



INVESTIGATING THE EFFECT OF TAX PLANNING ON THE FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT

The implication of tax liability on the financial success of the taxpaying firms is enormous; therefore, organizations adopt tax planning strategies targeted at alleviating the heavy burden of tax liability. This research work empirically examined the effect of Tax Planning on the Financial Performance of Listed Manufacturing firms in Nigeria. Specifically, the study investigated the effect of effective tax rate, thin capitalization, capital intensity and lease options on the financial performance of listed manufacturing firms in Nigeria. An ex-post facto research design was adopted for the study. The population of the Study comprised 44 listed manufacturing industries quoted on the Nigeria Exchange Group as of 31st December 2022 out of which 15 companies were purposefully selected based on data availability. Data were collected from the audited annual reports of the sampled companies for a period of 10 years (2013 – 2022). Descriptive and inferential statistics (panel regression) were used to test the research hypotheses. The result revealed that effective tax rate and capital intensity indicated a significant effect on return on asset while thin capitalization and lease options had an insignificant effect on return on asset. Findings also revealed that the lease option has a significant effect on market value per share while effective tax rate, thin capitalization and capital intensity have insignificant effects on market value per share. The Study concluded that tax planning strategies have positive effects on the financial performance of Listed Manufacturing Firms in Nigeria and recommends that appropriate measures and skills should be applied in determining the mix of strategies to adopt for tax planning purposes to save the company's financial resources.

KEYWORDS: - Financial performance, tax planning, effective tax rate, thin capitalization, capital intensity, lease option, liquidity.

1. INTRODUCTION

The utmost desire to ensure that the manufacturing sector records improving profitability has been facing a lot of challenges due to high (multiple) tax rates, increasing cost of operation, and epileptic working capital management and this has left the financial managers to focus on cost containment to revive companies' financial performance (Oeta *et al.*, 2019). Adekoya (2019) opined that the manufacturing sector's contribution to Nigeria's economic goals is still below global standard due to low and lean profitability. Adejumo and Sanyaolu (2020) submitted that multiple tax payments, inefficient tax systems and policies that result in huge effective tax rates well beyond the prevailing business income tax rate are problems that corporate entities and manufacturing firms in particular, in Nigeria must deal with. Various levies from many different terrains of government intercepts result in powerful collections from profitable entities and as such, tax expense is a significant cost which hinders the productive abilities of a firm by placing limitations on its financial prowess (Fagbemi *et al.*, 2019). In addition, investors are concerned with the resources invested in companies, as such, to attract investors, companies endeavor to improve their financial performance by making robust profits which enhances the high market value of the companies (Kayode & Folajinmi, 2020), this in turn justifies management's focus on value maximization. Thus, the corporate manager strategizes on minimizing the company's overall tax liability and achieving this main goal through different techniques of enhancing the company's financial operations. Oyeshile and Adegbe (2020) considered financial performance as reaching of firm's economic ambitions, the ability by which the corporation's financial vitality is measured. According to Olurankinse and Mamidu (2021), financial performance is the presentation of the monetary policies of firms and business activities whose pursuance is targeted at revenue or profit making. Furthermore, financial performance, as an economic instrument, displays the accounting and market worth of a whole business to show the outcome of the operational activities of the company within a financial period. Nwaorgu and Abiahu (2020) therefore reasoned that a firm's active financial performance reveals the management's operationalization of its financing activities.

Companies are industrial agents whose main ambition is to be a backer for countries for which their activities have a substantial influence on the growth of the economy. It is considered to evolve and build the core of a nation's economic growth (Oeta & Muchiri, 2019). Expectedly, economies of countries that are not better-developed place great reliance on the growth of manufacturing corporations in the move for a viable environment for economic growth and development to encourage peak performance (Wang & Ghadimi, 2019). The administration in a way to enhance the achievement and growth of infant manufacturing industries promulgated National Manufacturing Policy in year 2012. The aim was to provide the necessary impetus to the manufacturing sector to increase its sectorial share in the country's economy to at least 25% by the year 2022 as well as create an enabling environment for job creation of up to one hundred million (Organisation for Economic Cooperation and Development, 2022). In addition to this, the policy was designed to enhance global competitiveness, domestic value addition, technological depth and environmental sustainability of growth. As such, Nagaraj (2017) maintained that the manufacturing sector has grown in recent years with the sector's contributions to the nation's economy. Food and beverage also accounted for 4.75 % of the country's economy (Statista Reports, 2020). Though tax is a mandatory and good source of revenue for the government, its payment often results in a large

depletion of corporate financial earnings and if not efficiently planned can impact negatively on manufacturing firm's operating capacity (Ba'aba & Bashiru, 2019). To curtail the heating effect of payment of tax it is intentional by the officers within the organizations to reduce the taxable liability by deploying legal methods within tax provisions to boost their after-tax earnings and advance their liquidity position (Otuya, 2021). In this regard, the legislation encourages good tax planning, in which the taxpayer sets up their financial affairs to minimize the burden of tax that will be due. As a result, and to improve its financial performance as well as increase shareholder wealth, a corporation must structure its trade activities in a lawful way that reduces its tax responsibility. Meanwhile, corporate tax planning would breed a high improvement status in net earnings. Corporation liquidity is very vital to the survival of any organization and as such, the manager should make conscientious efforts to ensure that the amount saved is translated into economic growth and organizational development. Odunayo and Olayiwola (2019) opined that most companies are reasonably focused on decreasing their expenditures to enlarge their returns and liquidity as well as improving their profit base.

