WEST AFRICAN JOURNAL OF BUSINESS AND MANAGEMENT SCIENCES
FACULTY OF BUSINESS ADMINISTRATION
IMO STATE UNIVERSITY, OWERRI
NIGERIAN EDITION
VOL. 11 NO. 1 MARCH 2022

TAX PLANNING AND SHAREHOLDERS WEALTH MAXIMIZATION OF DEPOSIT MONEY BANKS IN NIGERIA

OGBONNA, UDOCHUKWU GODFREY
Department of Management Sciences,
Rhema University, Nigeria

EZE EMMANUEL
Department of Management Sciences,
Rhema University, Nigeria

And

TITUS ORJI
Department of Management Sciences,
Rhema University, Nigeria

Abstract

This work studied the relationship between tax planning and shareholders' wealth maximization among deposit money banks in Nigeria. A disaggregated approach was adopted in the study by considering the distributional effects of both effective tax rate and book tax difference as the main tax planning components of the banks in Nigeria. A panel of 10 deposit money banks was used for the analysis for the period of 2010 to 2021 (12 years). The Random Panel estimation technique was adopted for the empirical analysis. There is general evidence from the study that tax planning acts as a strategic wedge by banks in Nigeria in delivering relevant pecuniary benefits to shareholders among Nigerian banks. Specifically, the study inferred that the book to tax difference of the banks has no significant impact on return on equity of the banks. This implies that efficiency in long-term tax planning does not influence shareholders' wealth maximization among Nigerian deposit money banks. Similarly, effective tax rate has no significant impact on return on equity among deposit money banks in Nigeria. Thus, improving the current tax planning capacity of banks has capacity to promote shareholders' wealth through improved Return on Equity (ROE). Furthermore, the size of banks has a significant direct and indirect impact on return on equity of deposit money banks in Nigeria. The indirect impact is attained through improved effective tax rate of the banks.

Keywords: Effective tax rate, Return on equity, book tax difference

Introduction

Tax planning is the analysis of financial plan to ensure that a company attains the greatest possible tax status while achieving its goals (Ftouhi, 2016). It is the practice of reducing ones income tax by maximizing all possible tax exemption, deduction, refund and reliefs. It is the organization of business by taking all advantage of the tax deductions, allowances, and refunds so that tax burden is kept to the minimum. Tax planning includes not only strategies aimed at minimizing tax liability but also checks the timing of cash-flow effect on the businesses in terms of when it is more advantageous for a business to settle its tax liability without incurring any penalty (Kiabel & Akenbor, 2014). In this context, tax planning is seen as an act of transferring wealth from the state to the firm using a legally justifiable means. Nwaobia (2016) ,stated that tax payers are hesitant to fulfil their civil obligations of paying tax because of the complexity of the tax structure, which results in effective tax rates that are much higher than the statutory corporate income tax rate (Effective tax rate is the percent of their income that an individual or a corporation pays as taxes).

Tax managers utilize tax planning as a strategy to reduce the amount of tax burden owed by the banks. Tax liability is a big expense on banks. Tax liability, like operating expense, is a cost that may be controlled and reduced (Garbaring, 2015). Managers frequently exploit their duty of care and devotion to the shareholders to reduce the bank tax burden through tax planning. This is done with great care, attention, and experience in the belief that this decrease is in the best interest of the bank (Mahfoudh & Ismail, 2015). Banks are legally obligated to pay tax which is prescribed within the legal framework of the tax enabling act. This tells us that in the tax laws, there are provisions or loopholes that bank management can exploit through proper tax planning in order to pay less tax, thereby freeing up funds for use by shareholders and improving the bank's financial performance (Silvio & Rezende, 2016).

Government uses various tax strategies to provide tax relief to taxpayers in order to stimulate investment in certain areas of the economy. Taxpayers who are aware of effective tax planning can benefit from such tax reliefs by arranging their business activities in such a way that they may take advantage of such reliefs to pay less tax. Ogundoyo and Onakoya (2016) stated that tax planning strategies necessitate 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. Raffia (2017) stated that tax payment is a cash outflow to the banks that pay the tax.

Paying less tax reduces cash outflow, allowing the bank to preserve money that can be reinvested in other profitable venture. According to Oladipupo (2013), the purpose of an organization, is to maximize wealth and minimise cost. Management has recently discovered that taxation is a significant cost element of doing business and a significant obstacle to wealth maximization. Shareholder wealth is the present value of the expected future returns to the owners of a firm. Wealth maximization refers to changes in wealth of the shareholders on a periodic basis. Shareholders wealth maximization is where managers of businesses maximize the firm’s wealth by increasing the stock price of the company.

