



## CORPORATE TAX PLANNING INSTRUMENT AND FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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### Abstract

The rationale beyond the study was to examine the association between corporate tax planning instrument and financial performance of listed consumer goods companies in Nigeria. The specific objectives were to examine the extent of relationship among the three major variables of tax planning techniques such as thin capitalization, Effective tax rate and Book tax difference. The study adopted ex-post facto research design. The study population was culled from twenty-one consumer goods sector of the Nigerian Exchange Group (NGX) as at the end of 2024 trading year. purposive sampling technique was used to select five consumer goods companies. The study data were sourced from Financial Statement of the studied consumer companies. The findings of the study revealed that thin capitalization has negative and significant effect on return on assets of listed consumer good companies in Nigeria, effective tax rate has positive and insignificant effect on return on assets of listed consumer good companies in Nigeria and book tax difference has positive and insignificant effect on return on assets of listed consumer good companies in Nigeria. In conclusion, while corporate tax planning can be a useful tool for managing costs and enhancing profitability of a particular consumer goods company, its effectiveness is contingent on how responsibly and strategically it is implemented. It was recommended that the management of the said companies in Nigeria should minimized excessive debt levels, and regulators should also enforce appropriate leverage rules, and policies that supports access to equity and low-cost financing.

**Key words:** Corporate tax planning, financial performance, thin capitalization, Effective tax rate, Book tax Difference.

## **Introduction**

Organizations operate under the direction of management and shareholders, whose primary interests are cost minimization and the maximization of shareholder value. Different costs are incurred when obtaining capital, such as cost of debt, cost of equity, cost of paying dividend to shareholders, agency cost, and compulsory levy known as taxes payable to the statutory body. Corporate taxes in developed and under-developed economies are major revenue sources of government imposed on corporate bodies, institutional and individual incomes for the smooth running of government activities. However, costs of business operations in Nigeria are always attributed to high corporate taxes. Corporate tax is a compulsory obligation imposed by the government on a company's profit for the year. Arguably, cost of doing business and operational costs had risen significantly due to high imposition of taxes and hence poses a serious constraint on financial performance (Okoye & Akenbor, 2010). Minimization of cost and shareholder value creation are an integral part of corporate strategies applied by organizations to achieve congruent goals while making financial plans through tax aggressiveness otherwise known as tax planning or tax management strategies in developed economies.

Tax planning instruments are strategic and legal approaches adopted by corporate entities to minimize tax liabilities by exploiting provisions within the tax laws and system. Some scholars such as Ebire, Musa Onmonya (2024), Saidu & Lapips (2023) refer tax planning activities as tax avoidance and tax aggressiveness. Similarly, it could be seen as a conscious effort and a mechanism of visionary monitoring of economic activities of a company, with the expectation of getting the needed tax advantages, bearing in mind the legal and judicial provisions (Olarewaju & Olayewola, 2019). Tax planning adopts available tax incentives, exemptions, deductions, and credits benefits while recognizing the boundaries of the law. The tax policies and laws in Nigerian grant companies the legal rights to use management earnings as a strategic tool to reduce their tax liabilities. One of the major measurement instruments used by companies to achieve tax planning is thin capitalization, which takes the form of debt-to-equity structure since debt capital is tax exempt. Organizations, therefore, tend to finance their operations using debt capital.

Thin capitalization indicates that a company is highly financed with the leverage of debt capital and gearing. Tax liabilities could also be minimized by adopting effective tax rate that is prevalent within the tax system of the country and some costs allocated to research and development expenditures to reduce tax liabilities as part of fiscal measures. Other measures could be tax savings, transfer price mechanism, tax haven, research and development cost (R/D), and other exemptions like tax incentives, capital allowances. According to Goerdts and Eggert (2022), thin capitalization rules restrict businesses' capacity to deduct internal interest payments from taxable revenue, which

in turn prevents multinational corporations from relocating their operations. In a related development, the variance however is possible to occur in book tax differences between pre-tax incomes, as shown in a company's published financial statement, and the taxable incomes reported to tax authorities.

