Tax Aggressiveness and Sustainability of Quoted Firms in Nigeria

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Abstract

This study empirically investigated the relationship which exists between tax aggressiveness and sustainability of quoted Firms in Nigeria. In order to determine the relationship between tax aggressiveness and corporate sustainability, tax aggressiveness was measured using effective tax rate while sustainability on the other hand was proxy using social-environmental performance. The formulated hypothesis to guide the investigation and the statistical test of parameter estimates was conducted using OLS regression model operated with STATA V.15. Ex Post Facto design was adopted and data for the study were obtained from the published annual financial reports of the entire ICT firms, health care firms and oil & gas firms quoted on Nigerian Exchange Group (NGX) spanning from 2013-2020. The findings of the study generally indicate that tax aggressiveness has significant and positive relationship with sustainability of quoted firms in Nigeria at 1% significant level. Thus, the study concludes that tax aggressiveness ensures sustainability of the quoted firms. The study however suggests the need for firms to have a positive disposition towards social-environmental friendly practices and also disclose more of this information in their annual reports on her commitment of business to contribute to sustainable economic development as the level of this information disclosure ensures firms' sustainability over the years.

Keywords: *Tax Aggressiveness, Sustainability, Social-Environmental Performance*

1.0 Introduction

Firms all over the world are increasingly being challenged to expand on and enlarge their financial reportage to include both those targeted at profiteering as well as social efforts being made to improve the environment. To this extent, sustainability accounting as a business philosophy is fast gaining momentum in this millennium especially in the face of the adoption of International Financial Reporting Standards (IFRS) which emphasizes a lot on disclosure. Sustainability accounting can be defined as the integration of reporting and accounting for social, environmental and economic issues in corporate reporting or simply the 'Tipple bottom line reporting (Elkington, 2004).

The concept of sustainability reporting views as important both the traditional concern of business organizations strategies for profit maximization, diversification, product differentiation as well as globally assessing a firms performance on its environment. However, the evolution of strategic thinking underscores the need to include activities that seek to integrate social and environmental issues into business decision making process, more so as firms that properly integrates their environment and people are viewed as socially responsible (Nnamani, Onyekwelu & Ugwu, 2017).

Businesses development has social and environmental impacts that result in social problems, global warming, actual disaster and pollution. Therefore, many business organizations take much responsibility for social and environment issues as they do for economic issues. One reason for this is that business entities are reflecting growing social expectations and stakeholders concern.

Tax aggressiveness is an effort to apply lawful hitches to circumvent recompensing or minimize the payment of tax (Uniamikogbo, Bennee & Adeusi, 2019). However, when this is achieved through some illegal means, acts protect investors and other stakeholders interest and enhance the credibility of financial reporting or procedures, it is seen as a deceit or fraud and so criminal. According to Kiabel and Nwikpasi (2001), tax aggressiveness is the planning and operation of business activities within the context of existing legislation in such a way that the business realizes the optimal or best tax position while achieving its set goal. In other words, tax aggressiveness include not only the strategies aimed at minimizing tax liability of a business, it also looks at the cash flow consequence on the business regarding when it is most beneficial for a corporate entity to settle its tax liability and not incur any punishment. It is an act of transferring value from the state to the firm to promote corporate governance in business and increase shareholders' wealth. Thus, tax aggressiveness plays a very significant role in corporate organizations.

From the a priori expectations, most studies on tax aggressiveness were limited to corporate performance. However, there is a dearth of research addressing the impact of corporate tax aggressiveness on organizational sustainability. Hence, the need for further study.

Also, none of the empirical literature in the developed and developing nations' related to tax aggressiveness to corporate sustainability based on available literature. Thus, the present study examined the relationship which exists between tax aggressiveness sustainability of firms quoted under health care sector, information communication technology (ICT) sector and oil & gas sector of Nigerian Exchange Group (NGX).