Moreover, liquidity plays an important role in ensuring the functioning of business activities, which then makes it possible for companies to embark on investment opportunities that eventually enhance their financial performance (Winful, Sarpong & Irene, 2020). In an attempt to ensure that the company does not suffer from a lack of funds to meet short-term compulsions as well as run the day-to-day operations of listed manufacturing firms, it is necessary to keep a close watch on the company's liquidity position to boost corporate financial position. Olayiwola and Okoro (2021) argued that to prevent some non-tax-costs, which include fund diversions and misappropriation of funds, there is a need to protect the funds saved as a result of effective utilization of tax planning strategies. In line with this, the essence of liquidity as a control variable is to affirm that funds are constant factors which must be available to carry out tax planning strategies that improve financial performance. Kibari and Wahome (2018) considered that the efficient running of a company's liquidity levels is essential to financial health. There is a connection and attaining greater financial show necessitates the utilization of strategic approaches. A good implementation of a tax planning strategy increases a company's liquidity to precipitate a robust financial performance. Onechojon (2020) submitted that while some activities reduce foreseeable loads, businesses are distressed in some other instances. This study is thereby, aimed at doing an in-depth analysis of planning methods to be utilized and to establish an updated result to raise the frontier of knowledge as well as extending the scope of the study till the year 2022 by using contemporary Nigeria data. In addition, to enable companies to adopt a legal approach which mitigates the heavy effects of tax burdens, the issue of tax planning is considered the best suitable scheme to be employed to save and manage effectively the company's financial resources. Consequent to the aforementioned, the current study empirically investigates the influence of tax planning on the financial performance of quoted manufacturing firms in Nigeria.

Concerns over Nigeria's manufacturing sector's incapacity to contribute more to the country's economy have grown in recent years. (Adefeso, 2018). This is because some indigenous companies, particularly manufacturing firms have been vulnerable to existential threats as a result of inadequate liquidity. Kung'u (2017) affirmed that the Nigerian economy has seen an increase in inflation and a

chronic loss of purchasing power of the currency. In addition to this, corporate manufacturing firms have been experiencing low financial performance as a result of some institutional woes such as corruption, political instability, violence and other economic challenges. The inability to manage the liquidity position efficiently has since crippled the developmental objectives of corporate firms and as such, most companies have been recording poor performance (Gamariel *et al.*, 2021). Ibrahim and Mustapha (2019) reasoned that the reigning stagnancy and business failures are noticeably related to the unimpressive financial performance of Nigerian-listed manufacturing entities occasioned by sub-optimal financial planning and control. Umeh *et al.*, (2020) maintained that the challenging effect of tax overheads and eventual settlement depletes the distributable profits of corporate organizations. As a result of this, the inconsistent financial result due to fluctuating performances pushes away the investors who are scared of investing in certain companies. The aforementioned threats cause serious financial constraints on the company's financial performance which eventually impede the firm's growth and truncate investment opportunities. Furthermore, a company's financial resources dwindle and erode easily at settling huge tax liabilities because tax expense hits deep into the corporate returns and profit (Nwaobia & Jayeoba, 2017). The harsh effect of tax payment trims down corporation distributable earnings and this underscores the incessant search for tax reduction. Krenn & Bauer (2018) stated that the setback facing corporate management of the manufacturing sector is the unstable corporate tax policies. Heavy tax burdens reduce company earnings and the funds available to finance the companies' daily needs. Due to this, the company's liquidity position is threatened. According to Kial and Muchiri (2019), tax is a substantial expenditure that affects a company's liquidity and profitability and, as a result, lowers the firm's value. Organizations use all legal methods to reduce tax burdens to boost after-tax income, liquidity, and profitability to mitigate this difficulty. Consequently, this current study deploys efficient tax planning strategies which will not only lessen the burden of tax liability but also potentially affect the financial results of listed industrial firms. It is anticipated that firms should get maximum advantage from tax planning strategies and perform enhanced than when tax planning is not deployed.

However, according to certain studies, the planning of taxes negatively affects a company's performance. (Abdul-Wahab, 2010; Adejumo & Sanyaolu, 2020; Akintoye *et al.*, 2020; Madugbaet *al.*, 2020; Nwaobia & Jayeoba, 2017; Oetaet *al.*, 2019; Silvy, 2019) and confirmed that there is no connection between tax planning and the financial success of listed companies. Conversely, other studies (Aondohembaa, 2021; Igbinosun, 2019; Mercu & Herliansy 2019; Mohd *et al.*, 2018; Shelvin, 2010; Thanjupong, 2019) opined that a good correlation between tax planning savings and business profitability of quoted firms exists. Junaidu & Hauwa, (2018) considered that there are certain factors which impede the growth of the firm such as costs (taxes paid included), leadership and corporate governance. As a result of these divergent opinions, this current study is aimed at carrying out an update on the existing works. Some studies (Adejumo, 2020; Akintoye *et al.*, 2020; Felix *et al.*, 2021; Igbinosun, 2019; Madugbaet *al.*, 2020; Nwaogu, 2020; Oetaet *al.*, 2019; Syifa, 2021) established that tax planning has a positive impact on manufacturing enterprises' financial performance and ended their empirical analysis in the year 2018. Subsequent years have not been examined to study the progress of tax planning effects concerning manufacturing firm's financial performance. This study closes this gap by examining the impact of tax planning on the financial