The consumer goods companies are very strategic in terms of economic wellbeing of the society with availability of consumables that stimulate growth of the economy and earnings to the management through financial performance measured by profitability. The financial health of firms are more likely achieved for the interest of stakeholders when these available loopholes and incentives are adopted and rules to reduce tax liabilities (Abdulkadir *et al.*, 2020). The Financial performance of consumer goods companies is a major indicator of financial health to shareholders as corporate finance and earnings management strategy to reduce cost and maximize profitability. Moreover, attaining wealth maximization objective of the company through several ways of improving profitability decreases company ability to pay out high taxes which result in decreasing its tax burden. Also, tax planning strategies are ascertained to have a positive influence on company financial performance and liquidity as it might result in higher profits after tax. Based on the foregoing background, it is evident that corporate tax practices have the potentials of enhancing corporate's financial performance. Hence, every minimization of levies paid affects the earnings reported in the annual financial reports.

Despite the relevance and increasing importance of corporate tax planning to companies and organizations that apply techniques to reduce tax liabilities for the betterment of the company earnings, on the long run, reputational risks and legal consequences poses a big challenge on the financial performance and reporting. It is equally important to note that tax planning has its associated cost implication in hiring tax professionals and management consultants fees pay to legal experts and tax consultants such as administrative cost for professionals like lawyers, accountants, and consultants in planning the tax strategies and the risk of legal challenges and penalty. Saheed (2019) argues that excessive use of debt will disrupt a company's operations because it places the firm in a state of extreme leverage, where it becomes stuck in very high debt levels and finds it difficult to relieve itself of the debt burden. Without sufficient financial support, the government cannot provide enough benefits, maintain infrastructure, and maintain a high level of living for the population, yet multinational corporations are confronted with a significant problem as a result of high thin capitalization and transfer pricing which have various tax multiplier effects due to the complexity of tax treaties, transfer pricing rules, and different tax regimes across jurisdictions create confusion and opportunities for tax evasion (Agama, Deji-Ojeleye Apalowowa & Oladele, 2024). This legal access granted by the tax authorities minimize tax liabilities has an inverse

relationship with revenues earnings accrued to government and stock process of firms which investors presumed so risky.

Most of the previous researches carried out by Chukwudi, Okonkwo & Asika, 2020 Kawor and Kportorgbi, 2014; Agbo & Gina, 2022; Ofor & Akaegbobi, 2022; Osho & Orisamika, 2022; Suleiman & Barnabas, 2021; Onoja, Adediran & Ude, 2020) basically relied on the technologically advanced economies. From the African point of view, studies on corporate tax planning with financial performance obtained inconclusive and mixed outcome and recommendations. Ogundajo and Onakoya (2016) found that aggressive tax planning such as in the case of thin capitalization, tax law stimulus and other beneficial windows in the Nigerian tax legislation have not been fully implemented by Nigerian firms. Another related study by Salawu (2017) found a positive and significant relationship between firm value (Tobin Q) and Effective Tax Rates (ETR). On the contrary, scholars on tax planning such as Akintoye *et al.* (2020). Olarewaju and Olayiwola (2019), documented negative correlation on tax planning signifying that the attempt made on tax minimization was just demonstration to the performance of a corporate entity. Based on the foregoing, it is imperative to state that the argument on tax planning is still unresolved as there are major conflicting views amongst scholars regarding its application or otherwise. On this basis, it is pertinent to advance investigation on tax planning instruments like thin capitalization, effective tax rate and Book-tax difference.

The fundamental discrepancies observed from previous researches and inappropriate techniques ultimately drive this research using the three key variables to demystify the correlation of tax planning techniques and financial performance of the identified sector. Given the relevance of corporate tax planning and its impact on the financial performance of listed companies in Nigeria, as well as the mixed findings from global studies, this study seeks to fill the gap.

### **Objectives**

The main objective of this research is to examine the relationship between tax planning instruments and the financial performance of listed consumer goods companies in Nigeria. Other objectives were specifically to:

1. Examine the relationship between thin capitalization and the return on assets of consumer goods companies in Nigeria;
2. Ascertain the relationship between the effective tax rate and the return on assets of consumer goods companies in Nigeria.
3. Assess the relationship between book-tax differences and the return on assets of consumer goods companies.

The study will, therefore, make a valuable contribution to existing literature in Nigeria and globally, as it emphasizes the importance of the various instruments through which corporate entities reduce taxation and cause losses to the national treasury, even when such practices are legally permitted. The study shall also be beneficial to government agencies such as Federal and State Inland Revenue Services. In addition, the study will serve as a knowledge base for future researchers and a useful resource data covering the ten-year period from 2015 - 2024.