To achieve this purpose, the following hypotheses were formulated:

H_{01}: Tax aggressiveness has no significant relationship with sustainability of quoted firms in Nigeria

2.0 Review of Related Literature

2.1 Conceptual Frame work

2.1.1 Tax Aggressiveness

Tax Aggressiveness also known as tax sheltering or tax planning has been variously defined by scholars. Hoffman (1961) viewed it as the taxpayer's ability to organise his financial businesses in such a way as to suffer a minimum tax liability. Tax sheltering is generally defined as the procedure of arranging one's affairs in order to defer, decrease or even eliminates the amount of taxes to be paid to the government (Pniowsky, 2010). Tax aggressive practices are usually implemented to minimise the tax burden to achieve greater after-tax earnings per share and cash available for shareholders (Lanis & Richardson, 2012). Thus, it could also reflect a decline in taxable income when managed through tax planning practices that are legal as well as activities that may be viewed as illegal in some circumstances to reduce tax liability. Lanis, Richardson and Taylor (2015) provide that tax aggressiveness can be substituted with tax avoidance, tax planning and tax sheltering. Since tax aggressiveness is a form of corporate decision and action that could reflect both executives and non-executives aversion to risk, it presents a suitable setting to assess gender differences in risk taking for board members.

The recent study of Uniamikogbo, bennee, and Adeusi (2019), Nwaobia, Kwarbai, and Ogundajo (2016) proxy tax aggressiveness using effective tax rate (ETR). For the purpose of this study, tax aggressiveness was proxy using effective tax rate (ETR) which is in consonance with the apriori expectations. This is shown below thus:

$$ETR = \frac{\text{Current Reporting Tax}}{\text{Pre Tax Profit}} \times 100$$

2.1.2 Organizational Sustainability

Sustainability report is a report that contains financial performance information and non-financial information that consists social and environment activities enabling companies to grow sustainably i.e sustainable performance (Clarissa & Rasmini, 2018). If a company wants to maintain its survival, company should pay attention to "3P". That is, besides pursuing profit (profit), the company should also pay attention to and engage in the fulfillment of people's welfare (people) and contribute actively in preserve the environment (planet) (Omaliko & Okpala).

According to Omaliko and Onyeogubalu (2021), for organizations to be sustainable, the following shall be conceded:

- Be accountable for its impacts on the environment, society, and the economy
- Be transparent in its decisions and activities that impact its responsibilities

- Behave ethically
- Respect, consider, and respond to the interests of its stakeholders
- Accept that respect for the rule of law is mandatory

As cited in Omaliko, Nwadialor and Nweze (2020), Nigerian Code of Corporate Governance (2018) reported that paying adequate attention to sustainability issues including environment, social, occupational and community health and safety ensures successful long term business performance and projects the Company as a responsible corporate citizen contributing to economic development.

The following policies are recommended by NCCG 2018 as regard to organizational sustainability;

- Report on the Company's business principles, practices and efforts towards achieving sustainability;

- Report on the most environmentally beneficial options particularly for companies operating in disadvantaged regions or in regions with delicate ecology, in order to minimize environmental impact of the Company's operations;

- the nature and extent of employment equity and diversity (gender and other issues);

- opportunities created for physically challenged persons or disadvantaged individuals;

- the environmental, social and governance principles and practices of the Company; etc

The position of Global Reporting Initiative (G4-LA1, LA9, G4-HR4, HR8 and G4-SO1) on social sustainability disclosure is as follows

- Report on the total number and rate of new employee hires during the reporting period, by age group, gender and region.

- Report on education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious disease

- Operations and suppliers in which employee rights to exercise freedom of association or collective bargaining may be violated or at significant risk

- The total number of identified incidents of violations involving the rights of indigenous peoples during the reporting period.

- Percentage of operations with implemented local community engagement, impact assessments, and development programs.

2.2 Theoretical Framework

The theoretical framework which gives the meaning of a word in terms of the theory on tax aggressiveness and sustainability established in this study is Stakeholders Theory (ST) and Agency Theory (AT). It assumes that both the knowledge and acceptance of these theories that this research work depends upon.

