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EFFECT OF TAX PLANNING ON THE FIRM GROWTH OF LISTED DEPOSIT MONEY BANKS (DMBS) IN NIGERIA

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Abstract

The study examined how tax planning affects firm growth in Nigerian Deposit Money Banks that were publicly listed on the Nigeria Exchange Group (NGX). *Ex-post facto* design was employed in this investigation. The population for this study is drawn from Nigerian Deposit Money Banks over ten years (2015-2025). Seven Deposit Money Banks in Nigeria were selected using simple and stratified sampling approaches. With the help of E-View 10.0 version, the hypothesis was tested using Ordinary Least Square. The findings revealed that effective tax rate has no sequential impact on the performance of Nigerian Deposit Money Banks, while firm size has a positive significant effect on the performance of Deposit Money Banks in Nigeria. The following recommendation is based on the findings: Nigeria businesses should hire tax experts/advisers to manage their tax computations and remittances. The study concludes that there is an urgent need for all the businesses in Nigeria to explore the services of tax auditor, to assist in auditing their financial activities more especially where it concerns taxation.

Keywords: Tax planning, Effective tax rate, Firm growth and Return on assets.

Introduction.

Tax planning is the systematic analysis of a financial situation or plan from a tax perspective, with the aim of legally minimizing tax liability and maximizing after-tax income or wealth (John-Akamelu & Osegbue (2024). It involves arranging your financial affairs in ways that comply with tax laws while taking full advantage of all available deductions, exemptions, allowances, rebates, reliefs and incentives. Tax planning works within the law. It's different from tax evasion which is illegal and tax avoidance which may be aggressive or against the spirit of the law. Proper tax planning uses provisions deliberately put in the tax code by government. Tax planning is done before a transaction or before year-end, not after. You structure income, expenses, investments, and business decisions in advance to produce a favourable tax outcome.

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When submitting to the proper tax authorities in Nigeria, non-corporate enterprises under-disclose their earnings on various occasions (Kiabel and Akenbor, 2014). As a result, they lower the company's tax liability to government tax authorities on purpose, and some use clever accounting to avoid reporting profit at all (Gillespine & Lewis, 2015). Nonetheless, the Nigeria fiscal system faces issues in bringing small and non-corporate businesses into the tax net in a way that allows them to pay the required amount (Kiabel & Akenbor, 2014). Many people have a fear of contributing a large sum of money to the government's coffers.(Alm, 2013). Those who profit from successful tax avoidance are the evaders. This is due to the fact that distributional effects disproportionately benefit those in the high-income group. Domestic assistants, such as home cleaners, baby sitters, and domestic workers, for example, will benefit their employers, who are likely to be high-income families (dada, 2017).

The issue of tax evasion is not limited to personal income taxes; it also encompasses all other forms of taxation, such as corporate income tax, which is anticipated to be paid by corporations. This has made tax evasion and avoidance household terms in the Nigerian tax system, resulting in a loss in the federal government's revenue from taxation. Corruption, which has infiltrated our economic institutions, is the primary cause of this heinous deed. Nigerians make the most of any chance that comes their way, both favourable and negative, which is why the " l must make it syndrome, exist (Jibo, 2016)

In Nigeria, just a few research have disproved the traditional link between tax preparation and corporate performance. While acknowledging that tax planning has a favourable relationship with company performance, Akintoye, Adebie and Onyeka-Iheme (2020) discovered that tax planning tactics have both negative and positive effects on the profitability of Nigerian quoted manufacturing firms. Effective tax rate (ETR) has a negative influence on business value, (Ume, Okegbe and Ezejiofor (2020), but this impact is statically significant.

Aggressive tax planning, such as thin capitalization, tax law incentives, and other benefits of loopholes in Nigerian tax legislation, (Ogundajo and Onakoya (2016), has not been properly leveraged by Nigerian enterprises. Dada (2017), tax planning has no meaningful impact on corporate performance.

