

Tax Planning Strategies and Financial Performance of Listed Deposit Money Banks in Nigeria

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ABSTRACT

The study examined the impact of tax planning strategies on financial performance of listed deposit money in Nigeria. The ex post facto research design was adopted and data was gotten from annual report of listed deposit money banks in Nigeria. A total of fifteen (15) listed deposit money banks was sampled from the period of 2017-2022. The hypotheses was tested with the panel least squares. The study found that there is positive and significant relationship between effective tax rate and return on equity of quoted banks in Nigeria. Secondly, the study found that there is positive and significant relationship between thin capitalization and return on equity of quoted banks in Nigeria. Lastly, the study found that there is no significance relationship between capital intensity and return on equity of quoted banks in Nigeria. The study concluded that effective tax rate and thin capitalization strategies have an impact on financial performance of listed deposit money banks in Nigeria; while capital intensity strategies have no impact on financial performance of listed deposit money banks in Nigeria. Based on the finding of this study, it was recommended that management of listed deposit money banks in Nigeria should sustain the current effective tax rates policies in order to improve their financial performance in terms of return on equity.

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INTRODUCTION

Tax planning refers to the conscious efforts taken to consider the tax that will be payable by a taxpayer at a future date and how to minimise such tax liability (Ishola, 2020). Tax managers, tax consultants and tax compliance officers utilize tax planning as a strategy to reduce the amount of tax burden payable by their organisations. Tax Managers are professionals and consultants who oversee the tax compliance and reporting activities of an organisation. They are responsible for ensuring that the organisation complies with applicable tax laws and regulations and minimizing the organisation's tax liabilities while staying within the bounds of the law. Tax liability, like operational expenditures, is a manageable cost that can be minimized (Garbaring, 2015). It is a responsibility for tax managers to use their duty of care and fiducial obligation to shareholders to decrease tax burden on their company through tax planning. Tax planning is carefully carried out to ensure that the reduction in tax liability payable is in the best interest of the company. Companies,

including banks are legally obligated to pay tax as prescribed in the enabling tax act. However, within the tax law, there exist legally permissible alternative of taking advantage of loopholes or inconsistency in tax laws (Ayobolawole, 2019). Bank management can exploit through proper tax planning to pay less tax, thereby freeing up funds for use by shareholders and improving bank's financial performance (Silvio & Rezende, 2016). Government also adopts tax planning strategies to provide tax relief to taxpayers to stimulate investment in certain areas of the economy. Payment of tax in any country is regulated by the laws of each country. It is a statutory obligation that everyone must comply with. Stiff penalties including imprisonment terms are usually in place in the tax legislation of each country to ensure that the taxes are paid.

Taxation represents a significant cost that reduces the profitability of companies in Nigeria and can negatively impact on expectations of shareholders and

other stakeholders if not minimised. The negative impact of bank taxes in Nigeria arises from high corporation tax rates and multiples taxation which results in high effective tax rates much exceeding the statutory company income tax rate. Many of these taxes are imposed by different levels of government and are imposed and enforced on banks and other corporate entities. The outcome of these extractions cum extortions is a high-cost structure for the banks. Desai and Dharmapala (2007) narrated that tax policy has an impact on bank cost structures since it is factored into the pricing of bank services. Banks and other corporate organizations' distributable profit is depleted by tax charges. Ishola et al. (2020) maintained that these taxes represent a significant expense to organizations that, if not effectively planned and managed, can have a negative impact on cash flow and the banks' ability to invest or reinvest profits. Tax planning is necessary to reduce the impact of taxes on a bank's financial performance. Unfortunately, many banks and businesses are unaware of the measures they might use to legitimately reduce their tax liabilities. Moreover, those that are mindful of tax planning often falls victims of stiff penalties in a bid to minimise tax liability via tax avoidance due to lack of contemporary knowledge of relevant tax laws.

Ogundoyo and Onakoya (2016), maintained that tax planning strategies entails a thorough understanding and application of relevant tax shelters and incentives in the tax laws, such as incentives given in recognition of pioneer status, rules applied to the start-up and termination of a business, and allowances given in respect of the acquisition of an asset used for the purpose of a business. The effective tax rate is a regularly used metric for calculating a bank's tax burden. Sabli and Noor (2012), stated that it provides a fundamental summary statistic of tax performance that describes the amount of taxes paid by a company as a percentage of its profit before taxes. Capital intensity is the amount of investment made by businesses on their fixed assets. ILaboya et al. (2016), stated that there is a positive association between capital intensity and financial performance. Harvey (2014) narrated that capital intensity is the level of a bank's investment in fixed assets, and thus the level of capital asset-related incentives a company can enjoy, and it has been found to be a good tax planning strategy because capital intensity-based allowances and incentives can be enjoyed by firms or banks.

Objectives of the Study

The main objective of this study is to investigate the effect of tax planning strategies on the financial

performance of Deposit Money Banks. Specifically the study intends;

1. To examine the effect of effective tax rate on return on equity in listed money banks in Nigeria.
2. To determine the effect of thin capitalization on return on equity in listed deposit money banks in Nigeria.
3. To examine the effect of capital intensity on return in equity in listed deposit money banks in Nigeria.

The hypothesis of the study was derived from the objectives of the study

LITERATURE REVIEW

Conceptual Review

Tax Planning

Tax planning has been severally defined by various schoolers and researchers. Notably, Ishola K. A. (2020) viewed tax planning as the conscious efforts taken to consider the tax that will be payable by a taxpayer at a future date and how to minimise such tax. It also involves identification of the opportunities that will enable the taxpayer to minimise or defer tax liabilities within the law.