2.2.1 The Stakeholders' Theory

This theory was propounded by Freeman in the year 1983. The stakeholders' theory proposed an increased level of environmental awareness which creates the need for companies to manage these interests (groups' interest) in order for them to become environmentally friendly towards the environment in which the business is domiciled. The main concern of the stakeholders' theory in environmental accounting is to address the environmental disclosure elements and valuation and its inclusion in the financial statements for external users consumption. The theory illustrates that the firm has one and only one goal – to satisfy the desires of shareholders by making profits. However, profit may not be attainable if the environment in which the business operates is neglected. As pointed out in the study of Omaliko, Nweze and Nwadialor (2020), stakeholders' theory proposed an increased level of environmental awareness which creates the need for companies to manage these interests (groups' interest) in order for them to become environmentally friendly towards the environment in which the business is domiciled. The main concern of the stakeholders' theory in environmental accounting is to address the environmental disclosure elements and valuation and its inclusion in the financial statements for external users consumption.

Thus, the study is anchored on stakeholders' theory, as its concern is to encourage business managers to carry out environmental practices which the non- financial stakeholders consider very important so as to maximize stakeholders' value as well as minimize environmental costs.

2.2.2 Agency Theory

Agency theory was propounded by Jensen and Meckling in the year 1976. Agency theory has been widely used by empirical researchers to explain the relationship between environmental practices and firm performance. According to Jensen and Murphy (1990), principal-agent theory can be used to justify the positive correlation between environmental practices and firm's tax aggressiveness.

The linkage between sustainability practices and tax sheltering should provide an attractive incentive for firm to succeed since tax sheltering gives taxpayer the ability to organize his financial businesses in such a way as to suffer a minimum tax liability.

According to Desai and Dharmapala (2009), tax sheltering is a form of tax avoidance which integrates more aspects of the agency conflicts between managers and investors. From the agency viewpoint of tax, management skirting is the major problem that must be resolved by investors. Managerial opportunism or resource diversion is another form of agency problem considered under avoidance. According to Jensen and Meckling (1976), managers who are agents of the principals (shareholders), are employed to work for maximizing the returns to the shareholders. Managers of organizations are agents to the shareholders. Therefore, in order to

maximize shareholders' wealth they would need to reduce their operating costs. One of such ways to reduce operating costs is to engage in tax sheltering (aggressiveness) to reduce their tax liability. However, in order to reduce the tax burden of firms, tax sheltering must be done within the legal framework. The primary reason managers of organisations involve in tax sheltering is because of the benefits they derived from an increase in after-tax returns.

Similarly, agency theory and definitions of tax sheltering have revealed significantly that, after tax returns could be uninterestedly influenced by tax minimization, while minimization of tax could be seen as tax aggressive. Hence, the study is anchored on this theory.

2.3 Empirical Review

Onyekwelu and Ekwe (2014) examined whether corporate social responsibility predicates good financial performance using the banking sector in Nigeria? The study adopted the ex-post facto as it made use of historical research design and secondary data used. Analysis was done using the Ordinary Least Square Regression. The findings shows that the amount committed to social responsibility vary from one bank to the other. The data further revealed that the sample banks invested less than ten percent of their annual profit to social responsibility. The researchers recommended that companies .n Nigeria particularly profitable one should give greater priority to Corporate Social Responsibility because this has the tendency to assist them to survive and maintain their profitability and also diffuse the tensions and hostilities usually experienced by companies in their localities.

Yahya and Ghodratollah (2014) investigated the impact of corporate social responsibility disclosure (CSRD) on the financial performance of companies listed on the Tehran stock exchange, employing multiple-linear regression analysis. The CSRD was the independent variable as measured by economic, social and environmental while Return on Assets, Return on Equity and Price Earnings Ratio were used in measuring financial performance. The analysis however produces inconsistent results.

Olanyinka and Oluwamayowa (2014) carried out a research on Corporate Environmental Disclosure and market value of Quoted Companies in Nigeria. The broad objective of this study was focused at ascertaining the aggregate and individual impact of Corporate Environmental Disclosure were regressed on market value. Descriptive research design was adopted and secondary data only was used. A sample size of fifty firms quoted in Nigeria Stock Exchange (NSE) were purposively selected for analysis based on the availability of environmental disclosures in their annual reports. The hypothesis were tested using correlation coefficient. The findings review that the inclusion of environmental disclosure will enhance market value. The study recommends that business should take caution in areas where environmental activities impacts negatively on the value of the firm and also invest in areas that enhance value for the firm.