The problem of tax burden faced by taxpayers includes double taxation, underutilizing tax incentives and tax benefits associated with emerging losses carried forward. Companies have cost to settle and one of such expense is tax. In order to minimize the cost of taxation, tax planning has been named as one of the factors starving the government revenue, thus hindering her development (mayah, 2015). Tax planning affects both taxpayers and the government; to the tax payer, it is an added cost while to the government it’s a revenue source. The Nigerian government of recent has put pressure on tax authorities to increase tax revenue in order to reduce reliance on oil revenue. To achieve this, Nigerian government proposed an increase in value added tax (VAT) from 5% to 7.5% on 14 October of the Finance Bill of 2019 to expand its fiscal revenue in the country, so as to take care of certain infrastructure and economic development programmes.

Over the years, there have been complaints in the banking sector about underreporting income, paying excessive salaries to specific shareholders, failure to declare shares, among others, by managers to reduce tax liability. This is the reason this study is being conducted to ascertain if planning has any impact on the shareholders wealth maximization of Nigeria deposit money banks. Further to this, there is pressure on companies by shareholders to cut cost by taking advantage of the loopholes in the current tax laws, thus, taxation more than ever before has become an issue for board of directors, chief financial officers, tax authorities and researchers.

Several studies have been carried out on tax planning and shareholders wealth maximization of deposit money bank in both advanced and emerging economies across the world with various results. However, none of these studies to the best of our knowledge has been able to assess the Nigerian environment using country's specific data. The few studies conducted in this area in Nigeria used firms from non-financial sectors such as (Agriculture, Manufacturing and Educational sector). Besides, most of the studies did not cover the current period of 2021 year. It is on this basis that this study seeks to examine the effect of tax planning on shareholders wealth maximization of deposit money banks in Nigeria using data from firms in Nigeria, covering the period 2010 to 2021. This is the knowledge gap that prompted this study.

Review of Related Literature

Conceptual Framework

Tax planning involves those strategies that are designed to reduce the corporate tax liability of companies and the cash flow effects on the business in terms of when it is most beneficial for a business to settle its tax liability without incurring any penalty Chukwudi, (2020). Ogundajo and Onakoya (2016) documented that tax planning involves the detail understanding and application of loopholes in relevant tax laws by taxpayers for the purpose of mitigating tax liability. Nwaobia, (2016) suggests that effective corporate tax planning practices does minimize the effective tax rate to the level that it falls below the statutory tax rate. They further argued that tax planning practices provide positive effects on the cash flow of companies and hence improve firms after tax rate of returns.

Chukwudi, (2020) acknowledged that tax planning is a practice that aligns with the relevant tax laws to minimize the tax liability of companies using the effective tax rate. Soufiene, (2016) states that tax planning practices involve the minimization of corporate income tax for the purpose of maximizing the after tax income. Ilaboya, (2016) avowed that tax planning applies exemptions, deductions, rebates, reliefs and other tax incentives allowed in the tax laws for the sole aim of reducing corporate tax liability. Chen, (2010) opines that tax planning is an important practice employed by managers of corporations to minimize tax liabilities that reduce the returns of companies and shareholders. Mgammal and Ismail (2015) contended that tax planning is the suitable option within relevant tax laws to minimize corporate tax liability. They further stated that tax planning can be achieved by using different tax rates between separate jurisdictions and economic activities as well as tax incentives provided.

The American Institute of Certified Public Accountants (2015), identified two major objectives of tax planning. The first objective is to reduce the total income tax liability and the second is to achieving financial planning with little tax outcomes (AICPA, 2015). According to Mgammal and Ismail (2015), the aims of tax planning can be achieved with three major strategies. The first objective is the decrease in income tax liability as a result of the proper arrangement or a given financial transaction. The second entails the shifting of the time of taxable event and the third involves shifting income to another tax jurisdiction (AICPA, 2015).

There are several measures used in tax planning research to measure the concept of tax planning. According to Abdul Wahab (2010), prior tax planning studies apply several measures of tax planning using both private and public data. Previous researchers such as Hanlon & Heitzman, (2010), Abdul Wahab (2010), Mgammal and Ismail (2015), Rego and Wilson, (2012), Moahmmad (2017) used different measures to explain tax planning on the basis of data accessibility and interest. Mgammal and Ismail (2015) argue that in the measurement of the result of tax planning, the measure can be appropriate due to the exhibition of a gap between taxes burden-based book reports and taxable income based. They further noted that book tax gaps are the popular measures utilized by researchers.