Tax planning has also been defined as the preparation to pay tax completely, correctly, and economically. Escaping from taxation and lessening the payment of a tax by legal means are also deemed as tax planning. It involves arranging affairs to ensure that the maximum allowances, exemptions, and reliefs are enjoyed. Tax planning should be done before and during business. Proper tax planning will not only lower amounts of tax payment with respect to basic taxes but will also create a wealth stream for achieving long term goals.

In financial accounting, payment of taxes is an outflow in the perspective of the taxpayer with respect to profits/income tax, the amount that can be retained by the taxpayer from the profit/income of his business/investments is reduced by the amount of tax that such taxpayer must pay. Payment of tax in any country is regulated by the laws of each country. It is a statutory obligation that everyone must comply with. Stiff penalties including imprisonment terms are usually in place in the tax legislation of each country to ensure that the taxes are paid. Since legally and morally there may not be any way out other than to pay the tax stipulated by the laws of the country. It has been the consensus from the day of old that taxpayers are not under any obligation to pay more tax than is necessary. Consequently, taxpayers have resorted to devising several means of ensuring that they pay the minimum possible tax.

Folajimi F. A., et al (2020), defined Tax planning as any action that must be taken by a business entity to inflate taxable income or reported earnings in a given period before tax loss expires. It posited that Tax planning is a tool at the disposal of tax player to reduce the burden of tax paid or payable. It also viewed Tax planning as the arrangement of one's financial affairs in such a way that without violating the legal provisions, full advantage is taken to allow tax exemptions, deductions, concessions, rebates, allowances, and other benefits permitted under the Income Tax Act. It noted that the inability of the tax payers to plan their taxes leads to high tax liabilities and companies in an attempt to avoid tax, end up paying more than what is statutorily required to tax fraudsters as well as tax authorities by way of penalties because they lack adequate knowledge of tax planning.

Tax Planning Strategies

Tax planning strategies refers to the legal activities that businesses engage in to manage their revenue and spending with the goal of avoiding, minimizing, or delaying tax within the confines of the tax rules. Tax planning involves making conscious efforts to consider the tax that will be payable by a taxpayer at a future date and how such tax can be minimised. Tax planning could also be said to be the measures taken by a taxpayer to arrange one's affairs in such a way as to reduce taxes while still acting within the law (Akinbobola, 2021).

Tax planning (TP) is not only limited to the strategies brought to bear in minimising tax liability, but it also encompasses the strategies aimed at avoiding penalties by planning timely settlement of tax liability within the stipulated period for tax settlement.

Tax planning also connotes the actions taken within the law by taxpayers to reduce their tax liability and generate tax savings. The use of suitable incentive provisions for corporate taxpayers based on enabling laws such as the Company Income Tax Act, Personal Income Tax Act, Value Added Tax Act, and other enactments is referred to as tax planning. Tax planning are strategic measures and tools that the taxpayer meticulously adopts to minimise the incidence of tax paid or payable. It is cognitive steps taken to take full advantage of tax exemptions, deductions, concessions, rebates, allowances and other permissible benefits as enshrined in the Tax Act. Tax planning actions can be active or passive depending on the taxpayer's goals in executing a transaction. Yimbila, (2017) confirmed that active tax planning strategies is relevant when a transaction is carried out with the goal of lowering the tax burden. A circumstance in which a transaction is carried out

without any prior intent or intention to decrease the tax burden is known as passive tax planning.

Tax planning enable companies to take advantage of the provisions tax avoidance. According to Ishola (2021): "Tax avoidance is the deliberate act of the taxpayer to pay less than he ought to pay legally. It is an "art of winning games without actually cheating". It is permissible under the law. Tax avoidance is practiced by taxpayers who take advantage of the loopholes in tax laws, i.e. those who take advantage of circumstances that are not clearly defined in the law or can bear different interpretations. For example, if a taxpayer declares that he has children or aged dependents when he has none that action is tax avoidance".

Inadequate adoption or lack of proper tax planning strategies often leads companies into practicing tax evasion and being susceptible to huge tax liabilities and penalties when such acts are discovered or unveiled by relevant tax authorities.

Effective Tax Rate

The effective tax rate is the percentage of a company's tax burden that is reduced without a negative impact on its accounting income. It primarily assesses corporations' tax performance by comparing real corporate tax loads to the percentage of a firm's tax expenditure to its profit before tax. Effective tax rate indicated the aggressiveness of a firm's tax planning technique.

The average tax rate at which an individual or a company is taxed on their income or profits is known as the Effective Tax Rate. It is calculated by dividing the total tax paid by the taxable income or profits. The effective tax rate considers all applicable taxes including income taxes, payroll taxes and any other taxes paid to the government. Individuals' effective tax rates are the average rates at which their earned income is taxed, whereas corporations' effective tax rates are the average rates at which their pre-tax earnings are taxed. The corporate effective tax rate evaluates a company's tax performance. As a result, it is the most accurate way to assess actual corporation tax costs. The effective tax rate is a regularly used metric for determining a company's tax burden. The effective tax rate is a fundamental summary statistic of tax performance that describes how much a firm pays in taxes compared to its profit before taxes.