performance of publicly traded manufacturing enterprises through the year 2022. Extant studies (Akabom, 2018; Akinleye & Olanipekun, 2021; Ebimobowe, 2022; Izziyah&Yudhi, 2019; Nwaoguet *al.*, 2019; Wahab, 2010) have revealed that firm size, corporate governance attributes and international law play a crucial part in determining how tax planning affects businesses' financial performance but previous studies have not examined the impact of fund accessibility on the financial success of a business listed manufacturing firms.

By incorporating liquidity as a control variable and demonstrating its overall impact on tax planning and financial performance of listed manufacturing firms in Nigeria, this study furthers the understanding of tax planning and financial performance in the exchange group of Nigeria. Researchers like Abdullahi *et al.* (2021), Akintoye *et al.* (2020), Egbideet *al.* (2013), Felix (2021), Igbinosun (2019), Irayanti (2019), Kawor (2014), Mohd (2019), Ndemezo (2018), Nwaogu (2020), Oetaet *al.* (2019), Oyeshile *et al.* (2020), Pratama (2017), and Silvy (2019) adopted either a market-based measure or an accounting-based measure (return on asset, return on equity) (Tobin's Q) as measures of financial performance. This study implemented both accounting and market-based financial performance strategies to validate findings. This study is also important in the sense that existing studies like Nwaobiaet *al.*, (2016) and Omesiet *al.*, (2021) took into account the impact of tax planning on the end-user goods sector's financial health; Adejumo and Sanyaolu (2020) concentrated on the impact of tax planning on Nigerian deposit money institutions' financial performance; Oyeshile and Adegbe (2020) worked on corporation tax planning's impact on listed food and beverage companies' financial performance while Ngure (2018) evaluated the impact of tax incentives on the industrial products sector's financial performance. None of these previous studies evaluated the holistic tax planning's impact on the financial performance of Nigeria's listed manufacturing companies. This study takes a comprehensive look at how corporate tax planning affects the financial performance of the chosen Nigerian manufacturing companies.

2. THEORETICAL REVIEW

This research was anchored on three theories which are the political cost theory (1977), Hoffman's tax planning theory (1961) and optimal taxation theory (1927). These theories are further discussed below:

2.1. Political cost theory

The concept was founded by Salamon and Siegfried in the year 1977. He established that larger companies have better economic and political influence in comparison to smaller firms. The central assumption is that larger companies use their influence in politics and the economy to reduce the effect of tax payment since they may engage in forceful tax planning techniques by influencing politics. Porcalo (1986) buttressed that bigger companies are better opportune to lower their ETRs, or effective tax rates. According to Rego (2003), competitive benefits can significantly improve a firm's capacity to lower its tax burden. The theory, according to Loretz and Moore (2009), was flawed because tax planning decisions, like other business decisions made by a firm, are made in a competitive market. This suggests that when companies choose to pay their taxes in a way that materially differs from that of their peer group, it could cause "reputational loss." Therefore, leadership must weigh the advantages of lowering the tax burden against the drawbacks of

reputational damage if they stray too far from peer group norms. Numerous studies, including Wada (2021), Nwaobia and Jayeoba (2017), and Akintoye (2020), have examined the effects of tax preparation on the financial and operational success of businesses. The studies all showed that tax planning had an advantageous impact on strategies connected to the operations of business firms. Because of this, managers in industrial organizations are only able to succeed when they manage the company well. Since these taxes won't have a detrimental impact on the firms' liquidity and overall financial performance, it can be claimed that shareholders' wealth will be maximized and satisfied in the long run (Nwaobia, 2016). This in turn enhances the financial performance and ensures the growth of infant manufacturing industries which then alleviates the negative impact of tax obligations on the nation of Nigeria Exchange Group's industrial organizations. The theory is relevant to this research because, despite the short-term reduction in tax payments to the government, tax planning strategies help to lower corporate tax burdens and promote investment due to the aftermath benefits effect of improved financial standing. Thus, companies that utilize effective tax planning strategies experience reduced tax liability to post higher net earnings. In addition, the organization would arrange its business operations to the extent of not violating the provisional laws to obtain complete benefits allowed by the Income Tax Act, including exemptions, deductions, concessions, refunds, allowances, and other advantages (Vyshak & Vishnu, 2021).

