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IMPACT OF TAX PLANNING ON PROFITABILITY OF LISTED SERVICE FIRMS IN NIGERIA

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ABSTRACT

The study assessed the impact of tax planning on profitability of listed service firms in Nigeria. The study adopted correlational research design and utilized secondary data extracted from the published annual reports and audited financial statements of selected service firms listed on the Nigerian Exchange Group (NGX). The population comprised twenty (20) listed service firms on the Nigerian Exchange Group (NGX) as at 31st December, 2025. A sample size of fifteen (15) listed service firms was selected, and secondary data were obtained from annual reports covering a period of sixteen (16) years (2010 to 2025). Descriptive, correlation, and regression analyses were conducted. The findings revealed that tax planning (effective tax rate, book-tax-difference and tax saving) do not have a significant impact on the profitability of listed service firms in Nigeria while cash effective tax rate and Henry and Sansing's measure have negative and significant impact on profitability of the sampled service firms. Specifically, the study conclude that cash effective tax rate and Henry and Sansing's measure contribute significantly to improving firm profitability while effective tax rate, book-tax-difference and tax saving alone may not guarantee improved profitability level. Accordingly, the study recommended that the management of listed service firms in Nigeria should make use of sustained tax incentive policies which are essential for enhancing profitability and firm growth.

KEYWORDS: - Tax planning, profitability, listed service firms in Nigeria.

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1.0 INTRODUCTION

Profitability is one of the most important indicators of corporate financial performance because it reflects a firm's ability to generate sufficient earnings from the resources entrusted to its management. It is a critical measure of business success, long-term sustainability, and shareholders' wealth maximization. Profitability enables firms to finance their operations, invest in expansion, meet financial obligations, and remain competitive in an increasingly dynamic business environment. Financial analysts commonly assess profitability using accounting measures such as Return on Assets (ROA) which indicate how efficiently management utilizes organizational resources to generate income (Brigham & Ehrhardt, 2017; Ross et al., 2019). Consequently, profitability remains one of the primary objectives pursued by corporate organizations across all sectors of the economy.

The Nigerian service sector has become one of the largest contributors to national economic growth, accounting for a substantial proportion of the country's Gross Domestic Product (GDP) and providing employment opportunities across industries such as telecommunications, hospitality, healthcare, transportation, and business support services (National Bureau of Statistics [NBS], 2024). Listed service firms quoted on the Nigerian Exchange Group (NGX) play an important role in economic development through value creation, innovation, and investment. However, despite the strategic importance of the sector, many service firms continue to experience fluctuating profitability due to increasing operating expenses, inflationary pressures, exchange rate volatility, regulatory compliance costs, and an uncertain macroeconomic environment. These challenges have made sustaining profitability increasingly difficult and have heightened the need for effective financial management strategies capable of improving firms' financial performance (World Bank, 2023).

Several firm-specific and macroeconomic factors influence corporate profitability. These include firm size, capital structure, operational efficiency, leverage, corporate governance, market competition, economic conditions, and taxation (Pandey, 2021). Among these determinants, taxation has attracted considerable attention because it directly reduces firms' after-tax earnings and cash flows. As corporate tax obligations increase, managers often seek legitimate means of minimizing tax liabilities through effective tax planning strategies. Consequently, tax planning has evolved from a mere compliance function into a strategic financial management tool capable of influencing corporate profitability by reducing tax expenses, improving cash flows, and increasing the resources available for investment and business expansion (Scholes et al., 2021). In the context of increasing regulatory scrutiny and strategic financial management, tax planning has shifted from a compliance function to a managerial decision that potentially enhances firm performance (Judijanto et al., 2026).

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Tax planning refers to the legal and systematic arrangement of a firm's financial affairs to minimize tax liabilities while complying fully with the provisions of applicable tax laws and regulations (Hoffman et al., 2021). Unlike tax evasion, which involves illegal practices to avoid paying taxes, tax planning relies on legitimate mechanisms such as capital allowances, tax credits, investment incentives, deductions, exemptions, and timing differences permitted by tax legislation. The primary objective of tax planning is to optimize a firm's tax position without violating statutory requirements, thereby increasing after-tax income and maximizing shareholders' wealth. As tax regulations continue to evolve, tax planning has become an indispensable component of corporate financial strategy for firms seeking to improve operational efficiency and financial performance.

In Nigeria, the relevance of tax planning has increased significantly following a series of fiscal reforms introduced through successive Finance Acts and continuous amendments to corporate tax regulations administered by the Federal Inland Revenue Service (FIRS). These reforms have created both opportunities and challenges for corporate organizations. Firms can benefit from various tax incentives, capital allowances, pioneer status incentives, investment tax credits, and deductible business expenses. On the other hand, increasing tax compliance requirements, multiple statutory levies, frequent policy changes, and the complexity of tax administration have raised compliance costs, particularly for firms operating within the service sector. Consequently, effective tax planning has become increasingly important for listed service firms seeking to improve profitability while maintaining full compliance with Nigerian tax laws (Federal Inland Revenue Service, 2024).

The relationship between tax planning and profitability has received considerable attention in the empirical literature. Studies generally suggest that efficient tax planning enables firms to reduce tax burdens, improve liquidity, increase retained earnings, and enhance overall financial performance (Scholes et al., 2021). Nevertheless, the effectiveness of tax planning depends on the firm's ability to balance tax minimization with regulatory compliance and corporate governance requirements. Excessively aggressive tax planning may expose firms to regulatory sanctions, reputational damage, and additional compliance costs, thereby reducing the expected financial benefits (Hanlon & Heitzman, 2010). For listed service firms in Nigeria, where operating costs remain relatively high and competition continue to intensify, adopting appropriate tax planning strategies may represent an important mechanism for sustaining profitability and improving shareholder value.

Despite the growing body of literature on the relationship between taxation and firm performance, empirical evidence on the relationship between tax planning and profitability among listed service firms in Nigeria remains relatively limited. Most previous studies have

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focused on manufacturing firms, consumer goods companies, financial institutions, or broadly classified non-financial firms, with limited emphasis on the service sector. Furthermore, many existing studies rely on single proxies of tax planning, thereby failing to capture its multidimensional nature. This study therefore seeks to bridge this gap by examining the impact of tax planning on the profitability of listed service firms quoted on the Nigerian Exchange Group using multiple tax planning measures; Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR), Book-Tax Difference (BTD), Henry and Sansing Measure and Tax Saving while measuring profitability using Return on Assets (ROA). The findings are expected to contribute to the existing literature and provide useful insights for managers, investors, policymakers, tax authorities, and other stakeholders interested in improving corporate financial performance through effective tax planning.