## **Literature Review**

### **Tax Planning**

Nigerian tax system was structured by the colonial masters and has long served as a primary means of revenue generation to fund government activities. Some relevant tax acts grant allowance and waivers to corporate bodies as a means of reducing tax liabilities through appropriate tax planning strategies. Tax planning is a strategic management decision and financial policy measured to use the weapons of tax incentives or loopholes to attract minimum tax liabilities. Companies and entities are liable to tax at a particular rate and payable to the government. However, Finance Act 2023 specified that companies below the profit of 25 million are entitled to pay zero tax to FIRS, excluding other levies; while companies above 25m and 100m are to pay taxes to appropriate tax jurisdiction. The tax planning or tax management strategies are designed to minimize tax liabilities while remaining compliant with institutional regulations and relevant tax legislations. Tax planning is a management decision aimed at legally avoiding taxes, rather than evading them, in order to reduce costs and channel resources into more productive areas. Incentives granted by government, as well as transfer pricing strategies, are integral elements of tax planning instruments. Furthermore, tax planning is a significant factor influencing company value. Tessya (2021) argues that tax planning is a legal form of tax avoidance that individuals and corporate entities can engage in to minimize their obligation to pay taxes. This approach does not violate existing tax laws and regulations established by the government.

Organizations engage the services of professional accountants, lawyers and tax experts to evaluate and advise them on the strategic steps to take regarding the tax activities before financial reports are released to the public. This is because the consequences of adopting aggressive tax strategies can be detrimental, potentially damaging an organization's reputation if not properly managed. Organizations with good governance policies are transparent about their tax planning strategies. They disclose relevant tax information in their financial statements, including details of tax incentives, deductions, and potential risks. Since the board of directors is responsible for oversight within the organization, they should be aware of management's tax strategies and ensure alignment with the company's overall risk appetite and business objectives (Tivde &

Hussaini ,2023).

### **Thin Capitalization**

Capital structure of a business majorly constitutes equity and debt component. The two structures determine the internal and external performance of a firm as source of finance. Debt structure is relatively lower with tax exempt. Most corporate entities practice thin capitalization sine the tax authorities grant the issue of exemptions for debt application as a financing means of obtaining funds with lower taxes or noting The use of debt financing by business organizations has several benefits, particularly in terms of tax exemptions and other incentives. Companies finance their activities through debt, equity, or a combination of both in order to strengthen their financial position. Corporate entities also continue to seek legal approaches to reduce operational costs in the course of their transactions. Thin capitalization enables Nigerian companies to benefit from excessive use of debt as a tax avoidance mechanism. Since tax laws usually allow a deduction for interest paid on debt capital in determining taxable income, the higher the company's debt and interest payments, the lower its taxable profit, and consequently, the lower the overall tax revenue generated for the year (Fowler, 2018). Multinational companies use this concept so that financing can be in equity participation or funds from shareholders or other parties. Olivia and Dwimulyani (2019) argued that thin capitalization implies a state in which the company is highly geared, that is funded with a lot of money when compared to the capital it needs.

Thin capitalization allows organizations to employ a larger proportion of debt capital as part of their financing strategy. Furthermore, Saidu and Lapis 2023 state that corporate entities employing the tax aggressiveness technique might be ready to pay a greater percentage of interest expenditures as tax legislations consider interest expenditures as tax-chargeable. Similarly, Martinez and Motta (2019) affirm that management decides to choose debt financing over equity financing since interests on debt are tax deductible unlike equity non-deductible. (Ogbeide. Anyaduba &Akogu, 2022, and Osuya (2021) further support the argument that thin capitalization is more reliable and efficient source of finance and tax liabilities minimization. Thin capitalization is mostly applicable to multinational companies as a means of doing profit shifting to a low tax heaven country, and this reduces revenue generation to the government.

### **Effective Tax Rate**

The tax reforms act of 2025 to be implemented by 2026 have made a provision for several classes of companies in Nigeria and and the applicable rates based on the turnover and tax filling to Inland Revenue service The effective tax implies that a variance is expected to occur from taxable income and applicable rates recommended by the tax author effective tax rate is the average tax rate for an individual or corporate

taxpayer. It indicates the percentage of tax owned from the taxpayer's annual income. The marginal rate, on the other hand, is levied on different level of income Nnubia and Okolo (2018) are of the opinion that ETR tax rate is the average rate the entotes taxable are applied The effective tax rate for individuals is the average rate at which their income is taxed, and the effective tax rate for corporation is the average rate at which its pre-tax profits are taxed. The applicable rate is the basis by which a company pays tax to the government. The normal tax rate in Nigeria was formally 30% for all listed companies, but with the introduction and amendment of Finance Act 2023, a company's Effective Tax Rate (ETR) is measured as Total tax expense for the period divided by pre-tax income for the period ( $ETR = \text{Total tax expense} / \text{Pre-tax income}$ ). The primary fiscal objective of any nation is to strengthen its revenue base in order to meet expenditure demands and provide public goods and social amenities for the welfare of its citizens. Nigeria, however, continues to perform below expectation, as evidenced by the relatively low ratio of tax revenue to gross domestic product (GDP) compare with other African economies. Furthermore, concerns persist regarding the inefficiency in the utilization of collected taxes. The tax effective rate differs from bigger companies to smaller companies.

