TAX AGGRESSIVENESS AND FIRM VALUE: EVIDENCE FROM INDUSTRIAL GOODS COMPANIES ON THE NIGERIAN EXCHANGE GROUP

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Abstract

This study assessed the relationship between tax aggressiveness and firm value of industrial goods companies listed on the floor of the Nigerian Exchange Group. The ex-post facto research design was adopted, and secondary data was obtained from the annual reports and accounts of the selected companies from 2006 to 2020. Data obtained were analyzed using descriptive, ordinary least square estimation, fixed and random effects statistical techniques. The study's findings showed that tax aggressiveness has an insignificant effect on the firm value on listed industrial goods companies in Nigeria. Impliedly, when companies employ tax aggressiveness strategies, the firm's value will decrease. Based on the findings, it was recommended that listed industrial goods companies on the floor of the Nigerian Exchange Group should instead not focus on aggressive tax measures aimed at decreasing the firm's value. Again, there is a need to ensure that the code of governance provision and tax implementation have been strictly adhered to.

Keywords: tax aggressiveness, firm value, debt tax shield, non-debt tax shield, effective tax rate

JEL Classification: E62, M40, M49

Introduction

Recently, there has been considerable interest in the relationship between tax aggressiveness and the firm's value in both developed and developing nations of the world. This interest emanates from the fact that stakeholders are more concerned about how a firm can reduce its tax burden to improve its value and performance (Wang, Xu, Sun &Cullinan, 2020; and Bradshaw, Liao & Ma, 2019). According to Rui (2019), He, Ren and Taffler (2019), a tax minimization strategy reduces the firm's tax burden. Similarly, the European Commission (2018); and Hairul, Ibrahim and Siti (2014) see tax aggressiveness as an intentional reduction in the precise tax liabilities of the firm.

In the accounting literature, tax aggressiveness has given rise to several concepts like tax avoidance, planning, sheltering, and these concepts have been used interchangeably with tax aggressiveness (Gebhart, 2017; Dyreng, Hoopes & Wilde, 2016; and Edwards, Schwab & Shevlin, 2016). Evers, Meier and Nicolay (2016) asserted that tax aggressiveness entails some magnitude of complexities to avert its detection by companies; however, the aim is geared towards the maximization of firm value and performance. For instance, when companies can reduce tax liabilities, more incomes are generated, improving firm value and performance.

Remarkably, tax aggressiveness does not contribute to the revenue base of the government; the government sees it as a source of loss and increased reputational risk (Richard, 2014; Goh, Lee, Lim & Shevlin, 2016; and Blaylock, Gaertner & Shevlin,2015). Again, Hasan, Hoi, Wu, and Zhang (2014) contended that the lack of tax-related information had made shareholders value tax planning differently. While tax aggressiveness may portend dishonesty by the firm management, it assists firms to improve their value as well as performance (Armstrong, Blouin & Larcker, 2012; Chen, Chen, Cheng & Shevlin, 2010; and Dyreng, Hanlon & Maydew, 2010).

The concept of tax aggressiveness has been broadly defined in accounting literature. Landry, Deslandes and Fortin (2013) defined *tax aggressiveness* as the concerted efforts by firm management to outperform tax payments utilizing proactive tax planning, avoidance or sheltering activities. In the same vein, Lim (2011) sees tax aggressiveness as a simple trigger tax management-plan companies use for tax planning to avoid tax payments to the relevant tax authorities.

Tax aggressiveness connotes diverse handling activities aimed at lowering taxable income by the firm (Yeung, 2010; Kim, Li & Zhang, 2011; and Mulyadi, Anwar & Erminus, 2014). Wang *et al.* (2020) opined that the most fundamental reason why companies engage in tax aggressiveness is to increase their net income (value and performance), which creates a positive signal to foreign investors. Implementing an aggressive tax strategy reduces the potential non-tax cost arising from agency conflicts or tax-authority (Desai & Dharmapala, 2009).

