

Tax Planning Strategies and Financial Performance of Quoted Banks in Nigeria

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Abstract

This study empirically investigates the relationship between tax planning strategies and financial performance of quoted banks in Nigeria. To achieve this objective, theoretical, conceptual and empirical literatures on tax planning strategies and financial performance were reviewed. Tax planning strategies was proxied by effective tax rate, thin capitalization and capital intensity while financial performance was proxied by return on equity, earnings per share and net interest margin. The population of this study consists of fourteen quoted banks in Nigeria. The study adopts judgmental sampling techniques to select twelve banks as sample size for the study. Secondary data was obtained from audited annual financial reports of quoted banks in Nigeria from 2006-2019. The study adopts the use of descriptive statistics for univariate analysis while hypotheses were tested using ordinary least square regression statistical tool with the aid of E-view 10 econometric statistical software. The findings shows that effective tax rate, thin capitalization and capital intensity has negative and insignificant impact on return on equity of quoted banks in Nigeria. Evidence shows that effective tax rate, thin capitalization and capital intensity has negative and insignificant impact on earnings per share of quoted banks in Nigeria. Empirical evidence revealed that effective tax rate, thin capitalization and capital intensity has positive and significant impact on net interest margin of quoted banks in Nigeria. The study concludes that tax planning strategies reduced tax liabilities leading to financial performance of quoted banks in Nigeria. The researchers recommends among others that; Bank should adopt effective tax rate, thin capitalization and capital intensity as tax planning strategies and optimally utilize the best options that improved financial performance. Bank should adopts capital intensity and thin capitalization as tax planning strategies giving that capital allowances and interest paid on debt financing is an allowable expenses which reduces chargeable income.

Keywords: Tax Planning Strategies, Financial Performance, Nigeria

Introduction

Tax managers utilize tax planning as a strategy to reduce the amount of tax burden owed by banks. Tax is a big expense on banks. Tax liability, like operational expenditures, is a manageable cost that can be minimized (Garbaring, 2015). It is common practice for managers to use their duty of care and loyalty to the shareholders to decrease the tax burden on the bank through tax planning. It is carried out with great care, attention, and experience in the idea that this reduction is in the banks' best interests (Mahfoudh & Ismail, 2015). Banks are legally obligated to pay tax that is prescribed within the legal framework of the tax enabling act. Within the tax laws, there are provisions or loopholes that bank management can exploit through proper tax planning in order to pay less tax, thereby freeing up funds for use by shareholders and improving the bank's financial performance (Silvio & Rezende, 2016). Government uses various tax strategies to provide tax relief to taxpayers in order to stimulate investment in certain areas of the economy. Taxpayers who are aware of effective

tax planning can benefit from such tax reliefs by arranging their business activities in such a way that they may take advantage of such reliefs and so pay less tax. Ogundoyo and Onakoya (2016) maintained that tax planning strategies entails a thorough understanding and application of relevant tax shelters and incentives in the tax laws, such as incentives given in recognition of pioneer status, rules applied to the start-up and termination of a business, and allowances given in respect of the acquisition of an asset used for the purpose of a business. Raffia et al. (2017) stated that tax payment is a cash outflow to the banks that pay the tax. Paying less tax reduces cash outflow and allows the bank to save money that may be re-invested in other profitable ventures. Oladipupo et al. (2013) stated that the goal of a bank or corporation is to maximize wealth, and one dependable way to do so is through cost minimization. Management has recently discovered that taxation is a significant element of the cost of doing business and a significant obstacle to wealth maximization. Ftouhi et al. (2016) maintained that tax planning is necessary to reduce the expense of taxation. Tax planning is the planning and operation of company activities within the context of existing legislation in such a way that the business achieves the optimal or best tax position while meeting its objectives. To put it another way, tax planning is a process of reducing income by making the best use of all available exemptions, deductions, refunds, and reliefs. Tax planning is the organization of one's financial and business affairs by properly taking full advantage of all deductions, exemptions, allowances, reliefs, and refunds so that tax burden is kept to a dearest minimum.

Nwaobia et al. (2016) stated that tax payers are hesitant to perform their civil responsibility of paying tax due to the complexity of the tax structure, which results in effective tax rates that are significantly higher than the statutory rate of corporate income tax. Taxpayers are continually seeking for methods to lower their tax bills. Abdul-Wahab (2010) maintained that the desire to lower corporate tax liabilities has prompted banks and firms to employ a variety of tax-cutting tactics. Olarewaju and Olayiwola (2019) suggested that almost all banks or firms, are rational in the sense that they wish to pay less tax and profit from tax savings on their tax obligations. Shareholders' wealth maximization remains the primary goal of a profit-driven corporation, and that this can only be accomplished by reducing costs and taxes on profits. Effective tax rate, thin capitalization, capital intensity, tax shelters, transfer pricing, offshore investment in a tax haven, tax saving, and research and development are among the important tax planning strategies used by companies and banks to legally reduce their tax burden. Towery (2012) stated that the effective tax rate is the average tax rate at which a firm is taxed on pre-tax profits. Seyram and Holyto (2014) maintained that effective tax rate is the best way to assess actual corporation tax loads. The effective tax rate is a regularly used metric for calculating a bank's tax burden. Sabli and Noor (2012) stated that it provides a fundamental summary statistic of tax performance that describes the amount of taxes paid by a company as a percentage of its profit before taxes.