This metric demonstrates active tax planning involving persistent tax discrepancies in the books. The effective tax rate is calculated by dividing the tax paid by the profit before tax. Instead of a percentage of taxable income, the effective tax rate is used in financial reporting to calculate the total tax paid as a

percentage of the company's accounting income. The statutory tax rate is the legal percentage set by law, but the effective tax rate is the average rate at which a corporation's pre-tax profits are taxed. The effective tax rate, rather than the marginal tax rate, is a better reflection of a person's or companies overall tax liabilities. As a measure of tax planning, the effective tax rate reduces a company's tax liability without necessarily lowering its accounting income (Derashid & Zhang, 2003). The primary goal of the effective tax rate as a proxy for tax planning is to increase the firm's value, which is directly related to the planning and quality of the firm's managerial organization. Managers are looking for strategies to lower their tax burden in order to produce tax savings or increase shareholder capital.

Thin Capitalization

Thin capitalization happens when the amount of debt in the company's capital exceeds the amount of equity. This raises the question of what constitutes debt and equity. Debt and equity have distinct meanings in the usual course of business than they do for tax reasons. Debt refers to anything, such as a loan or a bond that entitles the holder to a fixed, periodic return, commonly referred to as interest. The holder of a debt does not have a stake in the company. Equity, on the other hand, symbolizes the holder's ownership interest in the underlying entity. The term equity is used here to refer to more than just shares or stocks. During the development and running of a business, both stock and debt are used as sources of funding. During the formation of the firm, a debt that results in interest payment may be incurred as part of the capitalization of the organization in combination with equity. Blouin et al. (2014) stated that debt can be incurred in conjunction with the acquisition of property or products, resulting in interest payments due to late payment of the price. Debt may be incurred in the usual course of business to maintain the working capital required to pay salaries, suppliers, and other expenses. Debt, like equity, is typically one source of funding that assures a company's smooth running. The distinction between the two sources of firm finance is tax treatment. Interest payments are normally regarded as an ordinary deductible business expense for the purposes of calculating taxable income by the taxpayer. Payments related to equity, on the other hand, are often non-deductible.

Thin capitalization arises when debt finance contributes much more to a company's capital structure than equity finance. This raises the question of why a business would chose debt financing and become undercapitalized. For non-tax and tax purposes, a corporation employs debt and becomes

thinly capitalized (Sotirios, 2018). Thin capitalisation is a tactic employed by businesses to organize their finances so that their debt-to-equity ratio is high. Companies that utilize a tax planning approach choose to pay a large amount of interest because interest expenses are tax deductible under the legislation. As a result, the tax burden will be reduced. According to the Organization for Economic Cooperation and Development (2012) thin capitalization can be defined as a strategy used by businesses to maintain a high level of debt relative to equity in order to benefit from the tax laws that allow interest on debt to be deducted as an allowable expense. Thin capitalization is a condition in which a corporation is financed with a high proportion of debt to equity. Companies with a little amount of capital are commonly referred to be highly leveraged or highly geared. The capitalization of a firm has a considerable impact on the amount of profit it reports for tax purposes. Farrar and Mawani (2008) stated that a corporation is thinly capitalized if its capital structure contains a higher percentage of debt than equity. The corporate tax benefit of high leverage is that interest paid on borrowed funds is a tax-deductible expense, which means that the more debt a company has the more interest it pays and the less tax it pays. Debt availability and utilization is widely acknowledged as a crucial component of a good business climate. Indeed, a shortage of credit can stifle a company's expansion. To put it another way, debt is frequently required for economic progress.

Capital Intensity

The amount of money invested by businesses to improve their output is known as capital intensity, which means that the more money spent to create the same unit, the more capital intensive the company is (Sadia & Qaisar, 2012). The ratio of noncurrent assets to total assets is commonly used to calculate capital intensity (Lee & Kang, 2011). The amount of fixed or real capital present in relation to other components of production, particularly labour, is referred to as capital intensity. The capital to labour ratio can be used to estimate it at the level of a production process or the entire economy. The level to which a company's financial resources have been spent in property, plants, and equipment is referred to as capital intensity. These non-current assets are more heavily invested in a capital-intensive company (Shahean & Malik, 2012). The ratio of noncurrent assets to total assets is known as capital intensity. Investment Deductions, Industrial Building Deductions, and wear and tear allowances are all available to businesses that invest in noncurrent assets (Githaiga, 2013). The amount of money invested in fixed assets by businesses is known as capital

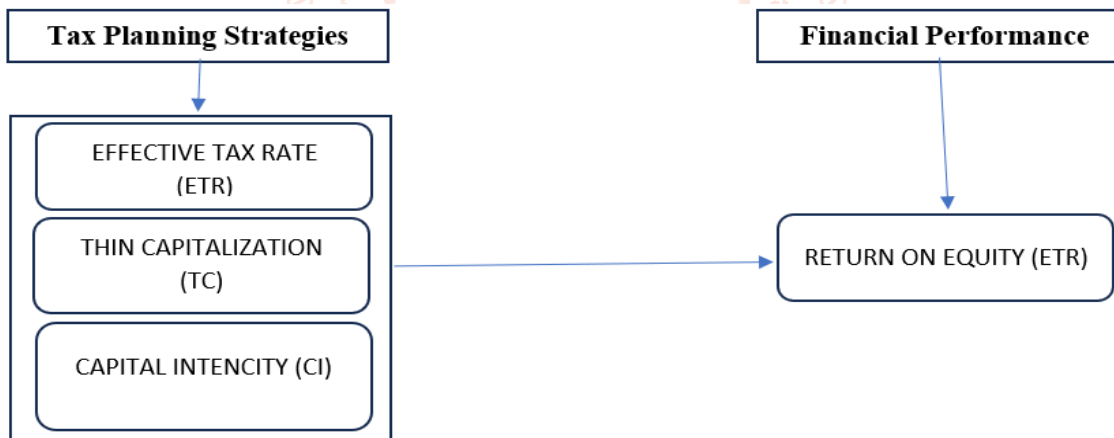
intensity, and there is a link between capital intensity and firm value (Ilaboya, et al., 2012; Shaheen, & Malik, 2012).