Remarkably, tax aggressiveness has been measured in the accounting literature using various measures such as non-debt tax shield, debt tax shield, effective tax rate, cash effective tax, and tax paid to cash flow.

In this study, tax aggressiveness was measured using two proxies: book-tax difference (variations between book-tax and taxable income) and effective cash tax in percentage computed as income tax paid in cash flow statement divided by profit before tax. The gap identified is a dearth of empirical studies that have focused on the link between tax aggressiveness and firm value, particularly those of industrial goods companies listed on the floor of the Nigerian Exchange Group; this is the gap the study

seeks to satisfy. The remaining part of this paper is sectioned as follows: theoretical background, materials and methods, results and discussion, and conclusion.

Theoretical background

Remarkably, tax aggressiveness does not contribute to the revenue base of the government; the government sees it as a source of loss and increased reputational risk (Richard, 2014; Goh, Lee, Lim & Shevlin, 2016; and Blaylock, Gaertner & Shevlin,2015). Again, Hasan, Hoi, Wu, and Zhang (2014) contended that the lack of tax-related information had made shareholders value tax planning differently. While tax aggressiveness may portend dishonesty by the firm management, it assists firms to improve their value as well as performance (Armstrong, Blouin & Larcker, 2012; Chen, Chen, Cheng & Shevlin, 2010; and Dyreng, Hanlon & Maydew, 2010).

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The concept of firm value occupies a significant thread in the accounting literature, given that firm value is a solid basis for assessing the firm's progress. *Firm value* is the benefits resulting from shares and operations of the firm, which are disclosed in the financial statements. Firm value could be measured with variables such as Tobin›s Q, market value-added, market-to-book value, annual stock return, total assets, dividends yield, and turnover, among others (Kabayeh, Nu›aimat, & Dahmash, 2012).

In the views of Al-Matari, Al-Swidi and Fadzil (2014), firm value forms the core of strategic management. Most strategic studies use firm value to examine various strategy contents and process concerns (Kapopoulos & Lazaretou, 2007).

Firm value measures are characterized by their forward-looking aspect and their reflection of expectations of the shareholders regarding the entity's future value, which has its basis on either prior or existing value of the firm (Wahla, Shah & Hussain, 2012). This study measured the firm value using the natural logarithm of total assets.

This study is based on the agency theory, which shows the relationship between the providers of funds (known as the principal) and those entrusted to manage the firms' affairs (known as the agent). The agency theory was proposed by Jensen and Meckling (1976) and emphasized that agency conflict between the principal and agents who are delegated to run the corporation's affairs. Agency theory buttresses the variation in decisions (the two parties often have diverse goals and attitudes toward enhancing the firm's value (Chen, Chen, Cheng &Shevlin, 2010; Yeung, 2010).

The axiom of the agency theory is that tax management or planning is a firm's strategic choice defined by a contract (actual or implied) between shareholders and tax managers. Lanis and Richardson (2011) showed the sub-optimal contracts emanating from firms' tax aggressiveness strategy for two (2) reasons. *Firstly,* managers should be

assured with *ex-ante* compensations to reduce tax liabilities; *secondly,* managers' attempt to reduce firms' tax liabilities would compromise internal control systems (Chen *et al.,* 2010; Landry *et al*., 2013).

The relevance of agency theory to this current study on tax aggressiveness and firm value is that managers can create on purpose and take advantage of opaque internal control function for personal gains at the expense of shareholders, thus creating room for tax aggressiveness. Hence, the desire by management to employ tax aggressiveness may positively or negatively affect firm value and performance (Mulyadi, Anwar &Erminus, 2014). Given this theoretical viewpoint, this study seeks to assess whether tax aggressiveness significantly affects the firm's value.

There is a dearth of studies on the relationship between tax aggressiveness and firm value in Nigeria, particularly those of listed industrial goods companies on the floor of the Nigerian Exchange Group. Balakrishnan, Blouin and Guay (2012) investigated the link between tax aggressiveness, earnings quality and transparency. Findings indicated that tax aggressiveness decreases corporate transparency and earnings quality. Similarly, Ftouhi and Zemzem (2013) assessed the relationship between the board of directors' characteristics and tax aggressiveness of French firms from 2006-2010. The regression result showed that board size and the percentage of women on the board influence the activity of tax aggressiveness.