Akabom and Ejaba (2018) narrated that banks is thinly capitalized if its capital structure contains a higher amount of debt than equity. The corporate tax benefit of high leverage is that interest paid on borrowed funds is a tax deductible expense, which means that the bigger a bank's debt, the more interest it pays and the less tax it pays. Capital intensity is the amount of investment made by businesses on their fixed assets. Llaboya et al. (2016) stated that there is a positive association between capital intensity and financial performance. Harvey (2014) narrated that capital intensity is the level of a bank's investment in fixed assets, and thus the level of capital asset-related incentives a company can enjoy, and it has been found to be a good tax planning strategy because capital intensity-based allowances and incentives can be enjoyed by firms or banks. Enekwe et al. (2014) confirmed that financial performance is a

crucial factor that banks must examine if they want to continue to function as a going concern and satisfy their stakeholders. Akhtar et al. (2012) maintained that the term performance refers to a part or all of an organization's conducts of activities over a period of time, generally with reference to previous or predicted cost efficiency, managerial responsibility, or accountability. Lee et al. (2013) narrated that firm performance is a measure of overall entity competitiveness and the degree to which an organization's strategic objectives are met. Ifrah et al. (2015) suggested that financial performance is the process of calculating the monetary value of a company's policies and activities. It is primarily used to assess a company's overall financial health over a period of time, and it can be compared to similar companies in the same industry (Neely, 2012). Financial performance can be measured in a variety of ways, such as return on assets, net profit margin, dividend per share, turnover, and profit after tax. However, return on equity, earnings per share, and net interest margin are all used in this study to assess financial success. Financial performance is important to the success of banks and, by extension, to the smooth functioning of the economy, (Owolabi & Alu 2011). Profitable banks are better positioned to provide excellent financial intermediation of funds effectively and efficiently. Apart from the critical financial intermediation role played by the banking sector, Ali (2015) noted that the banking sector also plays a significant role in taxation, which is used to fund the government's expenditures toward achieving macroeconomic long-term development goals and maintaining law and order. Pratama (2017) maintained that the government has a significant claim on bank's profit, and this claim manifests itself in the form of corporate tax, which is one of the major factors that affects bank's financial performance and has an impact on shareholders' wealth maximization because it reduces distributable earnings.

Mosota (2014) suggested that the fundamental difficulties of bank taxes in Nigeria arise from high corporation tax rates and multiples, taxation which results in high effective tax rates much exceeding the statutory company income tax rate. Many of these taxes are imposed by different levels of government and are coerced from banks and other corporate entities. The outcome of these extractions is a high cost structure for the bank. Desai and Dharmapala (2007) narrated that tax policy has an impact on bank cost structures since it is factored into the pricing of bank services. Banks and other corporate organizations' distributable profit is depleted by tax charges and final distribution. Ishola et al. (2020) maintained that these taxes represent a significant expense to organizations that, if not effectively planned and managed, can have a negative impact on cash flow and the banks' ability to invest or reinvest profits. Umeh et al. (2020) suggested that tax planning is necessary to reduce the impact of taxes on a bank's financial performance. Unfortunately, many banks and businesses are unaware of the measures they might use to legitimately reduce their tax liabilities. Osegbue (2017) confirmed that experience has shown that tax authorities can dig the deepest possible hole into an organization's finances over the course of a year. Temitope et al. (2019) stated that tax planning is one of the most important considerations that any proactive bank management must make.

Zhang et al. (2016) suggested that tax planning strategies will have a positive effect on a company's cash flow and increase its after-tax rate of return. However, there are potential costs associated with tax minimization strategies, such as implementation and transaction costs, potential penalties imposed by the tax authorities, and reputation risks that must be considered. Simeon et al. (2019) confirmed that the Nigerian taxation system is currently facing challenges such as nonpayment of tax refunds, the complexity of tax laws, lack of proper tax review, shortage of skilled manpower, the government's harsh collection methods, lack of accountability, a lack of clarity, multiple taxation, and jurisdictional conflicts between tax authorities and taxpayers. Hart (2018) argued that the national tax system, as a proven fiscal investment in national growth, should be flexible enough to accommodate tax payers.

A successful tax system may encourage economic growth and reduce unemployment through impacting investment and capital formation, in addition to being a key source of revenue for the government. However, the issues confronting Nigeria's tax system appear to have spurred businesses and banks to develop ways to reduce the tax burden (Akinyomi & Okpala, 2013). The results of empirical studies linking business tax strategy and financial performance are mixed. Amir & Sougiannis (1999); Desai & Hines (2002); Wang (2010), for example, found a link between tax planning and manufacturing firm financial performance. However, studies on tax planning strategies and financial performance of manufacturing firms by Chashhiandani & Martani, 2012; Dyreny, Hanlan, and Maydewm (2018) found a mixed result of significant and no significant relationships between tax planning strategies and financial performance of manufacturing firms. According to empirical evidence, research on tax planning and profitability in manufacturing firms in Nigeria have been done. (See Fagbemi Olaniyi and Ogundipe, 2019; Nwaobi et al., 2019; Oeshiel et al., 2020; Umeh et al., 2020; Ishola et al., 2020; Timothy et al., 2020; Ogbeide & Iyafekhe 2018). However, none of these studies looked at banks; instead, they all focused on manufacturing companies. However, the current research focuses on tax planning strategies and the financial performance of quoted banks in Nigeria. The findings of the aforementioned investigations are inconsistent, and frequently contradicting. The previous studies used leverage, firm age, book tax difference, tax savings, tax shelters, research and development, cash effective tax rate, investment tax credit, firm size, tangibility of asset as measures of corporate tax planning, whereas this study used thin capitalization, effective tax rate, and capital intensity. Past research used dividend yield, dividend per share, return on assets, turnover, and net profit margin as proxies for financial performance, whereas this study used earnings per share, return on equity, and net interest margin as measures of financial performance. It is often assumed that tax planning strategies improves an organization's financial performance. Hence the general objective of this study is to investigate the relationship between tax planning strategies and financial performance of quoted banks in Nigeria. The specific objective was to investigate the relationship between the dimensions of tax planning strategies (effective tax rate, thin capitalization and capital intensity) and the measures of financial performance (return on equity, earnings per shares and net interest margin).