Given these inconsistencies, there remains a need to provide further empirical evidence on how tax planning affects profitability within the Nigerian service firms. Focusing on listed services firms for a period sixteen (16) 2010–2025 becomes particularly important because this period captures major tax reforms including the Voluntary Assets and Income Declaration Scheme (VAIDS) in 2017, Increased Value Added Tax (VAT) from 5% to 7.5% in 2019, Electronic Money Transfer Levy (EMTL) in 2021, and Tertiary Education Tax from 2.5% to 3% in 2022, to curb tax avoidance, eliminate legal loopholes, and halt declining non-oil revenue.

Statement of the Problem

Tax planning has become an important aspect of corporate financial management because it enables firms to minimize tax liabilities within the provisions of tax laws while maximizing shareholders' wealth. In an increasingly competitive business environment, managers continuously seek legitimate strategies to reduce tax burdens, improve cash flows, and enhance profitability. Effective tax planning allows firms to optimize available tax incentives, deductions, and exemptions, thereby increasing after-tax earnings and improving financial performance. However, aggressive or inefficient tax planning may expose firms to regulatory sanctions, reputational risks, and additional compliance costs that could adversely affect profitability (Hanlon & Heitzman, 2010; Scholes et al., 2021).

Despite the strategic importance of service firms in Nigeria’s financial system, issues related to tax planning and profitability level has continued to exhibit concern over time. Profitability remains one of the most important indicators of corporate success because it reflects a firm's ability to generate earnings from its available resources and sustain long-term operations. Profitable firms are better positioned to meet shareholders' expectations, finance expansion, attract investors, and contribute to national economic development through employment generation and tax payments. In Nigeria, listed service firms play a significant role in the

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economy by providing essential services across sectors such as telecommunications, healthcare, transportation, hospitality, and information technology. Despite their economic importance, many listed service firms continue to experience fluctuations in profitability arising from increasing operational costs, changing tax regulations, economic uncertainties, and inefficient tax management practices (Akinyomi & Tasie, 2011).

The relationship between tax planning and profitability has attracted considerable attention among researchers because taxation constitutes one of the major expenses incurred by firms. Several tax planning measures, including the effective tax rate, cash effective tax rate, book-tax differences, Henry and Sansing measure, and tax savings, are commonly used to evaluate the extent to which firms manage their tax obligations (Ike & Ibekwe, 2026; Judijanto et al., 2026 and Terna et al., 2025). An efficient tax planning strategy is expected to reduce tax expenses, increase retained earnings, improve cash flows, and ultimately enhance profitability. Conversely, poor tax planning may increase tax burdens, reduce available resources for investment, and negatively affect firms' financial performance (Armstrong et al., 2015; Hanlon & Heitzman 2010).

Empirical studies on tax planning and profitability have produced inconsistent findings across different countries, industries, and measurement approaches. Some studies reported that tax planning significantly improves corporate profitability by reducing tax burdens and increasing after-tax income (Ike & Ibekwe, 2026; Judijanto et al., 2026; Terna et al., 2025; Chen et al., 2014; and Wahab & Holland, 2012). In contrast, other studies found that aggressive tax planning may reduce firm value and profitability because of higher compliance costs, cost of engaging tax practitioners, agency problems that may involved in the cast of reducing tax burden, regulatory scrutiny, and reputational risks (Olanisebe et al., 2025; Lanis & Richardson, 2012 and Desai & Dharmapala, 2009). Similarly, Nigerian studies have reported mixed results regarding the influence of effective tax rate, cash effective tax rate, book-tax differences, and other tax planning proxies on firms' profitability, indicating that the relationship remains inconclusive.

Furthermore, existing studies in Nigeria have largely concentrated on manufacturing firms, consumer goods companies, industrial goods firms, deposit money banks, and non-financial firms, with relatively limited empirical attention devoted specifically to listed service firms. Given the unique operational characteristics, tax structures, and regulatory environment of service firms, findings obtained from other sectors may not adequately explain the relationship between tax planning and profitability within the Nigerian service sector. In addition, many previous studies focused on only one or two tax planning proxies, particularly the effective tax rate or book-tax differences, while paying little attention to comprehensive measures such as the

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cash effective tax rate, Henry and Sansing measure, and tax savings. This creates sectoral and methodological gaps that require further empirical investigation.

The inconsistencies in previous empirical findings (Ike & Ibekwe, 2026; Judijanto et al., 2026; Terna et al., 2025), together with the limited evidence focusing specifically on listed service firms in Nigeria, underscore the need for further investigation into the impact of tax planning on profitability. Specifically, this study intends to provide empirical evidence that may assist corporate managers, investors, policymakers, and tax authorities in understanding how various tax planning strategies influence firms' profitability. In light of the foregoing, the specific objectives are to:

i. Evaluate the impact of Effective Tax Rate (ETR) on the profitability of listed service firms in Nigeria.
ii. Examine the impact of Cash Effective Tax Rate (CETR) on the profitability of listed service firms in Nigeria.
iii. Determine the impact of Book Tax Difference (BTD) on the profitability of listed service firms in Nigeria.
iv. Assess the impact of Henry and Sansing's Measure (H&S-M) on the profitability of listed service firms in Nigeria.
v. Identify the impact of Tax Savings (TS) on the profitability of listed service firms in Nigeria.

2.0 REVIEW OF RELATED LITERATURE

Concept of Profitability

Profitability is one of the most important indicators of a firm's financial performance and long-term sustainability. It refers to the ability of an organization to generate sufficient earnings from its business operations after meeting all operating expenses, financing costs, and tax obligations. Profitability demonstrates the efficiency with which management utilizes the firm's available resources to create value for shareholders while ensuring the continued growth and survival of the business (Brigham & Ehrhardt, 2017; Ross et al., 2019). For listed companies, profitability is particularly important because it influences investor confidence, market valuation, dividend policy, and the firm's ability to attract additional capital (Pandey, 2021).

Profitability is commonly assessed using financial ratios derived from a firm's financial statements. These ratios evaluate different dimensions of financial performance and provide useful information for decision-making. Among the most frequently used profitability measures are Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Earnings per Share (EPS), Gross Profit Margin (GPM), and Operating Profit Margin (OPM). Each ratio measures profitability from a different perspective. For instance, Return on Equity focuses on the returns generated for shareholders' investments, while Net Profit Margin measures the percentage

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of revenue that remains as profit after deducting all expenses. Return on Assets evaluates how efficiently management utilizes the firm's total assets to generate earnings and is widely considered one of the most comprehensive measures of operational performance (Ross et al., 2019; and Pandey, 2021).