2.2. Hoffman's tax planning theory

Hoffman's idea of tax planning, which was developed in 1961, suggested that corporate entities may effectively employ legal techniques to divert money from the government's coffers to their own. The firm only engages in tax planning activities, following this theory, when there is a tendency to reduce the subject to taxation returns to the absolute minimum in a way that will not adversely affect accounting income since the firm is assessed by the appropriate tax authority based on taxable income, not accounting return. Therefore, rather than just revenue from accounting, firms should concentrate more on tax planning techniques that lower taxable income (Fagbemi *et al.*, 2019). Hoffmann noted some vagueness and lapses in tax provisions being caused by unclear legislative propositions and came to the conclusion that impressive tax policies work with the lawful perceptions and exact expression of the edict, and that obedience to these virtues very correctly as they apply explicitly to organisations tends to be more beneficial in terms of tax savings (Akintoye *et al.*, 2020). As highlighted by Kawor and Kportorgbi (2014), the underlying assumption of this theory is that the tax obligation of a company is based on tax-deductible earnings as opposed to accounting income, as it is in Nigeria. The notion holds that there is a significant relationship between corporate performance and tax preparation. Hoffman's tax planning theory has been applied to research by Akintoye *et al.* (2020) and Fagbemi *et al.* (2019) which examine how tax planning affects business firms' financial operations. These studies all argued that Hoffman's tax planning ideas promote the use of tax minimization techniques by entities once such operation is in tune with applicable tax regulations.

However, Slemroid (2004) criticized the theory and expressed that the process of tax minimization can be expensive. Kawor & Kportorgbi (2014) also argued that Hoffman's fiscal planning concept does not apply to the boundary between tax planning and market outcomes. As capital markets develop and the dichotomy of the management and ownership of business organizations grows, a solid understanding of tax planning theory is crucial. The empirical viewpoint is used to satisfy this

demand rather than the theoretical approach. (Inger, 2012). The concept is pertinent to our study because businesses that make use of tax law exemptions to the maximum extent possible and retain the best possible leverage to benefit from tax shelters on recoverable interest are likely to have lower tax expenditures and higher net income after tax.

2.3. Optimal taxation theory

Optimal tax theory was advanced by Frank Ramsey in the year 1927. The theory pinpointed that tax needed to be enforced alongside with good intention of maximizing public well-being benefits and minimizing biases and ineffectiveness, subject to producing predetermined earnings (Mirrlees, 1976). A flexible tax system should meet the basic conditions of being simple and being paid with ease. It is therefore in line that, the decision to go with the lower tax or tax relief would be picked by the rational actor if a taxpayer must select between two mutually exclusive options. Frank Ramsey concluded that taxes on goods would have fewer distortions if consumer demand was more inelastic. Therefore, governments should establish dependable tax regulations and clear tax administration so that investors have encouraging and advantageous value prospects. Given this, tax planning strategies ensure that spelt out laws and obvious tax administration are being installed which provides encouraging and promising fair prospects to the investors and as such alleviates the load of tax on corporate organisations. Numerous researchers have applied the theory as connected to the impact of structuring taxes and liquidity on a venture's financial results. Dynarski and Clayton (2013), Saez and Stantcheva (2016). It showed that tax planning techniques utilised, and implemented to promote the development of the listed sector, and as such lessens the suffering from tax payments. The theory applies to the study in that though tax planning activities reduce the amount of tax that was paid as a short-term effect to the government, yet, the packages provided aids to reduce tax burdens of corporate bodies and encourage a multiplier impact from increased investment of enlarged liquidity status. Tax planning aids qualified firms to foster decreased taxes which ensure that firms pay low taxes and record improved revenue. Also, tax planning techniques being utilized foreruns opportunities and broaden the financial performance of listed manufacturing companies.

3. EMPIRICAL LITERATURE

A wide range of empirical studies have tried to corroborate their predictions with theoretical models. These studies have used various methodologies in terms of how to alleviate the tax burden as well as how to determine its impact on a firm financial performance.

Kajirwa and Ikape (2016) studied the impact of operating lease financing on the financial performance of Kenya's state-owned sugar companies. The study's collection of data method was a retrospective research design. The study's target population for the years 2004 to 2014 included employees from each of the four state-owned sugar companies. The majority of the information seen in accounting records and annual reports came from secondary data sources. Regression analysis and the Pearson product-moment correlation coefficient were used to analyze the data. According to the research, operating lease financing has a detrimental impact on return on assets (ROA). The study's focus on sugar companies alone is a drawback. The current study studied the impact of tax preparation on the financial performance of listed manufacturing firms in Nigeria.

Stefan (2018) examined Serbian data on company income tax planning and financial performance. By using OLS regression and adjusting for several company-specific and macroeconomic variables, we examine whether tax planning affects the financial health (as assessed by the ROA and ROE ratios) and market value (as evaluated by Tobin's Q and M/B ratio) of companies in Serbia. The Belgrade Stock Exchange quotations of 23 nonfinancial firms from 2013 to 2016 were used. The sample's first set of observations spans 92 business years. According to research findings, tax planning greatly increases earnings while not affecting a company's market value. The study however experienced a conceptual gap as some of the recent concepts on tax planning strategies were not discussed.

The impact of corporate tax preparation on business value was examined by Silvy (2019). Multiple regressions with E-views were employed for the study, and the deliberate sampling strategy was applied. The results show that the effective tax rate has a significant detrimental effect on profitability. It was also determined that sound tax planning procedures will aid in lowering effective tax payments. The study also discovered a substantial positive association between capital adequacy ratios and profitability as a control variable. The study relied on ROA as the only accounting measurement variable. The data analysis period also ended in 2016 resulting in a time and concept gap, the current study bridged these gaps.