Kraft (2014) examined the factors that determine the effective tax rate in Germany. Results indicated that larger firms and firms with higher free cash flow appear to have a higher effective tax rate. More again, leverage and operating lease expenses tend to be negatively associated with the effective tax rate. Evers *et al.* (2016) assessed the implications of tax aggressiveness on firms' opportunistic behaviour via meta-regression. Results indicated that tax aggressiveness suggests opportunistic reporting behaviour and even more so of earnings management.

Goh *et al.* (2016) evaluated the relationship between tax avoidance and a firm's cost of equity capital The regression result showed that the tax avoidance effect is sturdier for firms with improved outside monitoring; more so, In addition, the result revealed that equity investors expect a lowered expected rate of return as a result of positive cash flow effects of tax avoidance. Gebhart (2017) offered a comparative analysis of effective tax rate and book value difference measures of tax aggressiveness. The study found that although there are variations between single measures of tax aggressiveness and those variations continue over time.

Rui (2019) assessed the effect of tax aggressiveness on investment-cash flow sensitivity using regression. Findings showed that enterprises with a high tax aggressiveness have high investment cash flow sensitivity; however, enterprises' tax aggressiveness directly augments cash flow and suppresses cash flow by increasing deferred financing costs. He *et al.* (2019) examined the impact of tax aggressiveness on analyst coverage and forecasts via pooled ordinary least square regression fixed and random effects models. Findings showed that analyst coverage negatively correlates with tax risks; more so, evidence was found for analyst forecasts and tax aggressiveness. Given the diverse viewpoints on tax aggressiveness, this study was carried out to assess how and why tax aggressiveness impacts the value of the firm of industrial goods companies listed on the floor of the Nigerian Exchange Group.

Materials and Methods

This study used the *expo-facto* research design by obtaining secondary data from the annual reports and accounts of selected industrial goods companies listed on the floor of the Nigerian Exchange Group (NEG). The study population consists of all industrial goods companies on the NEG at 2020. As of 31st December 2020, there were ten (10) industrial goods companies listed on the floor of the NSG. In order to arrive at a sample of the study, the simple random sampling technique was adopted based on the need to have an unbiased sample size that affords each member of the population an even chance of being selected.

Based on the availability of required information to achieve the study's objective, seven (7) industrial goods companies with financial statements covering the period of 2006 – 2020 were selected. The study examined the impact of tax aggressiveness on the firm's value using book-tax difference and cash practical tax approaches. The dependent variable is firm value, while the independent variable is tax aggressiveness. Panel data regression was used given the nature of the study's variables since they are company-specific data. More so, panel data has been employed by several researchers such as Okoro (2014); Okoro and Ihenyen (2020) in their investigation of company-specific data. The following estimated models were set up to investigate the hypothesized relationships between the tax aggressiveness and firm value.

The general form of the panel data model is specified as:

$$Y_{it} = \beta_0 + \beta BC_{it} + \mu_{it} \quad \text{------- eq. 1.}$$

Where: Y_{it} = dependent variable (firm value); β_0= constant; β= coefficient of the explanatory variable; BC_{it} = explanatory variable in the model; *it*: = All seven industrial goods companies in sampled periods; μ_{it}= error term (assumed to have zero mean and is independent across period). The study adopts the models of He *et al.* (2019); Rui (2019); and Gebhart (2017); the model of our study is expressed as:

$$EVA = f(BTD) \quad \text{------- eq. 2.}$$

Given equation 2, the model of our study is expressed as follows:

$$FVAL = f(BTD, CTFR) \quad \text{------- eq. 3.}$$

Based on equation 3, the model of our study is expressed mathematically as follows:

$$FVAL_{it} = a_0 + a_1 \beta BTD_{it} + a_2 CTFR_{it} + \mu it \text{ ------- eq. 4.}$$

Where: *FVAL*= Firm value (measured using the natural logarithm of total assets); BTD =Book-tax difference (variations between book-tax and taxable income); CTFR =Cash effective tax in percentage computed as income tax paid in cash flow statement divided by profit before tax. A-priori expectation of the relationship is that α_1, α_2, > 0. In other words, the study expects that the parameter(α) of the independent variable will have a significant impact on the dependent variable.

