

Tax Planning and Firm Value: Empirical Evidence from Nigerian Consumer Goods Industrial Sector

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Abstract

Taxes on corporate profits are mandatory and usually constitute a large outflow for firms that, if not planned, lead to disproportionate and unwilling transfer of corporate resources to the government with its negative impact on the operating capacity and firm value. In the light of this, the study examined the effect of tax planning on firm value. Ex-post facto research design was adopted. The study covered 50 firm-year observations for the period, 2010-2014. Data were drawn from the published financial statements of the sampled companies and analyzed using descriptive and inferential statistics centred on specified panel regression model. The joint effect of the considered tax planning proxies on the firm value was significant (F-stat. =2.580; P-value = 0.032). While Effective tax rate (ETR), Dividend (DIV) and Firm age (FAG) are positively and significantly related to firm value, firm size, leverage and tangibility exert negative effect on firm value. The Adj. R² value of 20.6% was not sufficiently strong in explaining the variation in firm value. The study concluded that wholistic approach to tax planning and optimal mix of tax planning strategies are important determinants of their effect on firm value.

Keywords: Firm value, Tax planning, Political cost theory, Tangibility, leverage.

1. Introduction

Tax is one of the major instruments of fiscal policy for regulating the economy of any nation. At various times, successive governments in Nigeria have employed the instrument of tax policy to encourage industrial and corporate growth in the private sector (Nwaobia, 2014). On the opposing side, taxation and tax policies in Nigeria do equally act as disincentive to manufacturing firms to create value for stakeholders and enhance the value of the firms. As noted by Gatsi, Gadzo and Kpportorgbi (2013) taxation, observably, plays a role in the misfortunes of the manufacturing sector because tax policies, apart from generating revenue for the state, serve several other purposes. It can be used as an avenue to protect infant industries, create incentive for investors to invest in certain areas of the economy or to create disincentive for other activities Gatsi, Gadzo and Kpportorgbi, 2013). For example, Ihendinihu (2008) in Dickson and Nwaobia (2012) noted that unfriendly tax policies is one of the many reasons for the growth of the underground economy, where law-abiding individuals and corporate citizens seek refuge from wrongs inflicted on them by government.

The major challenge of corporate entities, and in particular manufacturing firms, come in a midst of high corporate tax rates and multiples of other taxes that lead to high effective tax rates far above the statutory company income tax rate. With the introduction of the Information Technology tax, there are about forty different taxes levied on companies and individuals (Taxes and Levies, Approved List for Collection Act 1998, Bammeke, 2012). Many of these taxes from the different levels of government overlap and are forcefully extracted from corporate organizations. The effect of these exactions of course is high cost structure for firms (Nwaobia, 2014). One will not fail to agree with Nnadi & Akpomi (2008) that a tax policy defines the cost structure of firms as it is factored into pricing. In addition, tax costs and eventual payout deplete the disposable income of individuals as well as the distributable profits of corporate organizations. These taxes in fact, do translate to a substantial cost to organizations and if not properly planned and managed can have adverse impact on the bottom line, cash flow and capacity to invest.

To mitigate the effect of taxes on liquidity and profitability of corporate bodies and by extension firm value, tax planning becomes imperative. But unfortunately, many companies are ignorant of the strategies they can adopt to legally mitigate their tax burdens. Over the years, experience has shown that the tax authorities can dip the largest possible shovel into the resources of an organization if left vulnerable. Fortunately, the law supports a tax payer if he arranges his affairs in such a way that the tax chargeable is minimized or even avoided (Ayrshire Pullman Motor services and David M. Ritchie V. Commissioner of Inland Revenue (1929) in TC 745. In this case, the Lord President (Lord Clyde) stated,

No man in this country is under the smallest obligation, moral or otherwise, so as to arrange his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow and quite rightly to take every advantage which is open to it under the taxing statutes for the purpose of depleting the

taxpayer's pocket. And the taxpayer is in like manner entitled to be astute to prevent so far as he honestly can the depletion of his means by the Revenue.