Objectives of the study

The main of this study is to examine the effect of tax planning on firm growth in Nigeria, while specific objectives are to:

1. Examine the effect of effective tax rate on return on assets in Nigeria.
2. Investigate the effect of firm size on Return on assets in Nigeria.

The Research questions and Research hypotheses are in line with research objectives stated above.

Review of Related Literature

Tax planning is the process of analyzing and arranging one's financial affairs in a manner that legally minimizes tax liability and maximizes after-tax returns, while remaining fully compliant

with tax laws and regulations. It's not about evading tax. It's about using the provisions, exemptions, deductions, allowances, reliefs and incentives built into tax legislation to pay the least amount of tax legally required.

Recently, tax executives have shifted their firms tax functions focus from ETRs and tax planning to compliance and accurate financial reporting (Ernest & Young, 2016). Tax planning can result in a drop in firm performance when managers have both the opportunity to undervalue reported accounting profit and the incentive to lower company income tax burden by understanding taxable income. When there is an information asymmetry between management and shareholders about tax planning, managers may be tempted to satisfy their cardinal interest. As a result, there may be a negative relationship between tax planning and firm value,(Dharmapala, 2014).

Tax planning include not just methods targeted at reducing tax burden, but also the cash flow impact on the firm in terms of when it is most profitable for a company to settle tax liabilities with incurring any penalty (Cletus, 2016). The study of Adetola & Oke, 2016) reported that, tax planning is a tool at the disposal of tax payer to reduce the burden of tax paid or payable. Tax planning is 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 (Vasanthi, 2015)

Firm growth

Firm growth is the ability of a company growing faster than its peers or the broader economy. Gupta, Gula and Krishnaswami (2013) defined firm growth as the growth processes of an enterprise, which may vary from country to country. The growth pattern of an enterprise/firm is influenced by the internal and external environmental factors which bare limited. The internal factors are those factors which can be controllable, which comprises of enterprise human resources, its strategy, functional, operational, marketing and technical capabilities. External factors are those factors that are beyond human control such bas economic, socio-cultural, legal, political, trade, financial, demographical, technological and geographical factors etc. Firm growth is an important determinant of a thriving economy. Perenyi, Selvarajah and Muthaly (2015) sees firms growth as an evolutional process, which is based on the accumulation of growth can be defined as an increase in size and other quantifiable measures and also as a process of change and improvement. Firm size is a product of firm growth over a period of time. In order words, firm growth is a process, while firm size is a state. Firm's expansion is an instrument of firm growth which can be through organic or through acquisitions. Organic expansion means extending the firm's operation by broadening its horizon. (John-Akamelu & Ezejiofor, 2018) affirmed that firm growth is an organizational outcome resulting from combination of firm-specific resources, capabilities and routine. A firm growth opportunity is highly related to its current organizational production activities. Firm growth is also uncertain and unpredictable because environmental conditions such as competition and market dynamics play important role. Determinant of firm growth are environmental, organizational and individual.

Effective Tax Rate (ETR)

Kagan (2018) defined effective tax rate as the average tax rate paid by a corporation or an individual. The effective tax rate for individual is the average rate at which his/her earned income like wages and unearned income such as dividend etc are fixed. The effective tax rate for a company is the average rate at which its pre-tax are taxed. The method of calculating effective tax rate is as follows:

For an individual:

ETR=Total tax÷ Taxable income

For company:

ETR=Total tax ÷ Earning before taxes

The effective tax rate is applicable to only federal income taxes and does not take into account state and local income taxes like sales, property or other types of taxes an individual might effective tax rate is more accurate in calculating individual overall tax liability. The effective tax rate is the average percentage that companies and individuals pay in taxes deductable from their taxable income. It is calculated by dividing total taxes paid by the taxable income. Effective tax rate concerns only the income without including other types of taxes. Each effective tax rate formula is different. Individual calculate their tax rate by dividing taxes paid by taxable income, while companies calculate their tax rate by dividing their tax expenses with EBIT. Sean and Hugo (2017) effective tax rate is the percentage of taxable income effectively paid as tax. It is the amount of tax owed divided by the taxable income. There is great difference between the marginal tax rate and effective tax rate. The marginal tax rate is the amount of tax paid on an additional income.