The threshold rate in Nigeria depends on the rise and profitability of the Company Finance Act 2023, which specifies that companies below a profit of 25 million are entitled to pay no tax to FIRS excluding other levies while companies above 25m and 100 m are pay to taxes to appropriates tax jurisdictions at the rate of 20% and 30% respectively. According to Organization for Economic Co-operation and Development (OECD, 2019), Nigeria's percentage of tax-to-GDP ratio in 2017 is 5.7%, which is the lowest when compared to other African countries like Ghana (14.1%), Niger (13.0%), Botswana (12.2%), Tunisia (31.2%), Togo (21.0%), Burkina Faso (19.3%), Egypt (17.1%), Mali (16.7%), Senegal (16.2%), Rwanda (15.0%), Madagascar (11.9%), Congo (12.2%), Kenya (18.2%), Equatorial Guinea (5.9%), and South Africa (28.2%). This, by implications, shows that Nigeria's tax-to GDP was lower than the average of the 26 African countries according to Revenue Statistics in Africa 2019 which placed it at 17.2% by 11.5% percentage points which calls for concern.

### **Tax Planning and Financial Performance**

Financial health of organizations are justified by the level of cash inflows from three key financing areas in relation to tax payment. Taxation is an outflows and revenue to the government Firms would continue to source available means of immunizing this burden of tax incident to remain profitable and operational in business. Tax planning has been widely accepted and corporate managers always look for avenues to reduce avoidable and unnecessary costs, in order to strengthen their financial performance. arrangement (Abdullahi, Mustapha and Ademola,2021). Financial performance is

measured by the level of profitability. Profitability is commonly measured as either return on assets or cash flow from operations. Company financial performance deals with items such as asset base, sales turnover, dividend growth and the capital employed among others (Omondi and Muturi, 2013). Financial performance measurement can be carried out via accounting measures resulting from the company's financial reports, such as gross profit margin, return on assets and return on equity (Mwangi and Murigu, 2015). Furthermore, ROA is the most commonly used measurement of financial performance in accounting research (Ogundajo and Onakoya, 2016). This is because it effectively reflects a firm's overall financial performance and serves as a reliable indicator of the firm's ability to generate profit from its asset base. The basic argument is that more profitable firms arguably have a stronger incentive to reduce their tax burden as compared to firms that are less profitable (Dunbar, Higgins, Phillips & Plesko, 2010). More profitable firms generally pay higher taxes. On the other hand, one could argue that more profitable firms have greater incentives to engage in tax avoidance due to the greater potential savings (Rego 2003; Frank et al. 2009; McGuire et al., 2012). Conversely, empirical studies such as Okerekeoti (2022), and Omesi and Appah (2021) found nonsignificant effect of profitability on tax aggressiveness. They argued that the profitability and tax planning relationship is complex and can vary based on several factors such as government fiscal and monetary policy measures.

### **Empirical Review**

Orji & John- Akamelu, (2023) investigated the effect of Book Tax Differences (BTDs) on the financial distress of public listed consumer goods firms in Nigeria. The study specifically determined the impact of temporary BTD, permanent BTDs, total BTD, and discretionary total BTD on the Altman's Z-Score of the firms. The analysis was conducted at 1% level of significance. An ex-post facto research design was adopted, and a purposive sampling technique was employed to select sixteen (16) consumer firms. The findings revealed that both temporary and permanent BTDs exerted significant positive effects on the Altman-s Z-score, suggesting that these tax planning strategies enhance financial stability. However, total BTDs had a positive but non-significant effect, while discretionary total BTDs did not produce a significant impact. The study recommended that managers of consumer goods firms should engage in tax planning strategies that increase permanent BTDs, using legal means that yield tax savings in order to enhance the firms' financial conditions.