Capital Intensity is the amount of money a company invests in fixed assets, and hence the amount of capital asset-related incentives it can get. It has been shown to be an excellent tax planning point because companies can get allowances and incentives based on capital intensity. Non-current assets divided by total assets is how capital intensity is calculated. Shahean and Malik (2012) narrated that capital intensity and firm value have a positive relationship. They claimed that capital allowances result in tax savings, which improve a company's after-tax profits.

Financial Performance

Financial performance refers to a company's financial status throughout time, which includes the collection and utilization of cash as assessed by capital adequacy ratio, liquidity, leverage, solvency, and profitability. The ability of a corporation to manage and control its resources is referred to as financial performance. This word is also used as a broad indicator of a company's overall financial health over time, and it can be used to compare similar companies within the same industry or to compare industries or

Conceptual Framework



Theoretical Underpinning

Hoffman's Tax Planning Theory

The Hoffman tax planning theory was postulated by William Hoffman in 1961. The Hoffman tax theory state that firm should engage in tax planning activities only when there is a tendency to reduce taxable income to the barest minimum in a way that does not negatively impact accounting income, because the firm is assessed by the appropriate tax authority based on taxable income rather than accounting income. As a result, they should focus their efforts on tax planning actions that reduce taxable income rather than accounting profit. Hoffman (1961) claimed that there is a direct link between tax planning efforts and an entity's financial performance to the degree that

sectors in aggregate. Firm performance is the result of a company's operational actions during a given time period. Financial performance, in a broader sense, refers to the degree to which financial goals are being met or have been met. It is the process of calculating the monetary value of a company's policies and operations. Financial performance is defined as a company's ability to achieve its financial goals.

Return on Equity

From accounting perspectives, equity is calculated by deducting liabilities from the asset's value. The return on equity (ROE) is a measure of a company's performance in relation to its equity. Return on equity is a metric that measures how effectively a company uses its capital to generate profit. Epps and Cereola (2008) maintained that return on equity is a measure of financial success computed by dividing net income by stockholders' equity. Net income is estimated before common shareholders receive dividends and after preferred shareholders receive dividends and lenders receive interest. Madura (2015) confirmed that net income is the amount of revenue generated by a corporation for a certain period after deducting expenses and taxes.

the net tax planning gain resulting as a direct result of tax planning is greater than the expense. Hoffman emphasized four key aspects of tax planning. They are, first and foremost, tax planning is not a sampling procedure in the event of correctly conducted tax planning. Second, if tax planning is done as a systematic practice, there will be significant benefits. Finally, many tax planners do not use tax planning to its full potential, and tax planning might assist many taxpayers, but few are aware of its benefits. This study is underpinned on tax planning theory because the researcher believes that if bank management properly carryout the tax planning it will reduce the tax liabilities and chargeable income of the banks leading to improved financial performance.

Empirical Review

There seems to be paucity of research work relating to the effects and relationships between strategic tax planning and profitability/financial performance as it relates to financial companies. More research has been conceptualised in other segments of non-financial companies especially in the manufacturing sector.

(Akintoye et al. 2020) examined the effect of tax planning strategies on the profitability of manufacturing firms in Nigeria with the main objective of examining the effect of tax planning strategies on profitability of quoted manufacturing companies. The study emphasized that tax liability is a major expense in any firm (representing 20 – 30%) in the sources and application of fund in company's financial statement. It remarked that corporate tax in Nigeria takes close to one-third of pretax earnings and when other tax levies are included in the tax costs, the total tax obligation is reasonably high making tax obligation of corporate organizations a crucial matter to be looked into. Their research work noted that taxation provides a major source of revenue to all sovereign states in the world of which Nigeria is one of them and all governments impose tax on its citizens including body corporate. The study stated that another major problem facing the development of manufacturing industries is the problem of excessive taxation in the form of high tax rate, double and multiple taxation and these may affect the manufacturing firms negatively if not properly applied and administered.

The population for this study was the 52 Manufacturing Companies Quoted in Nigeria as at 17th December, 2018, for a period of 10 years (2008-2017). Forty-six (46) companies were selected out of the 52 manufacturing companies listed on the Nigeria Stock Exchange as at 17th December, 2018. Stratified random sampling technique was employed to select forty-six companies from the various sectors of manufacturing companies. The sample size of this study was calculated using the Taro Yamane formula which was postulated by Yamane in 1973. $n = \frac{N}{1+N(e)^2}$ The statistical tool for this study was Multiple Regression Model. This was used to predict the value of the variables. Data were collected from the audited annual reports of the sampled companies for a period of 10 years (2008 – 2017). The validity and reliability were based on the statutory audit of the financial statements. Descriptive and inferential statistics were used to analyse the data. The result revealed that there is no significant effect of Tax Planning (TP) on Return On Assets (ROA) of Quoted Manufacturing Companies in Nigeria. The researcher

anchored their resolve on the results of the test, Adj.R2 = -0.000527 and F-Statistics = 0.919439 and P-value of 0.431292. The Study concluded that tax planning strategies have both negative and positive effects on profitability of Quoted Manufacturing Companies in Nigeria. The study recommended that Tax Managers and Finance Officers should reduce thin capitalization and Capital Intensity to balance the source of income of manufacturing firms, while Research and Development costs should be properly managed to increase their contributions to profitability. Professional Tax practitioners should also be consulted for maximum benefit from tax planning.