Return on Asset (ROA)

Some earlier research have identified a negative link between ETR and ROA, such as it was discovered that highly profitable businesses pay lower taxes because they took advantage of tax incentives and other tax laws to minimize their taxable income (2020). It defined as follows:

ROA=PBT/TA

Where:

ROA=Return on capital

PBT=Profit before tax

TA=Total assets

Theoretical Review

Tax Planning theory.

This study is anchored on Tax planning theory which was propounded by Williams Hoffman in the year 1961. The affirmed that companies have option to reduce their tax burden in order to increase profit, when they are faced with options such as tax aggressiveness strategy. Tax planning can be seen as tax payer's capacity to arrange his financial activities in such a manner as to suffer a minimum expenditure for taxes. Bufema and Bangassa (2015) believed that higher tax savings

through good tax planning activities improve efficiency and thereby making the firm more profitable. Studies like Rusmin (2010), Desai and Dharmapala (2009) believed that one of the things that provide opportunities for financial manipulation by managers and tax agencies is agency problem as shareholders are kept in the dark by managers. This theory supported tha principles and ability to plan tax activities and also ability to record huge profit and pay little or nothing as tax.

Empirical Review

Seyram and Holy (2017) examined how much tax planning firms do and what the relationship is between tax planning and market performance. The study employed a longitudinal correlative design. Finding revealed that tax planning on company value in listed consumer products manufacturing enterprises in Nigeria has significant effect on the growth of the companies.

Akintoye (2020) studied the impact of tax planning strategies on manufacturing firms' profitability in Nigeria. The study used ex-post facto research design strategy. The study's main goal was to see how tax planning strategies affected the profitability of quoted manufacturing companies in Nigeria, for the period of ten years (2008-2017), data was collected from the audited annual reports of the sampled companies. The statutory audit of the financial statements was used to determine the validity and reliability. The data was analyzed using descriptive and inferential statistics. The findings revealed that tax planning tactics have both bad and beneficial consequences.

Ogundajo and Onakoya (2016) investigated the impact of corporate tax planning on the financial performance of manufacturing firms listed on the Nigeria Exchange Group (NGX). Based on the result of Hausman's model estimation test, the study used the Generalized Least Square(GLS) regression approach. It was found that tax planning techniques such as capitalization, tax law incentives and other benefits of loopholes in Nigerian tax laws are not being properly utilized by Nigerian businesses.

Ayed and Zemzem (2014) study the relationship between firm value and tax planning. Firm size, leverage, capital intensity, and dividend and earnings management were used as control variables. The study used a Generalized Least Square (GLS) regression model and discovered a substantial and negative link between firm value and tax preparation, which backs up the agency cost hypothesis of tax planning.

Ume, Okegbe and Ezejiofor (2020) examined the effect of aggressive tax planning on firm growth in Nigeria. The study used an ex-post facto research design, the data were drawn from annual public financial and non-financial reports for ten years from 2009-2018. With the help of E-View 9.0, the three hypotheses were tested using ordinary least square regression. The analysis result discovered that while the effective tax rate (ETR) has a negative impact on business value, it is statistically significant.

Dada (2017) investigated the impact of tax preparation on the performance of Nigerian listed companies. The study used a survey and an ex-post facto research method. As of April 2012, the study's population consisted of 240 publicly traded companies' on the Nigerian Exchange Group (NGX). For the study, fifteen companies were sampled using simple and stratified sampling approaches, with five companies from each of the studied sectors. The findings reveal that tax planning has no discernible impact on corporate performance.

