European Journal of Accounting, Auditing and Finance Research
Vol.9, No. 5, pp.53-72, 2021
Print ISSN: 2053-4086(Print),
Online ISSN: 2053-4094(Online)

CORPORATE TAX PLANNING AND FINANCIAL PERFORMANCE OF DEVELOPMENT BANKS IN NIGERIA

Felix Olurankinse[1] and Aruna Ishola Mamidu[2]

1. The Department of Accounting, Faculty of Social and Management Sciences, Adekunle Ajasin University, Akungba Akoko, Ondo State, Nigeria

2. A Ph.D. Student, The Department of Accounting, Faculty of Social and Management Sciences, Adekunle Ajasin University, Akungba Akoko, Ondo State, Nigeria

ABSTRACT: *This study examined the effect of tax planning on the financial performance of Nigerian Development Banks. The study covered the period of 2012 to 2019 (post IFRS adoption era in Nigeria). Data were sourced from the annual financial statements and reports of the selected Nigerian Development banks. Pooled regression analysis technique was adopted to establish the effect of effective tax rate, tax savings, intensity of capital and firm size on financial performance of the banks. It was discovered that effective tax rate had negative and insignificant effect on return on equity while tax savings had positive and insignificant effect on return on equity. However, intensity of capital and firm size were discovered to have positive and significant effect on return on equity. The study thus, concluded that tax planning do significantly influence the financial performance of development banks in Nigeria in area of capital intensity and firm size. Thus, there is need for Nigerian Development Banks to effectively explore tax planning strategies in areas of effective tax rate and tax savings in order to reduce tax burden or liability. It is therefore recommended that an established cum effective tax planning unit or firm are needed to help in achieving effective tax planning in Nigerian Development banks in order to enhance more financial performance.*

KEYWORDS: Tax planning; Financial performance; Effective tax rate, Tax savings and Capital intensity.

INTRODUCTION

One of the major ways in which government caters for its rising responsibilities in modern economy is through taxation. Taxation promotes compulsory payments made by corporations and citizens to government. It has been playing leading role in financing government increasing expenditures both in developed and developing countries. Thus, without taxation, government may fail in its responsibilities of providing social and infrastructural facilities which are necessary for the survival and progress of the citizens, organizations and the economy at large.

However, taxation and tax policy of any economy has a major implication on the growth and performance of the economy. For successful business and economic growth, the tax policy of any economy is very important. Hence, fiscal policy instrument should not be rigid for the tax payers. This is because a flexible and viable taxation system has the capacity to stimulate economic activities, promote capital formation and investment and reduce unemployment. All these are germane for achieving long term economic growth (Gallemore, Mayberry & Wilde, 2017; Olanreaju & Olayiwola, 2019).

Nonetheless, the difficulties facing the tax system of most developing countries, Nigeria inclusive has resulted in the adoption of different strategies to reduce tax burden (Akinyomi & Okpala, 2013; Omesi & Appah, 2021). Taxation has different implications on the investment, financing and performance of a firm. High tax burden impedes investment and productive capacity of a firm through restriction on financial resources availability (Adelegan, 2003; Fagbemi, Olaniyi & Ogundipe, 2019). Also, the financing of investments opportunity with debt has tax relief on interest payments while financing through equity results in taxation being paid from dividend; thus, creating shortage of financial resources for an organization (Gabriel & Gimenez, 2015; Nekasa, Namusonge & Makokha, 2017). This process determines the investments and future growth prospects of an organization.

One of the major objectives of any organization is to enhance financial performance and shareholders wealth. Financial performance reflects ability of organization to effectively utilize financial and production factors to generate revenue for shareholders has been the major focus of profit making organization (Kayode & Folajinmi, 2020). Tax planning arises out of the need to improve financial performance and to enhance shareholders wealth. This had lead managers to diverse strategies to reduce tax liability. Among the strategies is the effective tax planning. Tax planning are strategies that is employed by an organization to legally reduce tax liability. This is done through tax avoidance. The savings are made available to embark on investments opportunities and this would enhance corporate performance (Desai & Dharmapala, 2009; Omodero & Ogbonnaya, 2018). Effective tax planning is one of the major responsibilities of corporate bodies through the adoption of strategies to minimize the tax liability of organization. Theoretically, the tax liability of a firm is related to performance and attainting higher performance requires the adoption of effective tax planning strategies; but to reduce tax liability has posed significant challenges to organizations in the recent time (Madugba, Ben-Caleb, Lawa & Agburuga, 2020).

One of the major challenges been faced by government and organizations in Nigeria is effective charges that would stimulate business activities and economic growth. While the issues of tax evasion has been a great challenge to government, multiple tax payment especially in Nigeria with ineffective tax system has remained an issue which companies seeks to deal with (Adejumo & Sanyaolu, 2020). Policies and reforms which include Federal Board of Inland Revenue Services Act 2007, National Tax Policy of 2017, Assets and Income Declaration Scheme (VAIDS) of 2017 and Voluntary Offshore Assets Regulation Scheme (VOARS) of 2018 have been adopted in Nigeria in the recent years to deal with the problem of multiple tax issue and ineffective tax collection policy (Deloitte, 2017). Despite this, Hart (2018); Juwa-Ogboi (2018)

asserted that Nigerian taxation system is presently experiencing series of problems among which include multiple tax system, complex nature of tax laws, unskilled manpower, and improper tax collection method which may posed challenges to business and economic growth.

While studies have been conducted on the relationship between tax planning and performance of business in Nigeria, most of these studies focused on effect of tax planning on performance of business of non-financial entities in Nigeria (Nwaobia, Kwarbai & Ogundajo, 2016; Ogundajo & Onakoya, 2016; Kurawa & Saidu, 2018; Olanrewaju & Olayiwola, 2019; Kayode & Folajinmi, 2020; Omesi & Appah, 2021). Also, studies that focused on financial firms mainly concentrated on the relationship between tax planning and performance of deposit money banks in Nigeria (Omodero & Ogbonnaya, 2018; Fagbemi, *et al.*, 2019; Adejumo & Sanyaolu, 2020). To the researcher's best of knowledge, no study had been conducted on Nigerian Development Banks in areas of corporate tax planning and corporate financial performance, which is the focus of this study. Thus, the core objective of this study is to examine the effect of tax planning on the financial performance of Nigerian Development banks.

This study would advance knowledge in research, as it would critically examine the study of corporate tax planning and financial performance of Nigerian Development Banks. It would provide insight into the effects of effective taxation on financial performance of the banks in post IFRS experience. The study would therefore be another reference point to the academia. The Nigerian Development Banks' board and management would be able to learn more on effects of tax planning using return on equity as measure of performance. This study will be useful to corporate bodies as it will help them manage their tax planning strategies properly and show how their tax avoidance skills could be used without practicing tax evasion.