This view was reiterated in *IRC V. Duke of Westminster* (1936) 19 TC 490 by Lord Temlin when he averred that:

Every man is entitled if he can, to order his affairs so that the tax attracting under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity he cannot be compelled to pay an increased tax.

Therefore, a company is not a bad corporate citizen if it can organize its business or trade in a legal manner to minimize its tax liability. This is the concept and essence of tax planning. Tax planning is thus one of the vital decisions that confront any proactive company management. Tax planning therefore is a conscious effort made by a tax payer, within the ambit of the law, to minimize the tax payable by the individual or entity. Tax planning has been variously described as managing taxable income downward (Ayers, Jiang and Laplante 2006); legitimate methods of increasing an entity's or individual's tax efficiency (Morien 2008); all activities designed to produce a tax benefit (Abdul-Wahab and Holland 2010) or legal activities designed by tax payers to lower the effective tax rate, described as the actual measure of the company's tax burden (Sabli, N. and Md Noor, R., 2012).

Companies, in essence, prefer paying lower taxes or get some tax savings on tax payable given that the main purpose of the company is to maximize its after tax profit by minimizing its overall effective tax rate of the company. Indeed, many tax planning approaches have been used by companies to achieve this objective (Seyram & Holy 2013).

Prior literature has noted aggressive tax planning activities among large firms (Rego, 2003 and Frank, Lynch and Rego, 2009). Some of such studies have reported that large firms have sufficient resources and better opportunities to undertake tax planning strategies, for example, by utilizing the tax incentives provided to them. An effective tax planning strategy will reduce a firm's ETRs, to the extent that it falls below the statutory tax rate.

Consequently, the tax planning strategy will give a positive impact on a firm's cash flow and increase its after tax rate of returns. On the opposing side, there are potential costs related to strategies to minimize taxes such as implementation and transaction costs, possible penalties imposed by the tax authorities and reputation risks that must be pondered. These notwithstanding, Khaoula, Amor & Ayed (2013) have posited that the role of tax planning in the integration process of streamlining of financial and economic activity of the companies according to the strategy of its development have become increasingly necessary. Analyzing the specific mechanism through which tax planning affects firm market performance is important for a thorough understanding of the relation between tax planning and firm market value.

Firm value is generally taken to mean an economic measure reflecting the market value of a whole business. It is a summation of the claims of all contributors to the assets of a firm namely: creditors (secured and unsecured) and equity holders. In finance literature, firm value is the sum of the market value of equity and the market value of debt (Nwaobia, Kwarbai and Ajibade, 2015). Firm value is enhanced when shareholders' wealth is increased through profits and improved cash flow; hence the importance of tax planning as an integral part of the financial planning programme of any entity.

A number of empirical studies on the impact of tax planning (using effective tax rate as proxy) on company earnings and value exist. Such studies include Phillips (2003), Ayers, Jiang and Laplante (2006), Wilson (2009), Minnick and Noga (2009), Noor (2010) and Md Noor, Fadzillah and Mastuki (2010). None of these studies have considered the influence of the selected tax planning strategies in this study on value of firms in emerging economies like Nigeria. This study therefore sought to provide evidence on the effectiveness of these selected tax planning strategies in driving corporate value of consumer goods manufacturing firms in Nigeria.

This study extends extant literature on the firms' efforts and strategies to decrease their corporate tax liabilities and specifically investigates the influence of tax planning on firm value. The study also provides interesting insight into the structuring of tax planning strategies by firms and is expected to stimulate research into appropriate delineation of tax planning strategies into those that could positively influence firm value in the short - run and those that are better utilized for the purpose of cash flow enhancement, that would in the short run,

improve capacity utilization and positively impact firm value in the long-run. Determining the optimal mix of strategies is important for tax planning to enhance firm value.

The rest of this paper is organized as follows. In section 2, we review related literature and highlight the theoretical underpinning for the study. Section 3 presents the methodology of the study. The empirical results and discussions are presented in section 4, while we conclude the study in section 5.