Chen and Trombley (2017) investigated the impact of tax planning and earnings management on book and taxable income . The incremental effect of tax planning and profits management on book and taxable income, as well as the relationship between voluntary conformity and book and taxable income of organizations were documented using two different sets of tests. Tax planning and earnings quality are found to have an impact on book and taxable income.

Adul-Wahab and Holland (2017) investigated the relationship between tax planning savings of firms and their value utilized the regression model was negative. Indeed, relationship between firm value and tax planning activities from the perception that as tax planning activities increase, the tax costs and risks outweighs the benefits.

Goh, Lee and Shevlin (2016) examined the relationship between the firm cost of equity and corporate tax avoidance using three measures that capture less extreme forms of corporate tax avoidance; long-run cash effective tax rates, permanent book –tax differences, and book-tax differences. The study found that less aggressive forms of corporate tax avoidance significantly reduces a firm's cost of equity. . Further analysis reveals that this effect is stronger for firms with better outside monitoring. It is also applicable to firms that likely realize higher marginal benefits from tax savings, and firms with better information quality.

Armstrong and Larcker (2016) examined the relationship between tax director incentives and GAAP and cash effective tax rates, the book-tax gap, and measures of tax aggressive, it was discovered that; tax directors are given incentives to reduce the amount of tax expense reported in the financial statements, and hiring of experts for tax services complements "aggressive" tax planning.

Heitzman and Ogneva (2015) examined the relationship between corporatye tax planning and stock returns for all U.S firms traded on the NYSE, AMEX or Nasdap from 1988-2013. Panel regression was employed in the Analysis. The study found that high tax planning firms do earn higher returns, but only when tax enforcement is low; the study also discovered that small firms have less diversified tax strategies. The study discovered that large businesses are less vulnerable to tax policy risk because they are more consistent.

Methodology

Ex-post facto design was used in this investigation. For this study, the population consists of Deposit Money Banks in Nigeria. Seven deposit money banks in Nigeria were chosen using simple and stratified sampling approaches Namely; UBA, First bank, Fidelity bank, GTB, Union bank, Zenith bank and FCMB. Data was gathered from the sampled bank's audited annual reports and accounts. E-View 10.0 was used to perform regression analysis on the data.

$ROA_{it}=0+ETR_{it}+FSZ_{it}$ This is the study's model.

FSZ stand for firm growth

ETR stands for Effective tax rate

ROA stands for return on asset, which is the profit before taxes divided by total assets

Natural logarithm of total assets.

Result and Discussion of Findings

Descriptive Analysis

	ROA	ETR	FSZ
Mean	9.630000	0.586375	2673494
Median	9. 480000	0.600500	2683010
Maximum	10.91000	1.230000	4017781
Minimum	2.907866	0.564187	1170684
Std. Dev.	0.858534	0.451676	866102.7
Skewness	0.264497	0.136511	0.132633
Kurtosis	1.444433	1.470441	1.903555
Jarque-Bera	0.899874	0.804697	0.424186
Probability	0.637668	0.668747	0.808889
Sum	77.04000	4.691000	21387949
Sum Sq. Dev	5.157400	1.4128076	5.25E+12
Observations	8	8	8

In the table above, the mean (average) for each variable, as well as the maximum and minimum values, standard deviation, and Jarque-Bera (JB) statistics for each variable (normality test). The result revealed some information on the nature of the Nigerian deposit money banks that were used in this study.

To begin, it was discovered that, on average, the sampled quoted money deposit banks in Nigeria had positive firm performance (ROA=9.630000) over the ten (10) years period (2015-2025). Furthermore, the considerable disparity between the maximum and minimum value of tax planning; effective tax rate (ETR) and Firm size (FSZ) indicates that the banks sampled in this study are not comparable.

Test of Hypotheses

Ho_1: Effective tax rate has no significant effect on firm growth in Nigeria.