Simeon *et al.*, (2019) surveyed using positivism as a research philosophy and an explanatory study design approach, to examine the impact of capital intensity on the fiscal health of manufacturing firms listed in Kenya. The results showed an advantageous, inconsequential relationship between capital intensity and financial results. However, the study ended its empirical analysis in the year 2017, and likewise, the effect of the control variable to further enhance the model was a constraint. Maula (2019) researched the influence of the impact of capital intensity, leverage, size, and return on assets on tax evasion. Return on Assets (ROA), Leverage, Size, and Capital Intensity are the independent factors in this study. Tax avoidance is the variable that is dependent, as determined by the effective tax rate (ETR). 48 property and real estate businesses that were listed on the Indonesian Stock Exchange (IDX) between 2013 and 2017 make up the study's population. Using the approach of purposeful sampling, a total of 28 real estate and property enterprises served as the study's sample. The research used multiple regressions as its analysis method. The outcome demonstrated that tax evasion is highly impacted by return on assets and leverage, but not by size or capital intensity. The research was underpinned by agency theory alone as against the current study. Likewise, the empirical analysis ended in 2017 which made it unable to capture recent years.

A study on the impact of tax planning parameters on the profitability of listed manufacturing companies in Nigeria was undertaken by Akintoye *et al.*, (2020) over ten years (2008-2017), information was gathered from the audited annual reports of the sampled companies. Descriptive and inferential statistics were used to evaluate the data, and the findings showed that tax planning has no appreciable impact on the Return on Assets (ROA) of listed manufacturing companies in Nigeria. According to the research, Nigerian-listed manufacturing companies' Return on Assets (ROA) are not significantly impacted by tax planning. The research however ended its empirical

analysis in 2017. Also, the study did not utilize a control variable to account for more variations in the model. The current study extended its empirical analysis till the year 2022 and utilized liquidity as a control variable.

Pattiruhu and Paais (2020) empirically assessed the impact of debt-to-equity ratio (DER), firm size (FS), return on equity (ROE), return on assets (ROA), and current ratio (CR) on dividend policy (DP) in nine Indonesian real estate companies that were listed on the Indonesia Stock Exchange between 2016 and 2019. Linear regression and explanatory analysis were both used in the research methodology. Considering the eligibility and homogeneity of the data, the number of sample companies selected was nine companies. The study's findings demonstrated that the business size, CR, and ROE had no positive or noteworthy effects on the distribution of dividends. In contrast, DER and ROA have a favourable and material impact on dividend policy. The current study addressed the need to extend research on tax planning to other corporate firms aside from real estate and property companies.

Nwangangi (2020) studied the factors that affect debt maturity and how they affect the results of Nairobi Exchange Group companies. Pecking order theory, market timing theories, and trade-off theory served as the research's main pillars. The Nairobi Security Exchange's 65 companies made up the population of the narrative study design, which was used. The study period spanned between years 2008 to year 2017. Secondary data were collected from the Nairobi Security Exchange Handbook series which covers a period of ten years from (2007-2018). Diagnostic tests were also applied to corroborate with Variance Inflation Factor as a test for multicollinearity. Likewise, the Pearson Correlation test was applied to test for the quality and association of the autonomous factors with Goodness of Faith. Findings indicated that the independent variables are good predictors of debt maturity businesses in Nairobi Exchange Group. It also indicated that liquidity, leverage and growth opportunities were all explaining the performances of registered businesses in Nairobi. The drawback discovered was that just ROA was utilized as a performance criterion.

Research on thin capitalization, the effective tax rate, and the performance of multinational corporations in Nigeria was conducted by Otuya and Omoye in 2021. The study used an ex post facto research design and gathered pertinent information from sampled MNCs' statements of affairs for the years 2014 to 2018. Descriptive, correlational, and regression analyses were used in the study to analyze the data. The results showed an upbeat but negligible relationship between MNCs' revenue growth and thin capitalization, interest expense rate, effective tax rate, and capital intensity. The study also showed that there is a weak but negative correlation between managerial effectiveness and financial success. The gap identified in this study was that only multinational companies in Nigeria were included in the sample. Return on Equity was the only gauge of performance examined in the study. The study period also ended in 2018.

Whidyawhati and Sari (2021) analyze the impact of multinational, audit quality, and company size on manufacturing companies' thin capitalization that are listed on the IDX. The study object consists of manufacturing businesses listed on IDX between 2017 and 2019. The sample obtained consists of 299 businesses. Financial reports were used in the study as secondary data. Multiple

regression analysis was the method of data analysis employed in the investigation. According to the findings, multinational corporations have no impact on thin capitalization, audit quality has a negative impact on thin capitalization, and firm size has a favourable impact on thin capitalization. The constraint of this study was that the empirical analysis was limited to 2019. The current study extends the empirical analysis to the most recent year by adopting a purposive sampling technique. Nugrahadhi and Rinaldi (2021) investigated the impact of inventory and capital intensity on tax evasion at companies in the food and beverage sector listed on the Indonesia Exchange Group (IDX) between 2014 and 2018. As 10 firms were chosen by the purposive sampling technique, the population in this study is the food and beverage sub-sector enterprises published on the Indonesia Exchange Group in 2014 – 2018. The results of the evaluation demonstrated that capital intensity has only a minimal impact on tax evasion. The analysis's findings also showed that the intensity of an organization's inventory has a substantial impact on tax avoidance to some extent.