Similarly, Saidu and Lاپisi (2023) examined the impact of corporate tax planning on the financial performance of listed industrial goods companies in Nigeria. Employing an ex-post design and utilizing panel data, the study provided further evidence on the relationship between tax planning strategies and firm performance. The population of the study consists of twelve (12) industrial goods firms quoted on the Nigerian Exchange Group (NGX) for the period ending 31st December 2022, and a sample size

of six (6) industrial goods firms quoted were selected using a backward filtration process in terms of date of listing commencing from 2012 backward. Data for the study were collected using secondary source, derived from the annual reports and audited accounts of the selected companies. Data for a period of ten (10) years were collected and analyzed via STATA 14 version. Findings reveals that Capitalization is negative and insignificantly associated with financial performance of listed industrial goods firms, whereas Research and Development expenditure is positive but insignificantly associated with financial performance of listed industrial goods firms in Nigeria.

### **Theoretical Framework**

The study is anchored on Tax Planning Theory as opined by Hoffman (1961), because it explores the derivable benefits resulting from a company's tax planning activities. The theory argues that managers pursue liquidity and profitability maximization by taking advantage of tax laws to reduce taxable income. It is premised on the assumption that corporate tax liability is a function of taxable income rather than accounting income. Consequently, managers with profound knowledge of a country's tax laws can derive tax savings by exploiting loopholes inherent in such laws. Empirical studies such as Kawor and Kportorgbi (2014) and Ogundajo and Onakoya (2016), which applied the tax planning theory, revealed that tax planning activities positively affect corporate financial performance. The strategy of tax planning must be holistic, encompassing all key aspects of tax administration, namely taxes, all costs and all parties. According to Shelvin (2020), tax planning can influence many costs, and taxation is one of them. Therefore, if the objective is to significantly impact portfolio investment decision-making in listed manufacturing companies, both implicit and explicit taxes must be professionally planned to yield the required funds necessary for reinvestment in the ongoing activities of enterprises. The argument of this theory is built on the fundamental understanding that the applicable level of taxation is calculated based on taxable income rather than accounting income.

### **Methodology**

The study adopted *ex-post facto* research design to examine the extent to which tax planning instruments affect the financial performance of listed consumer goods firms in Nigeria. The population of the study comprised all the twenty-one listed firms under the Consumer Goods Sector of the Nigerian Exchange Group (NGX) as at the end of the 2024 trading year. According to the Stock List of the NGX, the firms presented in Table 1 represent the constituents of the Consumer Goods Sector of the Exchange. The sample size of the study consisted of five (5) listed consumer goods firms were employed as at 31st December, 2024. The five selected consumer goods companies were Nestle Nigeria Plc, Dangote Sugar Plc, Champion Brewery, Cadbury Plc and Unilever Plc These firms were selected from the Nigerian Exchange Group the using

purpose sampling technique. Panel data were obtained through extraction from the audited financial reports and accounts of the sampled firms for the period under review. The study period covered a ten-years spanning from 2015 to 2024

The data were collected from the period 2015 to 2024, a timeline that aligns with Nigeria’s adoption of the new tax regime under the current year assessment system, which became effective in 2012. The sample consists of companies drawn from sectors listed on Nigerian Exchange Group, including industrial products, trading, and services, consumer goods, properties, plantations, construction, technology, infrastructure, hotel, and mining. In order to analyze the hypotheses of the study, the following econometric model was specified as follows:

$$ROA_{it} = \beta_0 + \beta_1THC_{it} + \beta_2BTDE_{it} + \beta_3ETR_{it} + \mu_{it} \dots\dots\dots(i)$$

Where:

ROA = Return on Assets

THC = Thin Capitalization

BTD = Book Tax Difference

ETR=Effective Tax Rate

$\beta_0$  = Intercept

$\beta_1 - \beta_3$  = Coefficient of the explanatory variables

i= Listed Consumer goods companies

t= period of the study (2012 – 2023)

$\mu_{it}$ = error term

The study comprises explanatory and outcome variables. The outcome variable is financial performance and the explanatory variable (tax planning instruments) was proxied by thin capitalization, Book-Tax Difference and effective tax rate

Table 2: Operational Measurement of Variables

| S/N | Variables            | Symbols  | Measurement   | Source                                 |
|-----|----------------------|----------|---|--|
| 1   | Return on Asset      | ROA      | $\frac{\text{Profit after tax} \times 100}{\text{Total Asset}}$ | (Rahman, 2017)                         |
| 2   | EFFECTIVE TAX RATE   | ETR      | ETR = Total tax expense / Pre-tax income)                       | Sanchez Balesta and Garcia Meca (2011) |
| 3   | THIN CAPITALIZATION  | THIN CAP | Long term debt divided by total shareholders’ equity.           | Saidu and Lapis 2023                   |
| 4   | Book -Tax Difference | BTD      | difference between book earnings and taxable earnings.          | Wahvani (2019)                         |

Source: Researcher compilation 2025.