This study will benefit the public as they will gain extra knowledge on corporate tax planning and its effect on corporate profitability which will in turn assist them in making good investment decisions in the development banking sector. The study would be valuable to tax researchers as there had not been a settled conclusion of the effects of corporate tax planning on corporate profitability. There had been mixed results from previous studies. This study would expose researchers to further contributions on the subject matter.

Also tax consultants would find the study useful. An average tax consultant must be very knowledgeable in vast areas of taxation. Governments at the three tiers of government would benefit from this study as it would help them in their fiscal policy making. Tax administrators would therefore use the research to formulate unequivocal tax policies that would aid tax administration and tax laws worldwide.

This paper is structured into five parts. The first section above treated the introduction for the study. The second part focuses on the literature review where conceptual, theoretical and empirical reviews were treated while the section three deals with the methodology. The fourth section deals with the data presentation, analysis and hypothesis testing while section five deals with the summary, conclusion and recommendation for the study.

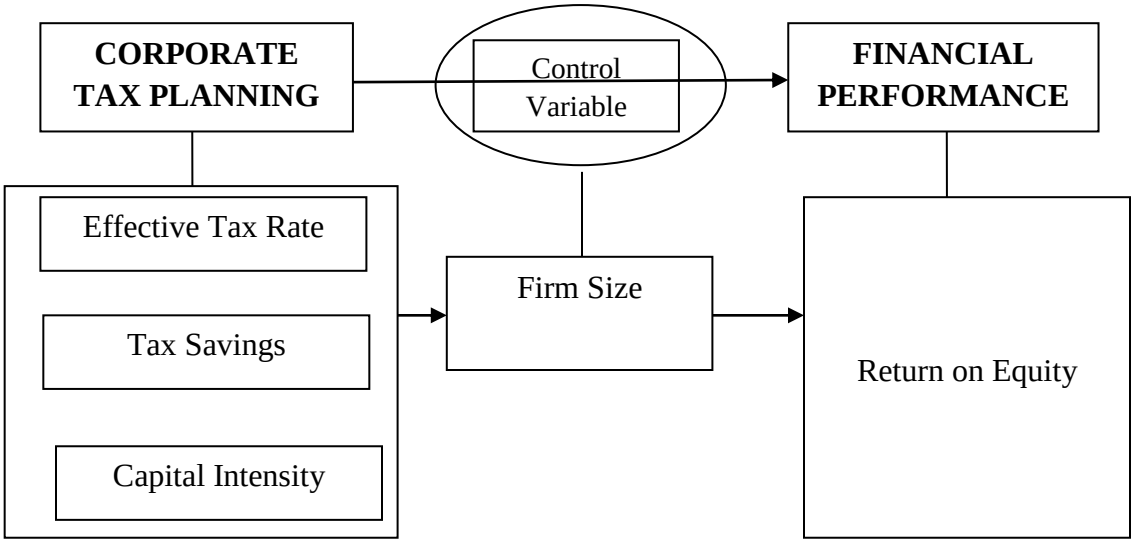
LITERATURE REVIEW

This section would fully do justice to the conceptual reviews of the used variables and other relevant concepts as depicted in the conceptual frame work. The theoretical review would be done based of Hoffman's Tax planning, Agency theory and Stakeholders' theory. The last part would review relevant empirical studies and the necessary hypotheses would be formulated.

Conceptual Review

Figure 1 shows the conceptual framework for the study (corporate tax planning and financial performance). The independent variables (Corporate tax planning) are made up of Effective Tax Rate (ETR), Tax Savings (TAS) and Capital intensity (CAPTIN). The independent variable (corporate financial performance) is Return on Equity (ROE). The Firm Size (FSZ) is the variable used as control in the study.

Figure 1: Conceptual Frame work



Source: Researcher's Compilation 2021

Financial Performance

Financial performance is the analysis of a firm polices and operational activities in monetary terms. Financial performance measures are given in monetary terms in terms of revenue or profit (Mashovic, 2018). Mostly financial performance variables can be found in the annual financial statements of an organization (Simons, 2000). The income statement and the balance sheet are germane in estimating the financial performance of a company because the income statement presents information on operating performance while balance sheet reveals the net worth of the organization.

One of the major ways for measuring financial performance of an organization is the usage of profitability financial ratios. Profitability measures the capacity of a firm to generate revenue or income on investment or through the utilization of production resources. Thus, profitability ratios evaluate the expanding capacity of a firm to increase profit, generate more revenue or earn higher income. Pandey (2010) asserted that, the survival and stability of a company rely on the ability of the economy to generate higher revenue or profit over a long period of time. Profitability ratios are of important to potential investors, shareholders, creditors, government and other stakeholders. Profitability creates cash flows through which organizations pay dividends, interest on debts, salaries and even taxation. Profitability ratios are also termed activities ratios for the reason that they signify the capacity of company to make profits from sales, assets used or capital employed (Myšková & Hájek, 2017). However, in this study return on equity (ROE) will be adopted as the financial performance indices. ROE is chosen as the study focuses on shareholder wealth maximization. Return on equity measures the part of revenue or profit that is accrued to shareholders.

Tax Planning

Tax planning is the legal strategies that are employed by organizations to ensure effective management of revenue and expenditure in order to minimize tax payment. Pniowsky (2010) viewed tax planning as a legal process adopted to conduct business affairs to reschedule, lessen or reduce the amount of tax paid to government. Through tax planning, an organization can use legal means to indentify loopholes in tax law with aim of reducing tax liabilities. Thus, tax planning involves a legal and competent arrangement of company's financial transactions in order to reduce tax burden or liability.

Tax planning enables corporate organizations to employ appropriate incentive provisions with the legal provision to adjust earnings and expenditure with the view of reducing tax burden. Nwaobia and Jayeoba (2016) opined that the tax laws that make provision for the reduction of tax liability are within the "commencing rule, cessation rule, allowance on investment, tax exemptions, and interest tax deduction which the tax managers of organizations explore". For effective tax planning, a tax manager or consultant must possess broad knowledge an organization and it operates in conjunction with numerous tax laws of a company.

Effective tax planning transcends the application of tax laws to the harmonization of diverse stakeholders with different interests and information including management of domestic and foreign activities. Management should do tax planning to improve the multiple segments in organization such as finance and financial reporting, management and technological advancement. The payment of tax by businesses in an organized economy is unavoidable; tax planning presents opportunities to reduce tax payments for business growth and performance. Hence, effective tax planning stratagem must create wealth benefits for the business.

