent and independent variables into equation one thus:

$$EPS = \alpha_0 + \alpha_1 \text{ effective tax rates} + \alpha_2 \text{ expenses tax saving} \tag{2}$$

Hence, the econometric transformation of the equation (2) above will be thus:

$$EPS_{it} = \alpha_0 + \alpha_1 ETR_{it} + \alpha_2 EATS_{it} + \mu_{it} \tag{3}$$

5. Data Analysis and Discussion

This study adopted both descriptive and inferential statistics for data analysis. These will be done in turns beginning with descriptive statistics.

5.1 Descriptive Statistics

Table 1 shows the descriptive statistics of the variables under consideration. From the table, the minimum and maximum EPS of the sampled companies are 2 and 51 respectively. The table also reveals that on the average, the companies sample half a mean EPS of 25.39744 with a standard deviation of about 12.69. In the same vein, ETR is shown to have a minimum and maximum value of 1 and 0.25 respectively. The mean value of 0.616122 was reported for ETR which implies that companies in Nigeria pay more tax, since the statutory tax rate is 30% as against actual tax rate of 61.61% indicated by the mean value. The standard deviation of 0.15 was also reported. Furthermore, EATS reported a minimum of 9.64, a maximum value of 5.71, a mean value of 7.434968 and a standard deviation of 0.93.

Table 2. Descriptive statistics of the variables in our study

	EPS	ETR	EATS
Mean	25.39744	0.616122	7.434968
Median	25.00000	0.600000	7.240000
Maximum	51.00000	1.000000	9.640000
Minimum	2.000000	0.250000	5.710000
Std. Dev.	12.69412	0.151573	0.933062
Skewness	-0.206196	0.128050	0.584745
Kurtosis	1.879286	2.517940	2.524778

Source: Authors Computations form E-view result 2020

5.2 Test for Normality

The normality test was conducted using skewness, Kurtosis, and histogram. Skewness for EPS is -0.206196, indicating that the scores for EPS are skewed to the right though not far from the normal point of zero. Kurtosis for EPS 1.879286 (positive), indicating relative peakedness. Although both skewness and Kurtosis of EPS suggest that the variable is relatively not normally distributed, the number of cases in this study (312) is large enough to undermine the risk of underestimation of variance which the kurtosis and skewness suggest (Tabachnick & Fidell, 2001 and Pallant 2001). To further buttress the normality position of EPS data, a histogram in the figure.1 reveals a bell-shaped curve which implies normality of the data.