Conceptual Framework

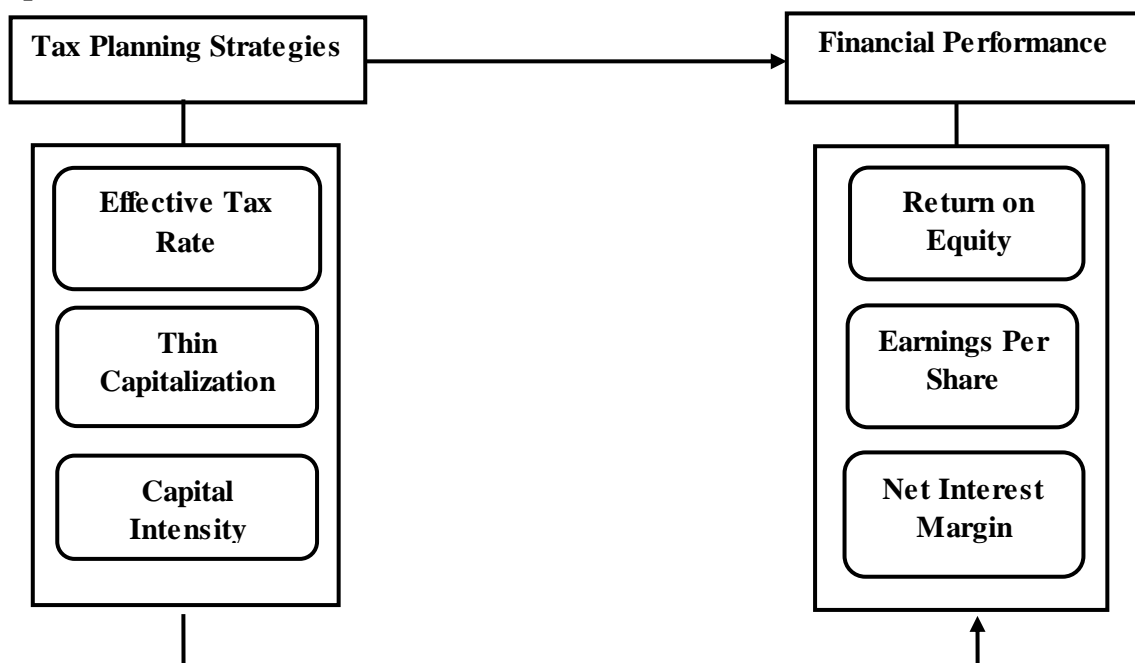


Figure 1.1: Conceptual Framework showing the relationship between Tax planning strategies and Financial Performance

Conceptual framework is the collection of ideas, assumptions, expectations, beliefs, and theories that underpin and guide your research. It is a set of interconnected concepts or a network that collectively provide a thorough understanding of a phenomenon or set of phenomena. Conceptual framework is a diagram that depicts the hypothesized relationship between study variables. The research synthesis of the literature on how to explain a phenomenon is represented by the conceptual framework. It lays down the steps that must be taken during the research. The above conceptual framework depicts the relationship between the independent variable's dimension and the study's dependent variable's measure. As indicated in the conceptual framework, the explanatory variable of this study is tax planning strategies, which is proxied by effective tax rate, thin capitalization, and capital intensity, whereas the explained variable is financial performance, which is measured by return on equity, earnings per share, and net interest margin. In this study, the researcher wants to see the extent the dimensions of the predictor variable help to influence the measure of the criterion variable.

Research Hypothesis

This study was guided by the following null hypotheses

- H₀₁:** There is no significance relationship between effective tax rate and return on equity of quoted banks in Nigeria.
- H₀₂:** There is no significance relationship between effective tax rate and earnings per share of quoted banks in Nigeria.
- H₀₃:** There is no significance relationship between effective tax rate and net interest margin of quoted banks in Nigeria.
- H₀₄:** There is no significance relationship between thin capitalization and return on equity of quoted banks in Nigeria.
- H₀₅:** There is no significance relationship between thin capitalization and earnings per share of quoted banks in Nigeria.
- H₀₆:** There is no significance relationship between thin capitalization and net interest margin of quoted banks in Nigeria.
- H₀₇:** There is no significance relationship between capital intensity and return on equity of quoted banks in Nigeria.
- H₀₈:** There is no significance relationship between capital intensity and earnings per share of quoted banks in Nigeria.
- H₀₉:** There is no significance relationship between capital intensity and net interest margin of quoted banks in Nigeria.

Literature Review

Theoretical Review

Hoffman's Tax Planning Theory

The Hoffman tax planning theory was propounded by William Hoffman in 1961. The Hoffman tax theory state that firm should engage in tax planning activities only when there is a tendency to reduce taxable income to the barest minimum in a way that does not negatively impact accounting income, because the firm is assessed by the appropriate tax authority based on taxable income rather than accounting income. As a result, they should focus their efforts on tax planning actions that reduce taxable income rather than accounting profit. Hoffman (1961) claimed that there is a direct link between tax planning efforts and an entity's financial

performance to the degree that the net tax planning gain resulting as a direct result of tax planning is greater than the expense. Hoffman emphasized four key aspects of tax planning. They are, first and foremost, tax planning is not a sampling procedure in the event of correctly conducted tax planning. Second, if tax planning is done as a systematic practice, there will be significant benefits. Finally, many tax planners do not use tax planning to its full potential, and tax planning might assist many taxpayers, but few are aware of its benefits. This study is underpinned on tax planning theory because the researcher believes that if bank management properly carryout the tax planning it will reduce the tax liabilities and chargeable income of the banks leading to improved financial performance.

Conceptual Review

Tax Planning Strategies

Tax planning strategies refers to the legal activities that businesses engage to manage their revenue and spending with the goal of avoiding, minimizing, or delaying tax within the confines of the tax rules. Pniowsky (2010) stated that tax planning is the practice of organizing one's affairs in order to defer, decrease, or eliminate taxes owed to the government. Tax planning refers to the legal actions taken by taxpayers to reduce their tax liability and generate tax savings. The use of suitable incentive provisions for corporate tax payers based on enabling laws such as the Company Income Tax Act, Personal Income Tax Act, Value Added Tax Act, and other enactments is referred to as tax planning. These laws provided incentives such as the pioneer status incentive, the commencement rule, the cessation rule, the investment allowance, the roll-over loss relief tax exemptions, deductions, rebates, and other tax concessions allowed by tax statutes, on which tax planning by businesses can be built. Tax planning actions can be active or passive depending on the taxpayer's goals in executing a transaction. Yimbila (2017) confirmed that active tax planning strategies is relevant when a transaction is carried out with the goal of lowering the tax burden. A circumstance in which a transaction is carried out without any prior intent or intention to decrease the tax burden is known as passive tax planning.