Eneisik et al (2020), empirically investigated the relationship between tax planning strategies and financial performance of quoted banks in Nigeria. Theoretical, conceptual, and empirical literatures on tax planning strategies and financial performance were reviewed. The research team noted that a successful tax system may encourage economic growth and reduce unemployment through impacting investment and capital formation, in addition to being a key source of revenue for the government. They added that the issues confronting Nigeria's tax system appear to have spurred businesses and banks to develop ways to reduce the tax burden. They noted that attempts have been made to determine the relationship and effect between tax planning and financial performance of companies, but none seems to pay attention to the banking sector; instead, they all focused on manufacturing companies. They focused on tax planning strategies and the financial performance of quoted banks in Nigeria. They noted that past research used dividend yield, dividend per share, return on assets, turnover, and net profit margin as proxies for financial performance. The team adopted earnings per share, return on equity, and net interest margin as measures of financial performance. The general objective of their study was to investigate the relationship between tax planning strategies and financial performance of quoted banks in Nigeria. The specific objective was to investigate the relationship between the dimensions of tax planning strategies (effective tax rate, thin capitalization and capital intensity) and the measures of financial performance (return on equity, earnings per shares and net interest margin).

The researchers noted that financial performance refers to a company's financial status throughout time, which includes the collection and utilization of cash as assessed by capital adequacy ratio, liquidity, leverage, solvency, and profitability. They remarked that the ability of a corporation to manage and control

its resources is referred to as financial performance. This word is also used as a broad indicator of a company's overall financial health over time, and it can be used to compare similar companies within the same industry or to compare industries or sectors in aggregate. Firm performance is the result of a company's operational actions during a given time period. Financial performance, in a broader sense, refers to the degree to which financial goals are being met or have been met. It is the process of calculating the monetary value of a company's policies and operations. The researchers defined Financial performance as a company's ability to achieve its financial goals. Return on Equity From accounting perspectives, equity is calculated by deducting liabilities from the asset's value. The return on equity (ROE) is a measure of a company's performance in relation to its equity. Return on equity is a metric that measures how effectively a company uses its capital to generate profit.

The also noted that Epps and Cereola (2008) maintained that return on equity is a measure of financial success computed by dividing net income by stockholders equity. Net income is estimated before common shareholders receive dividends and after preferred shareholders receive dividends and lenders receive interest. Madura (2015) confirmed that net income is the amount of revenue generated by a corporation for a certain period after deducting expenses and taxes. Earnings Per Share Earnings are the net benefits of a corporation's operations. The amount on which company tax is due is referred to as earnings. The term earning refers to net income after taxes. Hanlon (2005) suggested that earnings are the most important driver of a firm's share price since earnings and the conditions surrounding them can indicate whether the company will be profitable and successful in the long run. Earnings are likely the most crucial and closely scrutinized number on a company's balance sheet. It compares profitability to analyst forecasts, the company's own past performance, and its competitors and industry.

Earnings per share are defined as a firm's net profit divided by the number of common shares outstanding. Earnings per share reveals how much money a firm produces for each share of its stock and is a widely used indicator to measure corporate value, (Ali, 2015). The earnings per share measure is a primary component used to compute the price to earnings, or value ratio, and it is one of the most important elements in deciding a share price. Earnings per share are calculated by dividing a company's quarterly or yearly net income by the number of outstanding shares of stock. Earnings per

share are a basic metric for a company's profitability that investors use to determine whether the firm is a good investment. High earnings per share means the company is profitable and has more money to deliver to shareholders. Earnings per shares are a widely used metric for measuring financial success. Net Interest Margin The difference between the interest income generated by banks and other financial institutions and the amount of interest paid out to their lenders is known as the net interest margin. It's commonly expressed as a percentage of what the financial institution makes on loans and other assets during a given time period, minus interest paid on borrowed funds, divided by the average amount of assets on which it earned income during that time period. Net interest margin is a measurement comparing the net interest income a financial firm generates from credit products like loans and mortgages with the outgoing interest it pays holders of saving account and certificate of deposit. Net interest margin is a profitability indicator that approximates the likelihood of a bank. In their research analysis and presentation, tax planning strategies was proxied by effective tax rate, thin capitalization and capital intensity while financial performance was proxied by return on equity, earnings per share and net interest margin. The population of this study consists of fourteen quoted banks in Nigeria.

The study adopts judgmental sampling techniques to select twelve banks as sample size for the study. Secondary data was obtained from audited annual financial reports of quoted banks in Nigeria from 2006-2019. The study adopts the use of descriptive statistics for univariate analysis while hypotheses were tested using ordinary least square regression statistical tool with the aid of E-view 10 econometric statistical software. The findings shows that effective tax rate, thin capitalization and capital intensity has negative and insignificant impact on return on equity of quoted banks in Nigeria. Their evidence shows that effective tax rate, thin capitalization and capital intensity has negative and insignificant impact on earnings per share of quoted banks in Nigeria. Empirical evidence revealed that effective tax rate, thin capitalization and capital intensity has positive and significant impact on net interest margin of quoted banks in Nigeria. Their study concluded that tax planning strategies reduced tax liabilities leading to financial performance of quoted banks in Nigeria. The researchers recommended among others that; Bank should adopt effective tax rate, thin capitalization and capital intensity as tax planning strategies and optimally utilize the best options that improved financial performance. Bank should adopts capital intensity and thin capitalization as tax

planning strategies giving that capital allowances and interest paid on debt financing is an allowable expenses which reduces chargeable income.