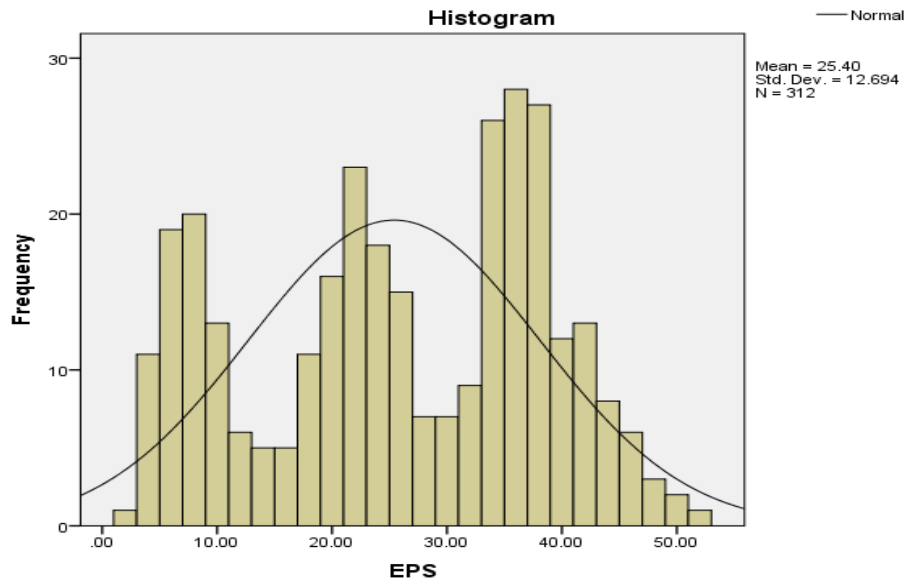


Figure 1. Histogram showing normality test for EPS

Source: Charted by Authors' from SPSS, 2020

For effective tax rate (ETR), the test for skewness showed a value of 0.128050 and this means that ETR is positively skewed and not far from zero. The kurtosis revealed a value of 2.517940, meaning is peaked. The histogram for ETR has a normal bell shape curve as presented in Figure 2.

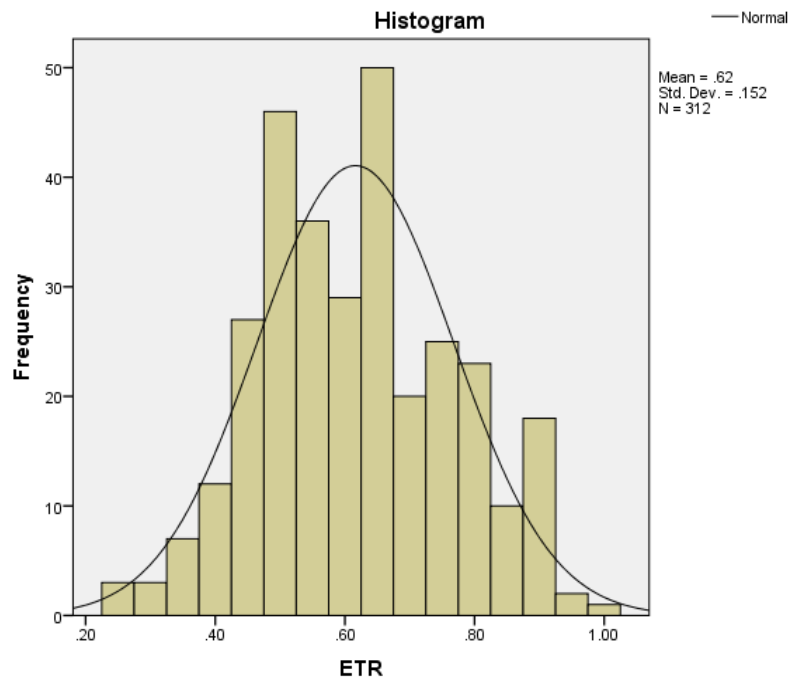


Figure 2. Histogram showing normality test for ETR

Source: Charted by Authors' from SPSS, 2020

The normality test for expenses tax savings (EATS) was also conducted. Skewness is shown to have a value of 0.584745. This value is positive and also indicates that EATS skewed to the right though this point is not far from zero. Furthermore, EATS has a kurtosis value of 2.524774 indicating relative peakedness. However, the histogram showing a bell shape curve implies that the data is relatively normally distributed (see figure 3).