Handayani *et al.*, (2022): For manufacturing companies listed on the Indonesia Exchange Group between 2015 and 2019, it was examined how market performance mediated the impact of capital intensity ratio, inventory intensity ratio, and the ownership arrangement on tax aggressiveness. All businesses listed on the ISE make up the study's population, and those who run manufacturing businesses listed on the ISE from 2015 to 2019 make up the study's sample. Testing was conducted using Path Analysis. Based on the findings of the tests performed using SPSS, it was determined that management ownership, shareholder ownership, the capital intensity ratio, and the inventory intensity ratio all have an impact on the aggressiveness of taxes mediated by market performance, but overall the magnitude of the direct influence test of capital intensity ratio, inventory intensity ratio, managerial ownership, and organisations ownership on tax aggressiveness is greater than if using the market performance factor as a means of mediation.

Arema *et al.*, (2022) considered how listed industrial companies' financial results were affected by lease borrowing. The study was based on secondary data that spanned the years 2011 through 2021. Results showed that financial leasing has a favourable impact on businesses' financial performance by giving them the chance to utilize capital-intensive assets for production. The study's lack of significance for lease finance, however, shows that industrial enterprises are underutilizing their lease financing choices. The current study underpins this study on three theories.

Farid and Agung (2022) examined activities related to tax structuring and company value in listed Indonesian consumer goods businesses between 2016 and 2020. The study's goal was to use three proxies—tax per share, effective tax rate, and book-tax differences per share—to analyze how tax planning affects a company's value. With a total of 135 observations, the study used 27 consumer goods businesses that were listed on the Indonesia Stock Exchange between 2016 and 2020. The study's findings showed that Model 1, which employed tax per share, had a positive and significant influence on business value, suggesting that tax planning has a detrimental effect on firm value. Model 2, which used the effective tax rate, showed that there was no discernible impact of tax planning on the firm value. Model 3 states that employing book-tax differences per share has a favourable impact on company value, demonstrating the beneficial impact of tax planning on company value. The study however focused on the consumer sector alone which is at variance from

the present study that captured selected listed firms across the entire manufacturing sector and undertook the empirical analysis till the most recent year.

4. METHODOLOGY

In a bid to investigate the effect of tax planning on the financial performance of firms in Nigeria, this study employed a modification of the model of Oyeshile and Adegbe (2020) on corporate tax strategy and financial performance of quoted foods and beverage firms in Nigeria. In their study, Oyeshile and Adegbe (2020) model financial performance as a function of capital intensity, effective tax rate, thin capitalization and firm size as measured variables stating the model as:

$$FPM_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 CAI_{it} + \beta_3 TCA_{it} + \beta_4 FS_{it} + u_{it} \#(1)$$

Where FPM is the financial performance, ETR is the effective tax rate, CAI capital intensity, TCA is the thin capitalization, and FS is the Firm size. However, this study adjusted the variables by including the lease option and liquidity to reflect changes in the business world's financial and economic conditions. Consequently, the model was stated as follows:

$$ROA_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 TCA_{it} + \beta_3 CAI_{it} + \beta_4 LOPT_{it} + u_{it} \#(2)$$
$$MPS_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 TCA_{it} + \beta_3 CAI_{it} + \beta_4 LOPT_{it} + \beta_5 L_{it} + u_{it} \#(3)$$

Where ROA is the return on asset, MPS is the market value per share, LOPT is the lease option, and L is the liquidity. Based on data availability, the data on these variables were obtained from the financial records of a few selected listed manufacturing businesses on Nigeria Exchange Group between the years 2013 to year 2022. The selected firms are Beta Glass Plc, Cadbury Nigeria Plc, Chemical and Allied Products Plc, Flour Mills Nigeria Plc, Guinness Nig, International Breweries Plc, Lafarge Africa Plc, May & Baker Nigeria Plc, Neimeth International Pharmaceuticals Plc, Nestle Nigeria Plc, Berger Paints Plc, Nigerian Brew. Plc, PZ Cussons Plc, Unilever Nigeria Plc, Vita Foam Nigeria Plc.

5. DATA ANALYSIS

To further gain insight into the basic statistical features of the selected indicators which are tax planning, financial performance, and liquidity in this study, this subsection displays the summary statistics of the variables.

Table 1: Descriptive statistics of variables

Variable	Mean	C.V.	Min	Max
Returns on Asset	0.995	0.140	-0.178	0.793
Market value per share	194215.9	1.652	759.7	1269754
Effective Tax Rate	0.296	2.135	-1.559	6.992
Thin Capitalization	2.013	2.083	0.242	47.923
Capital Intensity	61413.45	1.367	399.7	357923
Lease Option	1053.665	1.794	1.096	9752.6

Liquidity	0.998	0.490	0.185	2.177
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Note: C.V is the standard deviation by the mean

Source: Author's Computation (2023)