Ho_2: Firm size has no significant effect on firm growth in Nigeria.

Table 2: regression analysis between ETR, ROA and FSZ

Ordinary Least Square
Dependent Variable: ROA
Method: Least Squares
Date: 08/9/2025
Sample: 2015-2025
Included observations: 7

Variable	Coefficient	Std.Error	t-statistic	prob.
C	7.105293	0.820328	8.661525	0.0003
ETR	0.371713	0.481650	0.771749	0.4751
FSZ	8.63E-07	2.51E-07	3.435040	0.0185

R-squared	0.702920	Mean dependent variables	9.630000
Adjusted R-squared	0.584088	S.D dependent variables	0.858354
S.E of regression	0. 553563	Akaike info. Criterion	1.935115
Sum squared resid	1.532162	Schwarz criterion	1.964906
Log likelihood	-4.740460	Hannan-Quinn criterion	1.734190
F-statistic	5.915236	Durbin-watson stat	2.093905
Prob (F-statistic)	0.048104		

Source: Researcher's computation through E-View 10.0 statistical package.

The adjusted Squared and R-squared values the above table were (0.584) and (0.703), respectively. The results show that all of the independent variables together account for around 58% of the systematic fluctuations in return o assets (ROA) of our sample banks over the course of 10 years (2015-2025). The business performance (ROA) regression model is properly described, as evidenced by the F-statistics (5.92) and P-value (0.048).

The Durbin-watson (DW) statistics, which we derived from the regression result in table 2, show that DW statistics is 2.09 and the Akika info Criterion and Schwarz Criterion, which are 2.934 and 1.965 respectively, demonstrate that our model is adequately specified. Based on the t-value for ETR and FSZ are 0.772 and 3.435 respectively while their p-value is 0.475 and 0.01. The study discovered that ETR has a positive impact on the performance of our sampled banks, and this impact is not statistically significant because the p-value is greater than 0,05. Meanwhile, firm size has a positive significant effect on performance of the sampled banks.

As a result of these findings; we should adopt (Ho), which argues that effective tax rate (ETR) has had a substantial impact on the performance of Nigerian deposit money banks, while firm size has a significant effect on the performance of deposit money banks. This suggests that firms with a high tax planning value perform better on the basis of an effective tax plan to generate company performance. This result, however, is not statistically significant.

The findings are consistent with those of Dada (2017) who found that tax planning has a no substantial impact on corporate performance. Tax planning tactics have both negative and positive effects on the profitability of Nigerian deposit money banks, according to Akintoye, Adegbie and Onyeka-iheme (2020). On the other hand, Ume, Okegbe and Ezejiofor (2020) discovered that the effective tax rate (ETR) has a negative impact on business value, which is statistically significant.

Conclusion and recommendations

The researcher looked at how tax planning affects the performance of Nigerian deposit money banks listed on the Nigerian Exchange Group (NGX). According to the findings, the Effective Tax Rate (ETR) has had no substantial impact on the return on assets of Nigerian commercial banks, while firm size has significant effect on return on assets of commercial banks in Nigeria. This suggests that a bank with a high tax planning value performs better on the basis of an effective tax plan to generate firm performance. This result, however, is not statistically significant. However, most Nigerian businesses lack tax planning, which has resulted in significant tax liabilities. In an attempt to avoid paying tax, they may wind up paying more than is legally necessary since they lack proper tax planning knowledge.

Moreover, most Nigerian firms do not engage the services of tax consultants in their tax management, which has resulted in inefficiently utilizing various tax benefits accrued to them under Nigerian tax laws, and instead of having tax savings, the computations of the effective tax rate revealed that the firms have tax losses as opposed to tax savings when compared to the corporate tax. On this note, the report suggests that deposit money banks in Nigeria should hire tax specialists to manage their tax computations and payments and also they assure good asset management, as this will improve their performance.

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