Mohammad (2017) noted that the measures listed by Hanlon and Heizman (2010) are summarized as falling into four classes of effective tax rate measures, discretionary or abnormal measures, unrecognized tax benefits and tax shelter firms. The effective tax rate measures are broad measures that cover both permanent and temporary differences while the other three measures all capture specific forms of tax planning.

Advantages of Tax Planning

To minimize litigation: To litigate is to resolve tax disputes with local, federal, state, or foreign tax authorities. There is often misunderstanding between tax collectors and taxpayers as the former attempts to extract the maximum amount possible while the latter desires to keep their tax liability to a minimum. Minimizing litigation saves the taxpayer from legal liabilities.

To reduce tax liabilities: Every taxpayer wishes to reduce the tax burden and save money for their future. You can reduce your payable tax by arranging your investments within the various benefits offered under the Income Tax Act, 1961 as added. The Act offers many tax planning investment schemes that can significantly reduce your tax liability.

To ensure economic stability: Taxpayers' money is devoted to the betterment of the country. Effective tax planning and management provide a healthy inflow of legal money that results in the sound progress of the economy. This benefits both the citizens and the economy.

To leverage productivity: One of the core tax planning objectives is channelizing funds from taxable sources to different income-generating plans. This ensures optimal utilization of funds for productivity.

Return on Equity

It measures the rate of return that the owner of common stock of a company receives on their shareholder. It will vary based on the industry or sector in which the company operates. It signifies how good the company is generating returns on the investment and the higher the shareholders ROE, the better a company is at converting its equity financing into profits. To calculate ROE, divide profit after tax by the value of shareholders' equity. It is given by the formula:

$$\frac{Profit\ after\ tax}{Shareholders\ Equity}$$

Effective Tax Rate

Effective tax rate is the percentage of the income that an individual or a corporation pays in taxes. The effective tax rate for individuals is the average rate at which their earned income, such as wages, unearned income, and stock dividends, are taxed. The effective tax rate for a corporation is the average rate at which its pre-tax profits are taxed, while the statutory tax rate is the legal

percentage established by law. Investors may use effective tax rate as a profitability indicator for a company, but it can be difficult to determine the reason for year-to-year fluctuations in the ETR. It is given by the formula:

$$\frac{Tax\ Payed}{Profit\ Before\ Tax}$$

Book Tax Difference

It is the difference between the amounts of accounting or commercial profit and fiscal profit Hendrawati (2020), which either be temporary or permanent differences. The ifference between the Carrying Value of a Partnership asset and its adjusted tax basis. It is given by the formula:

The budgeted tax income less the actual tax collected

Firm Size

Firm size is defined as the value of the asset which the company has at any particular time. Babalola (2013) argues that the larger a firm is, the more the influence it has on its stakeholders*,* consequently large firms tend to outperform small firms. Setiadharma and Machali (2017) were of the opinion that a big firm size is an indicator of a good growth of the firm; this will give positive signal to investor, which leads to an increase in firm value. Firm size could be one of the most important factors which affect firm performance.

Concept of Shareholder's Wealth

One of the purposes of setting up a business is for profitability which in turn creates value for the shareholders. Company finance theory premised its assumptions of creating value for shareholders as the primary objective of the firm, Olowe (2017). Where value is the main purpose of financing a company, then the maximization of such value will be at the forefront of the risk- takers who are the shareholders of the firm. The value of the business is related to the value of the ordinary shares owned by the equity holders and traded on the floor of the exchange for listed companies (Totola & Nicolas,2018).

The company exists for profit-making. The residual profit remaining after the distribution to other stakeholders belongs to the ordinary shareholders. Brealey and Myers (1996) is of the opinion that any undistributed wealth belongs to the equity shareholders. Shareholders want to maximize their shareholdings every time and this is done through making investment decisions that will yield positive net present value. Brealey, Myers and Cleary (1996), Atkinson and Drake (2012) alleged that for the value of the shareholders to be maximized, resonate to Net Present Value (NPV) of projects embarked upon by the managers. The shareholder's purchase shares because they want to earn good returns over time on their investment and at low risk. Wealth maximization is a long-run view that resulted from the three major decisions of the managers – Investment decisions through positive NPV projects/capital investment, financing decisions with the least cost financing strategy to maximize return and Dividend policy which is necessary to give back to the investors (Bhalla 2012; olowe 2017). For shareholders' wealth to be maximized, the share price of the company must increase over time through sustained performance and information to the public.

Theoretical Review

The works of various scholars on tax planning and shareholders wealth maximization have led to various conclusions over time. Several theories that were reviewed in these discourses are Capital Market Efficiency Theory, Dividend Relevance Theory and Dividend Irrelevance Theory.