Dada and Adetola (2017)stated that tax planning, can result in a decrease in firm value when managers have both the opportunity to undervalue reported accounting profit and the incentive to lower business income tax burden by understating taxable revenue. Tax evasion is seen as a civil rather than a criminal offense in Nigeria. A business is considered to be involved in tax avoidance when it plans its activities in such a way that the financial ramifications result in the payment of the least amount of tax possible under the regulations (Kiabel & Nwikpasi, 2001). As a result, tax evasion is legal, but it can only be accomplished with proper tax planning. If management wants to keep the tax cost of running a firm as low as possible, tax planning is a must. Tax planning is crucial because it forces management to make the greatest use of and use the available resources. Tax planning is important for the following reasons: it helps tax payers in legal ways; it allows companies to direct investments to those businesses that provide good tax savings; it allows companies to view valid laws on a regular basis; it aids in meeting the state's goals to promote investment and economic development (Alabi, 2001). Corporations adopts different tax planning strategies, such as effective tax rate, thin capitalization, capital intensity, leverage, tax serving, research and development, firm size, tax shelter, cash effective tax rate, marginal tax rate, current effective tax rate, accounting effective tax rate, book-tax gap, tangibility, lease option. Form, nature, and size of firm, capital mix, choice of accounting period, market structure, investment policy, and dividend policy are all possible topics of concentration in tax planning strategies (Alabi, 2001; Kiabel & Nwikpasi, 2001; Sharayri & Momani, 2009). Business may restructure its operations to deal only with nations with which Nigeria has a double taxation

agreement, allowing it to take advantage of double taxation relief; and a bank may reorganize its lending to earn interest revenue from tax-exempt sources. Interest receivable from foreign loans granted; interest on a foreign currency domiciliary account; interest earned on a deposit in Nigeria by a non-resident company where the deposit account was opened wholly; and interest earned on loans granted for agricultural purposes provided the moratorium period is not less than 18 months and the rate of interest is not more than 18 percent.

Effective Tax Rate

The effective tax rate is the percentage of a company's tax burden that is reduced without a negative impact on its accounting income. It primarily assesses corporations' tax performance by comparing real corporate tax loads to the percentage of a firm's tax expenditure to its profit before tax. Effective tax rate indicated the aggressiveness of a firm's tax planning technique. The average tax rate for a firm or a person is known as the effective tax rate. Individuals' effective tax rates are the average rates at which their earned income is taxed, whereas corporations' effective tax rates are the average rates at which their pre-tax earnings are taxed. The corporate effective tax rate evaluates a company's tax performance. As a result, it is the most accurate way to assess actual corporation tax costs. The effective tax rate is a regularly used metric for determining a company's tax burden. The effective tax rate is a fundamental summary statistic of tax performance that describes how much a firm pays in taxes compared to its profit before taxes. This metric demonstrates active tax planning involving persistent tax discrepancies in the books. The effective tax rate is calculated by dividing the tax paid by the profit before tax. Instead of a percentage of taxable income, the effective tax rate is used in financial reporting to calculate the total tax paid as a percentage of the company's accounting income. The statutory tax rate is the legal percentage set by law, but the effective tax rate is the average rate at which a corporation's pre-tax profits are taxed. The effective tax rate, rather than the marginal tax rate, is a better reflection of a person's or companies overall tax liabilities. As a measure of tax planning, the effective tax rate reduces a company's tax liability without necessarily lowering its accounting income (Derashid & Zhang, 2003). The primary goal of the effective tax rate as a proxy for tax planning is to increase the firm's value, which is directly related to the planning and quality of the firm's managerial organization. Managers are looking for strategies to lower their tax burden in order to produce tax savings or increase shareholder capital.

Thin Capitalization

Thin capitalization happens when the amount of debt in the company's capital exceeds the amount of equity. This raises the question of what constitutes debt and equity. Debt and equity have distinct meanings in the usual course of business than they do for tax reasons. Debt refers to anything, such as a loan or a bond that entitles the holder to a fixed, periodic return, commonly referred to as interest. The holder of a debt does not have a stake in the company. Equity, on the other hand, symbolizes the holder's ownership interest in the underlying entity. The term equity is used here to refer to more than just shares or stocks. During the development and running of a business, both stock and debt are used as sources of funding. During the formation of the firm, a debt that results in interest payment may be incurred as part of the capitalization of the organization in combination with equity. Blouin et al. (2014) stated that debt can be incurred in conjunction with the acquisition of property or products, resulting in interest payments due to late payment of the price. Debt may be incurred in the usual course of business to maintain the working capital required to pay salaries, suppliers, and other expenses. Debt, like equity, is typically one source of funding that assures a company's smooth running. The distinction between the two sources of firm finance is tax treatment. Interest payments are normally regarded as an ordinary deductible

business expense for the purposes of calculating taxable income by the taxpayer. Payments related to equity, on the other hand, are often non-deductible. Thin capitalization arises when debt finance contributes much more to a company's capital structure than equity finance. This raises the question of why a business would choose debt financing and become undercapitalized. For non-tax and tax purposes, a corporation employs debt and becomes thinly capitalized (Sotirios, 2018). Thin capitalisation is a tactic employed by businesses to organize their finances so that their debt-to-equity ratio is high. Companies that utilize a tax planning approach choose to pay a large amount of interest because interest expenses are tax deductible under the legislation. As a result, the tax burden will be reduced. According to the Organization for Economic Cooperation and Development (2012) thin capitalization can be defined as a strategy used by businesses to maintain a high level of debt relative to equity in order to benefit from the tax laws that allow interest on debt to be deducted as an allowable expense. Thin capitalization is a condition in which a corporation is financed with a high proportion of debt to equity. Companies with a little amount of capital are commonly referred to be highly leveraged or highly geared. The capitalization of a firm has a considerable impact on the amount of profit it reports for tax purposes. Farrar and Mawani (2008) stated that a corporation is thinly capitalized if its capital structure contains a higher percentage of debt than equity. The corporate tax benefit of high leverage is that interest paid on borrowed funds is a tax deductible expense, which means that the more debt a company has the more interest it pays and the less tax it pays. Debt availability and utilization is widely acknowledged as a crucial component of a good business climate. Indeed, a shortage of credit can stifle a company's expansion. To put it another way, debt is frequently required for economic progress.

