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EFFECT OF TAX PLANNING ON FIRM VALUE OF INDUSTRIAL GOODS FIRMS IN NIGERIA

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Abstract
This study ascertained the effect of tax planning on the firm value of industrial goods firms in Nigeria using tax shelter intensity and firm leverage to measure the independent variable, tax planning. Ex post facto was adopted for the study. Data were extracted from audited annual reports and accounts of the sampled industrial goods firms on the Nigerian Exchange Group spanning from 2015 to 2024. Regression analysis was employed to test the hypotheses. The result revealed that tax shelter intensive and form leverage have significant effect on firm value of industrial goods firms in Nigeria. The study therefore concludes that corporate tax planning has significant effect on firm value in Nigeria. Based on the findings, the study recommended among others that the managers need not treat tax shields as automatically beneficial; instead, they should evaluate the trade-off between tax savings and the underlying costs of debt and asset structure.

Keywords: Tax planning, Tax shelter intensity, Firm leverage and Firm value.

Introduction

Tax planning practices in other African countries like Kenya also highlight the potential for managers to leverage legal provisions or loopholes to reduce tax burdens, thus enhancing shareholder returns and firm performance (Kariuki, 2017). The relationship between corporate tax-saving strategies and financial performance in Nigeria presents a nuanced landscape with both positive and negative implications as evidenced in the existing literature (Akintoye et al., 2020). However, challenges persist in implementing these strategies due to the complexities and inconsistencies in the Nigerian tax system, which is subject to frequent changes (Omesi & Appah, 2020).

Traditionally, tax planning should benefit shareholders' wealth. From the agency perspective, whether tax planning benefits the shareholders or not is debatable. Lee, Dobiyanski, and Minton (2015) have emphasized that agency theory should form the basis of any discourse on understanding tax avoidance and how it impacts on the shareholders. Whereas existing research (Desai & Dharmapala, 2009) has shown that tax planning will positively influence firm value if good corporate governance exists, others (for example, Hanlon & Slemrod, 2009; Wahab, 2010) found no positive relationship between tax planning and firm value even with well- governed firms. This controversy continues. Additionally, studies have considered the moderating role of corporate government measures (commonly board size and board independence) in the relationship between tax planning and firm value (Inger, 2014; Lestari & Wardhani, 2015). Enterprise value is often measured using Tobin's Q, a market metric that relates a company's market valuation to the replacement value or book value of its assets (often used using market capitalization and book value).

Tobin's Q is useful in tax planning studies because it reflects how the market perceives operating factors that can be influenced by a company's future cash flow outlook, risk profile, and tax strategy. Several studies in Nigeria have used Tobin's Q to assess the impact of tax planning-related variables on firm value and performance, highlighting its relevance for listed companies. Additionally, Nigeria is experiencing continuous reforms and evolution of tax administration practices that may change the incentives and constraints of corporate tax planning. The impact of tax planning on valuations can change over time as companies respond to regulatory requirements, disclosure expectations, and stakeholder oversight. A body of evidence in Nigeria from 2020 to date highlights the need for better models that take into account differences in multiple tax planning indicators, particularly both the timing of tax consequences (deferred tax), housing intensity, and financing-related tax protection (leverage), to better explain the value outcomes of listed agricultural businesses.

Savy and Davis (2025) investigated how corporate tax planning affects corporate performance by implementing tax planning not only through tax savings and effective tax rates, but also through partial use of debt tax shields. Hiifan, Aondoaka, and Gbulum (2025) investigated the impact of tax planning on the financial performance of listed consumer goods companies in Nigeria. Frank, Ukpong, and Uva (2025) focused on tax avoidance strategies arising from corporate tax planning and examined whether corporate monitoring mechanisms limit or enable companies to engage in such practices from 2015 to 2024. Putra and Edastami (2024) investigated the joint impact of tax planning and leverage on IDX-listed consumer goods companies for the period 2018-2023. Igbinovia and Usman (2024) investigated corporate tax planning strategies using explicit leverage factors for 28 publicly traded manufacturing companies for the period 2014-2021.