Research Methodology

Research Design

The study adopts the use of ex post facto research design as it examines the effect of an phenomenon that has occurred. The population of the study comprises of 23 licenced deposit money banks operating in Nigeria today. Out of this population a sample size of 12 banks was selected based on availability of secondary data that was used to run the analysis. The period covered was 5 years from 2017 to 2022 and the justification was when the new tax policy of Federal Government took effect. The source

of data for this study was from published financial statements of selected banks in Nigeria. The method of data collection adopted was the Secondary data collection from the audited annual financial reports of listed deposit money banks.

Method of Data Analysis

The independent variables of Effective tax rate, thin capitalization, and capital intensity are predictor variables in this study, while the dependent variables of return on equity was adopted as the criterion variable. The predictor variables and criterion variable will be used to determine if there exist significant relationship between the independent and dependent variables. The data would be presented and analysed as a panel data.

Operationalization of the Variables.

Table 1.

Independent Variable	Measurement	Dependent Variable	Measurement	Source of Data
Effective Tax Rate (ETR)	Total Tax Expense (TTE)/Pre Tax Income (PTI)	Return on Equity (ROE)	Net Income (NI)/Shareholders equity (SE)	Audited Financial Statement of Listed Money Deposit Banks
Thin Capitalization (TC)	Total Debt (TD)/Total Asset (TA)			Audited Financial Statement of Listed Money Deposit Banks
Capital Intensity (CI)	Non-Current Asset (A)/Total Asset (TA)			Audited Financial Statement of Listed Money Deposit Banks

Model Specification

The study adopted the model of Erasmus and Uwikor (2021). The model is stated as;

In functional form;

Financial Performance = f(Tax Planning Strategies).....(i)

ROE = f(ETR, TC, CI).....(ii)

In Econometric form;

$ROE_{it} = \beta_0 + \beta_1ETR_{it} + \beta_2TC_{it} + \beta_3CI_{it} + \epsilon_{it}$(iii)

Where:

- ETR = Effective Tax Rate
- TC = Thin Capitalization
- CI = Capital Intensity
- ROE = Return on Equity
- it₁ -it₄ = Slope
- β₁ - β₄ = Regression Coefficient
- β₀ = Regression Constant
- ε = Error Term

Data Presentation, Interpretation and Discussion

The information gathered was presented, examined, and explained in tables in this chapter. The study’s results were summed together using descriptive statistics including mean, minimum, maximum, and standard deviation. To verify the fundamental tenet of regression, diagnostic tests such serial correlation, normality, linearity, heteroskedasticity, and multicollinearity were conducted.

Descriptive Statistics**Table 2 Descriptive Statistics**

Variables	Mean	Minimum	Maximum	Std. Dev
ROE	0.0892	0.0032	0.3932	0.0411
ETR	22.4466	0.2413	146.44	12.5643
TC	10.3072	43.4543	796.3355	8.4388
CI	3.9786	1.3908	8.9454	4.5511

Source: Author's computation, 2023

Table 2 shows the descriptive statistics of the data used in the study. The dependent variable – ROE had mean of 0.0892, with a minimum value of 0.0032 and a maximum value of 0.3932. Also the standard deviation 0.0411, exhibited a considerable clustering around the mean. The independent variables – ETR, TC and CI had means of 22.4466, 10.3072 and 3.9786, respectively. Also, the standard deviation of the independent variables failed to exhibit a considerable clustering around the mean except for capital intensity.

Table 3: Correlation Matrix

Probability	ROE	ETR	TC	CI
ROE	1.0000			
ETR	0.0337	1.0000		
TC	0.1917	0.2659	1.0000	
CI	-0.2009	-0.0360	0.0565	1.0000

Source: Author's computation, 2023

The linearity of variables (correlation matrix) as presented in Table 3 show that the variables exhibited both positive and negative relationship. This is seen in the association between ETR and ROE (0.0337), TC and ROE (0.1917), CI and ETR (-0.0360), and CI and ROE (-0.2009). The strength of association between variable were below the threshold of 0.80, suggesting the absence of the problem of multicollinearity in the predictor variables (Studenmund, 2014). However, to further validate the veracity of this result, we employed the Variance Inflation Factor test.

Specification and Diagnostic Tests

We carried out various specification and diagnostics test in order to fulfill the basic assumptions of regression.

Table 4: Multicollinearity test

Variance Inflation Factors			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	0.062663	143.7948	NA
ETR	0.013807	2.235867	5.201545
TC	0.80247	25.86063	4.166783
CI	0.802137	13.838524	2.226195

Source: Authors' computation, 2023

Table 4. reveals multicollinearity test result. From the result, we observed that the centered Variance Inflation Factor (VIF) for all variables were less than 10 as recommended by (Studenmund, 2014). This implies that our variables and model in the study was free from multicollinearity problems. This result further verifies and strengthens the result of the linearity of variables explained above.