Some good examples of tax planning includes but not limited to: Capital Intensity (CAPINT), Thin Capitalization (TINCAP), Lease Option (LOPT), Industrial Sector Tax Incentives (INSTI), Tax Savings (TAS) and Effective tax rate (ETR). This study focuses on ETR, TAS and CAPINT

with Size for firm (FSZ), as control variable (Nwaobia & Jayeoba, 2016) due to limited space required for the study.

Effective Tax rate (ETR):
The average effective tax rate as used by Phillips and Rego is the ratio of total tax expenses to pre-tax income, though various methods of computation exist in the literature. The average Effective Tax Rate does not accurately capture permanent difference between book and taxable income; hence it is often called a partial measure of non-conforming tax avoidance (Phillips (2003), Rego, 2003; and Badertscher, Katz, Rego & Wilson, 2015). Many researchers still believe that ETR is a good measure of tax planning.

Tax Savings (TAS): TAS is the difference between statutory tax rate and effective tax rate. Tax saving can be described as a tool through which companies can achieve permanent tax savings or temporary tax savings. It always reveals that management has the ability to minimize tax expense in the financial statements and report of an entity. Some of the ways of generating tax savings are through tax deferrals; roll over relief and taking advantages of timing in taxation. Tax savings would bring negative association with firm value, where providers of capital have insufficient knowledge of tax planning practices. On the other hand, tax savings and financial performance would be positively associated where amount spent on tax planning is less than the tax saving (Olanreaju & Olayiwola, 2019; Omesi & Appah, 2021).

Capital Intensity (CAPINT): CAPINT represents Capital Intensity for firm i in year t which is defined as the ratio of non-current assets (fixed assets) to total assets. This ratio defines the level of a company's investment in fixed assets and by implication the level of capital assets related incentives a company can enjoy. Allowances and incentives based on capital intensity include Capital allowance (initial and annual), Investment Tax Credit (ITC), and Re-investment Allowance (RIA) (Ftouhi, Ayed, & Zemzem, 2014).

Size of firm (FSZ): FSZ represents Size for firm i in year t. This is derived by the natural logarithm of total asset. This is an important control variable which was introduced as larger firms possess more resources that could be deployed to tax planning. Large firms are subject to greater public scrutiny and as a result, incur a "political cost" in the form of a higher ETR. Also, large firms in fact pay less tax because they can devote more resources to tax planning and political lobbying. Furthermore, Ftouhi, Ayed, & Zemzem (2014) observed that larger firms can achieve economies of scale via tax planning and have the resources and incentives to decrease group tax. This measure had been used in prior works of Wilson (2008); Kawor & Kportorgbi (2014); Nwaobia & Jayeoba, (2016); Assidi, Aliani, & Omri (2016)

Developments Banks in Nigeria
There are six development banks in Nigeria today as at May, 2021. They are: Bank of Industry (BOI), Federal Mortgage Bank of Nigeria (FMBN), Nigeria Export and Import Bank (NEXIM), The Infrastructure Bank Limited (TIB), Bank of Agriculture (BOA) and The Development Bank of Nigeria (DBN) (CBN, 2018). National Economic Reconstruction Fund (NERFUND) was established to make available the desirable medium and long-term funding to viable small and

medium-scale manufacturing projects (Not a bank but Direct finance Institution) (Olachi, Onodugo & Ezeamama, 2020).

BOI was established in 1959. It is the largest and oldest Development Finance Institution (DFI) presently operating in Nigeria. The bank is owned by the Ministry of Finance Incorporated (MOFI) Nigeria (94.80%), the Central Bank of Nigeria (CBN) (5.19%) and private shareholders (0.01%). Federal Mortgage Bank of Nigeria established in 1977, created by the Federal Government of Nigeria to absorb the Nigerian Building Society. Nigeria Export and Import Bank established in by the Federal Government of Nigeria with Act 38 of 1991 to replace the Nigerian Export Credit Guarantee & Insurance Corporation ().

The Infrastructure Bank Limited was established under decree No. 51 of the 1992. It is dedicated to providing financial resolution to sustain key elongated term infrastructure ventures Bank of Agriculture can be linked to the organization of the Nigerian Agriculture Bank (NAB) in 1973. BOA was an outcome of a reorganization of government-sponsored microcredit institutions. The bank was formed in 2000 and took over the assets of the National Agriculture and Cooperative Bank, People's Bank and the Family Economic Advancement Project (Ighodaro, 2010; Arifalo & Ayilaran , 2012). The Development Bank of Nigeria was established in 2014 (commenced operation in 2017) to transform petite businesses in the country by the then President – Dr. Goodluck Jonathan.

Theoretical Review

This section captures the theoretical focus for the study. Three theories were treated; namely: Hoffman's tax planning theory, Stakeholder Theory and Agency Theory of Tax planning. However, the study would be anchored on Hoffman's tax planning theory. The reason for anchoring the study on Hoffman's tax planning theory stems from the fact that it hammers on shareholders' wealth maximization. It stresses the need to minimize tax liability in order to maximize the financial position and growth of an organization.

Hoffman's Tax Planning Theory

This theory was promulgated by Hoffman (1961). Fagbemi, *et al.*, (2019); Omesi and Appah (2021) opined that, this theory is stress the role of tax planning in reducing tax payment without negatively influencing accounting income. This theory supports the reduction of tax payment to government thereby increasing the financial position and growth of an organization (Nwaobia & Jayeoba, 2016). According to this theory, tax planning activities are advantageous and help to minimize tax income without adjusting tax income (Akintoye, Adegbie, & Iheme-Onyeka, 2020).

This theory asserted that taxation are based on business concepts, thus, an organization can adjust business activities to reduce tax burden. Therefore, the theory proposes direct or positive linkage between tax planning activities and financial performance of a firm (Hoffman, 1961; Omesi & Appah, 2021). According to Hoffmann (1961), firms capitalize on some loopholes in

existing tax within legal frameworks to generate tax savings opportunities for a firm thereby enhancing performance.

Agency Theory of Tax Planning

Agency theory was propounded by Jensen and Meckling (1976). The agency theory in tax planning have been adopted and advance by scholars in the area of tax administration (Slemrod 2004); Chen & Chu 2005; Crocker & Slemrod 2005; Tatu, Dragota & Vintila 2011). The agency theory proposed that the relationship between principal (shareholders) and agent (tax managers) is a mutual one and tax managers should to the advantage of shareholders. Thus, the theory suggests that, tax manager should explore every loopholes and opportunities in tax laws to reduce tax burden and liability through effective tax planning to advance the interest of shareholders.