2. Literature Review

Studies on tax planning and firm performance cum value have yielded mixed results. Desai and Hines (2002) provide evidence on firm performance and tax planning behavior of firms. Again, the study investigated the relationship between tightening of tax systems and market value of firms. This study of 850 listed US firms established that intensive tax planning is associated with higher firm performance. On the other hand, the study reported that tightening of the tax system is positively associated with higher market performance of firms. These results are similar to those reported by Chen, Chen, Cheng and Shevlin (2010).

The study by Desai and Dharmapala (2007) examined the link between tax planning, corporate governance and firm performance. In their study, Firms' performance is measured using Tobin's q and governance quality is proxied by the level of institutional ownership. Tax planning is measured by inferring the difference between the income reported to capital markets and tax authorities (the book-tax-gap). Results of analyses revealed that the average effect of tax planning on corporate performance is not significantly different from zero. In other words, there is no relationship between tax planning and firm performance. The study however reports a positive association between tax planning savings and performance for well-governed firms. The study concluded that corporate governance mediates the tax planning-firm performance relationship. Abdul-Wahab's (2010) study however indicated a negative relationship between firm value and tax planning activities. The study noted that as tax planning activities increase, the tax costs and risks outweigh the benefits.

Kawor & Kportorgbi (2014) examined the effect of tax planning on firms market Performance in Ghana' using 22 non-financial companies listed on the Ghana Stock Exchange between 2000 and 2011. The study found that as tax rates increased, firms intensified tax planning activities. Firm performance and sales growth and firm size are found to be positively associated while firm's age and financial leverage are negatively associated with firms' market performance.

Ftouhi, Ayed & Zemzem (2014) in their study 'Tax planning and firm value: evidence from European companies' using Regression analysis model (Generalized Least Squares (GLS) regression). Tobin's q model was adopted by the study to examine the relationship between firms' value and tax planning with firm size, leverage, capital intensity, Dividend and Earnings management. As control variables, the study found that tax planning can be considered as steps taken by taxpayers so as to reduce tax liability in obtaining the tax saving benefits. The correlation analysis reveals that the correlation coefficients between various independent and control variables are significant.

Wilson (2009), using a sample of 59 firms accused by the US government of engaging in tax shelter activity, examined the characteristics and financial reporting effect of tax shelter participation, on book-tax-differences of tax shelter participants and whether tax sheltering is associated with wealth creation for shareholders or with managerial opportunism. The result indicated that active tax shelter firms with strong corporate governance exhibit positive abnormal returns. This finding is consistent with tax sheltering being a tool for wealth creation in well-governed firms. This view is shared by Desai and Dharmapala (2009) who posited that tax avoidance has a positive effect on well-governed firms than on poorly governed firms. While Hanlon and Slemrod (2009) produced evidence that firm characteristics plays an important role in determining the influence of tax avoidance on firm value, Koester (2011) affirmed that governance structure moderates the relationship between tax avoidance and firm value.

Evidence provided by Sabli, and Md Noor, (2012) is also in support of tax planning improving firm performance and value. For Nazik and Ratman (2015), tax optimization has a destructive effect on firm value. Though tax optimization may minimize tax burden, in their view, it exposes the firm to financial difficulties as control of non-tax costs are neglected. The outcome of the study by Hanlon and Heitzman (2010) revealed that the relationship between tax optimization and firm value is not clearcut.

Overall, literature reveals that just as the results of the joint effects of the tax planning proxies on firm value are mixed for various studies, the individual effects of the tax planning strategies on firm value for each of the studies are also mixed.

Theoretical underpinning

This study is anchored on the Political cost theory and the Managerial Opportunism theory (an extension of the agency theory). The Political cost theory advanced by Salamon and Siegfried (1977), maintains that larger firms possess superior economic and political power relative to small firms. Larger firms take advantage of their economic and political power to mitigate their tax burden as they are able to engage in aggressive tax planning and can manipulate the political process in their favour.

In support of this theory, Porcalo (1986) submitted that larger firms have smaller effective tax rates (ETRs) while Rego (2003) posited that economies of scale can significantly affect a firm's ability to reduce its tax burden. Loretz and Moore (2009) however, argue that tax planning decisions, similar to a firm's operational decisions, are made in a competitive environment. This implies that where tax payments made by the company deviate significantly from those of the peer group it, could lead to "reputational loss." According to them, managers have to balance the benefits of reduced tax burden against the costs of a loss of reputation if they deviate too much from the behavior of their peer group.