Dividend Relevance Theory

The theory was propounded by Graham and Dodd (1934) where they asserted that dividends will always influence the value of the firm. This theory is also called the Rightist Theory and advocated for a regular dividend payout ratio to influence the value of the firm Brealey and Myers (2018). The major supporters of this theory are (Lashgari, 2022; Akintoye 2021) assert that the model is based on the following assumptions:

The entity is financed strictly by equity only and all investors do not want any level of risk; All earnings are either paid out as dividend to the shareholders or retained for internal reinvestment and; the entity has a perpetual or lasting earnings stream. Lashgari, (2022) main argument centered on the fact that the payment of dividends to the shareholders is to increase the stock price on the floor of the exchange.

Dividend Irrelevant Theory

This was propounded by Miller and Modigliani's in 1961. They stated that dividend payment does not have any impact in the determination of the entity's value. Which is argued that if the company has a given investment decision over time, the dividend payout ratio does not affect shareholders' wealth, (Alajekwu & Ezeabasili 2020). Their argument centered around the firm earnings and investment decisions as one of the major factors that affects the value of the company and as such the split of profit after tax into dividend portion and retained earnings is unnecessary and does not change the firm's valuation (Black, 1996; Bhalla, 2013; The dividend irrelevance theory has some of the folowing assumptions.

Capital Market Efficiency Theory

This theory It was founded by Eugene fama in his article "Efficient Capital Markets: a review of theory and empirical work" published in 1970. It can be defined as a market in which current market prices fully reflect available information. That is, one in which costless trading rules do not consistently beat the market. It can also be the degree to which the present asset price accurately reflects current information in the market place or a market in which new information is very quickly reflected accurately in share prices.

Review of Empirical Studies

Ado, Rashid, Mustapha and Ademola (2021) examined the impact of corporate tax planning performances of listed companies on the Nigerian Exchange Group for 2010-2018. The study employed ex-post facto research design data for the study were collected from Thompson Reuter DataStream. Multiple regression was adopted in the data analysis. They also found out that the inventory intensity reveals no relationship with Return on Asset. Which implies that the percentage increase in inventory intensity of company might not in any way increase financial performances.

Kayode and Folajinmi (2020) it will assess the effect of corporate tax planning on the financial performance of Quoted food and beverages firms in Nigeria, with a population of listed 15 quoted food and beverages firms on the Nigerian Exchange Group between 2008 and 2018, using sampling technique of total meration sampling method. The study employed ex-post facto research design. The data were analyzed using descriptive statistics. From the analysis done, it has shown that corporate tax planning variables of effective tax rate, capital intensity, and thin capitalization do not have a significant positive effect on financial performance of a quoted food and beverages firm in Nigeria.

Olaoye and Bamisaye (2018) examined deferred tax and financial performance of firms in Nigeria and specifically analyzing the effect of both deferred tax asset and deferred tax liability on firm's performance measured in terms of profit after tax, earnings per share, return on asset and return on equity. 10 firms were sampled from the Nigerian exchange group and data covering a period within 2007 and 2016 were analyzed by panel based estimation techniques. Result revealed that deferred tax asset and deferred tax liability exert negative impact on performance of firms. It thus stands that deferred tax practice by Nigerian firms has the tendency of impeding their prospect of sustaining improved performance, either when viewed from the purview of profit after tax, earnings per share, return on asset or return on equity.

Igbinovia and Ekwueme (2018) the study test the moderating effect of monitoring on the corporate tax avoidance- shareholders' returns in quoted Nigerian firms from 54 non-financial firms from various sectors of the Nigerian Exchange group using an ex-post facto design and annual financial data. Analyses were carried out adopting the Ordinary Least Square (OLS) regression within the framework of E-view 9.0. The study demonstrates that corporate tax avoidance positively impacts shareholders returns in quoted non-financial firms in Nigeria and the effect is improved with better monitoring mechanism in place. We also noticed that there was improvement in the liquidity, profitability, expected growth and tangibility of the sampled firms when tax avoidance behavior are well monitored.

Kawor and Kportorgbi (2014) studied the relationship between tax planning and firms' market performance. Using a longitudinal correlative design, the study used 22 nonfinancial companies listed on the Ghana Stock Exchange for the period 2000-2012, their results reveal that a low statutory corporate income tax rates suppresses firms' tendency to engage in intensive tax planning activities. Also, tax planning has a neutral influence on firms' performance. This finding is a deviation from the general perception that every cedi of tax savings from tax avoidance benefits investors. They recommended that investors institute monitoring systems to ensure that the benefits from tax planning are channeled to investors' pockets.