Table 5: Serial Correlation test

Breusch-Godfrey Serial Correlation LM Test:			
Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	0.167210	Prob. F(2,143)	0.6244
Obs*R-squared	0.032330	Prob. Chi-Square(2)	0.5088

Source: Author's computation, 2023

Table 5 reveals the serial correlation result, using the Breusch-Godfrey serial correlation (LM) test. The null hypothesis of no serial correlation was accepted at $F(2,143) = 0.167210$, $p = 0.6244 > 0.05$.

Table 6: Constant residual error test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	0.158495	Prob. F(6,142)	0.5305
Obs*R-squared	1.206915	Prob. Chi-Square(6)	0.3834
Scaled explained SS	8.307371	Prob. Chi-Square(6)	0.1976

Source: Authors' computation, 2023

Table 6 reveals the result of the constant residual error which was carried out by the Breusch-Pagan-Godfrey test of heteroskedasticity. The result of the analysis revealed that our model is free from heteroskedasticity issues, $F(6,142) = 0.158495$, $p = 0.5305 > .05$.

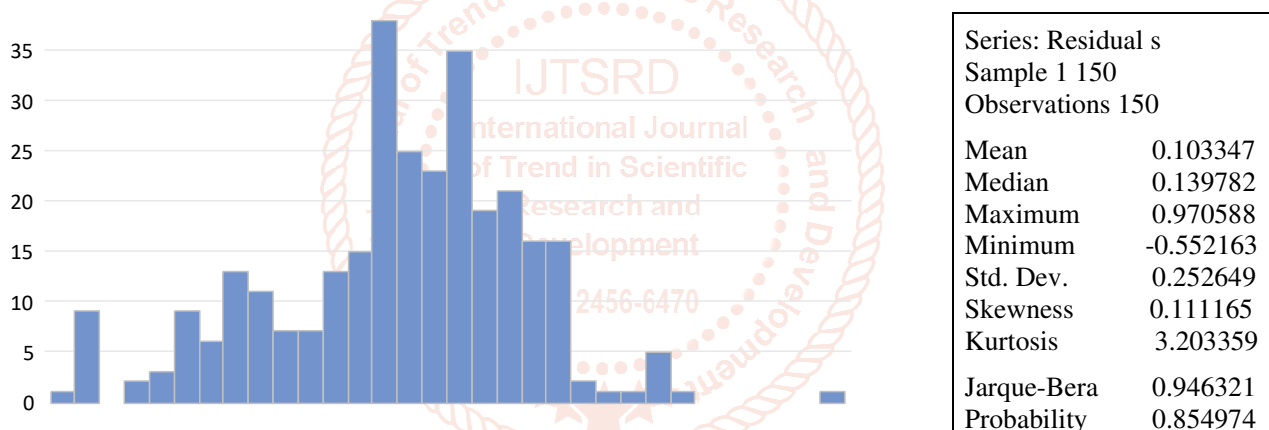
Table 7: Misspecification test

Ramsey RESET Test			
	Value	Df	Probability
t-statistic	0.562765	143	0.1828
F-statistic	0.04951	(1, 143)	0.2618

Source: Author's computation, 2023

The Ramsey RESET Test was conducted to test for model Specification. The result of the analysis revealed the absence of model Misspecification, $F(1, 143) = 0.562765$, $p = 0.1828 > 0.05$. This implies that our model was correctly specified (Studenmund, 2014).

Figure 4.1: Normality Graph



Source: Authors Computation, 2023

Figure above visibly shows the normality distribution of the series. The series skewness and kurtosis sharply deviated from the recommended range. Our series was negatively skewed (skewed to the right), and the kurtosis was mesokurtic in nature (within 3). In line with the notion of Engle and Patton (2001), kurtosis values ranging from 4 to 50 are considered to be very high and implied very extreme deviation from normality. This indicates that our data fit into a normal bell-curve. The Jarque-Bera test value of 0.9463 indicated that the residual are around the normal curve in the series at 5% level of significance.

Multivariate Analyses and Hypotheses Testing

Haven't fulfilled the five basic assumption of regression, the panel least squares estimation technique was employed to test the hypotheses stated in the study. In furtherance to estimation of the study's model with the panel least squares estimation technique, the Hausman test was done to determine the effect of the specification. The study's hypotheses were tested at a 5% level of significance, which means that if the p-value was less than 0.05, the hypothesis should be rejected. Otherwise, proceed normally.

Table 8: Hausman Test

Correlated Random Effects - Hausman Test			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.027680	7	0.7881

Source: Authors' Computation, 2023

The table above shows the result of the Hausman test, $HM(7) = 1.027680$, $p = 0.7881$. Leaning on this result, we ignored the fixed effect model at 5%, therefore accepted the random effect model of the panel least squares the regression.