Stakeholder Theory: This theory was developed by Freeman (1984). The theory asserted that the main objective of an organization is to satisfy the needs of all stakeholders that are related to the organization. The theory states that firms are established not only to generate wealth of shareholders but also to cater for the welfare of other stakeholders like government in environment in which it operates. Thus, the theory opined that tax managers are concerned with the generation revenue or enhancement of shareholders wealth and also ensures tax payment to the government (Nwaobia & Jayeoba 2016). Summarily, the theory asserts that tax managers should ensure that shareholders wealth are enhanced through effective tax planning while ensuring that appropriate tax are paid to the government but must not negatively affect financial performance (Kayode & Folajinmi, 2020).

Empirical Review

Gallemore *et al.,* (2017) focused on the relationship between corporate taxation and bank outcomes among commercial banks in U.S. Based on the multi-regression analysis, tax rate was found to have significant effect on banks performance. The study of Nekasa, Namusonge & Makokha, (2017) adopted pooled OLS technique to investigate the impact of corporate income tax on financial performance of listed companies in Nairobi Securities Exchange (NSE) in Kenya in 2015. It was established that corporate income tax had positive and significant relationship financial performance.

Omodero and Ogbonnaya (2018) examined linkage between corporate tax and profitability of deposit money banks in Nigeria from 2006 to 2016. The result of the multiple regression analysis and t-test showed that company income tax had positive and significant effect on profit after tax of deposit money banks in Nigeria. Kurawa and Saidu (2018) assessed the relationship between company income tax and financial performance of listed consumer goods companies in Nigeria from 2006 to 2016. The study employed ordinary least square regression technique to analyze data and it was found that corporate tax had negative and insignificant effect on return on assets while Age and Risk were established to have positive and insignificant effect on return on asset.

By adopting panel vector autoregressive approach, Olanrewaju and Olayiwola (2019) determined the effect of corporate tax planning on financial performance of financial companies that were

quoted on Nigeria Stock Exchange Market from 2007 to 2016. It was discovered that there is positive relationship between tax saving and financial performance, while tax avoidance exerted negative effect on financial performance. Thanjunpong and Awirothananon (2019) examined the relationship between tax planning and financial performance in Stock Exchange of Thailand from 2014 to 2016. The study employed pooled regression technique for analysis and it was found that tax planning had positive and significant effect on financial performance.

Fagbemi, Olaniyi and Ogundipe, (2019) analyzed the effect of corporate tax planning on financial performance of systemically important banks in Nigeria. The result of the Pooled OLS showed that effective tax rate had negative and significant impact on financial performance while thin capitalization had positive and significant impact on the financial performance of SIBs in Nigeria. Akintoye & Okpala., (2020) studied the connection between tax planning strategies and profitability by focusing on manufacturing firms in Nigeria from 2008 to 2017. The result of the multiple regression indicated that tax planning had positive and significant effect on return on assets of the selected manufacturing firms in Nigeria.

Adejumo and Sanyaolu (2020) examined the effect of corporate tax planning on profitability of Nigerian listed deposit money banks. The study employed panel regression technique and it was found that tax planning had significant and negative effect on profitability. Kayode and Folajinmi (2020) analyzed the impact of corporate tax planning on financial performance of food and beverages companies in Nigeria. Data which covered the period of 2008 to 2018 analyzed with OLS and it was revealed that effective tax rate, capital intensity and thin capitalization had insignificant and negative effect on financial performance Omesi and Appah (2021) investigated linkage between corporate tax planning and firm value among listed consumer goods companies in Nigeria between 2015 and 2019 analyzed with pooled ordinary least square. It was discovered that effective tax rate, tax savings and capital intensity had negative and insignificant effect on corporate firm value.

One of the ways of measuring financial performance is through Return on Equity (ROE). Tax planning had severally been measured by Effective Tax Rate (ETR) and tax savings (TAS). Intensity of capital (IC) and Firm Size (FMS) had served as control variables in previous studies (Nwaobia & Jayeoba, 2016).).

In the theory of tax planning established by Hoffman (1961), it supported corporate bodies to plough back their returns for the firm's uses rather than paying tax saved to government coffer. Hoffman implored tax administrators to take advantages of loopholes in tax laws, policies and administration to use legal ways to reduce corporate tax liability in order to enhance performance. The theory concluded that entities should reduce tax liability to the barest minimum and be conscious of the fact that accounting income is not negatively affected (Hoffman 1961). It is therefore hypothesized that: Tax planning has no significant effect on financial performance of Nigerian Development Banks. Hence:

Ho_1: Effective tax rate does not have a significant relationship with return on equity of Nigerian Development Banks.

Ho2: Tax savings does not have a significant association with on return on equity of Nigerian Development Banks.

Ho3: Capital Intensity does not have significant effect on return on equity of Nigerian Development Banks.

METHODOLOGY

This study focused on the effect tax planning on the financial performance of development banks in Nigeria. The study relied on ex post facto research design to investigate the linkage between tax planning and financial performance. This is considered suitable because the research employed historical data which are quantitative in nature. The data sourced for the period of 2012 to 2019 and were analyzed with panel regression technique.The population comprises of all development banks that in the Nigerian. Current, there are six development banks operating in Nigeria. Three were sampled (BOI, NEXIM and TIB) as they met the criteria of: development banks that are paying taxes and established at least ten years ago.

Model Specification

This study was anchored on Hoffman's tax planning theory propounded by Hoffman (1961). The study stressed the role of effective tax planning in reducing tax liability thereby enhancing the performance of firms. However, the study adapted the model of Omesi and Appah (2021). The model is functionally given as:

$$Perf = f(TP) \quad (1)$$

Where:
Perf = Performance. This is the dependent variable capture as return on equity (ROE).
TP = Tax Planning. This is the dependent variable proxy as effective tax rate (ETR) and tax savings (TAS).
Thus, the model is decomposed into:

$$ROE = f(ETR, TAS, FMS, IC) \quad (2)$$

In the model presented in (2), firm size (FMS) and intensity of capital (IC) were use as control variables. Thus, the model is econometrically given as:

$$ROE_{it} = \beta_0 + \beta_1 ETR_i + \beta_2 TAS_i + \beta_3 FMS_i + \beta_4 IC_i + e_{1i} \quad (3)$$

Where:
ROE = Return on Equity
ETR = Effective Tax Rate
TAX = Tax Savings
FMS = Firm Size
IC = Intensity of Capital
e = error term
i = cross-sectional variable
t = time series variable

METHOD OF DATA ANALYSIS

The analysis commenced with the presentation of the descriptive statistics to describe the characteristics of the data series while correlation matrix was employed to determine the direction of relationship between the independent variables namely effective tax rate, tax savings, firm size and intensity of capital and the dependent variable namely return on equity. As procedure, the study initiates the panel regression technique by running the fixed effect panel regression and random effect panel regression. The Hausman test was employed to select the best suited technique between fixed effect panel regression and random effect panel regression.