Concept of Tax Planning

Tax planning is one of the most important components of corporate financial management because taxation significantly affects the financial performance, cash flows, investment decisions, and overall value of business organizations. Every business entity is legally required to pay taxes on income and other taxable activities. However, organizations also have the legal right to organize their business affairs in a manner that minimizes tax liabilities within the provisions of the law. This legitimate process of reducing tax obligations is referred to as tax planning (Scholes et al., 2021; Hoffman et al., 2021). Generally, tax planning is defined as the systematic arrangement of a firm's financial affairs to achieve the minimum possible tax liability without violating tax laws and regulations. It involves evaluating alternative business decisions and selecting those that produce the most favorable tax outcomes while remaining compliant with statutory requirements. Tax planning therefore focuses on reducing tax costs through legal means rather than avoiding or evading taxes unlawfully (Scholes et al., 2021; OECD, 2022).

Within the context of this study, tax planning is viewed as a multidimensional construct that cannot be adequately captured by a single indicator. Consequently, five complementary proxies are adopted: Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR), Book-Tax Difference (BTD), Henry and Sansing's Measure (HSM), and Tax Savings (TS). Each proxy captures a different dimension of tax planning. Effective Tax Rate (ETR) reflects the proportion of accounting income paid as tax; Cash Effective Tax Rate (CETR) measures actual cash taxes paid relative to income; Book-Tax Difference (BTD) captures the difference between accounting income and taxable income; the Henry and Sansing Measure evaluates the economic benefits derived from tax planning strategies; while Tax Savings measure the reduction in tax liabilities achieved through legitimate tax planning practices (Hanlon & Heitzman, 2010; Scholes et al., 2021).

Theoretical Review

The theoretical review provides the conceptual foundation upon which a research study is anchored. It explains the theories that underpin the relationship between the independent and dependent variables and offers a framework for understanding the phenomenon being investigated. Theories help to explain why and how variables are related, guide the formulation of hypotheses, and provide a basis for interpreting empirical findings (Creswell & Creswell, 2018). In the context of this study, which examines the impact of tax planning on the profitability

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of listed service firms in Nigeria, two relevant theories are reviewed: agency theory and stewardship theory.

Agency theory was developed by Jensen and Meckling (1976) to explain the relationship between the owners of a business (principals or shareholders) and the managers (agents) who are employed to manage the business on their behalf. The theory posits that managers are entrusted with the responsibility of making decisions that maximize shareholders' wealth. However, because managers and shareholders may have different objectives and access to different levels of information, conflicts of interest may arise, resulting in what is referred to as the agency problem (Jensen & Meckling, 1976; Eisenhardt, 1989). Agency theory explains how conflicts of interest between managers and shareholders may influence corporate tax planning decisions and, ultimately, firm profitability (Jensen & Meckling, 1976).

In relation to tax planning, Agency theory explains that managers are responsible for designing and implementing tax planning strategies that legally minimize the firm's tax burden while maximizing after-tax returns to shareholders. Effective tax planning enables firms to reduce unnecessary tax expenses, improve cash flows, and increase the resources available for investment, business expansion, and dividend distribution, thereby enhancing corporate profitability (Scholes et al., 2021; Hanlon & Heitzman, 2010). However, managers may also engage in excessively aggressive tax planning to maximize personal rewards or short-term performance targets. Such practices may expose the firm to tax audits, penalties, litigation, reputational damage, and increased regulatory scrutiny, ultimately reducing firm value and profitability (Desai & Dharmapala, 2006; Hanlon & Heitzman, 2010).

In contrast, stewardship theory was developed by Donaldson and Davis **(**1991**)** as an alternative to agency theory. Unlike agency theory, which assumes that managers are primarily motivated by self-interest, stewardship theory posits that managers are trustworthy stewards who naturally seek to act in the best interests of the organization and its owners. The theory argues that managers derive greater satisfaction from achieving organizational success, improving firm performance, and creating long-term value than from pursuing personal interests at the expense of shareholders (Donaldson & Davis, 1991; Davis et al., 1997). According to stewardship theory, managers are committed to maximizing organizational performance through prudent decision-making, efficient utilization of resources, and adherence to legal and ethical standards. The theory assumes that managers' objectives are aligned with those of shareholders and that they are intrinsically motivated to achieve organizational goals. Consequently, rather than relying heavily on monitoring and control mechanisms, stewardship theory emphasizes trust, empowerment, and shared organizational objectives as the basis for effective corporate governance (Donaldson & Davis, 1991; Davis et al., 1997).

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In the context of tax planning, stewardship theory suggests that managers will implement lawful and efficient tax planning strategies that minimize tax liabilities while remaining fully compliant with tax laws and regulations. Such strategies enable firms to retain a larger proportion of their earnings, improve cash flows, increase investment opportunities, and ultimately enhance profitability. Managers acting as responsible stewards are expected to balance the objective of minimizing tax obligations with the need to maintain regulatory compliance, ethical conduct, and corporate reputation, thereby avoiding unnecessary tax risks, penalties, and reputational damage (Scholes et al., 2021; and Hanlon & Heitzman, 2010). Stewardship theory is highly relevant to this study because tax planning requires managers to make responsible financial decisions that enhance firm performance while complying with statutory tax requirements. The theory therefore supports the argument that managers who prioritize organizational interests will adopt efficient tax planning strategies that enhance profitability while ensuring compliance with tax regulations (Scholes et al., 2021).

This study is anchored on both agency theory and stewardship theory because each provides a complementary perspective on the relationship between tax planning and profitability. The two theories collectively provide a robust conceptual foundation for this study. The agency theory highlights managerial discretion and governance in tax planning. More so, the theory emphasizes the need for monitoring and governance mechanisms to ensure that managers implement tax planning strategies in the best interests of shareholders (Jensen & Meckling, 1976). Stewardship theory, on the other hand, assumes that managers are motivated to act in the organization's best interests and will adopt responsible tax planning strategies that improve financial performance and shareholder value (Donaldson & Davis, 1991; Davis et al., 1997). Together, these theories provide a comprehensive framework for explaining how managerial decisions regarding tax planning may influence the profitability of listed service firms in Nigeria. These theories explain how taxation influences profitability, justifying the selection of effective tax rate, cash effective tax rate, book tax difference, Henry and Sansing's Measure and tax savings as independent variables influence profitability as the dependent variable in this study.