Data obtained were analyzed using descriptive (mean, median, standard deviation, minimum, maximum, skewness, kurtosis and correlation) and inferential (regression, fixed and random effect and Hausman specification tests) statistical tech-

niques. The data were analyzed using STATA 13.0 statistical software.

Results and Discussion

Table 1: Summary statistics for tax aggressiveness (CTFR, BTD) and firm value (FVAL)

	FVAL	CTFR	BTD
Mean	6.6539	16.7119	2.5909
Median	6.4566	9.5936	1.9144
Maximum	8.7617	251.4077	13.9492
Minimum	5.0927	-50.655	0
Standard Deviation	0.9021	29.4150	2.7582
Skewness	1.6249	4.9079	1.4395
Kurtosis	3.9185	4.0172	5.4019
Probability	0.00000	0.00000	0.00000
Observations	105	105	105

Source: Authors' elaboration

From Table 1, variables of firm value (FVAL), cash effective tax (CTFR), and book-tax difference (BTD) exhibited positive average values. This is expected, given the characteristics of the studied period, which are linked to the improvement in International Financial Reporting Standards and in Nigerian tax laws. The standard deviations range from 0.9021 (*VAL)* to 29.4150 (CTFR)*;* the high variations imply high book-tax conformity, which encourages the firm value of the selected industrial goods companies listed on the floor of the Nigerian Exchange Group. This result conforms to Blaylock *et al.* (2015).

Furthermore, all data series (FVAL, CTFR, BTD) displayed non-zero skewness; however, all the variables skewed to the same direction as indicated in the positive signs attached to the skewness values. Remarkably, all the variables have normal distribution as shown by the kurtosis and probability values. Thus, the data of tax aggressiveness and firm value satisfies the normality test.

Table 2: Karl Pearson Correlation Matrix for Tax Aggressiveness (CTFR, BTD) and Firm Value (FVAL)

Variables	FVAL	CTFR	BTD
FVAL	1.0000		
CTFR	-0.0900	1.0000	
BTD	-0.2349	-0.2438	1.0000

Source: Authors' elaboration p-value = 0.80

Table 2 shows the correlation result for tax aggressiveness measures (CTFR, BTD) and firm value (FVAL) of the industrial goods companies in Nigeria. The Karl Pearson correlation for tax aggressiveness measures is negative while firm value is positive, indicating a negative relationship between tax aggressiveness and firm value

during the studied period. Again, the highest correlation did not exceed the maximum threshold of 0.80, indicating the non-existence of multicollinearity among the pairs of independent variables (CTFR, BTD).

Table 3: Variance Inflation Factors (VIF) Result

Variables	VIF	1/VIF
BTD	1.06	0.940557
CTFR	1.06	0.940557
Mean VIF	1.06	

Source: Authors' elaboration

Table 3 shows the regression diagnostic test results (VIF); the Mean VIF= 1.06, which is less than the benchmark VIF value of 10.0, suggesting the nonexistence of multicollinearity problem in the empirical model of tax aggressiveness and firm value. This implies that the data series is good enough in conducting further statistical tests.