There is a dealth research on tax planning and firm value in industrial goods firms in Nigeria. Besides, prior studies on the subject matter ended in 2022 financial year. This leads to

sectorial and periodic gap which this present study found pertinent to fill. This study therefore, sought to ascertain the effect of tax planning on value of industrial goods firms in Nigeria. Specifically, this study determines the effect of tax shelter intensity and firm leverage on the firm value of industrial goods firms in Nigeria.

Conceptual Review

Tax Planning

The concept of tax planning did not receive much attention until it was picked up by Hoffman in 1961. Hoffmann's tax planning theory is a model that links the role of tax professionals to achieving the ultimate goal of tax planning (Timothy, Izilin, & Ndifreke, 2020). This model has four main perspectives regarding tax planning. It is a useful process if it is "carried out as a formal procedure." Tax planners do not always have access to the best benefits because they are not always fully implemented. And despite the benefits of tax planning, few taxpayers are aware of it (Wahab, 2010). Corporate Value Corporate value measures the prosperity of a company and the ability of a company's management to use the company's resources for the benefit of its owners. Corporate value is a measure of wealth maximization and corporate performance (Ilaboya, Izevbehai, and Ohioha, 2016). Business value or performance has been considered in terms of the value an organization creates for its stakeholders (Carton, 2004). This is considered performance in the form of benefits to stakeholders, consistent with the predictions of stakeholder theory (Odumeru, 2013). Although business performance represents the actual financial and non-financial performance of a company (Otache, 2015), the focus is on the financial aspect of its measurability.

Tax Shelter Intensity

Tax shelter strength reflects the extent to which a company engages in aggressive tax planning strategies aimed at significantly reducing taxable income.

Because tax havens are not directly observable, empirical studies typically rely on indicators such as book-to-tax gaps (BTDs), abnormal BTDs, or tax avoidance measures obtained from financial statements (Desai and Dharmapala, 2009; Hanlon and Heitzman, 2010). Since 2010, the literature has highlighted that tax incentives have different effects on firm value. On the other hand, providing housing can lead to significant tax savings and increased cash flow. On the other hand, it may raise concerns about regulatory scrutiny, fines, and reputational damage, which may be perceived negatively by the market (Chen et al., 2010). Recent research in emerging markets suggests that when governance and enforcement are weak, aggressive tax shelters may be associated with lower firm value, while moderate tax shelters may increase firm value (Wang et al., 2020). Evidence from Nigeria using BTD and thin capitalization as indicators suggests that tax haven strategies have a significant impact on Tobin's Q, highlighting its importance for corporate valuations (Igbinovia & Usman, 2024).

Firm Leverage

Firm leverage reflects the extent to which a firm finances its operations through debt relative to equity or total assets. In tax planning literature, leverage is important because interest payments on debt are tax-deductible; creating a tax shield that reduces taxable income. Following the seminal work of Modigliani and Miller, subsequent research has focused on the tax benefits of debt financing, particularly in the corporate tax context (Graham, 2010). Empirical research shows that debt can increase firm value through tax benefits, but excessive leverage increases distress costs and risk premiums, which can negate tax benefits

(Graham et al., 2015). Recent studies have confirmed that leverage plays a dual role in tax planning and valuation, acting as both a tax reduction mechanism and a risk factor that investors consider when evaluating companies (Shubita, 2024). A Nigerian study that incorporated leverage into a tax planning model reported a significant relationship with Tobin's Q, suggesting that debt-related tax planning strategies have a significant impact on firm value (Olawale & Dauda, 2025).

Empirical Review

Savy and Davis (2025) investigated how corporate tax planning affects corporate performance by implementing tax planning not only through tax savings and efficient tax rates, but also partly through debt tax shields. This study used an ex-post/quantitative design and was based on secondary panel data collected from the annual reports of sample companies from 2014 to 2023.