Criteria:

- If the null hypothesis is rejected, then Random Effect becomes inconsistent, and the FE model is preferred.
- If the null hypothesis cannot be rejected, then, the random effects will be the most preferred estimator tested at 5% p value.

Table 3.1: Measurement of Variables

Variables	Variable Time	Measurement	Sources
Return on Equity (ROE)	Dependent Variable	Profit after tax divided by total equity	Thanjunpong & Awirothananon (2019) ; Fagbemi, Olaniyi and ogunbadejo (2019)
Effective Tax Rate (ETR)	Independent Variable	Total tax cash expenses divided by pre-tax income expressed as a percentage	Thanjunpong & Awirothananon (2019); Kurawa & Saidu (2018); Omesi and Appah (2021)
Tax Savings (TAS)	Independent Variable	The difference between statutory tax rate and effective tax rate	Omesi and Appah (2021); Olanreaju & Olayiwola (2019)
Intensity of Capital (IC)	Independent Variable	Noncurrent asset divided by the total asset	Fagbemi, Olaniyi and ogunbadejo (2019); Kayode & Folajinmi (2020)
Firm Size (FMS)	Control Variable	Log of total assets	Kurawa & Saidu (2018); Olanreaju & Olayiwola (2019)

Source: Researcher's Field Work, 2021

Table 3.1 shows the measurement of variables for the study. Return on Equity (ROE) is the dependent variable, and is measured by profit after tax divided by total equity. Effective Tax Rate (ETR) is an independent variable; it is measured by Total tax cash expenses divided by pre-tax income expressed as a percentage. Tax Savings (TAS) is an independent variable; it is measured by the difference between statutory tax rate and effective tax rate. Intercity of Capital (IC) is an independent variable; it is measured by the difference between statutory tax rate and effective tax rate while Firm Size (FMS) measured by Log of total assets serves as the control

variable for the study (Kurawa & Saidu, 2018; Kurawa & Saidu, 2018; Olanreaju & Olayiwola, 2019; Fagbemi, *et al.,* 2019; Thanjunpong & Awirothananon, 2019; Kayode & Folajinmi, 2020; Omesi & Appah, 2021).

DATA PRESENTATION, ANALYSIS AND HYPOTHESIS TESTING

Descriptive Statistic

Table 1: Descriptive Statistics

	ROE	ETAR	TAXS	FMS	ITCAP
Mean	0.196250	16.66583	16.44625	17.32042	0.136250
Std. Dev.	0.266063	20.66504	20.73034	2.259651	0.159995
Skewness	1.295458	0.374999	-0.511149	0.616593	1.375643
Jarque-Bera	7.806746	0.643365	1.164374	3.593074	8.457611
Probability	0.020174	0.724928	0.558675	0.165872	0.014570
Observations	24	24	24	24	24

Source: Author's Computation, 2021

Table 1 presents descriptive statistics for the data used in this study. The mean values for the variables are low this shows low deviation from the standard deviations. The skwness result reveals that return on equity, effective tax rate, firm size and intensity of capital are positively skewed while tax savings is negatively skewed. The Jarque-Bera result reveals that effective tax rate, tax savings, and forms size are normally distributed while return on equity and intensity of capital are not normally distributed.

Correlation Matrix

Table 3.2: Correlation Matrix

	ROE	ETAR	TAXS	FMS	ITCAP
ROE	1.000000				
ETAR	-0.151623	1.000000			
TAXS	0.142801	-0.371361	1.000000		
FMS	-0.043431	-0.139776	0.109952	1.000000	
ITCAP	0.191570	-0.040485	-0.001361	-0.604824	1.000000

Source: Author's Computation, 2021

Table 2 shows result for the correlation matrix between the dependent variable and the independent variables. The result shows the absence of multi co-linearity among the independent variables (effective tax rate, tax savings, firm size and intensity of capital) and the dependent variable namely return on equity. The result further shows that effective tax rate has negative co-movement with return on equity. However, tax savings has positive co-movement with return on equity. Firm size is established to have negative co-movement with return on equity while intensity of capital equally has positive movement with return on equity.

Panel Data Analysis

Table 3: Pooled Regression Analysis

Dependent Variable: ROE			
Variable	**Coefficient**	**t-Statistic**	**Prob.**
ETAR	-0.002331	-1.186464	0.2539
TAXS	0.002383	1.234651	0.2360
FMS	0.124564	3.015202	0.0261
ITCAP	1.677712	3.846797	0.0016
C	-0.418083	-0.920645	0.3718
R-squared	0.606805		
Adjusted R-squared	0.475740		
F-statistic	4.629804		
Prob(F-statistic)	0.009366		
Durbin-Watson stat	2.297709		

Source: Author's Computation, 2021

Results Pooled Regression Analysis

The result of the pooled regression result is presented in Table 3 and it shows that effective tax rate has negative and insignificant relationship with return on equity of development banks in Nigeria with coefficient of -0.002331. This implies that a unit increase in effective tax rate will lead to 0.002331 falls in return on equity. However, tax savings has positive but insignificant effect on return on equity with coefficients of 0.002383; meaning that a unit increase in tax savings will lead to 0.002383 increase in return on equity.

It was further found that firm size has positive and significant effect on return on equity of development banks in Nigeria with a coefficient of 0.124564 which indicates that a 1% increase firm size will lead to 0.12% increase return on equity. Similarly, it is established that intensity of capital have positive and significant effect on return on equity with a coefficient of 1.677712 which implies that a unit increase in intensity of capital will lead to 1.68% increase in return on equity.

The R-squared is given as 0.606805 which implies that the model has a better goodness of fit. This indicates that 60% variations in return on equity of development banks in Nigeria are caused by effective tax rate, tax savings, firm size and intensity of capital. Also, Durbin-Watson statistic value of 2.297709 shows that absence of autocorrelation in the residuals of the model. Finally, the F-statistic and probability values of 4.629804 and 0.009366 indicates that effective tax rate, tax savings, firm size and interest of capital have significant effect on return on equity.