This study employed the multiple regression method to examine the relationship between tax planning instruments and financial performance of selected consumer goods companies between the period 2025 to 2024. The Hausman test was conducted to determine the appropriate model between the random effects and fixed effects estimators. The choice of panel data in this study is justified on the basis that it enhances statistical power, thereby providing more precise and reliable estimates. In addition, descriptive statistics were employed to evaluate whether the variables exhibit both short-run and long-run impacts within the model, using E-view version 12 software. To further strengthen the reliability, validity, and robustness of the data, diagnostic tests were conducted, including tests for normality, to ensure that the data satisfied the necessary assumptions for regression analysis. *The a priori* expectations of the model, based on the theory of Multiple Indicators and Multiple Causes (MIMIC theory), are follows:

$$\beta_1 - \beta_{4s} > 0.$$

## Analysis and Results

### Descriptive analysis

The descriptive analysis displayed the basic features of the cross-sectional data and time series data presented in table 3. The outcome of the descriptive analysis is presented in table 4.1

Table 3: Descriptive analysis

|              | LOGROA    | LOGETR   | LOGBTC    | LOGTHC    |
|--------------|-----------|----------|-----------|-----------|
| Mean         | 0.836717  | 1.458553 | 1.695055  | 0.371868  |
| Median       | 0.968458  | 1.492760 | 1.758513  | 0.161110  |
| Maximum      | 1.568202  | 1.823474 | 2.238046  | 2.009876  |
| Minimum      | -0.853872 | 1.113943 | 0.785330  | -2.000000 |
| Std. Dev.    | 0.483848  | 0.193977 | 0.258964  | 1.099601  |
| Skewness     | -1.132557 | 0.010717 | -1.669225 | -0.111301 |
| Kurtosis     | 4.360838  | 2.318126 | 6.875321  | 1.941754  |
| Jarque-Bera  | 14.54713  | 0.969606 | 54.50701  | 2.436327  |
| Probability  | 0.000694  | 0.615819 | 0.000000  | 0.295773  |
| Sum          | 41.83586  | 72.92766 | 84.75275  | 18.59338  |
| Sum Sq. Dev. | 11.47135  | 1.843724 | 3.286067  | 59.24703  |
| Observations | 50.00000  | 50.00000 | 50.00000  | 50.00000  |

Source: Researcher computation from E-View 12.

Table 3 shows descriptive statistics of the overall sample of the study. Descriptive statistics is mostly used as a preliminary analysis technique to gain a better understanding of the dataset before applying more complex statistical methods in a particular study. From the descriptive analysis in Table 3, the mean value of return on asset (LOGROA) for the period was 0.836717. The mean value implies that the consumer good companies in Nigeria earn about 0.84% return on their assets. The maximum value of (LOGROA) was 1.568202 while the minimum value of (LOGROA) was 0.008600. A standard deviation is a measure of how dispersed the data is in relation to the mean. A low, or small, standard deviation indicates data are clustered tightly around the mean, and a high, or large, standard deviation indicates data are more spread out. Hence, the standard deviation of LOGROA for the period of this study was 0.483848 which shows that the standard deviation was low, and that the data are clustered tightly around the mean over the period

Also, the mean value of effective tax rate (LOGETR) for the period was 1.458553. The mean value implies that the consumer good companies in Nigeria earn about 145% effective tax rate. The maximum value of (LOGETR) was 11.823474 while the minimum value of (LOGETR) was 0.008600.. Hence, the standard deviation of LOGETR for the period of this study was 1.113943 which shows that the standard deviation was low, and that the data are clustered tightly around the mean over the period. Also, the mean value of book tax difference (LOGBTC) for the period was 1.695055. The mean value implies that the consumer good companies in Nigeria earn about 170% of book tax difference. The maximum value of (LOGBTC) was 2.238046 while the minimum value of (LOGBTC) was 0.785330. Hence, the standard deviation of LOGBTC for the period of this study was 0.258964 which shows that the standard deviation was low, and that the data are clustered tightly around the mean over the period.