Empirical Review and Hypotheses Development

The impact of tax planning on profitability has been documented in accounting and finance literatures at local and international levels. The findings were inconsistent where some studies concluded that tax planning affected profitability while other documented otherwise. This includes; Bamigboye and Ewuola (2026) assessed the impact of tax planning on corporate profitability in publicly listed Nigerian manufacturing firms from 2015 to 2024. Specifically, it investigates the effects of Effective Tax Rate (ETR), Book-Tax Differences (BTD), and Tax-to-Asset Ratio (TAS) on Return on Equity (ROE). Using panel data from 32 firms on the Nigerian Exchange Group (NGX), the regression results indicated that higher ETR is negatively

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associated corporate profitability while higher and TAS positively influence corporate profitability. These findings suggest that strategic, legally compliant tax planning can enhance profitability of listed manufacturing firms in Nigeria.

Ike and Ibekwe (2026) examined the effect of taxation variables on the profitability of listed consumer goods firms in Nigeria. The study adopted an ex-post facto research design and employed purposive sampling to select 13 listed consumer goods firms over the period 2015 to 2024. Company Income Tax (CIT), Effective Tax Rate (ETR), Withholding Tax (WHT), and Tax Incentives (TINC) were used as proxies for taxation, while profitability was measured using Return on Assets (ROA). Firm size was included as a control variable to account corporate performance. The regression results revealed that company income tax, withholding tax, tax incentives, and firm size had significant positive effects on profitability, whereas ETR had a significant negative effect on Return on Assets. The study concluded that efficient tax planning strategies, particularly those involving tax incentives, can improve firm profitability.

Judijanto et al (2026) examined the influence of tax planning on corporate profitability of publicly listed non-financial firms in Indonesia. Tax planning was proxied by Effective Tax Rate (ETR) and Cash Effective Tax Rate (CETR), profitability is measured by Return on Assets (ROA). The findings indicate that Tax planning (ETR and CETR) strategies significantly affect corporate profitability of publicly listed non-financial firms in Indonesia. Equally, Meshark et al (2026) investigated the impact of tax aggressiveness on the profitability of listed industrial goods firms in Nigeria. The study adopted an ex-post facto research design using panel data from 12 firms covering the period 2012 to 2024. Tax aggressiveness was measured using Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR), Book-Tax Difference (BTD), and leverage, while Return on Assets (ROA) was used to measure profitability. The regression results indicated that Effective Tax Rate, Book-Tax Difference and leverage had positive and significant effects on profitability, whereas Cash Effective Tax Rate showed a positive but insignificant relationship with ROA. This implies that legitimate tax planning strategies reflected in Book-Tax Difference contribute significantly to improved firm performance.

Lebo et al. (2026) studied the effect of tax planning on the profitability of listed goods consumer firms in Nigeria for a period of ten-years (2014–2023). Tax planning (ETR and MTR) had no significant effect profitability of listed goods consumer firms in Nigeria, implying that reducing tax liabilities did not automatically enhance profitability. In the same vein, Marami et al. (2025) assessed the effect of tax planning on the financial performance of listed consumer goods companies in Nigeria obtained data from 10 listed firms covering a period of ten-years (2014-2023). Tax planning was measured using Cash Effective Tax Rate (CETR), Book-Tax Difference (BTD), and Tax Savings (TAS), while Return on Assets (ROA) served as the measure

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of financial performance. The findings indicated that Book-Tax Difference had a positive and statistically significant effect on profitability, while Cash Effective Tax Rate had a positive but insignificant relationship with profitability. Tax Savings exhibited a negative and insignificant effect on Return on Assets. This implies that Book-Tax Difference is a more reliable indicator of effective tax planning than the traditional tax planning measures.

Meanwhile, Olanisebe et al. (2025) assessed the impact of corporate tax planning on financial performance using 16 listed consumer goods firms (2015–2024) and found that Effective Tax Rate (ETR) and Cash Effective Tax Rate (CETR) had insignificant impacts on financial performance, suggesting firms focus on operational efficiency rather than solely reducing ETR/CETR. Paul et al. (2025) examined the relationship between corporate tax-saving strategies and the financial performance of listed non-financial firms in Nigeria. The study used 24 listed non-financial firms (2014–2023). The result showed that thin capitalization and depreciation tax shield positively influenced profitability, while effective tax rate had an insignificant negative effect and capital intensity significantly improved performance. Overall, there is an inconsistent relationship between tax planning and firm profitability as reported by my prior studies. Thus, the study proposed the following hypothesis:

$H0_1$: Effective Tax Rate (ETR) has no significant effect on the profitability of listed service firms in Nigeria.

$H0_2$: Cash Effective Tax Rate (CETR) has no significant effect on the profitability of listed service firms in Nigeria.

$H0_3$: Book Tax Difference (BTD) has no significant effect on the profitability of listed service firms in Nigeria.

$H0_4$: Henry and Sansing's Measure (H&S-M) have no significant effect on the profitability of listed service firms in Nigeria.

$H0_5$: Tax Savings (TS) has no significant effect on the profitability of listed service firms in Nigeria

From the hypothesis and prior studies, the inconsistent relationship between tax planning and profitability variable can be explained in Figure 1.

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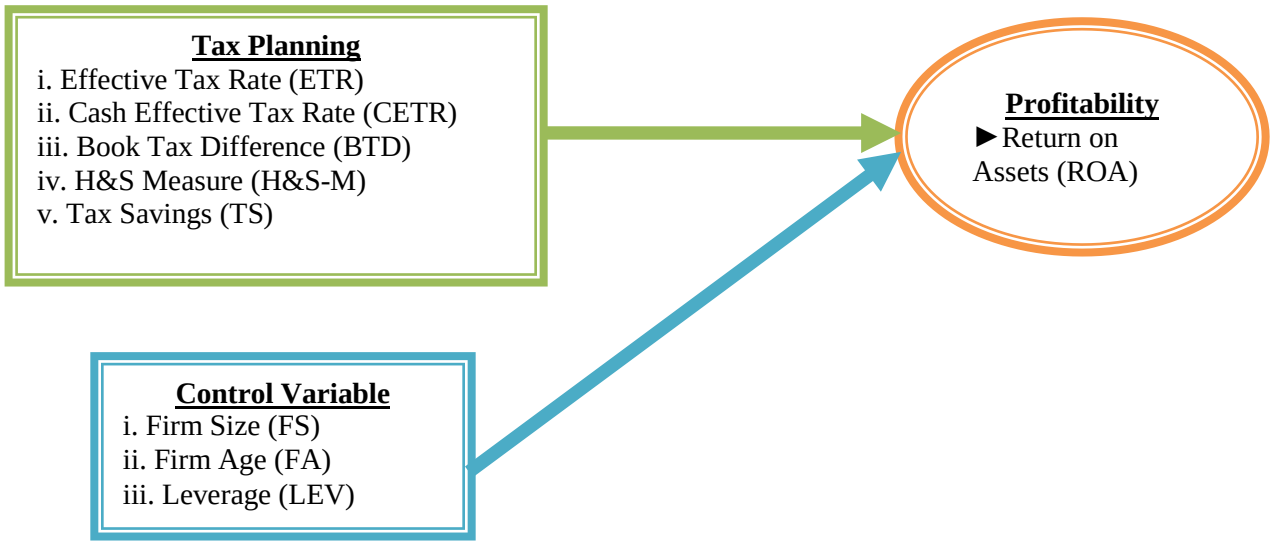


Figure 1: Conceptual Framework

In this study, tax planning serves as independent variable influencing profitability as dependent variable while firm size, firm age and leverage were used as control variables, as shown in Figure 1.