Table 4: Residual Diagnostic Tests

Test	**Chi-square**	**Probability**
Normality Test (Jarque-Bera)	2.809434	0.2454
Cross Dependency Test (Pesaran scaled LM)	5.482973	0.1397

Source: Author's Computation, 2021

The result presented in Table 4 shows the residual diagnostic test for the regression result. The result shows that residual of the regression is normally distributed with probability of 0.2454 which is greater than the acceptance region of 0.2454. Also, the result shows the absence of serial correlations or cross dependency in the regression residual with a probability of 0.1397 which is greater that the acceptance region of 0.05.

Test of Hypotheses

The research hypotheses are validated with t-statistic and the corresponding probability value.

***Ho*$_1$**: *Effective tax rate does not have a significant relationship with return on equity of Nigerian Development Banks.*

On hypothesis one, the pooled regression shows that effective tax rate has a t-statistic and probability values of -1.186464 and 0.2539. Since the P value of 0.2539 is greater than the acceptable value of 0.05 (5%). The null hypothesis that: Effective tax rate does not have a significant relationship with return on equity of Nigerian Development Banks is hereby not rejected. The alternative hypothesis that: Effective tax rate have a significant relationship with return on equity of Nigerian Development Banks is hereby rejected.

***Ho*$_2$**: *Tax savings does not have a significant association with on return on equity of Nigerian Development Banks.*

On hypothesis two, the pooled regression shows that tax savings has a t-statistic and probability value of 1.234651 and 0.2360. Since the P value of 0.2539 is greater than the acceptable value of 0.05 (5%). The null hypothesis that: Tax savings does not have a significant association with on return on equity of Nigerian Development Banks is hereby not rejected. The alternative hypothesis that: Tax savings does have a significant association with on return on equity of Nigerian Development Banks is hereby rejected

***Ho*$_3$**: *Capital Intensity does not have significant effect on return on equity of Nigerian Development Banks*.

On hypothesis three, the pooled regression shows that tax savings has a t-statistic and probability value of 3.846797and 0.0016. Since the P value of 0.0016 is lesser than the acceptable value of 0.05 (5%). The null hypothesis that: Capital Intensity does not have significant effect on return on equity of Nigerian Development Banks is hereby rejected. The alternative hypothesis that: Capital Intensity does have significant effect on return on equity of Nigerian Development Banks is hereby accepted.

DISCUSSION OF FINDINGS

This research investigated the effect of tax planning on financial performance of development banks in Nigeria. The study found that effective tax rate had negative and insignificant effect on return on equity. This implies that tax planning has no relationship with performance of development banks which is not in line with the theory of Hoffman's tax planning theory of

positive relationship between tax planning and financial performance. This findings is in line with the result of Olanrewaju and Olayiwola (2019); Fagbemi,Olaniyi & Ogunbadejo (2020); Adejumo and Sanyaolu (2020); Kayode and Folajinmi (2020).

However, positive but insignificant relationship was established between tax savings and return on equity of development banks in Nigeria. This implies that effective tax planning through tax savings will lead to increase in the financial performance of development banks in Nigeria which is in line with Hoffman's tax planning theory of positive relationship between tax planning and financial performance. The result is in line with the findings of Olanrewaju and Olayiwola (2019); Omesi and Appah (2021).

However intensity of capital (ITCAP) exhibits positive and significant relationship with return on equity of Nigerian development banks. This finding is not in line with the results of Omesi and Appah (2021); Kayode and Folajinmi (2020); but it supported the Hoffman. 1981 tax theory. This finding is not in line with the results of Omesi and Appah (2021); Kayode and Folajinmi (2020). This implies that effective utilization of total assets will lead to improvement in the financial performance of development banks in Nigeria as capital allowances would be given to the companies in lieu of depreciation.

Firm's size was established to have positive and significant effect on the financial performance of development banks in Nigeria. This implies that big entities have financial capacity to employ capable hands that would handle their tax planning activities. Effective utilization of total assets will lead to improvement in the financial performance of development banks in Nigeria.

CONCLUSION AND RECOMMENDATION

The issue of tax planning has attracted the interests of policy makers, managers and scholars. This is because of the implication of tax payment to the economy and corporate organizations. Hence, this study examined the effect of tax planning on the financial performance of the Nigerian Development banks. The study found that both effective tax rate and tax savings have insignificant effect on financial performance of development banks in Nigeria. The implication of this is that, development banks in Nigeria do not explore enough tax planning strategies in minimizing tax payment or in reducing tax liability in areas of effective tax rate and tax savings.

However, capital intensity relationship with return on equity was positive. This implies that Nigeria development banks are taking good advantage of capital allowances on assets initial allowance, annual allowance and other non-current asset purchased. The study thus, concludes that tax planning significantly influenced the financial performance of Nigerian Development Banks in area of non-current assets purchased. The study revealed that Nigerian Development Banks is practicing efficient capital intensity in tax planning.

It is hereby recommended that there is need for Nigeria Development Banks to effectively explore tax planning strategies by putting in more effort in effective tax planning and tax savings activities in order to reduce tax burden or liability. Also Nigerian Development Banks should

fortify their tax planning units with more tax experts to help in achieving effective tax planning in order to enhance better financial performance of Nigerian Development banks.

References

Adejumo, B. T. & Sanyaolu, W.A. (2020). Tax planning and profitability of Nigerian deposit money banks: Evidence from dynamic panel model. *Accounting and Taxation Review, 4*(2), 162-169. Retrieved on 20/4/2021 from: http://atreview.org/admin/12389900798187/ATR%204_2_%20162-169.pdf.

Adelegan, O. J. (2003). Effects of taxes on business financing decisions and firm value in Nigeria. *African Development Review 15*(1), 6-34. Retrieved on 20/4/2021 from: https://www.researchgate.net/publication/23755359_Effects_of_taxes_financing_decisions_and_firm_value_in_Nigeria.

Arifalo, S. F. &Ayilaran, C. I. (2012*).* Effects of micro-credit scheme on agricultural production among members of farmers development union, Oyo State, Nigeria. *Nigerian Journal of Agricultural Economics (NJAE) 3*(1), Pages 59 – 68).

Akintoye, I. R., Adegbie, F. F. & Iheme-Onyeka, C. V. (2020). Tax planning strategies and profitability of quoted manufacturing companies in Nigeria. *Journal of Finance and Accounting, 8*(3), 148-157. Retrieved on 20/4/2021 from http://www.sciencepublishinggroup.com/journal/paperinfo?journalid=171&doi=10.11648/j.jfa.20200803.16

Akinyomi, O. J. & Okpala, K. (2013). Appraisal of factors influencing tax avoidance and evasion in Nigeria. *International Journal of Research in Commerce and Management, 4*(5), 107–111. Retrieved on 25/01/2021 from:

https://www.academia.edu/5907699/Akinyomi_O_J_and_Okpala_K_2013_Appraisal_of_factors_influencing_tax_avoidance_and_evasion_in_Nigeria_International_Journal_of_Research_in_Commerce_and_Management_4_5_107_111

Assidi, S., Aliani, K., and Omri, M. A. (2016). Tax optimization and the firm's value: Evidence from the Tunisian context. *Borsa Istanbul Review*, Retrieved 23/2/2021 from: http://dx.doi.org/10.1016/j.bir.2016.04.002.