The mean value of thin Capitalization (LOGTHC) for the period was 0.371868. The mean value implies that the consumer good companies in Nigeria earn about 37% of thin Capitalization. The maximum value of (LOGTHC) was 2.009876 while the minimum value of (LOGTHC) was -2.000000. Hence, the standard deviation of LOGTHC for the period of this study was 1.099601 which shows that the standard deviation was low, and that the data are clustered tightly around the mean over the period

**Hausman test for the study**

Table 5 Hausman test for the study  
 Correlated Random Effects - Hausman Test  
 Equation: Untitled  
 Test cross-section random effects

| Test Summary         | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob.  |
|----------------------|-------------------|--------------|--------|
| Cross-section random | 4.953774          | 3            | 0.1752 |

For the Hausman test, the null hypothesis is that the preferred model is random impacts, while the alternative hypothesis is that the fixed impacts model is preferred (Green, 2008). Based on this premise, the random impact model was selected since the p-value of Hausman's test is greater than 0.05. This implies that the study accepts the null hypothesis of the Hausman test and rejects the alternative hypothesis that the random effect model is preferred.

**Summary of Panel Regression (dependent variable, ROA)**

Table 6: Summary of Panel Regression (dependent variable, ROA)

| Variables          | Fixed Impact Model       | Random Effect Model ++       |
|--------------------|--------------------------|------------------------------|
| LOGETR             | 0.317354<br>(1.067349)   | 0.252473<br>(0.868654)       |
| LOGBTC             | 0.336407<br>(1.562888)   | 0.365705<br>(1.725231)       |
| LOGTHC             | -0.126810<br>(-1.900413) | -0.189497<br>(-3.231176) *** |
| C                  | -0.149232<br>(-0.293438) | -0.080951<br>(0.8710)        |
| R-Squared          | 0.540500                 | 0.560729                     |
| Adjusted R-Squared | 0.463917                 | 0.539255                     |
| F-Statistics       | 0.157678                 | 0.093886                     |
| Prob (F-Statistic) | 0.143014                 | 0.511722                     |

Source: Author's computations 2025 using E-views 12.0 (Panel regression table)

\*\*\* and \*\* denotes significance @ 5% level, respectively. Values in parenthesis () are t-values of variables, ++ shows the accepted Model.

Based on the Hausman test presented above, the chosen model was the random impact model because the random impact model has the highest variables that is significant in the model and the chosen model is based on the Hausman test. Based on the random impact model, the adjusted R-squared (0.539255) indicates that (LOGETR, LOGBTC, and LOTHC) accounted for 54% of the return on asset (ROA) as the dependent variable while the remaining 46% was due to the error term. The significance of the F-statistic prob of 0.511722 implies that the result was statistically not significant. The t-statistic of LOGTHC was -3.231176 with a probability value of 0.0023, which revealed that LOGTHC has a negative and significant impact on the return on assets of the selected companies in Nigeria.

### **Test of Hypotheses**

#### **Hypothesis 1**

**H<sub>01</sub>:** Thin capitalization has no significant effect on return on assets of listed consumer good companies in Nigeria.

Table: 7: Test of hypothesis 1

| <b>Variable</b> | <b>Coefficient</b> | <b>t-statistic</b> | <b>Prob.</b> |
|-----------------|--------------------|--------------------|--------------|
| LOGTHC          | -0.189497          | -3.231176          | 0.0023       |

Source: Extracted from panel regression result table

The table above indicates that the coefficient values of LOGTHC is -0.189497 while the probability value (p-value) is 0.0023 and the t-statistic value is -3.231176 all at 5% level of significance. Since the coefficient value is negative while the p-value is less than 0.05 at a 5% level of significance, the alternative hypothesis is therefore accepted. This implies that thin capitalization has negative and significant effect on return on assets of listed consumer good companies in Nigeria

#### **Hypothesis 2**

**H<sub>02</sub>:** Effective tax rate has no significant effect on return on assets of listed consumer good companies in Nigeria.

Table: 8: Test of hypothesis 2

| <b>Variable</b> | <b>Coefficient</b> | <b>t-statistic</b> | <b>Prob.</b> |
|-----------------|--------------------|--------------------|--------------|
| LOGETR          | 0.252473           | 0.868654           | 0.3895       |

Source: Extracted from panel regression result table

The table above indicates that the coefficient values of LOGETR 0.252473 while the

probability value (p-value) is 0.3895 and the t-statistic value is 0.868654 all at 5% level of significance. Since the coefficient value is positive while the p-value is greater than 0.05 at a 5% level of significance, the null hypothesis is therefore accepted. This implies that effective tax rate has positive and insignificant effect on return on assets of listed consumer good companies in Nigeria

### **Hypothesis 3**

H<sub>03</sub>: Book tax difference has no significant effect on return on assets of listed consumer good companies in Nigeria.