Table1 presents the descriptive statistics for various financial variables, including mean, coefficient of variation (C.V.), minimum, and maximum values. These statistics provide insights into the central tendency, dispersion, and range of the data. First, it can be observed that the mean return on assets is 0.995, indicating that, on average, the assets generate nearly their full value in returns and the coefficient of variation (C.V.) with a value of 0.140 suggests relatively low variability in returns relative to the mean. The minimum value of -0.178 and the maximum of 0.793 show that some assets underperform, but the majority perform positively. Also, the mean market value per share is 194,215.9, which is quite high, indicating substantial market capitalization for the shares considered and its C.V. value of 1.652 indicates high variability in market values. The minimum value of 759.7 and maximum value of 1,269,754 for the market value per share demonstrated a wide range of market values, with some shares being highly valued. Further, the mean value of the effective tax rate is shown to be 0.296 which suggests that, on average, firms pay about 29.6% of their earnings in taxes and the C.V. of 2.135 indicates significant variability in tax rates across firms. The effective tax rate ranges from a minimum of -1.559 to a maximum of 6.992, with the negative minimum value possibly indicating tax credits or refunds. It can be observed that the mean thin capitalization ratio is 2.013 which indicate that firms generally have twice as much debt as equity and the C.V. of 2.083 suggests high variability in capitalization structures. However, the values which range from 0.242 to 47.923 showed significant differences in how firms leverage debt versus equity. The capital intensity has an average value of 61,413.45 which reflects substantial investment in capital assets among the firms but the C.V. of 1.367 indicates moderate investment variability among the firms. A further look at the range which is from 399.7 to 357,923 suggests that while some firms invest heavily in capital, others have minimal capital investment. The average value for lease options of 1,053.665 suggests a moderate use of leasing but the C.V. is 1.794, indicating high variability among firms and this is further stressed by the minimum value of 1.096 and the maximum of 9,752.6, reflecting a wide range of leasing practices. Lastly, the mean liquidity ratio is 0.998, indicating that, on average; the firms have nearly equivalent current assets to current liabilities and the values range from 0.185 to 2.177, indicating that while some firms may struggle with liquidity, others have substantial liquid assets relative to their liabilities.

Table 2: Correlation matrix

Variable							
Returns on Asset	1						
Market value per share	0.152	1					
Effective Tax Rate	0.046	-0.145	1				
Thin Capitalization	-0.096	0.123	-0.067	1			
Capital Intensity	-0.275	0.837	-0.136	0.169	1		
Lease Option	0.071	0.751	-0.201	0.152	0.704	1	
Liquidity	0.179	-0.438	0.039	-0.252	-0.575	-0.396	1

Source: Author's Computation (2023)

In Table 2, the correlation matrix projects the estimated correlation among the variables. The diagonal elements represent the correlation of each variable with itself, which is always 1. The other elements represent the estimated correlation between the two variables. The values range 0 denotes no correlation, -1 denotes an absolute negative association, and 1 denotes an ideal positive correlation. The association between ROA and MSP, ETR, LOPT, and L is positive quotients of 0.152, 0.046, 0.071, and 0.179, respectively. The coefficient of correlation with MSP is relatively low. This suggests that companies with higher market value per share tend to have higher profitability. Similarly, companies with higher lease options and liquidity tend to have higher profitability. ETR has a weak positive correlation with MSP (0.046), but a stronger negative correlation with LOPT (-0.201). The negative correlation with LOPT suggests that companies with higher lease options tend to have lower effective tax rates. This could be because leasing expenses are tax-deductible, which reduces the company's taxable income. TCA has a fragile negative link with ROA (-0.096) and a weak positive correlation with MSP (0.123). This suggests that companies with a higher fraction of debt financing tend towards lower profitability, but advanced market value per share. Furthermore, CAI possesses a solid negative relationship with ROA (-0.275) and a strong positive correlation with MSP (0.837). This suggests that companies that require more capital to generate revenue tend to have lower profitability but higher market value per share. LOPT had a strong direct connection with MSP (0.751) and a weak negative association with ROA (0.071). This suggests that enterprises with greater lease options are inclined to have developed market value per share, but their profitability may be affected negatively. L possesses a negative attachment with CAI (-0.575) and a weak positive correlation with ROA (0.179). This proposes that companies with better liquidity behave towards lower capital intensity, meaning they require less capital to generate revenue. Moreover, companies with higher liquidity have bigger profitability. Overall, the correlations among the explanatory variables ranged from -0.575 to 0.407 and the minimum and maximum coefficients are relatively high.

Table 3: Regression estimates for ROA and MPS model

Variable	ROA		MPS	
	Model 1	Model 2	Model 3	Model 4
Effective Tax Rate	0.044** (0.014)	0.044*** (0.012)	0.035 (0.062)	0.035 (0.062)
Thin Capitalization	-0.072 (0.156)	-0.073 (0.143)	-0.010 (0.006)	-0.006 (0.006)
Capital Intensity	-8.106*** (2.258)	-8.111*** (2.023)	0.056 (0.060)	0.074 (0.066)
Lease Option	0.347 (0.879)	0.349 (0.871)	0.133** (0.043)	0.127** (0.049)
Liquidity		-0.079 (3.316)		0.270** (0.101)
Constant	87.10** (36.80)	87.22** (38.16)	9.375*** (0.459)	8.951*** (0.566)
<i>N</i>	150	150	150	150