3.0 METHODOLOGY

This study examined the effect of tax planning on profitability of listed service firms in Nigeria. To achieve the study objectives, Correlational research design was employed in this study. Data for the study was extracted from the annual report and account of listed service firms in Nigeria. The design is set to be adequate and appropriate for the measurement of the impact of tax planning on profitability of the firms under consideration and the design was adopted because the study relied on historical secondary data without manipulating the variables of interest. The design was considered appropriate since variables such as tax planning, profitability, firm size, firm age and leverage of listed service firms in Nigeria over the period 2010 to 2025 already existed and was observed in their natural setting, allowing for the examination of relationships and effects using historical corporate data.

The study utilized secondary data extracted from published annual reports and financial statements, thereby ensuring objectivity, reliability, and consistency in the empirical analysis. The population of the study comprised all twenty (20) service firms listed on the Nigerian Exchange Group (NGX) as at 2025. These firms were considered suitable for the study because they operate under the same regulatory framework, tax laws, financial reporting standards, and corporate governance environment. As such, they provided a homogeneous platform for assessing the impact of tax planning on profitability within the Nigerian service sector. This

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study adopted a purposive sampling technique to ensure that only firms with relevant and reliable data were included in the analysis. The selection of firms was guided by clearly defined criteria. First, the firms had to be continuously listed on the Nigerian Exchange Group (NGX) throughout the study period of 2010 to 2025. Second, they were required to have complete and accessible annual reports and audited financial statements for the entire period. Third, the firms needed to provide adequate disclosures on key tax-related variables, including effective tax rate, cash effective tax rate, book tax difference, H&S Measure and tax savings. Finally, the firms were expected to consistently report the financial data necessary for measuring profitability and firm size. Table 1 presents the population and sample size of this study.

Table 1: Population and sample Size of the Study

S/No.	Company	DOL	DOI	Sample Size
1	Academy Press Plc.	1965	1964	1
2	Afromedia Plc.	2009	1959	Nil
3	Associated Bus Company Plc	2006	1993	2
4	C & I Leasing Plc.	1997	1990	3
5	Caverton Offshore Support Grp Plc.	2014	2008	Nil
6	Daar Communications Plc	1970	1988	4
7	Eunisell Interlinked Plc	1993	1981	5
8	Ikeja Hotel Plc	2007	1972	6
9	Juli Plc.	1986	1972	7
10	Learn Africa Plc	1970	1961	8
11	Nigerian Aviation Handling Company Plc	2006	2005	9
12	R T Briscoe Plc.	1974	1957	10
13	Red Star Express Plc	2007	1992	11
14	Secure Electronic Technology Plc	1970	2000	12
15	Skyway Aviation Handling Company Plc	2019	2009	Nil
16	Tantalizers Plc	1970	1997	13
17	The Initiates Plc	2016	1995	Nil
18	Trans-Nationwide Express Plc.	1992	1984	14
19	Transcorp Hotels Plc	2015	1994	Nil
20	University Press Plc.	1978	1978	15

Source: NGX website, as at 31st December 2025

Based on these criteria, a total of fifteen (15) listed service firms were selected. These firms represented those with complete, consistent, and reliable data over the sixteen-year period, thereby ensuring the suitability and robustness of the balanced panel dataset used for the empirical analysis.

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Sources and Methods of Data Collection

The study relied exclusively on secondary data. Data were extracted from the published annual reports and audited financial statements of the sampled listed service firms in Nigeria. Additional supporting information was obtained from the Nigerian Exchange Group (NGX) Factbooks, firms' official websites, and financial databases where necessary. The use of secondary data was justified because tax planning variables, profitability and control variable indicators are objectively reported in corporate financial statements and are verifiable through statutory disclosures.

Method of Data Analysis

Following the various proxy of the dependent and explanatory (independent and control) variables, both the descriptive and inferential statistical techniques were employed as a form of quantitative analysis on the data collected. The descriptive statistics was employed to summarize the characteristics of the variables, while correlation analysis was conducted to examine the relationships among the variables and to detect potential multicollinearity issues prior to regression estimation. Panel regression analysis was carried out using both the Fixed Effects Model (FEM) and the Random Effects Model (REM) to estimate the impact of tax planning (effective tax rate, cash effective tax rate, book tax difference, H&S Measure and tax savings) on profitability. The Hausman specification test was employed to determine the most appropriate model between FEM and REM.

Furthermore, to ensure the robustness and validity of the regression results, several diagnostic tests were conducted, including the Variance Inflation Factor (VIF) test for multicollinearity, the Breusch–Pagan test for heteroskedasticity, and the Wooldridge test for serial correlation. All statistical analyses, data transformation, diagnostic testing, and model estimations were conducted using STATA 15, which enhanced the accuracy and reliability of the empirical findings. Table 2 shows the study variables and their measurement criteria.