Mosota (2014) examined how tax evasion affects the financial performance of companies listed on the Nairobi Stock Exchange (NSE).Data on the size, institutional shareholding, government shareholding, age, and intangible asset for the 61 listed companies on the Nairobi Stock Exchange were gathered using a descriptive research design (NSE). His findings show that tax dodging has a major favorable effect on the financial performance of the companies. Leverage had a negative effect on the financial performance of the selected organizations, but size, age, and intangible assets had positive effects. He advises businesses to aggressively evade taxes in order to increase profitability.

Nwaobia, Kwarbai, and Ogundajo (2016) examined the consequences of tax planning on the value of firms, using 50 firm-year observations for the period 2010-2014. They sourced data from the financials of the sampled companies and analyses involved both descriptive and inferential statistics within a specified panel regression framework. A significant joint effect on the firm value was observed for all tax planning variables considered. A positive and significant effect was observed for Effective tax rate (ETR), Firm age (FAG) and Dividend (DIV) while capital intensity and leverage were seen to have significant negative effect of firm value. They recommend an all-inclusive approach to tax planning to improve on firm value.

Olarewaju and Olayiwola (2018) conducted an investigation on the relationship between corporate tax planning and financial performance of quoted non-financial companies. The secondary data used were gathered from 47 sampled non-financial companies from 2007-2016. They adopted a panel vector autoregressive approach with structural analysis such as variance decomposition and impulse response function. The results of the study revealed that tax saving had a direct relationship with financial performance, while tax avoidance had an inverse relationship with financial performance. The financial variables under consideration mainly contributed to their own shocks or forecast errors.

The responses of the financial performance to shocks in tax avoidance had an expansionary effect which could hinder the performance of the companies, while financial performance response to shocks in tax savings had a contractionary effect and as such, could lead to better performance of the companies. Thus, corporate tax planning that enhances tax savings greatly contributes to the performance of non-financial companies.

Research Methodology

Sources of Data

The data for this study were sourced from secondary materials. Secondary data were obtained from the annual reports and accounts of the selected banks listed in the Nigerian Exchange Group (NGX) for the period 2010 -2021. Specifically, the data collected and used for the study were for Effective tax rate, Return on equity, Book tax difference, Firm size and firm age.

Data Analysis Technique

The statistical techniques (mean, median and mode) and Econometric method were the main analytical techniques used in this study. The statistical technique offers background characteristics of the data as well as investigate the pattern of qualitative movement in the data between banks and over time using statistical techniques such as descriptive and correlation analysis. In addition, the behaviour of the data was easily examined by using the variables of the data with statistics like kurtosis, skewness, Jarque-bera (JB) and standard deviation.

The second method is the advanced econometric technique using regression analysis procedure. The econometric statistics software (E-view 10) was used in conducting the regression analysis.

Model Specification

The model is the basic panel econometric model which includes the independent variables together with the moderator and the control variable. The model for this study is functionally stated as follow:

Shareholders wealth = f(Tax planning)

Econometrically, the model is presented as follows:

$ROE_{it}= \beta_{0it}+\beta_1 ETR_{it}+\beta_2 BTD_{it}+\beta_3 FSZ_{it}+\beta_4 FAG_{it}+_{eit}$ .... (1)

Where:

ROE_{it}=Return on Equity for Firm i in period t
ETR_{it}= Effective Tax Rate for firm i in period t
BTD_{it}= Book Tax Difference for firm i in period t
FSZ_{it}= Firm Size for firm i in period t
FAG_{it} = Firm Age for firm i in period t
$B_1 – B_4$ = Coefficient
i = (1, 2, 3 .....10) is the selected deposit money banks in Nigeria
t = Time dimension of the variant
e =Error term

Table 1.1: Operational Measurement of Variables

S/N	Variable	Proxy	Measurement	Source
1	Return on Equity	ROE	Profit after tax divided by Shareholders Equity	
2	Effective Tax Rate	ETR	Tax payed divided by profit Before Tax	
3	Book Tax Difference	BTD	The budgeted tax income minus the actual tax collected	
4	Firm Size	FSZ	The natural log of total asset	
5	Firm Age	FAG	The date of corporation of a firm till date	

Data Analysis and Discussion

Descriptive Statistics

Descriptive statistics show the summary of data and other basic characteristics within the series. The annualized summary statistics for the main variables in the study are presented for the sampled firms in the study. Annualised summary statistics for the variables are reported in Table 4.1 below. In the Table, average return on equity (ROE) is 1.9 percent, which is relatively low. With a maximum value of 34.69 percent and a minimum of 0 percent, there are extreme return values for the banks over the years. The standard deviation value of 3.08 is however larger than the reported mean value, which shows that the ROE for the ten banks in the sample appear to be highly different over the years.

