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Corporate Tax Saving Strategies And Financial Performance Of Listed Non Financial Firms In Nigeria

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ABSTRACT
Despite the acknowledged benefits of taxation in Nigeria, instances of non-compliance, tax evasion, fraudulent activities, and avoidance have at times impacted the financial performance of non-financial firms. Based on this, this study examined the relationship between tax savings and financial performance of listed non-financial firms in Nigeria. However, the specific objectives were to ascertain the relationship between thin capitalization, depreciation tax shield, effective tax rate, capital intensity and return on capital employed of listed non-financial firms in Nigeria. The study adopted an *ex-post facto* research design and utilized a panel data of two hundred and forty (240) pooled observations gathered across a sample of twenty-four (24) quoted non-financial firms in Nigeria over ten (10) year period (2014-2023). The study utilized robust least squares regression via E-views 10.0 statistical package. The study findings revealed that thin capitalization has a significant positive relationship {Coeff = 0.1906 (0.0000)} with return on capital employed of listed non-financial goods firms in Nigeria, depreciation tax shield has a significant positive relationship {Coeff = 0.0167 (0.0045)} with return on capital employed of listed non-financial goods firms in Nigeria. It also revealed that effective tax rate has a non-significant negative relationship {Coeff = -0.0001 (0.9515)} with return on capital employed of listed non-financial goods firms in Nigeria while capital intensity showed a significant positive relationship {Coeff = 2.8479(0.0485)} with return on capital employed of listed non-financial goods firms in Nigeria. It was thus concluded that by leveraging tax savings strategies, firms can enhance their competitiveness, profitability, and overall financial performance, contributing to the growth and development of the Nigerian economy. The study recommended, amongst others, that policymakers should consider reviewing the tax laws and regulations to ensure that effective tax rates are aligned with the goal of promoting economic growth and development through enhanced financial performance.
Keywords: Tax savings; effective tax rate; capital intensity; depreciation tax shield; thin capitalization

INTRODUCTION
Corporate tax saving (CTS) can be described as a tool through which companies can achieve permanent tax savings or temporary tax savings. It always reveals that management has the ability to minimize tax expense in the financial statements and report of an entity (Akintoye et al., 2020). However, tax savings is

the difference between statutory tax rate and effective tax rate of an organization. It refers to the reduction in a tax payer's liability by utilizing legal means. Some of the ways of generating tax savings are through tax deferrals, roll over relief and taking advantages of timing in taxation. Tax savings would bring negative association with firm value, where providers of capital have insufficient knowledge of tax planning practices.

Corporate taxation holds significant importance in the Nigerian economy due to its substantial impact on government policies, economic growth, and development. It serves as a primary fiscal tool for the government in achieving sustainable growth objectives and is a key revenue source for financing public expenditures (Omesi & Appah, 2020). Nonetheless, the difficulties facing the tax system in most developing countries, Nigeria inclusive has resulted in the adoption of different strategies to reduce tax burden (Akinyomi & Okpala, 2013; Omesi & Appah, 2021). Strategies aimed at corporate tax savings involve leveraging tax shelters and incentives provided by legislation, such as pioneer status recognition, asset acquisition allowances, and rural area investment benefits, with the goal of minimizing tax liabilities and optimizing financial resources for businesses (Nafti et al., 2020). The utilization of these tax-saving strategies by non-financial firms is common practice to enhance post-tax profit. The corporate tax rate in Nigeria stands at 30% on the average (FIRS, 2024). This currently takes a larger portion of the pre-tax profit of corporate organizations leaving less for the shareholders and profit retention post-tax. By embarking on tax saving strategies, organizations will increase their post-tax profits as their tax expenses will be reduced

Within this context, corporate tax managers play a crucial role in developing strategies to minimize overall tax obligations for firms (Nafti et al., 2020). The relationship between a company's tax obligations and its profitability is intricately linked - efforts to increase profitability to achieve wealth maximization goals often necessitate firms to address the challenge of reducing tax liabilities (Chen et al., 2016). The positive correlation between a firm's tax liability and profitability underscores the impact of profitability enhancement strategies on reducing tax obligations.

Similarly, 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).

Moreover, concerns among shareholders in non-financial firms in Nigeria regarding aggressive tax-saving practices extend to the potential aggressiveness in financial reporting decisions by managers (Umeh et al., 2020). The impact of tax-saving strategies like thin capitalization, depreciation tax shield, effective tax rate, capital intensity on firm performance is a subject of significant scrutiny across finance, economics, and accounting fields, reflecting diverging theoretical perspectives and debates within the scholarly discourse on this topic.