Nnamani, Onyekwelu and Ugwu (2017) evaluated the effect of sustainability accounting on the financial performance of listed manufacturing firms in Nigeria. Firms used for the study were chosen from the Nigerian brewery sector. Data were sourced from the financial statements of three sampled firms. Data were analysed using the ordinary linear regression. The study reveals that sustainability reporting has positive and significant effect on financial performance of firms

studied. Following the findings, the study recommends that firms in Nigeria should invest reasonable amount of their earnings on sustainability activities while specific accounting templates be articulated by professional accounting regulating bodies to guide firms' reportage on sustainability activities. The Financial Reporting Council of Nigeria (FRC) and others alike should make sustainability reporting compulsory while adequate sanctions are spelt out and enforced on defaulting organizations to serve as a deterrent.

Richardson, Wang and Zhang (2016) examine the influence exerted by ownership structure on corporate tax avoidance in selected listed Chinese private firms. Analyses using regression model reveal a significant non-linear relationship between ownership concentration and tax avoidance. At the base, increased ownership concentration was seen to exert a positive effect on tax planning as a result of entrenchment. Though voting right induced concentrated ownership beyond the minimum level needed for effective control exert negative influence on tax planning due to the alignment effect. Another notable finding was the significantly positive association observed between pyramidal ownership structure and tax planning as a result of the entrenchment effect.

Nwaobia, Kwarbai, and Ogundajo (2016) examine the consequences of tax planning on the value of firms in Nigeria, using 50 firm-year observations for the period 2010-2014. They sourced data from the financials of the sampled companies and analyses involved both descriptive and inferential statistics within a specified panel regression framework. A significant joint effect on the firm value was observed for all tax planning variables considered. A positive and significant effect was observed for Effective tax rate (ETR), Firm age (FAG) and Dividend (DIV) while capital intensity and leverage were seen to have significant negative effect of firm value. They recommend an all-inclusive approach to tax planning to improve on firm value.

Lanis, McClure and Zirnsak (2017) analyse the tax aggressiveness of major alcohol and bottling companies operating in Australia. Included in the analysis are both Australian and foreign owned businesses. In total 13 companies were analysed and sample was broken up between profit or loss firms in consistency with the academic literature. Five companies were classified as loss, seven as profit and one as neither. Effective tax rates and book tax gaps were analysed with respect to the sample. Using the Australian Taxation Office (ATO) tax data, six corporations paid tax at, or near, the statutory rate of 30 per cent in the financial years 2013-2014 and 2014-2015, two paid at a rate lower than 20 per cent (Asahi Holdings and Lion), and the other five paid nothing. Taken together, the large alcohol companies in Australia are paying much less tax than would be expected if the 30 per cent corporate income tax rate applied. The analysis found that the wine industry made only small tax contributions to the Australian community over the two years.

3.0 Methodology

The present study adopted ex-post facto design. The use of ex-post facto design was based on the fact that our data is secondary in nature which has existed and cannot be manipulated. The population of the study consists of the entire 31 firms quoted under health care sector, information communication technology (ICT) sector, and oil and gas sector spanning from 2013-2020 according to their financial statements. Out of 31 firms that formed the population of the study, 14 firms were tax aggressive firms, 12 were tax conservative firms while the remaining 5

firms have empty financial information within the period under review (*MTN Nigeria Comm Plc, Airtel Africa Plc, Omatek Ventures Plc, Evans Medical Plc and Nigerian German Chemical Plc)* which were removed. Based on this, a total of 14 tax aggressive firms formed our sample size with 112 observations. These firms include (Fidson Plc, Morrison Plc, Pharma Deko Plc, Union Diagnostic Plc, Ekocorp Plc, Neimeth Plc, Triple Gee & Company Plc, Chams Plc, NCr Nig Plc, Etransact Intl Plc, Ardova Plc, Japaul Oil Plc, Capital Oil Plc, and 11 Plc).