Table 2: Summary of the Variables and their Measurements

Variable	Abbreviation	Measurement	Source
Profitability	ROA	Earnings after Tax divided by Total Assets	Ike and Ibekwe (2026), Judijanto et al. (2026), Lebo et al. (2026), Meshark et al. (2026), Olanisebe et al. (2025), Shrestha (2022) and Bressan (2023).
Tax Planning:			
Effective Tax Rate	ETR	Tax liabilities divided by profit before tax.	Bamigboye and Ewuola (2026), Ike and Ibekwe (2026), Meshark et al. (2026), Olanisebe et al. (2025), Paul et al. (2025),

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			Bhattacharjee and Das (2023) and Aronmwan and Okaiwele (2020).
Cash Effective Tax Rate	CETR	Cash taxes paid divided by profit before tax	Judijanto et al., 2026). Lebo et al. (2026), Meshark et al. (2026), Marami et al. (2025), Olanisebe et al. (2025), and Aronmwan and Okaiwele (2020).
Book Tax Different	BTD	Net profit minus taxable profit	Bamigboye and Ewuola (2026), Meshark et al. (2026) and Marami et al. (2025)
Henry and Sansing's measure	H&S	Number of meetings held during the fiscal year.	Olanisebe et al. (2025) and Aronmwan and Okaiwele (2020).
Tax Saving	TS	(Profit before tax * statutory tax rate) – actual tax expense	Marami et al. (2025) and Paul et al. (2025)
Control Variable:			
Firm Size	FZ	Natural Log (Total Assets)	Ike and Ibekwe (2026), Olanisebe et al. (2025) and Meshark et al. (2026).
Firm Age	FA	Year of Incorporation	Marami et al. (2025) and Akadakpo and Usiomon (2022).
Leverage	LEV	Total debt divided by total assets	Olanisebe et al. (2025) and Bhattacharjee and Das (2023).

Source: Developed by Researcher (2026)

Model Specification

A multiple regression models were used to measure the nature and strength of the impact of tax planning on profitability. Two models were employed base on the variables of the study, tax planning are proxies effective tax rate, cash effective tax rate, Book tax different, H&S's measure and tax saving while ROA was used as proxy for profitability. All the variables were extracted from the published annual report and accounts of the sample firms. The functional relationships among the variables are defined as:

Profitability = f (Tax planning and Control Variables)

ROA = f (ETR, CETR, BTD, H&S TS, FS, FA and LEV

…….....(1)

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From the above equations, the study proposes a model to test the hypotheses of the study. The study adopted a model used by Ike and Ibekwe (2026), Lebo et al. (2026) and Judijanto et al. (2026) which are modified to include firm size, firm age and leverage.

$ROA_{it} = a + \beta_1 ETR_t + \beta_2 CETR_{it} + \beta_3 BTD_{it} + \beta_4 H\&S_{it} + \beta_5 TS_{it} + \beta_6 FS_{it} + \beta_7 FA_{it} + \beta_8 LEV_{it} + \varepsilon$..... (2)

Where:
ROA_{it} is the return on assets for firm i in period t.
ETR_{it} is the effective tax rate for firm i in period t.
$CETR_{it}$ is the cash effective tax rate for firm i in period t.
BTD_{it} is the book tax different for firm i in period t.
$H\&S_{it}$ is the Henry and Samsung's measure for firm i in period t.
TS_{it} is the tax saving for firm i in period t.
FS_{it} is the size of firm for firm i in period t.
FA_{it} is the firm age for firm i in period t.
LEV_{it} is the leverage for firm i in period t.
$\beta_1 - \beta_8$ represent the coefficient of the explanatory variables.
i denote the number of firms in the panel.
t denotes the time period of the panel data.
ε is the error term

4.0 RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics is presented in Table 3:

Table 3: Descriptive Statistics of the Variables of the Study

Variables	Obs.	Mean	Std. Dev.	Min	Max
ROA (%)	240	0.0201	0.1020	-0.3387	0.4442
ETR (%)	240	0.1323	0.3112	-0.9570	0.7519
CETR (%)	240	0.0853	0.2451	-0.9970	1.2635
BTD (%)	240	0.0194	0.1492	-0.1735	0.5463
HSM (%)	240	0.0011	0.0253	-0.5472	0.0506
TS (%)	240	0.1692	0.3413	-1.0152	2.0101
AGE	240	33.3	14.2	5	68
FS	240	9.6648	0.6747	6.8602	11.0900
LEV	240	0.5042	0.2017	0.1046	0.8610

Source: STATA 15.0 Outputs.

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The descriptive statistics in Table 3 above shows that average value of return on assets as 0.0201(3%), with minimum and maximum values of -0.3387 (-34%) and 0.4442 (44%) respectively. This shows moderate dispersion in profitability among the sampled listed service companies as portrayed by the standard deviation of 0.1020 (10%), which means that operating profitability varies around the mean across firms. While some organizations recorded severe operational losses (-34%), others achieved strong earnings performance with returns as high as 44%.

The average value of effective tax rate (ETR) is 0.1323 (13%), with minimum and maximum values of -0.9570 (-96%) and 0.7519 (75%) respectively. This mean ETR falls below the statutory corporate income tax rate, indicating that sampled firms engaged in tax management strategies such as tax avoidance, optimization, and planning during the period. The standard deviation of 0.3112 (31%) reflects wide variation in tax burdens, showing that while certain organizations bore tax liabilities as high as 75%, others recorded negative effective rates (-96%) through extensive tax incentives, allowances, or loss carry forwards.

The average value of cash effective tax rate (CETR) is 0.0853 (9%), with minimum and maximum values of -0.9970 (-100%) and 1.2635 (126%) respectively. This mean CETR reflects the actual cash tax outflows relative to pre-tax accounting income, demonstrating that sampled firms actively utilized tax planning strategies to minimize cash tax burdens. The standard deviation of 0.2451 (25%) indicates wide variation in cash tax liabilities across the sampled listed service companies, showing that while some organizations achieved negative cash effective rates through tax refunds or carry forwards (-100%), others experienced cash tax payments exceeding their accounting pre-tax profit (126%).

The Book Tax Difference (BTD) show an average value of 0.0194 (2%), with minimum and maximum values of -0.1735 (-17%) and 0.5464 (55%) respectively. The positive mean implies that, on average, financial accounting income exceeds taxable income among the sampled firms, indicating potential corporate tax planning or earnings management practices. The standard deviation of 0.1492 (15%) reflects moderate variation in the magnitude of book-tax gaps across the sampled listed service companies. Based on Table 3, Henry and Sansing's measure (HSM),The mean value stands at 0.0011 (0.1%), ranging from a minimum of -0.0547 (-5%) to a maximum of 0.0506 (5%). This metric measure tax avoidance adjusted for firm growth and asset scale, where values closer to zero indicate balanced tax-planning activities relative to underlying firm size. The standard deviation of 0.0253 (3%) highlights low dispersion, showing that most sampled companies maintain stable levels of scale-adjusted tax avoidance.

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Similarly, the mean value of Tax Savings (TS) is 0.1692 (17%), with minimum and maximum values of -1.0152 (-102%) and 2.0102 (201%) respectively. This result shows that the sampled companies generate substantial tax reductions through allowable deductions, incentives, and tax management strategies. The standard deviation of 0.3413 (34%) demonstrates noticeable variation, reflecting substantial differences in the extent to which individual service firms capitalize on tax-saving opportunities. Furthermore, the average Firm Age (FA) recorded is 33.30 years, ranging from a minimum of 5 years to a maximum of 68 years. This shows that the sample encompasses both young corporate entities and long-established market participants. The standard deviation of 14.2967 years indicates moderate variation in firm maturity across the sampled listed companies.