The proponents of the Managerial Opportunism theory, Desai and Dharmapala (2006) and Desai, Dyck and Zingales (2007) consider the interaction of tax planning activities and the agency problems inherent in public companies. The theory argues that the obfuscatory tax planning activities can create a shield for managerial opportunism and the diversion of rents. They posit that straightforward diversion and subtle forms of earnings manipulation can be facilitated when managers undertake tax avoidance activity. It is their view that tax planning has the direct effect of increasing corporate profitability and firm value only for firms with strong governance institutions. Where there are weak governance institutions, increased opportunities for managerial rent diversion dominate these effects.

On the bases the forgoing reviewed literature, this study hypothesizes that:

HO: Tax planning has no significant effect on firm value.

3. Methodology

An ex-post facto research design was adopted in this study. The population comprised of 80 manufacturing companies listed on the Nigerian Stock Exchange as at 31 Dec 2012 (NSE Fact book 2013). A sample of 10 companies in the consumer goods sector and of different sizes was chosen on purpose. The study covered 50 firm-year observations for the period, 2010-2014.

Measurement of variables

Firm value

Scholars have widely employed Tobins Q as a proxy for firm value, particularly in valuing publicly traded companies (Nwaobia, Kwarbai & Ajibade, 2015; Tahir and Razali, 2011; & Smithson & Simkins 2005). This study used approximate Tobin's Q as introduced by Chung and Pruitt (1994) and used in Nwaobia, Kwarbai & Ajibade, (2015). It is calculated thus:

Approximate Tobins Q = $MVE+PS+DEBT/TA$

Where:

MVE: market value of equity

PS: The liquidating value of the firm's outstanding preferred stock

DEBT: The value of firms' short term liabilities net of its short term asset, PLUS the book value of the firms long term debt

TA: The book value of the total assets of the firm

Effective Tax Rate (ETR)

This has been used in prior studies like Rego (2003), Khaoula, Amor & Ayed (2013) and Seyram & Holy (2013), to measure a reflection of tax planning that decreases a firm's tax liability without necessarily decreasing its accounting income. Corporate ETR basically assesses the tax performance of firms. Thus, it is the best measure to evaluate the actual corporate tax burdens. ETR is a commonly used measure of a firm's tax burden. ETR provides a basic summary statistic of tax performance which describes the amount of taxes paid by a company relative to its profit before tax. This measure reflects aggressive tax planning through permanent book-tax differences, Khaoula, Amor & Ayed (2013). The ETR is computed as tax paid/Profit before tax.

CONTROL VARIABLES

Our control variables largely follow Biddle, Hilary and Verdi (2009). We include:

Firm size (SIZE)

Corporate tax planning is a professional activity that demands the requisite resources and skills for its effective execution. It follows therefore that Firm size and capacity in terms of resources available to the firm is believed to directly correlate with the extent of a firm's tax planning activities (Nwaobia, 2014). To design and execute a robust tax planning scheme requires the employment of tax experts to man the tax department. Where the company decides to outsource, enormous outflow of resources goes with the payment of the attendant professional fees. Based on this reality, Md Noor, Fadzillah and Mastuki (2010) submit that not all companies have the same opportunities to carry out tax planning. It is therefore imperative to control for the effect of the size of the firm on tax planning studies. Khaoula, Amor & Ayed (2013) and Rego (2003) observe that larger firms can achieve economies of scale via tax planning and have the resources and incentives to decrease group tax. Large firms are reported to have sufficient resources and better opportunities to undertake tax planning strategies, for example, by utilizing the tax incentives provided to them. An effective tax planning strategy will reduce a firm's ETR, to the extent that it falls below the statutory tax rate.

Firm size in this study is measured as $Ln(\text{Total Assets})$.