Capital Intensity

The amount of money invested by businesses to improve their output is known as capital intensity, which means that the more money spent to create the same unit, the more capital-intensive the company is (Sadia & Qaisar, 2012). The ratio of noncurrent assets to total assets is commonly used to calculate capital intensity (Lee & Kang, 2011). The amount of fixed or real capital present in relation to other components of production, particularly labor, is referred to as capital intensity. The capital to labor ratio can be used to estimate it at the level of a production process or the entire economy. The level to which a company's financial resources have been spent in property, plants, and equipment is referred to as capital intensity. These non-current assets are more heavily invested in a capital-intensive company (Shahean & Malik, 2012). The ratio of noncurrent assets to total assets is known as capital intensity. Investment Deductions, Industrial Building Deductions, and wear and tear allowances are all available to businesses that invest in noncurrent assets (Githaiga, 2013). The amount of money invested in fixed assets by businesses is known as capital intensity, and there is a link between capital intensity and firm value (Ilaboya, et al., 2012; Shaheen, & Malik, 2012). Capital Intensity is the amount of money a company invests in fixed assets, and hence the amount of capital asset-related incentives it can get. It has been shown to be an excellent tax planning point because companies can get allowances and incentives based on capital intensity. Non-current assets divided by total assets is how capital intensity is calculated. Shahean and Malik (2012) narrated that capital intensity and firm value have a positive relationship. They claimed that capital allowances result in tax savings, which improve a company's after-tax profits.

Financial Performance

Financial performance refers to a company's financial status throughout time, which includes the collection and utilization of cash as assessed by capital adequacy ratio, liquidity, leverage,

solvency, and profitability. The ability of a corporation to manage and control its resources is referred to as financial performance. This word is also used as a broad indicator of a company's overall financial health over time, and it can be used to compare similar companies within the same industry or to compare industries or sectors in aggregate. Firm performance is the result of a company's operational actions during a given time period. Financial performance, in a broader sense, refers to the degree to which financial goals are being met or have been met. It is the process of calculating the monetary value of a company's policies and operations. Financial performance is defined as a company's ability to achieve its financial goals.

Return on Equity

From accounting perspectives, equity is calculated by deducting liabilities from the asset's value. The return on equity (ROE) is a measure of a company's performance in relation to its equity. Return on equity is a metric that measures how effectively a company uses its capital to generate profit. Epps and Cereola (2008) maintained that return on equity is a measure of financial success computed by dividing net income by stockholders equity. Net income is estimated before common shareholders receive dividends and after preferred shareholders receive dividends and lenders receive interest. Madura (2015) confirmed that net income is the amount of revenue generated by a corporation for a certain period after deducting expenses and taxes.

Earnings Per Share

Earnings are the net benefits of a corporation's operations. The amount on which company tax is due is referred to as earnings. The term earning refers to net income after taxes. Hanlon (2005) suggested that earnings are the most important driver of a firm's share price since earnings and the conditions surrounding them can indicate whether the company will be profitable and successful in the long run. Earnings are likely the most crucial and closely scrutinized number on a company's balance sheet. It compares profitability to analyst forecasts, the company's own past performance, and its competitors and industry. Earnings per share are defined as a firm's net profit divided by the number of common shares outstanding. Earnings per share reveals how much money a firm produces for each share of its stock and is a widely used indicator to measure corporate value, (Ali, 2015). The earnings per share measure is a primary component used to compute the price to earnings, or value ratio, and it is one of the most important elements in deciding a share price. Earnings per share are calculated by dividing a company's quarterly or yearly net income by the number of outstanding shares of stock. Earnings per share are a basic metric for a company's profitability that investors use to determine whether the firm is a good investment. High earnings per share means the company is profitable and has more money to deliver to shareholders. Earnings per shares are a widely used metric for measuring financial success.

Net Interest Margin

The difference between the interest income generated by banks and other financial institutions and the amount of interest paid out to their lenders is known as the net interest margin. It's commonly expressed as a percentage of what the financial institution makes on loans and other assets during a given time period, minus interest paid on borrowed funds, divided by the average amount of assets on which it earned income during that time period. Net interest margin is a measurement comparing the net interest income a financial firm generates from credit products like loans and mortgages with the outgoing interest it pays holders of saving account and certificate of deposit. Net interest margin is a profitability indicator that approximates the likelihood of a bank.

Empirical Review

Ogundajo and Onakoya (2016) investigated the impact of tax planning strategies on the financial performance of manufacturing firms mentioned on the Nigerian Stock Exchange. Using annual reports and accounts of 10 selected firms out of 28 listed under the consumer products sector. Based on the results of Hausman's model estimation test, the study used the Generalized Least Square (GLS) regression approach. According to the findings, aggressive tax planning techniques such as thin capitalization, tax law incentives, and other benefits of loopholes in Nigerian tax laws are not being properly utilized by Nigerian businesses. Due to the complexity and dynamism of Nigerian tax laws, the study recommended that manufacturing firms in Nigeria make tax planning a part of their strategic financial planning, employ the services of tax experts, and effectively use all-inclusive tax planning strategies available to further influence financial performance positively.