The average Firm Size (FS) is 9.6648, with minimum and maximum values of 6.8602 and 11.0900 respectively. The standard deviation of 0.6747 signifies low dispersion around the mean, demonstrating that the sampled listed companies operate at relatively comparable organizational and asset scales. In the same vein, the average value of financial leverage (LEV) is 0.5042 (50%), with minimum and maximum values of 0.1046 (10%) and 0.8610 (86%) respectively. This shows that the sampled listed service companies maintain a moderate capital structure heavily dependent on debt financing, as half of their total assets are funded through liabilities. The standard deviation of 0.2017 (20%) reflects moderate variation in capital structure choices across the sector, meaning that while some firms maintain conservative debt levels (10%), others operate with high financial leverage reaching up to 86%.

Correlation Results

The result of correlation matrix of the dependent variables (profitability- ROA) and explanatory variables (Effective Tax Rate, Cash Effective Tax Rate, Book Tax Difference, Henry and Sansing' Measure, Tax Savings and control variables Firm Size Firm Age and Leverage) is presented in Table 4. The correlation measures the strength and direction of relationship between all pair of variables of the study.

Table 4.: Correlation Matrix

Variables	ROA	BTD	ETR	CETR	HSM	TS	AGE	FS	LEV	VIF
ROA (%)	1.0000									
BTD (%)	0.1936	1.0000								1.45
ETR (%)	0.4084	0.0109	1.0000							8.43
CETR (%)	0.2418	-0.0831	-0.5587	-1.0000						1.53
HSM (%)	-0.8627	-0.3358	-0.3375	-0.07	1.0000					1.45
TS(%)	-0.3775	-0.0124	-0.9300	0.5108	0.3309	1.0000				7.54
AGE	-0.1188	-0.1095	0.1408	0.0194	0.0696	0.1127	1.0000			1.08
FS	0.1028	0.3396	0.1515	-0.0564	-0.0727	-0.1675	-0.0298	1.0000		1.34
LEV	-0.1946	-0.0400	-0.0028	0.0105	0.1143	-0.0372	-0.0996	0.2504	1.0000	1.17

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Source: STATA 15.0 Outputs

Table 4 shows the correlation matrix between the variables of the study. The values of the correlation coefficient vary from -1 to 1. The sign of the correlation coefficient indicates the bearing of the relationship whether positive or negative, and the magnitude of the correlation coefficient indicates the strength, with larger values indicating stronger relationships. The correlation coefficients on the main diagonal are 1.0000 because each variable has an absolute positive linear relationship with itself. The correlation coefficients between the independent/control variables and the dependent variable (Return on Assets, ROA) show that ETR (0.4084), CETR (0.2418), BTD (0.1936), and FS (0.1028) are positively correlated with profitability (ROA) as presented in Table 4.2. This indicates that an increase/decrease in these variables corresponds to an increase/decrease in the profitability (ROA) of listed service companies. Conversely, HSM (-0.8627), TS (-0.3775), LEV (-0.1946), and AGE (-0.1188) have negative coefficients with ROA, indicating that an increase/decrease in these variables is associated with a decrease/increase in firm profitability.

To evaluate the presence of multicollinearity among the explanatory variables, a Variance Inflation Factor (VIF) test was conducted. The results provide evidence of the absence of severe collinearity. The VIF values range from a minimum of 1.08 (AGE) to a maximum of 8.43 (ETR), with an overall mean VIF of 3.00. Because all individual VIF values are well below the benchmark threshold of 10 and the mean VIF is low, severe multicollinearity does not pose a problem in the regression models.

Regression Analysis

This subsection presents the regression result of effect of tax planning on profitability. Table 5 presents the Regression with Driscoll-Kraay standard errors result for the model. This is determined and estimated using Panel Data Techniques.

Table 5: Regression of Results: Tax Planning and Profitability

Correlated Panels Corrected Standard Errors (PCSEs)				
	Coef.	**Std. Err.**	**T**	**P>/t/**
ETR	-0.0141	0.0258	-0.55	0.586
CETR	0.0511	0.0147	3.47	0.001
BTD	-0.0317	0.0234	-1.36	0.176
HSM	-3.3949	0.1459	-23.26	0.000
TS	-0.0011	0.0222	-0.05	0.959
AGE	-0.0019	0.0007	-2.83	0.005
FS	0.0044	0.0088	0.50	0.616

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LEV	-0.0230	0.0228	-1.01	0.315
CONS.	0.0533	0.0827	0.65	0.520
R-squared	0.7700			
Number of Obs.	239			
Prob>F	0.0000			
Hettest	0.0000			
Hausman Test	Prob > chi2 = 0.0002			

Source: STATA 15.0 Outputs.

From Table 5, the multiple linear regressions equation becomes

ROA_{it} = 0.0533 - 0.0141(ETR) + 0.0511(CETR) - 0.0317(BTD) - 3.3949(HSM) - 0.0011(TS) - 0.0011(TS) - 0.0019(AGE) + 0.0044(FS) - 0.0230(LEV)

Drawing from Table 5, the following subsection discusses the regression model fitness as well as analyses of the regression result. The F-statistic p-value indicates the overall fitness and reliability of the model to capture statistically significant relationships between the explanatory variables and the dependent variable. The p-value of 0.0000 (Prob > F = 0.0000) provides strong empirical evidence that the regression model is statistically significant and well-fitted overall. The within R^2 (R-squared) value is 0.7700 (77.00%), which measures the cumulative explanatory power of the independent and control variables jointly on the dependent variable. This indicates that 77.00% of the total variation in firm profitability (proxied by Return on Assets - ROA) among the sampled listed service firms is explained by Effective Tax Rate (ETR), Cash Effective Tax Rate (CETR), Book-Tax Differences (BTD1), High-Status Membership (HSM1), Tax Shelter (TS), Firm Age (AGE), Firm Size (FS), and Financial Leverage (LEV). The remaining 23.00% of the variation in profitability is accounted for by other exogenous factors not included in this model.