Table: 9: Test of hypothesis 3

| <b>Variable</b> | <b>Coefficient</b> | <b>t-statistic</b> | <b>Prob.</b> |
|-----------------|--------------------|--------------------|--------------|
| LOGBTC          | 0.365705           | 1.725231           | 0.0912       |

Source: Extracted from panel regression result table

The table above indicates that the coefficient values of LOGBTC 0.365705 while the probability value (p-value) is 0.0912 and the t-statistic value is 1.725231 all at 5% level of significance. Since the coefficient value is positive while the p-value is greater than 0.05 at a 5% level of significance, the null hypothesis is therefore accepted. This implies that book tax difference has positive and insignificant effect on return on assets of listed consumer good companies in Nigeria

### **Discussion of Result**

The study examines corporate tax planning instrument and financial performance of listed consumer goods companies in Nigeria. The stated hypotheses was analyses with panel regression. The result of hypothesis one revealed that thin capitalization has negative and significant effect on return on assets of listed consumer good companies in Nigeria. The result holds on the ground that the increased risk and financial burden associated with high debt levels. A high debt-to-equity ratio, characteristic of thin capitalization, leads to higher interest payments, increased financial stress, and a higher probability of bankruptcy, which in turn can reduce profitability and asset utilization, as evidenced by studies on capital structure and performance in the Nigerian.

The result of hypothesis two revealed that effective tax rate has positive and insignificant effect on return on assets of listed consumer good companies in Nigeria. The result holds on the ground that companies with a higher effective tax rate does not necessarily mean a negative impact on performance, and might even be associated with positive performance drivers, possibly due to sophisticated tax planning or the nature of the industry itself. Research shows that while tax planning aims to reduce tax

payments to boost profitability, a higher ETR might correlate with increased profitability and larger firms that are better equipped for tax planning, thus diminishing the negative impact.

The result of hypothesis three revealed that book tax difference has positive and insignificant effect on return on assets of listed consumer good companies in Nigeria. The result holds on the ground that an increase in the book tax difference (which includes both temporary and permanent differences) can lead to a higher recorded ROA. This is because tax differences often arise from timing differences in income recognition or deductions, which can temporarily improve a firm's reported profitability. For instance, a positive difference means that the company's tax expense is less than its accounting expense, leading to lower reported tax liabilities and thus higher net income, which boosts ROA and the overall effect of total book tax differences may be diluted by the opposing effects of temporary and permanent difference.

### **Research implications**

Drawing from the findings, the study outlined specific implications by filling the research gaps of previous studies.

#### *Theoretical Implications*

The theoretical implication of this research is that corporate tax planning managers and practitioners would be enlightened on the benefits of adjusting the financial statement legally as permitted under the ambit of tax laws to minimize tax liabilities within the acceptable threshold to enhance financial stability and boost investors furthermore, the study variables adopted under this study were measurable and culled from Annual financial statement of the studied consumer goods companies under NGX The results offer empirical evidence for the relationship between tax planning instruments and financial performance represented by ROA .therefore supporting arguments on how tax planning enhances organization tax savings and inverse relationship with government revenue generation. This study expands current models to demonstrate that the efficacy of Tax planning techniques activities. Based on this, future studies can investigate other mediators or contingency factors.

### **Conclusion and Recommendations**

Corporate tax planning instruments are strategic and legal approach adopted by corporate entities as a means of minimizing tax liabilities at the lowest minimum using the instruments of the law to identify the loopholes within internal mechanism of the tax system. The results of the study revealed that thin capitalization has negative and significant effect on return on assets of listed consumer good companies in Nigeria, effective tax rate has positive and insignificant effect on return on assets of listed

consumer good companies in Nigeria and book tax difference has positive and insignificant effect on return on assets of listed consumer good companies in Nigeria. The management of consumer goods companies in Nigeria should also adopt a balanced tax strategy that aligns with long-term business objectives rather than aggressive tax minimization. Finally, the management of consumer goods companies in Nigeria should aim to minimize aggressive tax planning and earnings management that lead to large book-tax differences.

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