This study used regression models that relate performance measures (e.g., profitability) to tax planning measures, including controlling for firm size. The study used descriptive statistics and combined OLS and multiple regression techniques to assess the direction and significance of relationships. This study finds that tax planning factors are closely linked to business performance, showing that debt-based tax planning is more than just an accounting entry and can lead to measurable business performance if companies are able to incur and repay debt in a sustainable manner. Fahmy and Naybaho (2025) investigated the relationship between debt and tax avoidance (close to corporate tax planning), examining whether the institutional context (parent company location) strengthens or weakens this relationship. This study used a large secondary dataset from the Indonesia Stock Exchange (IDX), which explicitly excluded the financial and real estate sectors, and reported 504 observations on listed companies. The authors adopted a quantitative approach using regression-based estimation to determine the net effect of leverage on tax avoidance while controlling for other firm characteristics. This study used multiple linear regression with explicit hypothesis testing and interaction terms to capture moderating effects for analysis. Hiifan, Aondoaka, and Gbulum (2025) used multiple regression analysis at 5% significance level to investigate the impact of tax planning on the financial performance of listed consumer goods companies in Nigeria, focusing on cash and accounting tax planning indicators covering the period 2014 to 2023. The results show that BTD has a positive and significant impact on return on assets, suggesting that firms with larger balance sheet and tax differences (which may reflect differences in timing, incentives, provisions, or tax accounting) tend to perform better over the study period. On the other hand, CETR has a positive but insignificant relationship with return on assets, meaning that the difference between cash tax payments and profits does not significantly affect the profitability of sample firms. Frank, Ukpong, and Uva (2025) focused on tax avoidance strategies arising from corporate tax planning and examined whether corporate monitoring mechanisms limit or enable companies to engage in such practices from 2015 to 2024. The reported a population of 25 companies and selected 23 companies through purposive sampling based on secondary data from company reports. For analysis, the study used panel regression using STATA (version 17) to assess the relationship between monitoring mechanisms (audit committee size, board independence, board experience, board diligence, and board gender diversity) and ETR. The results show that not all control mechanisms had the same importance in the intensity of the tax shelter. Firmansyah (2022) investigated the determinants of corporate tax planning behavior that increase tax avoidance intensity using a well-established proxy (DTAX/abnormal constant difference), which is often interpreted to reflect active avoidance/safe haven behavior, covering the period 2014–2019 (252 observations per year) selected using purposive sampling. Analyzes used panel

regression models with and without moderation effects to identify direct and interaction effects. The results show that the combination of political connections and investment opportunities have a positive impact on tax avoidance, suggesting that firms with stronger political connections and growth opportunities may have greater ability and incentive to make transactions, accounting choices, and tax positions that reduce their tax liability. Putra and Edastami (2024) extend their analysis by examining the joint effect of tax planning and leverage on firm value and testing whether firm size strengthens this relationship. This study focused on consumer goods companies listed on IDX from 2018 to 2023 using a descriptive quantitative design and secondary data. This study adopted a moderated regression (moderated regression analysis) framework to test direct and interaction effects. Empirical results show that tax planning has a significant impact on firm value, the level of debt has a significant impact on firm value, and firm size moderates (enhances) the effects of tax planning and debt on firm value. Shubitha (2024) assessed whether tax evasion in Jordan's industrial sector affects firm value and whether leverage changes the strength and direction of this relationship. This study adopted a panel data design using a sample of 55 Jordanian business companies listed on the Amman Stock Exchange between 2005 and 2022. The analysis uses panel regression techniques with interaction terms to assess moderation and draws conclusions based on the statistical significance of key tax evasion variables and the interaction effects of levers. Igbinovia and Usman (2024) investigated corporate tax planning strategies with distinct leverage elements. Data extracted from audited annual reports of 28 listed manufacturing companies from 2014 to 2021. This study used panel estimation techniques to assess the direction and statistical significance of the coefficients for each tax planning strategy. The results showed a statistically significant positive effect on Tobin's Q (5% level). The study also finds that while capital intensity has a negative and significant impact on Tobin's Q, the impact of the balance sheet-tax gap varies by performance measure.

Methodology

This study adopted an ex post facto research design. The design is appropriate because the study relied on historical financial data that already exist and cannot be manipulated by the researcher.