Statement of the problem

Engaging in tax avoidance practices that test the boundaries of legality may expose companies to legal and regulatory risks, potentially leading to disputes with tax authorities, penalties, or damage to their reputation (Akintoye et al, 2020). The financial ramifications of legal challenges and penalties can have adverse effects on a company's financial stability and performance (Olayiwola, 2019). Such uncertainties could raise concerns among investors, especially those who value transparency and adherence to regulations. Investors may worry about potential shifts in tax laws, heightened scrutiny, or unfavorable tax outcomes in the future.

Despite the acknowledged benefits of taxation in Nigeria, instances of non-compliance, tax evasion, fraudulent activities, and avoidance have at times impacted the financial performance of non-financial firms. According to Iheme-Onyeka and Victory (2021), this issue is particularly prevalent among corporate entities in Nigeria, given the significant amount of company income taxes involved. These

suggested that this trend may have been perpetuated by a substantial portion of the pre-tax profits being claimed by the government as corporate tax, thereby reducing distributable profits and retention ratios for growth and expansion. Nigeria's complex tax systems, with their multitude of provisions and requirements, are well-documented in existing literature (Chukwudi et al., 2020).

Numerous empirical studies have explored the relationship between corporate tax savings strategies and financial performance in various economies, including both developed and developing nations like Nigeria. The disparate and inconclusive findings in these studies may stem from differences in research methodologies, study regions, and analytical tools utilized by previous researchers. Against this backdrop, the current study seeks to investigate the connection between tax savings and the financial performance of listed non-financial firms in Nigeria.

Objectives of the study

The main objective of this study was to examine the relationship between tax savings and financial performance of listed non-financial firms in Nigeria. However, the specific objectives were to:

1. Ascertain the relationship between thin capitalization and return on capital employed of listed non-financial firms in Nigeria.
2. Assess the relationship between depreciation tax shield and return on capital employed of listed non-financial firms in Nigeria.
3. Determine the relationship between effective tax rate and return on capital employed of listed non-financial firms in Nigeria.
4. Examine the relationship between capital intensity and return on capital employed of listed non-financial firms in Nigeria.

Research questions

Based on the above objectives, the following research questions were formulated;

1. To what extent does thin capitalization relate with return on capital employed of listed non-financial firms in Nigeria?
2. What magnitude of relationship exist between depreciation tax shield and return on capital employed of listed non-financial firms in Nigeria?
3. To what degree does effective tax rate relate with return on capital employed of listed non-financial firms in Nigeria?
4. What magnitude of relationship exists between capital intensity and return on capital employed of listed non-financial firms in Nigeria?

Research hypotheses

To answer the research questions of this study, the following research hypotheses were tested.

Ho_1: Thin capitalization has no significant relationship with return on capital employed of listed non-financial firms in Nigeria.

Ho_2: Depreciation tax shield has no significant relationship with return on capital employed of listed non- financial firms in Nigeria.

Ho_3: Effective tax rate has no significant relationship with return on capital employed of listed non-financial firms in Nigeria

Ho_4: Capital intensity has no significant relationship with return on capital employed of listed non-financial firms in Nigeria

LITERATURE REVIEW

Conceptual framework

The conceptual relationships among the variables are depicted in figure 2.1 below;

Corporate tax savings strategies (Independent variable) — Financial performance (Dependent variable)

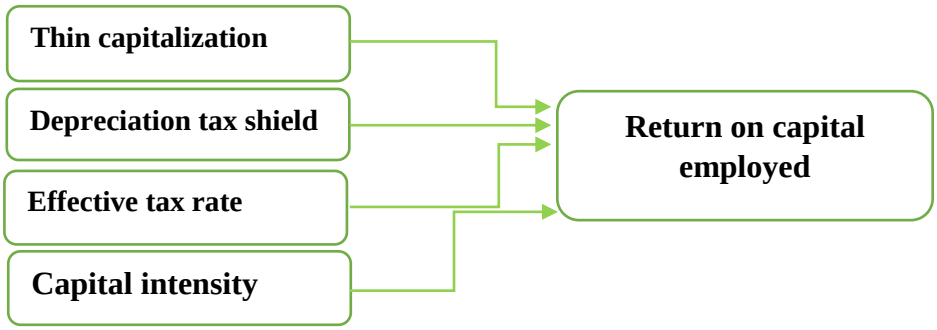

Fig 2.1: Conceptual framework of variables
Source: Researcher's compilation (2024)