Table 4: Ordinary Least Square (OLS), Fixed (FE) and Random Effects (RE) Results for Tax Aggressiveness (BTD, CTFR), and Firm Value (FVAL

Estimator	OLS (Obs.=105)		FE (Obs.=105)		RE (Obs. =105)	
Variable	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.
BTD	-0.0016	0.959	-0.0015	0.964	-0.0015	0.961
	(-0.05)		(-0.05)		(-0.05)	
CTFR	-0.2727	0.149	-0.2786	0.157	-0.2728	0.146
	(1.45)		(1.42)		(1.45)	
_cons	6.4378	0.729	6.5019	0.728	6.4396	0.731
	(0.35)		(0.35)		(0.34)	
R-Squared	0.0164					
R-Sq. Adj.	0.0009					
F-ratio	1.06					
Prob. F.	0.3508					
R-Sq. (within)			0.0169		0.0168	
R-Sq. (between)			0.0085		0.0101	
R-Sq. (overall)			0.0163		0.0164	
Hausman Test						0.8449> 0.05

Source: Authors' elaboration
*(Notes: *sig**@5% level; Items in parentheses are t-ratios, z-scores)*

Table 4 shows the OLS, FE and RE results for tax aggressiveness (BTD, CTFR) and firm value (*FVAL). Firstly,* since the Prob. > chi2 (0.8449) is more significant than 0.05; it suggests that the null hypothesis was accepted, showing that the result of RE is suitable to FE; thus, the RE result is more desirable. *Secondly,* the OLS result showed that tax aggressiveness measures (BTD, CTFR) are insignificant at a 5% level in explaining the firm value of industrial goods companies in Nigeria.

Using the OLS and RE results, coefficients of BTD are -0.0016 and -0.0015, and CTFR are 0.2727 and 0.2728, respectively, suggesting that when listed industrial goods companies in Nigeria engage in tax aggressiveness, it leads to approximately -0.15% decrease in firm value (*FVAL)*; however, with cash effective tax, it leads to approximately 27.27 increases in firm value. The t-test results of BTD and CTFR are -0.05 and .45, respectively; the t-test results confirm that tax aggressiveness is insignificant in explaining the variations in firm value. Nevertheless, R2 is 0.0164 using RE; this implies that BTD explained a 1.64% variation in firm value. Again, the f-ratio is 1.06 (p-value = 0.3508 >0.05) which is insignificant, indicating that tax aggressiveness has insignificant impact on firm value.

Table 5: Wald Statistics for Tax Aggressiveness (BTD CTFR) and Firm Value (FVAL)

Wald Ch2				**2.93**	
Prob. Ch2				0.4132	

Source: Authors' elaboration

The results of the Wald statistic is 2.93 with Prob. value of 0.04132, suggesting a rejection of the null hypothesis and acceptance of the alternate hypothesis that tax aggressiveness has no significant effect on firm value. The results, in part, agree with the findings of He *et al.* (2019) and disagree with the findings of Gebhart (2017); and Goh *et al.* (2016).

Conclusion

This paper adopts a book-tax gap method to assess the link between tax aggressiveness and the firm value of industrial goods companies listed on the floor of the Nigerian Exchange Group from 2006-2020. Data were obtained for seven (7) industrial goods companies listed on the floor of the Nigerian Exchange Group. Panel data regression was used, and analyses were based on descriptive and inferential statistics. On the aggregate, the Wald statistics showed that tax aggressiveness negatively and insignificantly affects firm value.

The study concludes that firms with increased tax aggressiveness levels have reduced book value than those with lowered tax aggressiveness levels. However, no effect of cash effective tax and book-tax difference on firm value was established in the study. The results suggest that tax aggressiveness does not increase firm value. Given the study's findings, it was recommended that listed industrial goods companies on the floor of the Nigerian Exchange Group should instead not focus on aggressive tax measures aimed at decreasing the firm's value. The relevant tax authorities and regulatory framework of companies in Nigeria should ensure that the code of governance provisions and tax implementation should be strictly adhered to by listed industrial goods companies in Nigeria.

This study focused on tax aggressiveness and firm value (firm value was measured via the natural logarithm of the total asset); thus, future research should assess other components of firm value (like market value-added, market-to-book value, annual stock return, turnover) as they relate to tax aggressiveness in Nigeria. Also, future research should focus on the other sectors of the Nigerian economy such as agriculture, service, oil and gas, financial services, among others, to validate whether tax aggressiveness significantly affects the firm's value in Nigeria.

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