Research Methodology

The study adopted the use of Expost facto research design. Expost facto or after the fact research is a research design in which the investigation starts after the fact has occurred without inferences from the researcher. Expost facto is a Latin word meaning "from a thing done afterward". Expost facto researcher design examines past occurrence in order to understand current state, the investigator cannot manipulate the study variables. This research is descriptive, explanatory, and causal in nature. It's descriptive because it aimed to illustrate the relationship between tax planning strategies and financial performance of quoted banks in Nigeria. A descriptive study tries to provide a thorough description of a certain event or feature. A researcher uses the explanatory nature to anticipate if there is a positive or negative relationship between cause and effect associations among variables. This research study is causal in nature because it seeks to determine, if a change in the nature of one or more independent variables would result in a predictable change in a dependent variable. The study's population comprises of 14 quoted banks in Nigeria. Based on data availability and accessibility, the study uses judgmental sampling approaches to select twelve quoted banks in Nigeria from 2006 to 2019, secondary data was collected from audited annual financial reports of quoted banks. Effective tax rate, thin capitalization, and capital intensity are predictor variables in this study, while return on equity, earnings per share, and net interest margin are criterion variables. The hypotheses formulated were investigated using ordinary least square statistical methods with the help of e-view 10 econometric statistics software, effective tax rate is measured as total tax expenses divided by pre-tax income at the end of the year. Thin capitalization is measured as total debt divided by total asset at the end of the year. Capital intensity is measured as noncurrent asset divided by total asset. Return on equity is measured as net income divided by shareholders equity. Earnings per share are measured as net income divided by number of share outstanding. Net interest margin is measured as net interest income divided by total asset. Our decision to choose OLS was based on its ability to provide the best linear unbiased efficiency (blue).

Model Specification

The study adopts econometric model in investigating the association between tax planning strategies and financial performance. The functional model was written in explicit form as follows

Functional Relationship

$$FP = f(TPS) \quad \text{Equation 1}$$

$$FP = \alpha_0 - \alpha_1 TPS + \epsilon_{it} \quad \text{Equation 2}$$

ROE = $f(ETR, TC, CI)$	Equation 3
EPS = $f(ETR, TC, CI)$	Equation 4
NIM = $f(ETR, TC, CI)$	Equation 5

Model Specification

$ROE_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 TC_{it} + \beta_3 CI_{it} + \varepsilon_{it}$	Model 1
$EPS_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 TC_{it} + \beta_3 CI_{it} + \varepsilon_{it}$	Model 2
$NIM_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 TC_{it} + \beta_3 CI_{it} + \varepsilon_{it}$	Model 3

Where

TPS	=	Tax planning strategies
FP	=	Financial Performance
ETR	=	Effective Tax Rate
TC	=	Thin Capitalization
CI	=	Capital Intensity
ROE	=	Return on Equity
EPS	=	Earnings Per Share
NIM	=	Net Interest Margin
$it_1 - it_4$	=	Slope
$\beta_1 - \beta_4$	=	Regression Coefficient
α	=	Regression Constant
ε_{it}	=	Error Term

Data Presentation and Analysis

Data were analyzed and interpreted using multivariate analysis through the use of ordinary least square regression with the aid of E-view econometric statistic software.

Table 4.1: Eviews Output of Multiple Regression for Return in Equity Model One

Dependent Variable: ROE

Method: Least Squares

Date: 01/04/21 Time: 23:49

Sample: 200~~0~~²⁰¹⁹-73

Included observations: 168

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.737404	0.276377	2.668108	0.0084
ETR	-0.276279	0.278946	-0.990438	0.3234
TC	-0.209833	0.289157	-0.725672	0.4691
CI	0.100009	0.102449	0.976184	0.3304
R-squared	0.808015	Mean dependent var		0.511954
Adjusted R-squared	0.710131	S.D. dependent var		0.847200
S.E. of regression	0.851480	Akaike info criterion		2.539841
Sum squared resid	118.9031	Schwarz criterion		2.614221
Log likelihood	-209.3467	Hannan-Quinn criter.		2.570028
F-statistic	0.441698	Durbin-Watson stat		2.005939
Prob(F-statistic)	0.723494			

$ROE_{it} = \beta_0 0.737404 + -0.276279 + -0.209833 + 0.100009 + \varepsilon_{it}$	Model 1
$ROE_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 TC_{it} + \beta_3 CI_{it} + \varepsilon_{it}$	Model 1

Table 4.1: Shows regression output of the joint impact of return on equity, on effective rate, thin capitalization and capital intensity of quoted banks in Nigeria. The regressed coefficient correlation result shows that return on equity is associated negatively with effective tax rate and capital intensity and positively with thin capitalization. This implies that return on equity has a negative and statistically insignificant relationship with effective tax rate and thin capitalization at 5% significance level, and negatively and statistically insignificantly with capital intensity. The coefficient of determination obtained is 0.80 (80%), which is commonly referred to as the r-square. The cumulative test of the hypothesis, using r-square to draw statistical inference about the explanatory variables employed in this regression equation, shows that 80% of the systematic variations in the dependent variable can be jointly predicted by all the independent variables. 20% was explained by unknown variables that were not included in the model. The Durbin-Watson statistic has a value of 2.005939, indicating that there is no serial correlation in the model. The probability value of the f-statistic test is 0.723494, which is greater than 0.05. Hence, accept H_0 and reject H_1 . Therefore, we conclude that effective tax rate, thin capitalization and capital intensity jointly has a negative and insignificant impact on return on equity of quoted banks in Nigeria.