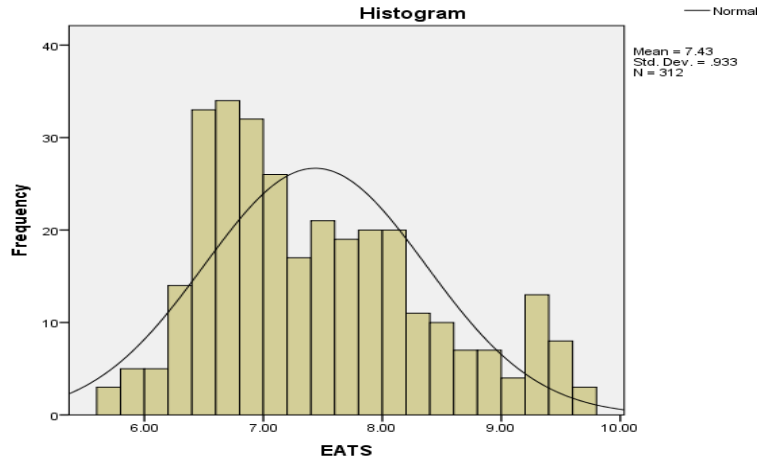


Figure 3. Histogram showing the normality test for EATS

Source: Authors' chart from SPSS, 2020

5.3 Tests for Outliers

To test for outliers (extreme cases of data away from others), the box plot was used. Figure 4 shows that there is no outlier, hence no data cases that will influence or distort the result of our inferential analysis.

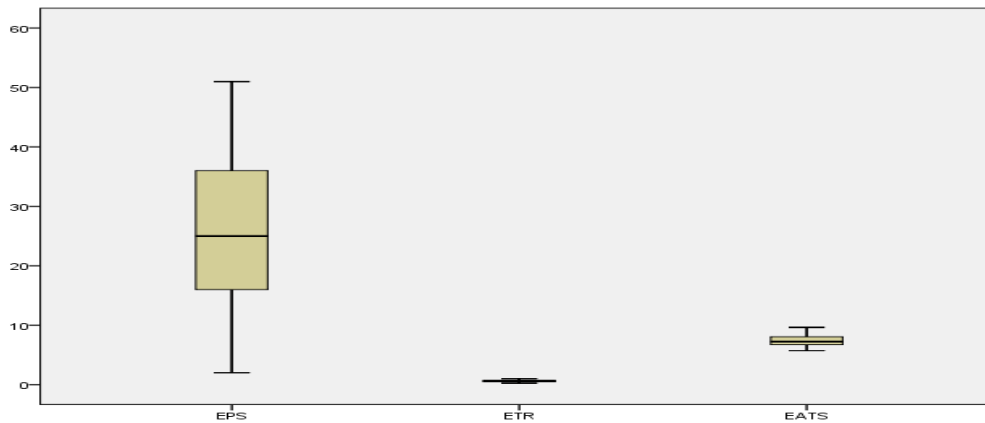


Figure 4. Box plot to test for outliers

Source: Charted by Authors from SPSS, 2020

5.4 Multi-collinearity Test

Tolerance and variance inflation factor (VIF) was adopted to test the threat of multi-collinearity between the independent variables.

Table 3. Test of multi-collinearity

Variable	Tolerance	Variance inflation factor (VIF)
ETR	0.987	1.013
EATS	0.987	1.013

Source: Authors compilation from SPSS result, 2020

As contained in Table 2, the tolerance value of 0.987 is less than 0.10, hence, indicates that we have not violated the multicollinearity assumptions. This means that there is no collinearity between the independent variables in our study. This is well supported by the variance inflation factor (VIF) value of 1.013 which is far below the cut-off of 10 (Pallant, 2001).

5.5 Test of Hypotheses

There is no significant relationship between effective tax rate and expenses tax saving and earnings per share of quoted companies in Nigeria.

Decision rule: Accept null hypotheses if the probability value computed by using of E-view is greater than or equal to 0.05 (i.e. $P \leq 0.05$).

Table 4. Multiple regression results

Method	Fixed effect of GLSR				Random effect of GLSR			
	Co-eff.	Std. Er	t-Stat	Prob.	Co-eff.	Std.Er	t-Stat.	Prob.
C	-1.604770	6.648348	-0.241379	0.8094	-1.951714	6.636952	-0.294068	0.7689
ETR	5.341268	4.698334	1.136843	0.2565	4.641070	4.658413	0.996277	0.3199
EATS	3.189164	0.758500	4.204566	0.0000	3.293852	0.756743	4.352668	0.0000
R-squared	0.071550				R-squared	0.058643		
Adjusted R-squared	0.050171				Adjusted R-squared	0.052550		
F-statistic	3.346763				F-statistic	9.624801		
Prob(F-statistic)	0.001882				Prob(F-statistic)	0.000088		

Source: Authors' computation from E-view result, 2020

Table 4 above presented the regression result of both fixed and random effects of the general least square regression (GLSR).