3.1 Operationalization and Measurement of Variables

3.1.1 Dependent Variable

Organizational sustainability (OS) was measured using Kinder Lydenberg Domini (KLD) social-environmental performance (SEP) rating system and the content analysis method of data collection as used by Uwuigbe (2011), Omaliko and Okpala (2020), Omaliko, Nwadialor and Nweze (2020). For this purpose, a score of (1) was awarded if an item was reported; otherwise a score of (0) was awarded. Consequently, a firm could score a maximum of 20 points and a minimum of 0. The formula for calculating the reporting scores by using these 20 attributes is expressed in a functional form below:

$$\mathbf{RS} = \sum_{i=1}^{20} \mathbf{di}$$

Where:
RS = Reporting Score
di = 1 if the item is reported and 0 if the item is not reported
i = 1, 2, 3.... 20.

3.1.1 Independent Variable

The independent variable in this study is tax aggressiveness and it was proxy and measured using effective tax rate. This is in harmony with the works of Uniamikogbo, bennee, and Adeusi (2019), Nwaobia, Kwarbai and Ogundajo (2016).

3.2 Model Specification and Justification

The study adapted and modified the model of Ordu and Amah (2021) in examining the relationship which exists between tax aggressiveness and corporate sustainability in Nigeria as shown below;

Ordu and Amah (2021): $\mathbf{ROE = \beta_0 + \beta_1 ENVSPEND + \varepsilon}$

The modified model for the study is shown as thus

$$\mathbf{SEP = \beta_0 + \beta_1 ETR + \varepsilon}$$

Where:

ETR = Effective Tax Rate
SEP = Social and Environmental Performance
ε = error term

Decision Rule: accept Ho if P-value > 5% significant level otherwise reject Ho

4.0: Data Analysis and Results

Table 1: Descriptive Statistics

STATS	ETR	SEP
Mean	1.884286	1.688393
Std. Dev.	.4397905	1.010106
Maximum	3.1	4.3
Minimum	0.9	0
Observations	112	112

Source: Researcher's Computation (2022).

Table 1 shows that on the average, in a 8-year period (2013-2020), the listed health care, oil and gas and ICT firms in Nigeria were characterized by positive social and environmental performance (SEP) value of 1.688393. This is an indication that the selected firms in Nigeria have positive sustainability value with a standard deviation value of 1.010106. The average effective tax rate (ETR) value for the sampled firms was 1.884286 with a standard deviation value of .4397905. This means that firms with ETR values of 1.884286 and above are tax aggressive. There is also a high variation in maximum and minimum values of ETR which stood at 3.1 and 0.9 respectively. This wide variation in ETR values among the sampled firms justifies the need for this study as the researcher assumes that firms with higher ETR values are tax aggrieved than those firms with low ETR values.

4.1 Test of Hypotheses

Table 2: Result on the relationship between Tax Aggressiveness and Sustainability of Quoted Firms in Nigeria.

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      Source |     SS       df       MS              Number of obs = 112
-------------+------------------------------         F (1, 110)    =    2.63
       Model | 2.64916521    1    2.64916521         Prob > F      = 0.0100
    Residual | 110.605744   110   1.00550676         R-squared     = 0.2346
-------------+------------------------------         Adj R-squared = 0.2157
       Total | 113.254909   111   1.02031450         Root MSE      = 1.0027
------------------------------------------------------------------------------
         SEP|  Coef.       Std. Err.      t      P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         ETR| .3512749   .2164139      1.62    0.010     .0776066    .7801565
       _cons | 1.026490   .4186488      2.45    0.016     .1968268    1.856154
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Source: Result output from STATA 15.

4.2: Discussion of Findings

The result of the analysis of the study using OLS Model is expressed as follows:

H_{01}: Tax aggressiveness has no significant relationship with sustainability of quoted firms in Nigeria

This hypothesis was tested and the result of the regression model as exposited on table 2 indicates that the relationship between tax aggressiveness and sustainability is positive and significant with a P-value (significance) of 0.010 for the model which is less than the 1% level of significance adopted. Likewise the result of the positive coefficient shows that an increase in firms'tax aggressiveness while other variables are held constant increases firms sustainability 35.1%. We consequently rejected null hypothesis and accepted alternate hypothesis which contends that tax aggressiveness has significant relationship with sustainability of quoted firms in Nigeria. This aligns with the findings of the study of Omaliko, Uzodimma and Ogbuagu (2018), Obara and Nangih (2017), Nwaiwu and Oluka (2018), Omaliko, Nweze and Nwadialor (2020) who found significant and positive association between environmental sustainability and corporate performance.