The J-B statistic for the ROE variable passes the significance test at the 1 percent level, suggesting that the probability distribution of the variable is non-normally distributed. Thus, there is high heterogeneity among the various banks in terms of their performance. It shows that individual bank-specific factors contribute strongly to how the performance of the banks (in terms of shareholders' value maximization) is determined.

Table 4.1: Descriptive Statistics

Variable	Mean	Max.	Min.	Std. Dev.	Skew.	Kurt.	J-B	Prob	Obs
ROE	1.90	34.69	0.00	3.08	8.60	88.30	101591.90	0.00	120
BTD	5.76	22.41	-4.80	4.83	1.10	3.79	73.05	0.00	120
ETR	12.37	81.69	-45.84	18.00	0.75	5.53	115.95	0.00	120
FSIZE	11.13	15.60	5.95	2.43	0.39	1.87	25.25	0.00	120
FAGE	37.89	124.00	1.00	23.20	1.55	5.80	234.15	0.00	120

Source: Researcher's computation (2022).

Average effective tax rate is 12.37 percent for the banks, with minimum value being -45.84. Given that maximum value is 81.69 percent, it is seen that the effective tax rate is generally high for the banks in Nigeria. This implies that banks pay higher taxes than the prevailing economic conditions in the country. The average book tax difference (BTD) is 5.76 percent, indicating that the banks pay a premium on tax planning activities in Nigeria. This does not reflect a highly efficient tax planning system among Nigerian banks. Average firm size is 11.13 percent, with a standard deviation of 2.43, suggesting that the banks in the study are relatively closely matched in size. Average age of the banks is 37 years which shows that the banks are moderately experienced.

The pattern of initial relationships among the variables is considered by the correlation statistics as shown in Table 4.2. In the results, a positive correlation is shown to exist between ROE and both BTD and ETR, indicating that the performance of the banks moves in the same direction with the tax planning variables. Banks with higher book tax difference and effective tax rates also tend to perform better. A strong positive correlation also exists between BTD and ETR, indicating that the two tax planning variables move in the same direction. Banks with better book to tax difference also have better effective tax rates. The Table also shows that bigger banks are also associated with better tax planning schemes in Nigeria.

Table 4.2: Correlation Matrix

Variable	ROE	BTD	ETR	FSIZE	FAGE
ROE	1.000				
BTD	0.286	1.000			
	0.000	-----			
ETR	0.019	0.191	1.000		
	0.734	0.001	-----		
FSIZE	0.121	0.177	0.137	1.000	
	0.030	0.001	0.014	-----	

FAGE	-0.124	-0.095	0.208	0.155	1.000
	0.027	0.087	0.000	0.005	-----

Source: Researcher's computation (2022).

Regression Analysis

In Table 4.3 below, the initial OLS estimation of the relationships which highlights the relationship between tax planning and shareholders' maximization of value (ROE) is reported. The model has a moderate goodness of fit with the adjusted R^2 as 0.121 (since the data used is panel in nature). That shows that 12% of the determinant of ROE among banks in Nigeria over the period of study is explained by the independent variables used in the study. The F-statistics value of 11.97 is highly significant at 1% significant level. The % significant level of the F-Statistic tells us that a positive linear relationship exists between the dependent variable and its determinants.

Table 4.3: Results of the OLS empirical estimates

Variable	Coefficient	t-Statistic	Prob.
Constant	-0.610	-0.766	0.444
BTD	0.004	0.562	0.575
ETR	0.003	5.911	0.000
BSIZE	0.188	2.744	0.006
BAGE	-0.018	-2.598	0.010
R-squared	0.132		
Adjusted R-squared	0.121		
F-statistic	11.97		

Source: Researcher's computation (2022).

With regards to the individual independent variables, it was observed from the results that the coefficients of ETR, BSIZE and BAGE passed the significance test at the 1 percent level. The coefficient of BTD failed the significance test even at the 5 percent level. This result shows that effective tax rate has significant positive impact on ROE among the banks. In the same vein bank size has positive impact on ROE while the age of banks has negative impact on ROE. The results of the OLS estimates are however unreliable since there is homogeneity in the panel data set which OLS cannot address. Only a panel data estimations framework can address this problem. This is the direction that this analysis turns next.