Corporate tax savings strategy

Corporate tax savings in essence involves the application of relevant incentive provisions for corporate tax payers based on enabling laws such as the CITA, PITA, VAT and other enactments. An in-depth understanding of the tax policies and other regulations as clearly stated in the nation's government fiscal policies is required for effective tax planning. Tax savings strategy is an integral part of financial planning and the area of financial structure decisions offers a tax manager and the company an opportunity to mitigate the company's tax liability and improve on the financial performance of the firm (Udeme et al., 2025). Effective tax planning as cited in Omesi and Appah (2021) refers to strategies that maximize the firm's expected discounted after-tax cash flows. Apart from being vast in the tax laws, the tax consultants of any organisation should have extensive knowledge of the company, its history and how the organisation operates. One of the most important responsibilities for corporate tax manager is to strategize on minimizing a company's overall tax liability.

Thin capitalization

Thin capitalization refers to a situation where a company's capital structure is characterized by a high level of debt in relation to its equity, leading to concerns about financial risk and the potential tax implications. The relationship between Return on Capital Employed (ROCE) and thin capitalization is important in understanding how excessive debt levels can impact a company's profitability and financial performance. Osei and Okonkwo (2023) stressed that high levels of debt due to thin capitalization can result in increased financial leverage and interest expenses, which may lead to a reduced ROCE. This is because the high interest payments associated with excessive debt can negatively impact the net income and return generated from the capital employed, ultimately leading to a lower ROCE. However, the relationship between ROCE and thin capitalization highlights the potential trade-off between financial risk and return when companies are heavily reliant on debt financing. This underscores the importance of maintaining a balanced capital structure to optimize profitability and minimize financial risk.

Depreciation tax shield

A depreciation tax shield is a tax reduction technique under which depreciation expense is subtracted from taxable income. The amount by which depreciation shields the taxpayer from income taxes is the applicable tax rate, multiplied by the amount of depreciation. Silvy (2019) opined that the use of a depreciation tax shield is most applicable in asset-intensive industries, where there are large amounts of fixed assets that can be depreciated. Conversely, a service business may have few (if any) fixed assets, and so will not have a material amount of depreciation to employ as a tax shield. The tax shield concept

may not apply in some government jurisdictions where depreciation is not allowed as a tax deduction (Joseph et al., 2020). The concept may be applicable but have less impact if accelerated depreciation is not allowed; in this case, straight-line depreciation is used to calculate the amount of allowable depreciation. In companies that outsource the preparation of their tax returns, the tax return preparer may be charged with maintaining a separate list of depreciable assets, for which the preparer calculates the most aggressive allowable accelerated depreciation for inclusion in tax returns.

Effective tax rate

The effective tax rate is the average tax rate at which a taxpayer is taxed. A business calculates its effective tax rate by dividing its total federal and state income tax expense by its pre-tax earnings. The effective tax rate is used to calculate the tax expense in an organization's annual budget. A key goal of a company's tax department is to reduce the effective tax rate paid to the lowest amount possible by employing tax strategy, since doing so allows the entity to retain more cash for other purposes. From the perspective of an outside analyst, the effective tax rate is used to compare the ability of several companies within an industry to minimize the amount of taxes paid. The company income tax rate is of great concern to corporate managers because it is a major determinant of what country to invest. Adejumo et al., (2022) have argued that the applicable tax rate in making investment decisions should be the effective tax rate rather than the statutory tax rate. The effective tax rate for a company is the average rate at which its pre-tax incomes are taxed. Razali et al., (2018) stated that companies with a higher effective tax rate are likely to experience lesser financial performance since the volume of tax paid negatively impacts firms' earnings.

Capital intensity (CAPINT)

Capital Intensity: This represents Capital Intensity for firm in year t which is defined as the ratio of non-current assets (fixed assets) to total assets. This ratio defines the level of a company's investment in fixed assets and by implication the level of capital assets related incentives a company can enjoy. Allowances and incentives based on capital intensity include Capital allowance (initial and annual), Investment Tax Credit (ITC), and Re-Investment Allowance (RIA) (Ftouhi et al., 2014). Capital intensity is a form of financial decisions set by company management to increase company profitability. Capital intensity reflects how much capital a company needs to generate income. Capital intensity is the amount of money invested to get one naira of output. The greater the capital used to produce the same unit, it can be said that the more intense the company's capital.