5.1 Conclusion and Recommendation

Based on the findings of the study, it was concluded that corporate tax aggressiveness has significant and positive effect on sustainability of listed firms in Nigeria. The implication of this is that tax aggressive firms are more sustainable. Based on this, the study suggest that firms should have a positive disposition towards social and environmental friendly practices and also disclose more of this information in their annual reports on her commitment of business to contribute to sustainable economic development as the level of this information disclosure ensures firms' sustainability over the years.

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Appendix 1

The List of Companies Quoted under 3 Sectors of NSE

S/N	SECTORS	QUOTED FIRMS IN NIGERIA	TOTAL COYS USED	% SAMPLE OF POPULATION (31)	TOTAL COYS EXCLUDED	% SAMPLE OF POPULATION EXCLUDED (5)	EFFECTIVE TAX RATE	REMARK
	HEALTH CARE							
1		Fidson Plc	1				**29**	**ETR ≤ 30%**
2		Morrison Plc	1				**25**	**ETR ≤ 30%**
3		Neimeth Plc	1				**14**	**ETR ≤ 30%**
4		Pharma Deko Plc	1				**15**	**ETR ≤ 30%**
5		Union Diagnostic Plc	1				**22**	**ETR ≤ 30%**
6		Ekocorp Plc	1				**19**	**ETR < 30%**
7		Glaxosmithline Plc			1		**177**	**ETR > 30%**
8		May & Baker Plc			1		**142**	**ETR > 30%**
9		Evans Plc			1			**NO INFO**
10		Nig German Chem Plc			1			**NO INFO**
		TOTAL NO OF COYS UNDER HEALTH CARE	**6**	**19.4%**	**4**	**12.9%**		
	ICT SECTOR							
1		Triple Gee & Company Plc	1				**29**	**ETR ≤ 30%**
2		Chams Plc	1				**11**	**ETR ≤ 30%**
3		NCr Nig Plc	1				**30**	**ETR ≤ 30%**
4		Etransact Intl Plc	1				**30**	**ETR ≤ 30%**
5		Courteville Plc			1		**47**	**ETR > 30%**
6		CWG Plc			1		**32**	**ETR > 30%**
7		MTN Nigeria Comm Plc			1			**NO INFO**
8		Airtel Africa Plc			1			**NO INFO**
9		Omatek Ventures Plc			1			**NO INFO**
		TOTAL NO OF COYS UNDER ICT SECTOR	**4**	**12.9%**	**5**	**16.1%**		
	OIL AND GAS							
1		Ardova Plc	1				**26**	**ETR ≤ 30%**
2		Capital Oil Plc	1				**5**	**ETR ≤ 30%**
3		11 Plc	1				**30**	**ETR ≤ 30%**
4		Japaul Oil Plc	1				**8**	**ETR ≤ 30%**
5		Conoil Plc			1		**34**	**ETR > 30%**
6		Oando Plc			1		**64**	**ETR > 30%**
7		Seplat Oil Plc			1		**88**	**ETR > 30%**
8		Mrs Oil			1		**66**	**ETR > 30%**
9		Total Nig Plc			1		**33**	**ETR > 30%**
10		Amino International Plc			1		**52**	**ETR > 30%**
11		Rak Unity Pet Plc			1		**38**	**ETR > 30%**
12		Eternal Plc			1		**43**	**ETR > 30%**
31		**TOTAL NO OF COYS UNDER OIL & GAS SECTOR**	**4**	**12.9%**	**8**	**25.8%**		
		GRAND TOTAL	**14**	**45.2%**	**17**	**54.8%**		

Source: Compiled from NSE Factbook & Author's Conception (2022).

Note: *Firms with **ETR > 30%** are considered as Tax Conservative Firms while firms with **ETR ≤ 30%** are considered as Tax Aggressive Firms which the present study concentrated on. Hence Tax Conservative Firms were excluded from the study.*