Table 4.2: Eviews Output of Multiple Regression for Earnings Per Share Model Two

Dependent Variable: EPS

Method: Least Squares

Date: 01/04/21 Time: 23:51

Sample: 2002_2019

Included observations: 168

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.058681	1.192197	4.243157	0.0000
ETR	-0.340271	1.203279	-0.282786	0.7777
TC	-1.522948	1.247324	-1.220972	0.2238
CI	0.064417	0.441930	0.145763	0.8843
R-squared	0.915086	Mean dependent var	3.618648	
Adjusted R-squared	0.802931	S.D. dependent var	3.667627	
S.E. of regression	3.672997	Akaike info criterion	5.463415	
Sum squared resid	2212.509	Schwarz criterion	5.537795	
Log likelihood	-454.9268	Hannan-Quinn criter.	5.493602	
F-statistic	0.837337	Durbin-Watson stat	2.000728	
Prob(F-statistic)	0.475194			

$$EPS_{it} = \beta_0 5.058681 + -0.340271 + 1.522948 + 0.064417 + \varepsilon_{it} \quad \text{Model 2}$$

$$EPS_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 TC_{it} + \beta_3 CI_{it} + \varepsilon_{it} \quad \text{Model 2}$$

Table 4.2: Shows regression output of the joint impact of earnings per share, on effective tax rate, thin capitalization and capital intensity of quoted banks in Nigeria. The regressed coefficient correlation result shows that earnings per share associated negatively with effective tax rate and thin capitalization and positively with capital intensity). This implies that earnings per share have a negative and statistically insignificant relationship with the effective tax rate and thin capitalization at the 5% significance level, and positively and statistically insignificantly with capital intensity. The coefficient of determination obtained is 0.91 (91%), which is commonly referred to as the r-square. The cumulative test of the hypothesis, using r-square to draw statistical inference about the explanatory variables

employed in this regression equation, shows that 91% of the systematic variations in the dependent variable can be jointly predicted by all the independent variables. 9% was explained by unknown variables that were not included in the model. The Durbin-Watson statistic has a value of 2.000728, indicating that there is no serial correlation in the model. The probability value of the f-statistic test is 0.475194, which is greater than 0.05. Hence, accept H_0 and reject H_1 . Thus, we conclude that effective tax rate, thin capitalization, and capital intensity jointly have a negative and insignificant impact on earnings per share of quoted banks in Nigeria.

Table 4.3: Eviews Output of Multiple Regression for Net Interest Margin Model Three

Dependent Variable: NIM

Method: Least Squares

Date: 01/04/21 Time: 23:52

Sample: 2002-2019

Included observations: 168

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.032809	0.010584	-3.099861	0.0023
ETR	0.004746	0.010682	0.444295	0.6574
TC	0.038878	0.011073	3.510933	0.0006
CI	1.342890	0.003923	342.2837	0.0000
R-squared	0.999960	Mean dependent var	0.446102	
Adjusted R-squared	0.999959	S.D. dependent var	5.097569	
S.E. of regression	0.032608	Akaike info criterion	-3.985011	
Sum squared resid	0.174376	Schwarz criterion	-3.910631	
Log likelihood	338.7410	Hannan-Quinn criter.	-3.954824	
F-statistic	1360386.	Durbin-Watson stat	1.904696	
Prob(F-statistic)	0.000000			

$$NIM_{it} = \beta_0 - 0.032809 + 0.004746 + 0.038878 + 1.342890 + \varepsilon_{it} \quad \text{Model 3}$$

$$NIM_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 TC_{it} + \beta_3 CI_{it} + \varepsilon_{it} \quad \text{Model 3}$$

Table 4.3 shows regression output of the joint impact of net interest margin on effective tax rate, thin capitalization and capital intensity of quoted banks in Nigeria. The regressed coefficient correlation result shows that the net interest margin is positively related to the effective tax rate, thin capitalization, and capital intensity. This implies that the net interest margin has a positive and statistically significant relationship with thin capitalization and capital intensity at the 5% significance level, but is associated negatively and statically insignificantly with the effective tax rate. The coefficient of determination obtained is 0.99 (99%), which is commonly referred to as the r-square. The cumulative test of the hypothesis, using r-square to draw statistical inference about the explanatory variables employed in this regression equation, shows that 99% of the systematic variations in the dependent variable can be jointly predicted by all the independent variables. 1% was explained by unknown variables that were not included in the model. The Durbin-Watson statistic has a value of 1.904696, indicate that there is no serial correlation in the model. The probability value of the f-statistic test is 0.000000, which is less than 0.05. Hence, reject H_0 and accept H_1 As a result, we conclude that effective tax rate, thin capitalization, and capital intensity has a positive and significant impact on net interest margin of quoted banks in Nigeria.

The Breusch-Pagen Test for Heteroskeasticity Test

Pagans and proposed branch (1980) it is a log range multiplier test for heteroscedasticity that is designed to detect any linear form of heteroscedasticity. It compares the null hypothesis that the error variance is all equal to the alternative hypothesis that the error variance is a multiplicative function of one or more variables. It is used to test for heteroskedasticity in a linear regression model. It tests whether the variance of the errors from a regression is dependent on the values of the independent variables.

Heteroskedasticity Test

H₀: There is no heteroskedasticity problem in the model

H_A: There is heteroskedasticity problem in the model

Decision Rule:

If the significant/probability value is less than 0.05 (level of significance) reject the null hypothesis otherwise accept H_A

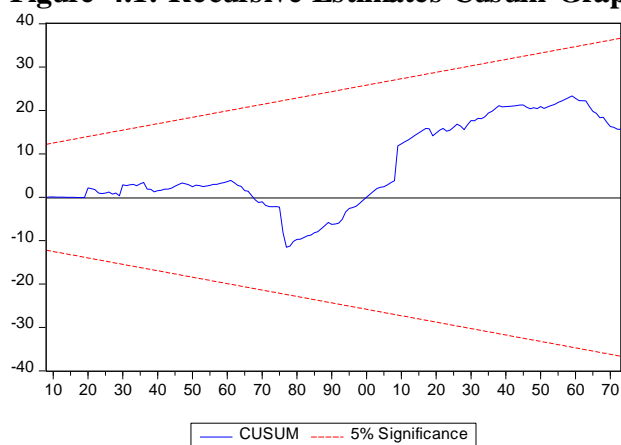
Table 4.4: E-views output for Beusch-pagen Godfrey of Heteroskedasticity

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.065801	Prob. F(1,166)	0.7979
Obs*R-squared	0.066568	Prob. Chi-Square(1)	0.7964
Scaled explained SS	2.822117	Prob. Chi-Square(1)	0.0930