The greater the capital intensity owned by the company, the greater the company's tax avoidance, because companies that have fixed assets will have incentives which are allowable deductions for tax purposes and can be a deduction from pre-tax profit. So that way the company will utilize fixed assets to minimize the tax burden by investing fixed assets in the company.

Financial performance

Financial performance is a complete evaluation of a company's overall standing in categories such as assets, liabilities, equity, expenses, revenue, and overall profitability. It is measured through various business-related formulas that allow users to calculate exact details regarding a company's potential effectiveness. Financial performance is highly determined by the way finances are managed. Financial management relates to applying general management principles to the financial resources of a company as cited in Omesi & Appah (2021). It includes strategic planning, organizing, directing and controlling of financial undertakings in a firm. Through a financial performance analysis, specific financial formulas and ratios are calculated, which, when compared to historical and industry metrics, provide insight into a company's financial condition and performance. When calculating financial performance, there are several critical ratios that are extensively used in the business world to assist and evaluate a company's overall performance. For internal users, financial performance is examined to determine their respective companies' well-being and standing, among other benchmarks. For external users, financial performance is analyzed to dictate potential investment opportunities and to determine if a company is worth their while.

Return on capital employed

Return on capital employed is a measure of a company's profitability that takes into account the amount of capital invested in the business. Return on capital employed can be used to compare the profitability of companies in different industries or to compare the profitability of companies over time as well as assess the value of a company. ROCE is calculated by dividing a company's operating profit by its capital employed (Fagbemi et al., 2019). ROCE is a key measure of profitability for companies and is used to assess how efficiently a company is using its capital to generate profits. A high ROCE indicates that a company is using its capital effectively and is generating a high return on the investment. A low ROCE indicates that a company is not using its capital efficiently and is not generating a high return on the investment.

Thin capitalization and return on capital employed

Thin capitalization refers to a situation where a company's capital structure is characterized by a high level of debt in relation to its equity, leading to concerns about financial risk and the potential tax implications. The relationship between Return on Capital Employed (ROCE) and thin capitalization is important in understanding how excessive debt levels can impact a company's profitability and financial performance.

However, the relationship between ROCE and thin capitalization highlights the potential trade-off between financial risk and return when companies are heavily reliant on debt financing. This underscores the importance of maintaining a balanced capital structure to optimize profitability and minimize financial risk. Graham and Tucker (2006) further stressed that excessive thin capitalization may also raise concerns about the company's ability to meet its debt obligations and could potentially lead to credit rating downgrades, further impacting the overall cost of debt.

Depreciation tax shield and return on capital employed

Depreciation tax shield refers to the potential tax benefits that companies can enjoy as a result of claiming depreciation expenses on their fixed assets. According to Modigliani and Miller's (1963) theory, the depreciation tax shield can positively impact a company's ROCE by reducing its tax liability, thereby increasing the after-tax cash flows and ultimately boosting the return on the capital employed. This tax advantage allows companies to benefit from reduced tax payments, effectively enhancing their profitability and ROCE. As highlighted by Damodaran (2020), companies can strategically time their capital investment decisions to maximize depreciation tax benefits, thereby amplifying their ROCE. By carefully managing the timing and magnitude of capital expenditures, companies can leverage the depreciation tax shield to enhance their after-tax cash flows, leading to improved ROCE. This demonstrates how astute capital investment planning can play a pivotal role in harnessing the tax advantages associated with depreciation, ultimately contributing to higher returns on the capital employed.

Effective tax rate and return on capital employed

Return on Capital Employed (ROCE) and effective tax rate are critical factors in assessing a company's financial performance and tax efficiency. The effective tax rate represents the actual tax burden faced by a company after considering various tax incentives, deductions, and credits. As opined by Graham (2018), the effective tax rate directly influences a company's after-tax profitability, with lower tax rates leading to higher after-tax cash flows and potentially boosting ROCE.

Thus, the relationship between ROCE and the effective tax rate underscores the profound impact of tax liabilities on a company's financial performance and underscores the importance of tax planning and optimization in maximizing ROCE. This highlights the strategic implications of tax management on financial decision-making. According to Dammon and Senbet (2019), companies can employ various tax strategies to minimize their effective tax rates, thereby enhancing ROCE. For instance, engaging in tax-efficient investment structures, utilizing tax credits, and optimizing international tax planning can all contribute to lowering the effective tax rate and elevating ROCE.