In carrying out the panel data estimation, a test to select the estimation procedure is initially undertaken. The standard test for the method of panel analysis to adopt is the Hausman test for random effects. The result of the test is reported in table 4.4. The lower portion of the table shows the variance differences between the estimates of fixed – and random – effects. It shows that a significant difference exists in the estimation of shareholders' wealth maximization and tax planning among banks. Apparently, the individual banks have quite different positions in terms of the two variables. The Chi-Square statistic for the random cross-section argument (in the upper portion of the table) is 2.852 and it fails the 5 percent significance test. This implies that the null hypothesis is accepted. Since the null hypothesis is accepted, the random effects estimates for the panel data analysis procedure is chosen as the best representation of the relationships. From our results, the statistic provides much evidence against the null hypothesis that there is no misspecification when the fixed effect model is employed. Hence, the best method to apply is the random-effect strategy.

Table 4.4: Hausmann test for random effects

Test Summary		**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Period random		2.852	4.000	0.583
Period random effects test comparisons:				
Variable	Fixed	Random	Var(Diff.)	Prob.
BTD	0.003	0.004	0.000	0.419
ETR	0.003	0.003	0.000	0.397
FSIZE	0.198	0.188	0.000	0.121
FAGE	-0.018	-0.018	0.000	0.165

Source: Researcher's computation (2022).

The static random effects estimate of the effects of tax planning on ROE (shareholders' wealth maximization) of the banks are presented in Tables 4.5. In this result, the adjusted R-squared value is 0.121, while the F-statistics value of 11.7 indicates significance at the 1 percent level. The F-statistic value also passes the 1 percent test and implies that a strong relationship exists between the dependent variable and all the independent variables combined. The major focus of the results is on the coefficients of the explanatory variables which show the impact of the variables on ROE.

Table 4.5: Estimation of tax planning and ROE relationships

Variable	**Coefficient**	**t-Statistic**	**Prob.**
Constant	-0.610	-0.759	0.449
BTD	0.004	0.343	0.732
ETR	0.003	5.879	0.000
BSIZE	0.188	2.769	0.006
BAGE	-0.018	-2.632	0.009
	Weighted Statistics		
R-squared	0.132		
Adjusted R-squared	0.121		
F-statistic	11.97		
	Unweighted Statistics		
R-squared	0.132		

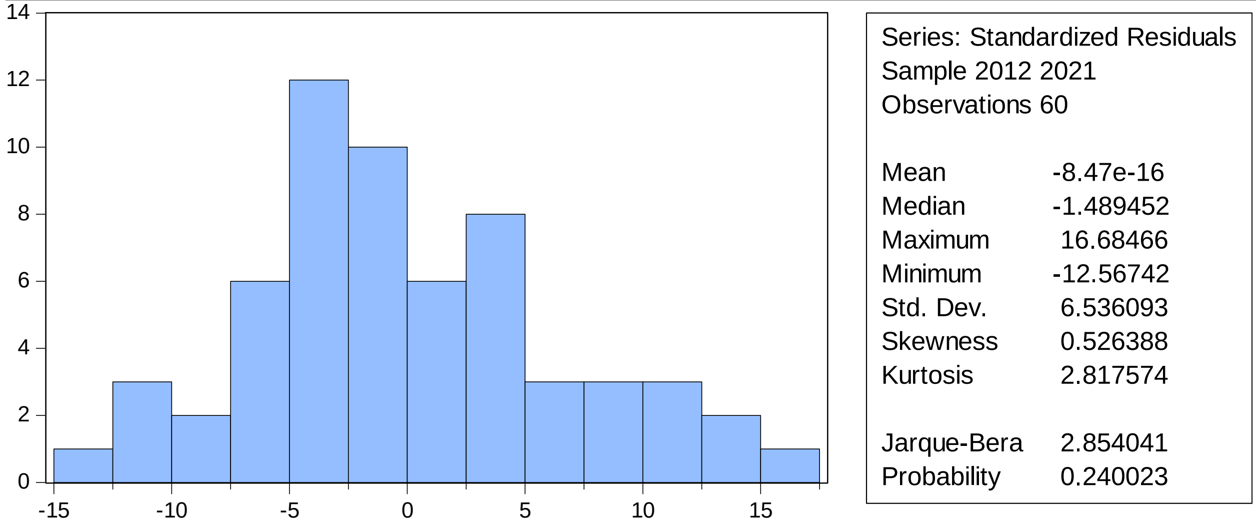
Source: Researcher's computation (2022).