R^2	0.179	0.179	0.056	0.074
F-stat	10.33***	9.987***	20.19***	13.57***

Note: *** $p < 1\%$, ** $p < 5\%$, * $p < 10\%$

Source: Authors computation, 2024

Table 3 depicts the regression estimate for both returns on asset (ROA) and Market value per share (MPS) with each having two regression models. Firstly, the effective tax rate (ETR) as shown in Model 1 has a favourable and statistically significant relationship with ROA. This reflects that an increase in ETR is associated with about 0.044 units increase in ROA and thus implies that the higher taxes cause firms to become more efficient in their operations, leading to higher profitability. The findings of the study coincide with the study looked upon by Sathaya and Thatphong (2019) who studied the relationship between business effective tax rates and tax planning experienced by companies during tax regimes and concluded that higher firms endure high tax liability to report higher profitability. However, the findings from the current study negate that of Christina (2019) who established a negative relationship between ETR on the company's ROA. On the other hand, the result from Model 3 showed that the effective tax rate (ETR) has a beneficial but statistically negligible effect on MPS. The coefficient for ETR is 0.035, and this indicates that a one-unit increase in ETR will lead to a 0.035 increase in market value per share. The insignificant relationship between ETR and MPS suggests that a company's tax rate cannot be considered a crucial factor when evaluating a company's market value. The findings concur with the research work by Stefan (2018) but negate the findings of Farid and Agung (2022). Moreover, the result from Model 1 showed that a negative relationship exists between Thin Capitalization (TCA) and ROA. This posits that thin capitalization has no discernible impact on ROA. Likewise, the result from Model 3 disclosed a negative but statistically insignificant effect between TCA and MPS. It suggests that a rise in TCA will cause the market value per share to fall. The insignificant relationship predisposes that the company's thin capitalization is seen as a revenue-stripping technique which affects the company's financial performance. This further agrees with that of Osamoret *et al.*, (2022) who maintained that there is no noticeable impact of tax planning on the financial performance of multinational companies in Nigeria. However, this did not align with that of Otuya and Omoye (2021) who reported that TCA as well as MPS had a beneficial association.

Furthermore, at a 5% level of significance, the result from Model 1 demonstrates that an increase in Capital Intensity decreased ROA by 8.11 percent on average. This suggests that firms with higher capital intensity tend to have lower ROA which is better explained by the fact that higher costs associated with maintaining and upgrading capital equipment are inversely related to the company's ROA. The outcome of this research did not align with Simeon *et al.*, (2019) who surveyed the impact of capital intensity on the business's performance of industrial businesses listed in Kenya and found a strong correlation between economic performance and capital intensity of enterprises. Similarly, this study is consistent with the study conducted by Maula (2019) who found no connection between capital intensity and financial performance. Moreover, the result from Model 3 shows that capital intensity has a satisfactory but statistically insignificant influence on MPS with a coefficient of 0.074 and this suggests that a company's capital intensity cannot be viewed as an essential factor when evaluating a company's market value. Results from Models 1 and 2 further

disclosed that lease option has a positive relationship with ROA with a coefficient value of approximately 0.35; however, the insignificant coefficient gives evidence that the existence of lease options has no obvious impact on ROA. On the other hand, the results from Models 3 and 4 revealed that the lease option has a significant positive impact on MSP. For instance, the coefficient value of 0.133 and 0.127 in Models 3 and 4 implies that a one percent increase in option leads to a 0.0127-0.0133 percent increase in market value per share which implies that companies that have better lease options can be viewed as the firms with better company's market value. The findings negate that of the study done by Kajirwa alongside Ikape (2016) who observed a negative link between operating lease finance and financial performance after analyzing the impact of operational lease financing on the financial performance of state-owned sugar companies in Kenya. But the present one agrees with the output of Aremo *et al.*, (2022) whose study considered that there is a conspicuous impact of finance leases on publicly traded companies' financial activities.

6. CONCLUSION AND RECOMMENDATIONS

This study investigated the effect of tax planning on the financial performance of listed manufacturing firms in Nigeria employing a panel regression technique. It was however found in the study that Effective tax rate has a significant positive impact on ROA but is insignificant in the case of MPS; there is no statistical evidence of thin capitalization impacting either ROA or MPS; capital intensity significantly reduced ROA but has an insignificant positive impact on MPS; lease option has positive impacts but significantly only for MPS; and liquidity had significant positive impact on MPS but negative insignificant effect on ROA. In this regard, several recommendations were made. First, the significant effect of the effective tax rate (ETR) found in the study implies that manufacturing businesses should consult professional tax practitioners whose efforts are geared towards the reduction of a firm's effective tax rate (ETR) to lower their tax liability. In addition, for firms to actively plan tax through the utilization of ETR, the tax haven concept could be utilized which should serve as the main objective of the tax departments for the maximum benefit of alleviating companies' tax liability to create an enlarged firm's value. Also, the negative impact of thin capitalization was recorded on both ROA and MPS, which thus, showed that thin capitalization is a method of financial entrapment; hence, manufacturing companies should avoid floating investments affiliated with high leverage, especially in a developing state to sustain their operations and maximize their desired profit. Furthermore, the listed manufacturing enterprises should boost their investment in capital assets because capital intensity has a strong impact on return on assets as this will increase productivity. Moreover, it is recommended that firms should keep proper records of non-current asset receipts as a way of meeting the current tax laws on the CAFA and being able to claim capital allowances fully. Moreover, capital allowances should be sought in a way that does not compromise the firm's liquidity in a bid to improve financial performance and avoid future financial difficulties. The study equally recommends that listed manufacturing firms should adopt the lease option method as empirical evidence suggests by using lease finance, that significant value is added.

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