Leverage (LEV)

Harris & Raviv (1991), Rajan & Zingales (1995), Booth et al. (2001), Chen (2004), Biddle, Hilary and Verdi (2009), Sehrish, Zeeshan and Bilal (2013) defined Leverage as **total debts divided by total assets**. The concept of using total debts is to avoid the conflicting relationship of long-term debt or short-term debt with Leverage. Some of these previous studies (for example, Wald 1999 in Sehrish et al, 2013, Akinlo and Asaolu, 2012) have shown that there is positive relationship of leverage with short-term debt and negative relationship with long term debt. The beauty of leverage as a tax planning point lies in the tax shield it provides, which increases the earnings of shareholders and by extension the firm value. It is therefore, the fact of the deductibility of the interest charges which makes the use of debt in the capital structure beneficial to a firm. Leverage has been adopted by Phillips (2003), Sabli and Md Noor (2012), Md Noor, Fadzillah and Mastuki (2010), in ETR/tax planning studies.

Tangibility of Assets (TANG)

According to Rajan & Zingales (1995), Sehrish, Zeeshan, Bilal (2013) Tangibility of Assets is also an important factor in determining firm values. It shows the impact of tangible assets of firms on the Leverage level of firms. According to Static Trade off Theory, the Tangibility of Assets is positively associated with the Leverage. If a firm has a higher amount of fixed assets it can acquire loan on more favorable terms. Tangibility 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. This is the context of use of tangibility in this study and in this sense it has been found to be a good tax planning point. Allowances and incentives based on capital intensity include:

Capital allowance (initial and annual)

Capital allowance is a standardized depreciation allowance granted to an entity for incurring and using qualifying capital expenditure during a year of assessment for the purpose of deriving its income. Initial and annual allowance rates vary depending on the nature, type and purpose of the qualifying capital expenditure. For example, in Nigeria, Capital expenditure incurred by companies engaged in the mining of solid minerals enjoy accelerated allowance, that is, a one off allowance of 95% of the value of the asset. Also, replacement of industrial plants and equipment attracts the same initial allowance of 95%. This goes a long way in enhancing the liquidity and cash flow position of such companies.

Investment Tax Credit (ITC)

This is an allowance and incentive given, in addition to capital allowance, to encourage companies to acquire and use new buildings and equipment for the purpose of enhancing their production. It is aimed at encouraging asset reconstruction and replacement as well as plant expansion. The credit given is 10% of the cost of the asset, deductible from tax liabilities within a maximum of 10 years (sect.28, Companies Income Tax Act, Cap 60, LFN 2004). From January 1, 1996, companies engaged in Research and Development activities for commercialization in Nigeria, are given 10% ITC on their qualifying capital expenditure.

Re-investment Allowance (RIA)

This is given to companies that have been in existence for not less than 12 months. It seeks to encourage reinvestment of profits for expansion purposes. The allowance is restricted to a percentage of statutory income but computed as a percentage of expenditure incurred on a qualifying project.

Conventionally, RIA is estimated at 60% of qualifying capital expenditure incurred by a company for several years and this could be used to offset 70% of the statutory income in the year of assessment. If the company is

located in the promoted areas, 100% of the statutory income may be offset, while in non-promoted areas, 100% of the statutory income may be offset if the company attains a productivity level exceeding the government bar. Any unabsorbed allowance may be carried forward to the following year until fully utilized (Ohaka & Agundu 2012, Olatundu, 2008).

These allowances tend to have positive impact on liquidity, operating capacity and by extension, firm value. The Tangibility of Assets is measured as **Non-current assets/total assets** (Rajan and Zingales 1995; Omet & Nobanee 2001; Buferna, Bangassa, & Hodgkinson 2005; Khrawish & Khraiwesh 2010).

Firm Age (FAG)

In this study, firm age is used as a proxy for firm's tax planning experience. Institutional knowledge in tax planning is a function of age and accompanying experience of managers in tax matters in an organization. Experience goes with technical skill, knowledge and competence and constitutes the thread that binds all tax strategies into productive tax planning activity (Nwaobia, 2014). There tend to be a relationship between industry-specific managerial experience and innovations in different facets of a firm's activities. It is costly to replicate firm-specific skills, knowledge and relationships acquired and institutionalized over a period of time. Some tax managers may spend their entire career in a single organization and it may take several years to develop such firm-specific tax and business expertise that such managers and experts have acquired. Managerial knowledge about how to deal with institutional shortfalls and governmental obstacles is, no doubt, an important and rewarding factor in tax planning and management.