Considering the individual coefficients of the explanatory variables, the results are explicit in the study are:

1) Book to tax difference of the banks has no significant impact on return on equity of the banks. Although the coefficient of BTD is positive, it fails the significance test at the 5 percent level, thereby indicating that book to tax difference of the banks do not influence their ROE. Essentially, the result implies that tax planning systems that involve efficiency in the use of bank assets in financing tax activities do not necessarily promote the overall performance of the banks in Nigeria.
2) The coefficient of effective tax rate is significant at the 1 percent level, which suggests that improving the effective tax rates of the banks has capacity to promote shareholders' wealth through improved ROE. The result implies that boosting the tax payment systems in relation to current revenues improves the ROE of the banks in Nigeria.
3) The coefficient of bank size (BSIZE) is significant at the 5 percent level and it is positive. This result shows that the size of a bank improves its ROE over time. This also shows that size has an indirect impact on the ROE of the banks through boosting effective tax rate. From the correlation analysis, it was seen that a strong positive relationship exists between bank size and effective tax rate. Thus, bigger banks have more effective tax rates, which in turn, promotes ROE of the banks. The other variable in the model is bank age (BAGE) with significant negative coefficient. This result shows that older banks perform less than newer banks in Nigeria.
4) Firm size has a significant positive influence on tax planning and ROE. This implies that larger banks tend to possess better capacity to boost tax planning over time. Bank growth prospects also seem to have a considerable level of impact on banks' overall shareholders' wealth performance.

The test of normality for the probability function of the estimated model is reported in Figure 4.1. Clearly, the chart shows that the probability distribution of the residual from the estimated model is normally distributed. This is also seen in the J-B statistic value of 2.85, which is fails the significance test at the 5 percent level. Thus, the estimates from the results are reliable and can be used for policy conclusions. In terms of the test for autocorrelation, the probability of Q-stat for both the standardized residuals and the standardized residual squared are insignificant, which suggests that absence of serial correlation in the estimated model.

Figure 4.1: Plot for the test of uniform distribution of residuals



Summary of Findings, Conclusion and Recommendation

Summary of Findings

In this study, the relationship between tax planning and shareholders' wealth maximization among deposit money banks in Nigeria is examined. A disaggregated approach was adopted in the study by considering the distributional effects of both effective tax rate and book tax difference as the main tax planning components of the banks in Nigeria. A panel of 10 deposit money banks was used for the analysis for the period of 2010 to 2021 (12 years).

The Random Panel estimation technique was adopted for the empirical analysis. There is general evidence from the study that tax planning acts as a strategic wedge by banks in Nigeria in delivering relevant pecuniary benefits to shareholders among Nigerian banks. The specific findings in the study include:

1. That the book to tax difference of the banks has no significant impact on return on equity of the banks. This implies that efficiency in long-term tax planning does not influence shareholders' wealth maximization among Nigerian deposit money banks.
2. That effective tax rate has no significant impact on return on equaity among deposit money banks in Nigeria. Thus, improving the current tax planning capacity of banks has capacity to promote shareholders' wealth through improved ROE.
3. That the size of banks has a significant direct and indirect impact on return on equity of deposit money banks in Nigeria. The indirect impact is attained through improved effective tax rate of the banks.

Conclusion

Maximising shareholders' wealth is a critical goal and target of any firm in the modern period. This is also essentially in the banking sector where expansion of shareholders' wealth is crucial. Hence, there is always a focus on this issue among all stakeholders of the banks in Nigeria. This study has examined the impact of tax planning on maximizing shareholders' funds (measured as the return on equity) for deposit money banks in Nigeria.

The findings of this study have major implications for policy makers, regulatory agencies and practitioners. This study helps inform regulatory agencies and policy makers on the need for banks to provide effective and efficient tax planning systems that aid shareholders.

Therefore, the findings of this study provide valuable information for board of directors and those saddled with governance. In the same vein, this study provides insight for deposit money banks on how to satisfy the continuous yearning of stakeholders for effective tax policies in the banks.

Recommendations

Based on the findings of the study recommendations for policy are outlined. First, banks need to focus more on the current and short term tax planning management in Nigeria. The study shows that more efficient management of effective tax rate (which relates more to current tax planning) is more relevant for boosting shareholders' wealth maximization among banks in Nigeria.

Shareholders should also focus on enforcing tax efficiency management through the directors. Considering only the book tax difference may not yield relevant wealth appreciation to the shareholders. Rather there is need to expand the tax management systems in order to improve ROE of the banks.

Third, reducing the compliance burden of banking sector taxpayers is important for promoting tax drive in the sector. This should necessitate reducing complexity of the different tax laws or introducing the types of simplification measures discussed above. It also relates to ensuring that more formal regulations, such as the procedures regarding filing, record keeping requirements, procedures for appeal or payment delays, are not unnecessarily complex. Such a system is the most likely to reduce compliance burdens for these businesses, promote their compliance and lower costs for the tax administration.

Finally, the Federal Inland Revenue Service and its states counterparts should be further strengthened to reposition them for better service delivery. This can come in form of more manpower, better training of personnel and adequate funding for more administrative control.

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