Badertscher, B., Katz, S., Rego, S., & Wilson, R. (2015). Conforming tax avoidance and capital market pressure. Retrieved on 20th April, 2021 from: http://ssrn.com/abstract=2619317

CBN (2018). Financial stability report. Retrieved from:

https://www.cbn.gov.ng/Out/2019/FPRD/FSR%20December%202018%20(for%20Publication).pdf

Chen, K. P & Chu, C.Y.C. (2005). Internal control vs. external manipulation: A model of corporate income tax evasion. *RAND Journal of Economics, 36*(4), 151-164. Retrieved on 4/3/2021 from: https://www.jstor.org/stable/1593759?seq=1

Crocker, C. & Slemrod, J. (2005). Corporate tax evasion with agency cost. *Journal of Public Economics, 9(*4), pages 9-10. Retrieved on 4/3/2021 from: https://www.researchgate.net/publication/222881789_Corporate_Tax_Evasion_with_Agency_Costs

Deloitte (2017). The new voluntary asset and income declaration scheme in Nigeria. Tax Regulatory Services. Retrieved on 3/12/ 2021 from: http://blog.deloitte.com.ng/wp-content/uploads/2017/07/VAIDS-1.pdf

Desai, M. A. & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. *Journal of Econiomics 79*(1). Pages 145 – 179. Retrieved on 24/11/2020 from https://www.sciencedirect.com/science/article/abs/pii/S0304405X05001364

Fagbemi, T.O., Olaniyi, T.A. & Ogundipe, A.A. (2019). The corporate tax planning and financial performance of systemically important banks in Nigeria. *Ekonomaki Horizonti, 21*(1), 15-28.

Ftouhi, K., Ayed, A., and Zemzem, A. (2014). Tax planning and firm value: evidence from European companies. *International Journal Economics and Strategic Management of Business Process, 14(*4) 2nd International Conference on Business, Economics, Marketing and Management Research (BEMM'14). Retrievedon 23/11/2020 from:
https://www.researchgate.net/publication/311766754_Tax_planning_and_firm_value_evidence_from_European_companies.

Gabriel, A. & Giménez, R. (2015). Taxation and its negative impact on business invetemnt activities. Retrieved on 4/6/2020 from:
https://www.institutmolinari.org/2015/11/23/taxation-and-its-negative-impact-on-business-investment-activities

Gallemore, J., Mayberry, M. & Wilde, J. (2017). Corporate taxation and bank outcomes: Evidence from U.S. State Taxes. *University of Chicago, Florida and Lowa Graduate School of Business*. Retrieved on 4/6/2020 from: https://pages.business.illinois.edu/accountancy/wpcontent/uploads/sites/12/2017/02/Tax-Symposium-2017-Session-I-a-Gallemore-Mayberry-and-Wilde.pdf

Hart, L. (2018). Issues and challenges with the Nigerian taxation system: Chemiron Ltd vs LIRS Revisited. Retrieved on 20/4/2021 from:
https://www.proshareng.com/news/Taxes%20&%20Tariffs/Issues-and-Challenges-With-The-Nigerian-Taxation-System----Chemiron-Ltd--vs-LIRS-Revisited-/41161

Hoffman, W.H. (1961). The theory of tax planning. *The Accounting Review, 36*(2), 274-281. *Journal of Financial Economics, 79*, 145-179. Retrieved on 5/1/2021 from: https://www.researchgate.net/publication/314442237_Effect_of_Tax_Planning_ _Firms_Market_Performance_Evidence_from_Listed_Firms_in_Ghana

Ighodaro, C. A. U. (2010). Infrastructure and agricultural growth in Nigeria. Ethiopian Journal of Economics, 19(2), 147 -173. Retrieved from:
file:///C:/Users/PROBOOK/Downloads/Clement%20A%20U%20Ighodaro_Infrastructure%20and%20Agricultural%20Growth%20in%20Nigeria.pdf

Jensen and Meckling (1976). Theory of the firm: managerial behavior, agency costs and ownership structure. *Journal of Financial Economics 3* pages 305-360. Retrieved on 27/4/2021 from:
https://josephmahoney.web.illinois.edu/BA549_Fall%202012/Session%205/5_Jensen_Meckling%20(1976).pdf

Juwa-Ogboi, C. (2018). Ten problems of Nigerian tax systems and possible solution. Retrieved on 30/11/2020 from:
https://www.researchgate.net/publication/335446476_Corporate_Tax_Planning_and_Financial_Performance_in_Nigerian_Non-Financial_Quoted_Companies

Kayode, O. O. & Folajinmi, A.F. (2020). Corporate tax planning and financial performance of quoted food and beverages firms in Nigeria. *Journal of Finance and Accounting, 8*(6), 266-275> retrieved on 12/12/2020 from:
http://www.sciencepublishinggroup.com/journal/paperinfo?journalid=171&doi=10.11648/j.jfa.20200806.13

Kawor, S and Kportorgbi, H. k. (2014). Effect of tax planning on firms market performance: evidence from listed firms in Ghana. *International Journal of Economics and Finance*, 6(3), 162 – 168. Retrieved on 2/4/2021 from: https://www.researchgate.net/publication/314442237_Effect_of_Tax_Planning_on_Firms_Market_Performance_Evidence_from_Listed_Firms_in_Ghana

Kurawa, J. M. & Saidu, . (2018). Corporate tax and financial performance of listed Nigerian consumer goods. *Journal of Accounting and Financial Management, 4*(4), 30-43. Retrieved on 9/1/2021 from:
https://iiardpub.org/get/JAFM/VOL.%204%20NO.%204%202018/CORPORATE%20TAX.pdf

Madugba, J. U, Ben-Caleb, E., Lawa, A. I. & Agburuga, U. T. (2020). Firm Size and Tax Saving Behaviour of Listed Companies in Nigeria. *Academic Journal of Interdisciplinary Studies. Retrieved on 27/4/2021 from file:///C:/Users/PROBOOK/Downloads/11685-Article%20Text-43213-1-10-20200511.pdf*