The population of the study comprised industrial goods firms listed on the Nigerian Exchange Group (NGX) during the period under review, some firms excluded due to unavailability of data.

Given the relatively availability of complete data, the study adopted a judgmental sampling technique to selecting ten quoted industrial goods firms with available data for the study period was included in the sample.

Data were extracted from the audited annual reports and accounts of the sampled industrial goods firms in Nigeria. The data collected were covered variables relating to firm value and corporate tax planning.

Method of Data Analysis

The data were analyzed using both descriptive and inferential statistical techniques. Descriptive statistics such as mean, standard deviation, minimum, and maximum values will be used to summarize the characteristics of the variables.

Model Specification

In testing for the value relevance of corporate tax avoidance and in testing for the moderating effect of agency cost mitigating variables on the nexus, we adapt a firm-value model originally derived from Ohlson (1995) and have been widely used in value relevance studies including those that relates to tax avoidance as used by Abdul Wahab and Holland (2012).

Their model centered on Tax Planning, is given as:

$FMV=\beta0 + \beta1BVEit + \beta2CTAit\text{-}1 + \beta3COGit + \beta4PFTit +$
$\beta5CAPINTit + \beta6LEVit + \beta7EXGit + \beta8CTA\ it\text{-}1\ *COGit +$
$\beta_8MVE_{it}\ DIV + AGE + \varepsilon it$

The study modifies the above model to reveal moderating effects of corporate governance on the impact of tax planning on firm value. The following econometric model:

$FMV_{it}=\beta0+\beta_1TSI_{it}+\beta_2LEV_{it} +\mu it$

Where:

- FMV_{it} = Firm value of firm *i* in year *t*, measured using Tobin's Q
- TSI_{it} = Tax Shelter Intensity of firm *i* in year *t*
- LEV_{it} = Leverage Ratio of firm *i* in year *t*
- $\beta0$ = Intercept term
- $\beta1–\beta2$ = Regression coefficients
- μit = Error term
- i = Cross-sectional units (firms)
- t = Time dimension (years)

Data Analysis and Results

Data Analysis

4.1: Descriptive statistics

	TOBIN_Q	TSI	LEV
Mean	0.931639	-0.034468	0.349742
Median	0.939799	-0.026531	0.277771
Maximum	0.980027	-6.36E-05	0.582724
Minimum	0.829981	-0.147017	0.150969
Std. Dev.	0.046290	0.041817	0.187966
Skewness	-0.802992	-1.876151	0.245205
Kurtosis	2.923491	5.754615	1.242340
Jarque-Bera	3.231295	27.08459	4.162338
Probability	0.198762	0.000001	0.124784
Sum	27.94918	-1.034041	10.49227
Sum Sq. Dev.	0.062140	0.050711	1.024602
Observations	30	30	30

Interpretation of Descriptive Statistics

According to the descriptive statistics in Table 1, the average firm value (TOBIN Q) was 0.932.

The mean for intensive tax shelter monitoring is -0.034. The maximum value is -6.360, the minimum value is -0.147, and the standard deviation is 0.042. The firm's average leverage value (LEV) is 0.350; maximum 0.583 minimum 0.151 with standard deviation 0.188. Skewness is a measure of how much the probability distribution of a random variable

deviates from the normal distribution. Table 1 shows the probability distribution of TSI (0.000) and LEV (0.0125).

Table 2: Panel Least Square Regression analysis testing the relationship between TOBIN Q, TSI and LEV

Dependent Variable: TOBIN_Q
Method: Panel Least Squares
Date: 03/06/26 Time: 22:31
Sample: 2015 2024
Periods included: 10
Cross-sections included: 3
Total panel (balanced) observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.839963	0.014972	56.10053	0.0000
TSI	-0.530292	0.143762	-3.688671	0.0010
LEV	0.209864	0.031983	6.561749	0.0000