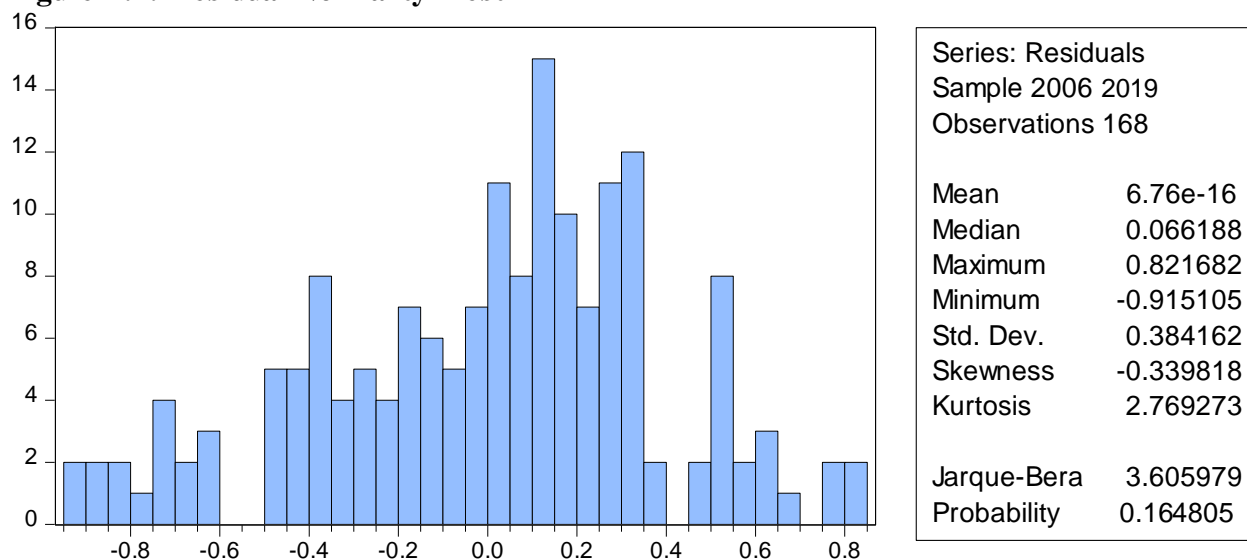
Table 4.4 shows that the Breusch and Pancan Godfrey Test yielded a probability value of 0.7979, which is greater than 0.05, indicating that the null hypothesis was accepted. As a result, we conclude that the model lacks heteroskedicity and is instead homoskedastic. We therefore conclude that this is the best model to explain the relationship between the variables.

Figure 4.1: Recursive Estimates Cusum Graph Test for Hypothesis One



Cusum Test: The Cusum test statistics (Brown, Durbin & Evans 1975) are based on cumulative sums of scaled recursive reductions and plot the cumulative sum together with 5% critical lines against time. If the cumulative sum goes outside of the 5% critical line, then the test shows parameter instability. The model represented by the blue line in the middle is within the upper and lower bounds, which indicates stability of the model. Hence, we conclude that the model is stable, and it correct specification is confirmed.

Figure 4.1: Residual Normality Test



Normality is the assumption that the regression's underlying residual is normally distributed; if the residual is normally distributed, your assumption is valid, and model production is also valid. The result of the residual normality test for figure 4.1 indicates that the Jarque-Bera 3.605979 has a probability value of 0.164805, which is greater than the 0.05 significance level. Therefore, we conclude that the residual follows normal distribution patterns.

Conclusion

An excessive taxation burden has always made taxpayers devise tax planning strategies legally to reduce tax liabilities or evade taxation. Thus, the study intends to look into the relationship between tax planning strategies and financial performance of quoted banks in Nigeria. The study concludes that tax planning strategies reduced tax liability and chargeable income leading to improve financial performance of quoted banks in Nigeria. Tax planning strategies are good predictors of financial performance of quoted banks in Nigeria. Effective tax rate had negative impact on the return on equity of quoted banks in Nigeria. Effective tax rate had negative impact on the earnings per share of quoted banks in Nigeria. Effective tax rate had positive impact on the net interest margins of quoted banks in Nigeria. Thin capitalization had a negative and insignificant effect on the return on equity of quoted banks in Nigeria. Thin capitalization had a negative and insignificant relationship with the earnings per share of quoted banks in Nigeria. Thin capitalization had a positive and significant impact on net interest margin of quoted banks in Nigeria. Capital intensity had a negative and insignificant impact on the return on the equity of quoted banks in Nigeria. Capital intensity had a negative and insignificant impact on the earnings per share of quoted banks in Nigeria. Capital intensity had a positive and significant impact on the net interest margin of quoted banks in Nigeria. Return on equity has a negative and insignificant impact on the effective tax

rate, thin capitalization, and capital intensity of Nigeria's publicly traded quoted banks. Earnings per share have a negative and insignificant impact on the effective tax rate, thin capitalization, and capital intensity of Nigeria's publicly traded quoted banks. But net interest margin has positive and significant impact jointly on effective tax rate, thin capitalization and capital intensity of quoted banks in Nigeria.

Recommendations

The study recommends that bank management use thin capitalization, effective tax rate, and capital intensity as tax planning strategies to reduce tax liabilities and optimally utilized the best option that improve financial performance. Thin capitalization as a source of finance should be expanded to maximize tax deductions and benefits as a tax planning tool to improve financial performance giving that interest paid on debt financing is tax deductible or allowable expenses. Banks should provide routine training seminars for their employees on new and modern tax planning strategies to ensure a reduction in tax liability. Before embarking on the adoption of tax planning strategies to enhance profitability, banks should conduct a proper cost benefit analysis. Banks should deal with tax-favored or tax-exempt investment as a means of tax planning, which can be done with the pre-engagement of applicable tax status and authorities, including reliance on decided court cases. Banks management should engage tax experts to manage the acquisition and disposal of non-current assets in order to maximize its benefit as a tax planning tool in order to increase its contributions to the financial performance of banks. Tax planning should be adopted as part of the overall financial planning of the banks, because tax planning activities require the deployment of resources and the experience of knowledgeable practitioners to produce effective results. Bank management should adopt the use of tax professionals and consultants for effective tax planning that will meet corporate tax needs.

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