Firm age/tax planning experience is measured in this study as the log number of years between date of establishment of company and the year of observation, that is, 2014.

Dividend (DIV)

Results of studies on the influence of dividend policy on firm value are mixed. While some argue that dividend payout is irrelevant as a firm-value causative factor (for example, Modigliani and Miller), some others believe on the relevance of dividend policy in influencing firm value (for example, Amidu, 2007; Al-Kuwari, 2009; Murekefu and Ouma, 2012). This study aligns with the dividend relevance group and adopts the dividend payout ratio as a control proxy.

Dividend is firm's common/ordinary dividend over the years distributed to the shareholders based on their holding. The payout ratio is computed as dividend declared divided by total after-tax earnings.

Model specification

We put forward the following regression model to examine how tax planning affects firm's value:

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 \text{ETR}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{LEV}_{it} + \beta_4 \text{TANG}_{it} + \beta_5 \text{DIV}_{it} + \beta_6 \text{FAG}_{it} + \epsilon_i$$

A prior expectation

$\beta_1 - \beta_6$ are expected to be greater than zero and positively signed.

4. Analyses, Findings and Discussions

4.1 Descriptive Analysis

Table 1 below highlights the mean, standard deviation, minimum and maximum values of the variables used. With the exception of firm value, dividend and age, the values of the variables cluster around their means. All variables except firm value and ETR are platykurtic in nature since their values for kurtosis are less than 3. This indicate a higher than normal distribution.

Table 1: Descriptive Analysis

	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob
TOBINSQ	11.331	4.206	71.691	0.209	17.225	2.091	6.632	63.903	0
ETR	0.271	0.28	0.898	-0.377	0.144	-0.226	16.038	354.576	0
SIZE	8.559	8.225	10.805	1.145	1.44	-2.453	15.179	359.167	0
LEV	0.388	0.462	0.93	0.004	0.284	-0.211	1.787	3.439	0.179
TANG	0.975	0.366	31	0.004	4.342	6.813	47.629	4536.284	0
DIV	3.409	1.25	20	0.004	4.908	1.97	6.395	56.358	0
lnFAG	3.833	3.951	4.745	2.283	0.656	-0.879	3.16	6.492	0.039

Source: Authors' computation (2016)

Table 2 shows the correlation matrix. The explanatory variables SIZE, ETR, DIV and FAG, are positively associated with the firm value while TANG and LEV are negatively correlated with firm value. FAG has the highest positive correlation with Firm value (Tobins Q r =0.3546). All relationships are significant at $\alpha = 0.05$. It is to be noted that the correlation matrix in table 2 merely gives the relationship among the variables; it does not tell the impact of the explanatory variables on firm value. Our OLS modeling in section 4.2 captures this aspect of the analysis.

Table 2: Correlations Matrix

	TOBINSQ	ETR	SIZE	LEV	TANG	DIV	FAG
TOBINSQ	1.00000						
ETR	0.08811	1.00000					
SIZE	0.13289	0.04707	1.00000				
LEV	-0.33578	0.01526	-0.16290	1.00000			
TANG	-0.11013	-0.09768	-0.75975	-0.14896	1.00000		
DIV	0.09297	-0.20281	-0.20841	0.32400	-0.06416	1.00000	
FAG	0.35456	0.08559	0.25183	-0.06993	-0.32891	0.25665	1.00000

Source: Authors' computation (2016)

4.2 Ordinary Least Square (OLS) Modeling

The result of the multiple regression analysis is presented in Table 3.

In table 3, we evaluate the regression model given in the equation. We use Adj. R^2 to assess the proportion or percentage of the variance in the dependent variable that is explained by the independent variable within the model. The coefficients of the variables (denoted by β in the model) indicate the extent to which the dependent variables will change following any change in independent variables while other independent variables are held constant. The significance of the coefficients is assessed using the t-statistic while the overall goodness of fit of the model and its significance are assessed by the use of the F-statistic.