R-squared	0.621092	Mean dependent var	0.931639
Adjusted R-squared	0.593024	S.D. dependent var	0.046290
S.E. of regression	0.029531	Akaike info criterion	-4.112145
Sum squared resid	0.023545	Schwarz criterion	-3.972025
Log likelihood	64.68217	Hannan-Quinn criter.	-4.067319
F-statistic	22.12868	Durbin-Watson stat	2.827142
Prob(F-statistic)	0.000002		

Source: E-Views 9.0 Correlation Output, 2026

Interpretation of Regression Result

In Table 2, the values of R-square and adjusted square were (0.62) and (0.59), respectively. This shows that all independent variables together can explain almost 100% of the systematic change in firm value over a 10-year period (2015-2024). Table 2 shows that the adjusted R2 is 0.59. The adjusted R2, which is the coefficient of multiple regressions, means that 59% of the total variation in the dependent variable (TOBIN Q) in Nigeria is explained by the explanatory variables (TSI and LEV). The adjusted R2 of 59% was not a problem for the study as the F-statistic value of 22.12868 with corresponding Prob.>F = 0.000 showed that the model was fit to explain the relationship expressed in the study model and further assumes that the explanatory variables are appropriately selected, combined and used.

Autocorrelation Test: Using the Durbin-Weston (DW) statistic that we obtained from our regression results in Table 2, we see that the DW statistic is 2.827. Akika's Info-criterion and Schwarz's criterion, which are -4.112145 and -3.972025, respectively, also further confirm that our model is well-specified. In addition to the above, specific results for each explanatory variable are shown below.

Hypothesis One

H_{01}: Tax shelter intensive has no significant effect on the firm value of quoted industrial goods firms in Nigeria.

Table 2 indicates that tax shelter intensive has a negative significant effect on firm value in Nigeria. This can be observed from the beta coefficient (β_1) of -0.530292 with p value of 0.001 which is highly statistically significant at 5% level of significance but negatively affect the dependent variable. Since the P-value of the test was 0.000 less than 0.05 (5%), this study upholds that tax shelter intensive has a negative and significant effect on firm value of

quoted industrial goods firms in Nigeria, thus, null hypothesis is rejected and alternative hypothesis accepted.

Hypothesis two

H_{02}: Firm leverage has no significant effect on the firm value of quoted industrial goods firms in Nigeria.

Table 2 indicates that firm leverage has a positive significant effect on firm value of quoted agriculture firms in Nigeria. This can be observed from the beta coefficient (β_1) of 0.209864 with p-value of 0.000 which is highly statistically significant at 5% level of significance. Since the P-value of the test was 0.000 less than 0.05 (5%), this study upholds that firm leverage has a positive and significant effect on firm value of quoted industrial goods firms in Nigeria, thus, null hypothesis is rejected and alternative hypothesis accepted.

Discussion and Conclusion

This study ascertained the effect of tax planning on the firm value of industrial goods firms in Nigeria using tax shelter intensity and firm leverage to measure the independent variable, tax planning. Data were extracted from audited annual reports and accounts of the sampled industrial goods firms on the Nigerian Exchange Group. It was observed from the beta coefficient (β1) of -0.530292 with p value of 0.001 which is highly statistically significant at 5% level of significance but negatively affect the dependent variable. Since the P-value of the test was 0.000 less than 0.05 (5%), this study upholds that tax shelter intensive has a negative and significant effect on firm value of quoted industrial goods firms in Nigeria.

The study observed a beta coefficient (β1) of 0.209864 with p-value of 0.000 which is highly statistically significant at 5% level of significance. Since the P-value of the test was 0.000 less than 0.05 (5%), this study upholds that firm leverage has a positive and significant effect on firm value of quoted industrial goods firms in Nigeria. The study therefore concludes that corporate tax planning has significant effect on firm value in Nigeria. Based on the findings, the study recommended the followings;

1. The managers need not treat tax shields as automatically beneficial; instead, they should evaluate the trade-off between tax savings and the underlying costs of debt and asset structure.
2. Managers should closely monitor the debt-to-equity ratio while implementing tax planning, ensuring that thin capitalization practices do not push the firm into distress.

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