Mashovic, A. (2018). Key financial and nonfinancial measures for performance evaluation of foreign subsidiaries. *Journal of Contemporary Economic and Business, 5*(2), 63-74. Retrieved on 3/4/2021 from: https://iiardpub.org/get/JAFM/VOL.%204%20NO.%204%202018/CORPORATE%20TAX.pdf

Myšková, R., & Hájek, P. (2017). Comprehensive assessment of firm financial performance using financial ratios and linguistic analysis of annual reports. *Journal of International Studies, 10*(4), 96-108. Retrieved on 26/4/2021 from: https://www.jois.eu/files/7_414_Myskova_Hajek.pdf

Nekasa, M. O., Namusonge, G. S. & Makokha, E. N. (2017). Effect of corporate income tax on financial performance of companies listed on the Nairobi securities exchange in Kenya. *International Journal of Social Sciences and Information Technology, 3*(8), 2467-2477. Retrieved on 8/2/2021 from: ijssit.com/main/wp-content/uploads/2017/11/Effect-Of-Corporate-Income-Tax-On-Financial-Performance-Of-Companies-Listed-On-The-Nairobi-Securities-Exchange-In-Kenya.pdf

Nwaobia, A.N. & Jayeoba, O.O. (2016). Tax planning and firm's liquidity. *IJRD Journal of Business Management, 2*(10), page 1-22. Retrieved on 9/2/2021 from: https://www.ijrdo.org/index.php/bm/article/view/1491

Nwaobia, A. N., Kwarbai, J. D. & Ogundajo, G. O. (2016). Tax planning and firm value: Empirical evidence from Nigerian consumer goods industrial sector. *Research Journal of Finance and Accounting, 7*(12), 172-183. Retrieved on 5/3/2021 from: https://www.iiste.org/Journals/index.php/RJFA/article/view/31529

Ogundajo, G. O. & Onakoya, A.B. (2016). Tax planning and financial performance of Nigerian manufacturing companies. *International Journal of Advanced Academic Research* |

Social & Management Sciences, 2(7), 64-80. Retrieved on 5/3/2021 from: https://www.researchgate.net/publication/308618506_TAX_PLANNING_ANDFI

Olanreaju, O. M. & Olayiwola, J. A. (2019). Corporate tax planning and financial performance in Nigerian non-financial quoted companies. *African Development Review, 31*(2), 202–215. Retrieved 0n 3/2/2021 from: ttps://onlinelibrary.wiley.com/doi/abs/10.1111/1467-8268.12378

Omesi, I. & Appah, E. (2021). Corporate tax planning and firm value of listed consumer goods companies in Nigeria. *Journal of Business and Management 23*(2), 42-51. Retrived on 6.1/2021 from: https://www.iosrjournals.org/iosr-jbm/papers/Vol23-issue2/Series-7/F2302074251.pdf

Omodero, C.O. & Ogbonnaya, A.K. (2018). Corporate tax and profitability of deposit money banks in Nigeria. *Journal of Accounting, Business and Finance Research, 3*(2), 47-55. Retrieved on 3/4/2021 from: https://scipg.com/index.php/102/article/view/133

Pandey, I. M. (2010). *Financial management.* (10th ed.). New Delhi: Vikas publishing House PVT Ltd. Retrieved on 5/2/2021 from: https://www.amazon.com/Financial-Management-10Th-I-M-Pandey/dp/8125937145

Phillips, J. ((2003):). 'Corporate Tax-Planning Effectiveness: The Role of Compensation-Based Incentives. *The Accounting Review 78*, pages 847-874.

Pniowsky, J. (2010). Aggressive tax planning-How aggressive is too aggressive? Thompson Dorfman Sweatman LLP, 3, 1-3. Retrieved 18 January, 2021, from:
http://www.tdslaw.com/newsletter/2010/Oct/articles/aggressive_tax_planning.pdf

Rego, S. (2003). 'Tax-Avoidance Activities of U.S. Multinational Corporations.' *Contemporary Accounting Research 20* 805-833.

Simons, R. (2000). *Performance measurement and control systems for implementing Strategy.* New Jersey: Prentice- Hall. Retrieved on 11/11/2020 from:
https://scholar.google.com/scholar?q=Simons,+R.+(2000).+Performance+measurement+and+control+systems+for+implementing+Strategy.+New+Jersey:+Prentice-+Hall&hl=en&as_sdt=0&as_vis=1&oi=scholart

Slemrod, J. (2004). The economics of corporate tax selfishness. *National Tax Journal, 57*(4), 877-899. Retrieved on 3/4/2020 from: https://www.nber.org/papers/w10858

Tatu, L., Dragota, V. & Vintila, N. (2011). An Observation on the Effective Tax Rate for Corporate Income in Romania. Retrieved on 4/8/2020 from:
https://www.researchgate.net/publication/255786759_An_Observation_on_the_Effecti_Tax_Rate_for_Corporate_Income_in_Romania

Thanjunpong, S. & Awirothananon, T. (2019). The effect of tax planning on financial performance in the stock exchange of Thailand. *International Journal of Trade, Economics and Finance, 10*(1), 25-29. Retrieved on 19/1/2021 from:
https://www.researchgate.net/publication/332670845_The_Effect_of_Tax_Planning_on_Financial_Performance_in_the_Stock_Exchange_of_Thailand

Nwaobia A. N. & Jayeoba, O. O. (2016). Tax planning and firms' liquidity. *IJRDO-Journal of Business Management 2(*10), pg 1 – 22. Retrieved on 22/04/2021 from: https://www.researchgate.net/publication/319979604

Olachi, C. R., Onodugo, I. C. & Ezeamama, C. M.). (2020). Recent developments and trends in the Banking sector in Nigeria. *Academic Leadership (Online Journal) 21*(09), 28 -46.

Retrieved from: file:///C:/Users/PROBOOK/Downloads/Recent_Developments_And_Trends_In_The_Ba%20(1).pdf

Phillips, J. (2003). Corporate tax-planning effectiveness: The role of compensation- based incentives. *The Accounting Review 78*(1), pages 847-874. Retrieved on 15/11/2020 from: https://onlinelibrary.wiley.com/doi/10.1506/VANN-B7UB-GMFA-9E6W

Rego, S. O. (2003). Tax-avoidance activities of U.S. multinational corporations. *Contemporary Accounting Research 20*(4), 805-833. Retrieved on 26/4/2021 from: https://onlinelibrary.wiley.com/doi/10.1506/VANN-B7UB-GMFA-9E6W

Wilson, M. (2008). An empirical analysis of the decline in the information content of earnings following restatements. *The Accounting Review*, 83, 519-548. Retrieved on 21/4/2021 from: https://www.jstor.org/stable/30245366?seq=1