Table 3. Result of Multiple Regression Analysis

Variable	Model			
	Coefficient	Std. Error	t-Statistic	Prob.
C	-22.064	15.548	-1.420	0.163
ETR	18.524	10.365	1.790	0.081
SIZE	-0.053	1.706	-0.030	0.975
LEV	-4.193	8.386	-0.500	0.620
TANG	-28.346	12.559	-2.260	0.029
DIV	1.129	0.487	2.320	0.025
FAG	9.533	4.081	2.340	0.024
R^2	0.304			
Adj. R^2	0.206			
F-statistic	2.580			
Prob(F-statistic)	0.032			
No. of Obs.	50			

Source: Stata 11 output (2016)

Diagnostic Tests

To ensure that we draw correct inferences from our analysis, we performed some diagnostic tests on the data set. The result of the Ramsey Reset test shows a p-value of 0.2105, implying that the null hypothesis that model has no omitted variables may be accepted. Also, Wooldridge test for autocorrelation in panel data (with p-value of 0.1086), indicated no first-order autocorrelation (see appendix 1).

Results and Discussions

The results of the robust pooled OLS show that the coefficient of the tax planning proxy (ETR) is statistically significant at 10% level and has positive value of 18.524 (p-value 0.081). The control variables of Size and leverage (LEV) exerted negative and insignificant effect on firm value while tangibility exerted negative but significant impact on firm value at 5% level. Firms' payout ratio proxy by dividend (DIV) and firm tax experience proxy by firm age (FAG) are statistically significant and positively associated with firm value. The Adj. R^2 value of 0.2064 reveals that tax planning and its control variables (ETR, SIZE, AGE, LEV, DIV and TANG) account for only 20.64% percent of the variation in the consumer goods industrial sector's performance (Firm value). Though the individual effects of the proxies on firm value are mixed, the F-ratio of 2.508 and associated P-value of 0.032 indicate a joint, statistically significant effect of ETR, SIZE, LEV, TANG, DIV and FAG on firm value. The significant nature of the F-stat implies that the overall goodness of fit of the model is satisfactory.

The positive association/effect of ETR and firm value aligns with many prior studies such as Khaoula, Amor & Ayed (2013), Chen, Chen and Cheng and Shevlin (2010), Md Noor, Fadzillah and Mastuki (2010), Wilson (2009) and Desai and Hines (2002). The negative effect of LEV on firm value is also in agreement with some prior studies, for example, Karwor and Kportorgbi (2014). However, the negative association between firm size and firm value is in opposition to the results of studies by Nwaobia (2014), Khaoula, Amor & Ayed (2013), Md Noor, Fadzillah and Mastuki (2010) and Rego (2003). These studies have posited that large firms have both the resources and the political power to undertake tax planning activities that can positively impact their firm performance and value. The results of this study with regard to DIV and FAG are in accord with many prior studies, such as Murekefu and Ouma, (2012), Al-Kuwari (2009) and Amidu (2007) that have maintained the relevance of dividend payout as a factor that influences firm value. Many investors are interested in maintaining a steady source of cash. Such natural clienteles are always willing to pay a premium to acquire stocks that guarantee constant dividend payout. The studies of Nwaobia (2014) and Dyreng, Hanlon and Maydew (2008) concluded that tax planning experience and manager effects (proxied by FAG) positively drive tax planning activities that enhance firm performance and value. Experience of managers in a firm, institutional knowledge handed over from generation to generation, including firm's established relationship with government agencies, go a long way to impact the firm's tax management activities. Overall, this study affirms the political cost theory but could not conclusively support the agency cost (managerial opportunism) dimension that tax planning benefits firms with strong governance institutions more than their peers.

Conclusion and Recommendations

This study examined the effect of tax planning on firm value. The study established that tax planning affects corporate firm value but the nature of the effects depends on the tax planning variables adopted.

While some of the tax planning variables such as ETR, DIV and FAG have positive effect on firm value, SIZE, LEV and TANG have negative effect. Results suggest that ETR, SIZE and DIV are important tax planning variables that can positively impact the value of Consumer goods manufacturing firms in Nigeria.