From the fixed effect, the coefficient of multiple determination value of 0.071550 is indicated, which is about 7.15% while the adjusted coefficient of multiple determination value of 0.050171 is also shown. Meaning that about 5.07% of the changes observed in the explained variable is influenced by the predictor variables, leaving about 94.93%. This seemed high; however, F-Statistic of 9.624801 with a probability of 0.000088 demonstrates the fitness of our model.

However, to determine whether our discussion of the result will be based on a fixed or random effect of GLSR as contained above, a Hausman test was conducted as presented in Table 5 below.

5.6 Hausman Test

Table 5. Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	4.158304	2	0.1250
Test period random effects			

Source: Authors' computation from E-view Result.

Statistical evidence from our test conducted using the Hausman test suggests that the random effect of the panel data regression is preferred to the fixed effect model of the panel data regression analysis as can be seen from Table 4.6 above. Hence, our discussion of the result will base on the random effect model of the panel data regression analysis.

6. Discussion of Result

Statistical evidence presented in table 4 indicated that Effective tax rate (ETR) has a coefficient value of 4.641070. This value implies that ETR is a positive but insignificant determinant of earnings per share of companies in Nigeria as supported by a probability value of 0.3199. This result implies is that a unit change in ETR will lead to about 4.461070 unit increase in EPS. Our finding corroborates the study of Yimbila (2017) in Ghana. In Nigeria, the study of Oyeyemi and Babatunde (2016), Ogundayo and Onakoya (2016) support our finding.

Furthermore, expenses tax saving is shown in table 4 has a co-efficient of regression value of 0.756743. This value if further proved to be significant with the probability value of 0.000. This means that EATS is a positive and significant determinant of earnings per share of quoted companies in Nigeria. However, the coefficient indicated that EATS are not efficiently and effectively explored by the companies. Our study agreed with the study of Assidi, Aliani and Omri (2016) though there is in Tunisia where more stringent measures are out in place. The finding of Dada (2017) in Nigeria also supported our findings.

7. Conclusion and Recommendations

This study examined optimal tax behaviour and corporate survival: the Nigeria experience. The crux was to find out if effective tax rate and expenses tax savings affect the earnings per share of the listed firms in Nigeria. A significant outcome revealed the following:

- Effective tax rate has a positive and significant relationship with earnings per share of listed firms in Nigeria. Our finding corroborates the study of Assidi, Aliani, and Omri (2016) though in Tunisia, the study of Ogundajo and Onakoya (2016) in Nigeria did not consider the entire listed companies in Nigeria but only consumer goods manufacturing companies.
- Expenses tax saving has a positive and insignificant relationship with earnings per share of the listed companies in Nigeria. Our finding is supported by the study of Fagbemi, Olaniyi and Ogundipe (2019).

7.1 Recommendation

Based on findings and conclusion of this study, we recommend as follows

1. That quoted companies in Nigeria should embrace tax optimality as this will improve their after-tax- profit.
2. Those companies in Nigeria should engage the services of experts with professional skills to enable them to maximize the potentials of loopholes in tax laws.
3. That Government should encourage the companies in Nigeria through a reduction in taxes.

7.2 Contributions of the Study

This study has contributed to the existing literature in the following ways:

- a. It has reviewed the existing models in tax optimality.
- b. It is also the most current study in tax optimality and of course, is a more holistic nature as it considered a large sample of (52) companies for (6) six years.
- c. Again, the study also introduced a new variable which no study has considered that is expenses tax savings strategy.

7.3 Suggestion for Further Studies

The limitation of this study has created gaps for further studies. Hence, we suggest that further studies can be carried out sartorially in Nigeria and that more variables for measuring tax optimality be incorporated.

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