Table 9: Panel Least Squares Regression

Dependent variable: ROE Pooled Effect					Dependent variable: ROE Fixed Effect				Dependent variable: ROE Random Effect			
	B	S.E	t-Stat.	Prob.	B	S.E	t-Stat.	Prob.	B	S.E	t-Stat.	Prob.
Constant	- 0.2212	0.4189	- 0.5281	0.59991	- 0.8444	0.5690	- 1.4840	0.1432	- 0.2212	0.4189	- 0.5281	0.59991
ETR	- 0.1210	0.1158	- 1.0446	0.3016	0.2936	0.2531	1.1602	0.2507	0.6237	0.2863	2.1771	0.0345**
TC	0.6237	0.2863	2.1771	0.0345**	0.8356	0.5384	1.5519	0.1261	0.1663	0.5650	2.9428	0.0050**
CI	- 0.1663	0.5650	- 2.9428	0.0050**	- 0.0491	0.3932	- 0.1249	0.9010	0.0113	0.0194	0.5650	0.5648
R-squared		0.6278				0.2902				0.7278		
Adjusted R-squared		0.4694				0.1800				0.5394		
S.E.		0.1130				0.3717				0.1090		
F-statistics		3.9636				2.6350				23.0836		
Prob. (F-statistics)		0.000052				0.0125				0.0003		

Source: Authors' Computation, 2023

Table 9 above revealed the results of the panel least squares regression for the model of the study. The study's explanatory factors considerably explain how tax planning strategies affects financial performance of listed deposit banks in Nigeria, F-statistics = 23.0836, $p = 0.0003 < 0.05$. The adjusted R-Squared stood at 0.5394; that is about 54% of the systematic variation in the dependent variable (financial performance) is caused by the explanatory variable used in the study. While about 46% of the variations are caused by other variables not included in the model but were adequately captured by the standard error of the regression, $SE = 0.1090$.

The table show the result of the panel least squares for the pool regression result, fixed effect regression result to the random effect result. The Hausman test result show the random effect specification is best fit to explain the panel regression result.

Test of Hypotheses of the study

We tested our hypotheses at 5% level of significance (that is, if p -value < 0.05 reject H_0 , else do otherwise).

H_{01} : There is no significance relationship between effective tax rate and return on equity of quoted banks in Nigeria

From the result in tables 4.5 above, it was found that there is positive and significant relationship between effective tax rate and return on equity of quoted banks in Nigeria, $\beta_1 = 0.6237$; $SE = 0.4189$, $p = 0.0345 < 0.05$. Therefore, this failed to accept the null hypothesis stated on the study, that there is no significance relationship between effective tax rate and return on equity of quoted banks in Nigeria.

H_{02} : There is no significance relationship between thin capitalization and return on equity of quoted banks in Nigeria

Result from the panel least squares revealed that there is positive and significant relationship between thin capitalization and return on equity of quoted banks in Nigeria, $\beta_2 = 0.1663$; $SE = 0.5650$, $p = 0.0050 < 0.05$. Thus, an increase in the proportion of thin capitalization strategy will increase the return on equity of quoted banks in Nigeria. Therefore, the study failed to accept the null hypothesis of the study.

H_{03} : There is no significance relationship between capital intensity and return on equity of quoted banks in Nigeria

From the result in table 4.5 above, it was revealed that there is no significance relationship between capital intensity and return on equity of quoted banks in Nigeria, $\beta_3 = 0.0113$; $SE = 0.0194$, $p = 0.5648 > 0.05$. The result of the study accepted the null hypothesis that there is no significance relationship between capital intensity and return on equity of quoted banks in Nigeria.

Discussion of Findings

The study examined the impact of tax planning strategies on financial performance of quoted banks in Nigeria. The study studies a total of 15 listed deposit money banks from the period of 2017 to 2022. The dependent variable was measured with return on equity (ROE), while the tax planning strategies were proxied with effective tax rates (ETR); thin capitalization and capital intensity. The following findings were stumbled upon.

First, it was found *that* there is positive and significant relationship between effective tax rate and return on equity of quoted banks in Nigeria. The result of this study is consistent with works of Akintoye et al. (2020) and who also found positive and significant relationship between effective tax rate and return on equity of quoted banks in Nigeria. However, the finding of this study is in dissonance with works of Erasmus and Uwikor (2021) and Ali (2015) who found no evidence on the relationship between effective tax rate and return on equity of quoted banks in Nigeria.

Secondly, the study found there is positive and significant relationship between thin capitalization and return on equity of quoted banks in Nigeria. The findings of this study is not consistent with of Erasmus and Uwikor (2021) and Ali (2015) who found no evidence on relationship between thin capitalization and return on equity of quoted banks in Nigeria. Thirdly, the study found revealed that there is no significant relationship between capital intensity and return on equity of quoted banks in Nigeria. This finding is in line with work of Erasmus and Uwikor (2021) and Ali (2015) who also found no evidence on the relationship between capital intensity and return on equity of quoted banks in Nigeria.

Summary of Findings

The study investigated the impact of the tax planning strategies on the financial performance of listed deposit money banks in Nigeria with its findings summarized thus:

1. There is positive and significant relationship between effective tax rate and return on equity of quoted banks in Nigeria;
2. There is positive and significant relationship between thin capitalization and return on equity of quoted banks in Nigeria; and
3. There is no significance relationship between capital intensity and return on equity of quoted banks in Nigeria.

Conclusion

This study aims to determine how tax planning strategies affects financial performance of listed deposit money banks in Nigeria. In line with findings,

the study concluded that effective tax rate and thin capitalization strategies have an impact on financial performance of listed deposit money banks in Nigeria; while capital intensity strategies have no impact on financial performance of listed deposit money banks in Nigeria.

Recommendations

Based on the finding of this study we recommended the following;

1. The management of listed deposit money banks in Nigeria should sustain the current effective tax rates policies in order to improve their financial performance in terms of return on equity;
2. The thin capitalization strategy should be applied with caution in listed deposit money banks in order to safeguard the interest of the shareholders; and
3. Regulatory authorities and agencies should implement a policy to avoid excessive investment in fixed in order not to abuse the allowances and incentives on non-current assets.

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