The regression result in Table 5 shows that ETR has a negative and insignificant impact on profitability (ROA) of listed service firms with a coefficient value of -0.0141 and a p-value of 0.586. Hence, the study fails to reject hypothesis one which states that effective tax rate does not have a significant impact on return on assets of listed service firms. This finding indicates that variations in effective tax rate do not exert a statistically meaningful influence on the profitability of the sampled firms. This finding aligns with Lebo et al. (2026) and Olanisebe et al. (2025) who similarly observed that ETR had an insignificant effect on Return on Assets among listed firms in Nigeria. However, it contradicts the findings of Ike and Ibekwe (2026), Judijanto et al. (2026) and Bhattacharjee and Das (2023), who identified a significant negative relationship between ETR and profitability, as well as Bressan (2023) and Meshark et al. (2026), who reported a

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positive and significant effect of ETR on Return on Assets. The result suggests that service firms may neutralize statutory tax burdens through operational adjustments, ensuring that tax obligations do not significantly alter bottom-line asset performance.

Meanwhile**,** the regression result in Table 5 shows that CETR has a positive and significant impact on the profitability (ROA) of listed service companies, with a coefficient value of 0.0511 and a p-value of 0.001. Hence, the study rejects hypothesis two, which states that cash effective tax rate does not have a significant impact on return on assets of listed service companies. This finding indicates that an increase in cash tax efficiency enhances net operating performance which is line with finding of Lebo et al. (2026). This result contrasts with Judijanto et al. (2026), Olanisebe et al. (2025), Marami et al. (2025) and Meshark et al. (2026) who concluded that CETR has insignificant impact on ROA.

Furthermore, the regression result in Table 5 shows that BTD have a negative and insignificant impact on profitability (ROA) of listed service companies, with a coefficient value of -0.0317 and a p-value of 0.176. Hence, the study fails to reject hypothesis three, which states that book-tax differences do not have a significant impact on return on assets of listed service firms. This finding indicates that variations between accounting profit and taxable income do not systematically drive overall firm performance. This result contradicts Marami et al. (2025) and Meshark et al. (2026), who both documented a positive and statistically significant relationship between Book-Tax Difference and corporate profitability in Nigeria. The outcome suggests that temporary or permanent book-tax gaps do not automatically yield net operational performance gains in the service sector.

The regression result in Table 5 shows that the Henry and Sansing measure (HSM) has a negative and significant impact on the profitability (ROA) of listed service companies, with a coefficient value of -3.3949 and a p-value of 0.000. Hence, the study rejects hypothesis four, which states that the Henry and Sansing measure does not have a significant impact on return on assets of listed service firms. This finding indicates that scale-adjusted tax planning costs or structural tax distortions significantly depress firm performance. The result supports agency theory, demonstrating that aggressive scale-adjusted tax avoidance strategies incur implementation costs and administrative frictions that ultimately reduce net returns on assets.

Lastly, the regression result in Table 5 shows that TS has a negative and insignificant impact on profitability (ROA) of listed service firms, with a coefficient value of -0.0011 and a p-value of 0.959. This indicates that non-debt tax allowances and statutory tax savings do not exert a statistically meaningful influence on net operating performance within the sampled firms. This finding aligns directly with Marami et al. (2025) who similarly reported a negative and

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statistically insignificant effect of Tax Savings on Return on Assets, while complementing Paul et al. (2025), who noted that the efficacy of specific tax-saving strategies depends heavily on active utilization and execution. Therefore, the regression results as shown from Table 5 show all the variables of the study with the directional values of their coefficients (positive or negative), the p-value as well as their effect on the dependent variable at their independent level of significance. From the results, the formulated hypotheses of the study can now either be rejected or fail to be rejected. Table 6 provides the summary of the test of the hypothesis.

Table 6: Summary of the Tested Hypotheses

Hypotheses		Coef.	Std. Err.	Z	P>/z/	Decision
ETR->ROA	i	-0.0141	0.0258	-0.55	0.586	Failed to Reject
CETR-> ROA	ii	0.0511	0.0147	3.47	0.001	Rejected
BTD-> ROA	iii	-0.0317	0.0234	-1.36	0.176	Failed to Reject
HSM->ROA	iv	-3.3949	0.1459	-23.26	0.000	Rejected
TS-> ROA	v	-0.0011	0.0222	-0.05	0.959	Failed to Reject

Source: Researcher's Compilation, 2026

Based on the hypotheses stated earlier in this study, the results suggested that hypothesis one, three and five are supported while hypothesis two and four were not supported as shown in Table 6.

5.0 CONCLUSION AND RECOMMENDATIONS

This study examined the effect of tax planning on profitability of listed service firms in Nigeria. The findings revealed that the selected tax planning proxy such as cash effective tax rate and Sansing measure (HSM) collectively affect profitability of listed service firms in Nigeria while effective tax rate, book-tax difference and tax saving does not influence profitability among the sampled service firms in Nigeria. In the light of the findings of the study, the study conclude that effective tax rate, book-tax difference and tax saving does not significantly affect profitability (return on asset) of listed service firms in Nigeria. This implies that variations in those variables do not meaningfully drive ROA in the service sector. Meanwhile, cash effective tax rate and Henry and Sansing's measure significantly affect profitability (return on asset) of listed service firms in Nigeria in a negative direction. This suggests that effective cash tax and Henry and Sansing's measure management contributes directly to improving the ROA of listed service firms in Nigeria, meaning that companies effectively managing their actual cash tax outlays preserve liquidity to support core operations and maximize returns on assets.

Based on the findings of this study, the following recommendations are made:

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Concerning effective tax rate, since accrual-based tax rate reductions do not significantly drive return on assets, the management of listed service firms in Nigeria should focus on core operational efficiency rather than paper accounting tax reductions. Management should continue to engage in legal and ethical tax practices to manage their accounting tax liabilities without expecting accounting rate adjustments alone to boost profitability.

To achieve a higher return on assets through cash effective tax rate management, the management of listed service firms in Nigeria should focus on optimizing actual cash tax retention by maximizing statutory tax incentives, Pioneer Status reliefs, and allowable capital allowances. Effectively managing cash tax outlays preserves cash flow liquidity, leading to improved operational performance and a higher return on assets. For the book-tax difference, even though book-tax gaps are not a primary driver of return on assets, the management of listed service firms in Nigeria should continue to manage tax-related risks effectively, maintaining compliance and alignment between accounting standards and tax regulations to prevent unnecessary administrative friction.

With regards to the significant negative impact of the Henry and Sansing's measure on return on assets, the management of listed service firms in Nigeria should avoid excessively aggressive or complex scale-adjusted tax avoidance strategies. The high administrative overheads, advisory costs, and potential tax audit risks associated with aggressive tax structures outweigh tax savings and directly erode firm profitability. With regards to the tax savings, the management of listed service firms in Nigeria should ensure that retained liquidity from tax savings is actively deployed into high-yielding operational assets and productive infrastructure to enhance overall corporate performance.

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