Findings of this study therefore provide interesting insight into the structuring of tax planning strategies by firms and are expected to stimulate research into appropriate delineation of tax planning strategies into those that could positively influence firm value in the short - run and those that are better utilized for the purpose of cash flow enhancement, that would in the short run, improve capacity utilization and positively impact firm value in the long-run. The study thus concludes that only an optimal mix of tax planning strategies could yield optimal benefits in the area of firm value enhancement to manufacturing firms in Nigeria.

The present study provided empirical support for the political cost theory which asserts that larger firms take advantage of their economic and political power to mitigate their tax burden as they are able to engage in aggressive tax planning and can manipulate the political process in their favour. In Nigeria, such power matters.

From the outcome of this study, we recommend that Management commitment to tax planning as part of the overall financial planning of the firm is important. This is because tax planning activity requires the deployment

of resources and the experience of knowledgeable practitioners to produce effective results; tax implications of all business transactions need be considered before execution. Nigerian tax laws and environment are complex and volatile as they change almost on yearly basis. This makes it difficult for an average corporate management to navigate, understand and fully explore the opportunities and gaps in the tax statutes for beneficial tax planning. This study recommends firms' use of tax professionals and consultants for effective tax planning that will meet corporate tax needs. Firms should not hinge their firm value maximization mechanism on tax planning alone since this has been found in this study to explain variations in firm value indicator from a weak position.

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Appendix

Ramsey RESET test using powers of the fitted values of tobinsq

Ho: model has no omitted variables

$$F(3, 40) = 9.36$$

$$\text{Prob} > F = 0.2105$$

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of tobinsq

$$\text{chi2}(1) = 16.94$$

$$\text{Prob} > \text{chi2} = 0.0000$$

Wooldridge test for autocorrelation in panel data

H0: no first-order autocorrelation

$$F(1, 9) = 3.172$$

$$\text{Prob} > F = 0.1086$$

Linear regression

Number of Obs = 50

$$F(6, 43) = 2.58$$

$$\text{Prob} > F = 0.0318$$

$$R\text{-squared} = 0.3035$$

$$\text{Root MSE} = 15.302$$

Tobinsq	Robust Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
etr	18.52402	10.36468	1.79	0.081	-2.378358	39.42639
Size	-.0532186	1.706587	-0.03	0.975	-3.494879	3.388442
Lev	-4.193099	8.386505	-0.50	0.620	-21.1061	12.7199
Tang	-28.3464	12.55941	-2.26	0.029	-53.67486	-3.017945
Fag	9.533144	4.08126	2.34	0.024	1.302498	17.76379
div	1.129382	.4874763	2.32	0.025	.1462924	2.112472
_cons	-22.06419	15.54764	-1.42	0.163	-53.41899	9.290604

There have been numerous empirical researches on various factors determining the relation between capital structure and firm value. The debate on the impact of capital structure variables on firm value is ongoing in the field of corporate finance. It still hasn't come to a conclusive result and remains a controversial issue. Few capital structure theories such as the theories of trade off, pecking order and market timing have been extensively studied and tested empirically in the literature, but have given mixed results. Therefore, there is no unanimous view on the relevance of capital structure from Nigerian Quoted Companies.

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Abstract This study examines the relationship between working capital management and firms profitability of twentyfive Nigerian quoted companies for the seven-year period 2005-2011. This finding is consistent with prior empirical studies and provides evidence in support of aggressive policy of working capital management.

Keywords: Working Capital Management, Cash Conversion Cycle, ROA, Nigeria.

Working capital management involves planning and controlling of current assets and current liabilities. Evidence from Nigeria.

Does the capital market spur economic growth? Evidence from Nigeria.

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Morufat Ogunji Economic growth means an increase in the capacity of an economy to produce goods and services, compared with one period of time to another. Economic growth is a process by which a nation's wealth increases over time.

Empirical Evidence from Other Countries. Demetriades, Arestis and Luintel [Demetriades et. al., 2001] utilized time series data from five developed countries to examine the relationship between the stock market and economic growth, controlling for other effects of the banking system and stock market volatility.