Capital intensity and return on capital employed

Capital intensity refers to the extent a firm has invested its financial resources in property, plants and equipment. A more capital intense firm has more investment in these noncurrent assets (Shahean & Malik, 2012). Capital intensity is the quotient of non – current assets and total assets. Investment in non–current assets qualifies a firm for Investment Deductions (ID), Industrial Building Deductions (IBD) and wear and tear allowances (ITA, 2015). Shahean and Malik (2012) reported a positive association between capital intensity and firm value. They argued that capital allowances result to tax savings which increases after tax returns of a firm. More investment in capital assets also increases production quality and saves on time which are key determinants to financial performance of an entity. Mwangi (2016), defined financial performance as a monetary measure of the financial health of an organization. It enables organizations identify its weaknesses and strengths established through the relationship between the elements of the statement of financial position and the income statement which can be compared to the industry parameters. Despite modern stakeholders focusing on wealth creation as opposed to profit maximization, profitability remains a critical measure of financial performance (Kajiriwa, 2015). Capital intensity has a significant impact on the financial performance of these firms as it directly affects liquidity and profitability which are measures of performance (Almazari, 2013.). ROCE is calculated by dividing a company's operating profit by its capital employed (Fagbemi et al., 2019). ROCE is a key measure of profitability for companies and is used to assess how efficiently a company is using its capital to generate profits. A high ROCE indicates that a company is using its capital effectively and is generating a high return on the investment. A low ROCE indicates that a company is not using its capital efficiently and is not generating a high return on the investment.

2.2 Theoretical framework

Tax planning theory by Hoffman (1961)

The study is guided by Tax planning theory advanced by Hoffman in 1961 which states that, tax planning saves cash to organizations that would otherwise land to the taxman. Desirable tax avoidance practices however should not compromise accounting income. It is founded on the concept that tax obligations are based on the taxable income and not the accounting income. Hoffman found a positive relationship between tax planning and financial performance of entities when firms endeavor and focus their resources on practices that lawfully reduce taxable income but does not negatively influence accounting profit. Organizations should always ensure that that the tax costs do not exceed the tax benefits in pursuit for tax planning (Hoffman, 1961). This theory is relevant to the extent that capital intensity one among the tax planning strategies that an entity can utilized to increase the after-tax returns. The capital allowances accord organizations tax credits which positively affects financial performance.

2.3 Empirical review

Kodzo (2024) assessed the Implication of tax planning on the financial performance of listed firms in Ghana. All commercial banks listed on GSE were included in the analysis. A representative cross-section of banks was obtained by a purposive sampling approach. Data from 2012–2021 was collected from the firms' annual report. Panel data analysis (including both random and fixed effects Model) was utilized. The findings showed that, corporate taxation planning has no significant effect on financial performance (ROI, ROA and ROE) for the financial institutions.

Igbinovia and Usman (2024), assessed tax avoidance, tax planning strategies and firm value of manufacturing firms in Nigeria. The study adopted thin capitalization, tax savings, book tax difference and capital intensity as measures of as tax avoidance and tax planning strategies. Secondary data was extracted from the audited annual reports of twenty-eight (28) manufacturing firms during the period 2014 to 2021. The result from the panel estimation technique show that thin capitalization exhibits a positive and it is statistically significant impact at 5% on Tobin's Q measure of listed manufacturing firms in Nigeria; book tax difference exhibit positive and inverse impact return on asset and Tobin's Q measure of performance of listed manufacturing firms in Nigeria respectively, and they are significant at 5%; and capital intensity exhibits an inverse and it is statistically significant impact at 5% on Tobin's Q measure of performance of manufacturing firms in Nigeria.

Jackson and Ine-Tonbarapa (2023), research on tax planning strategies and financial performance of listed pharmaceutical companies in Nigeria. Findings of the study were that that there is no significant relationship between capital intensity and profit after tax of listed pharmaceutical companies in Nigeria. There is a significant relationship between effective tax rate and profit after tax of listed pharmaceutical companies in Nigeria. Firm Size does not significantly influence the relationship between Tax Planning Strategies and the Financial Performance of listed Pharmaceutical Companies in Nigeria.

Olade et al. (2023), focused on corporate tax saving strategy and share price performance. It examined how debt tax shield, non-debt tax shield, and effective tax rate affect share price performance. The secondary source of data collection was adopted in the study where the purposive sampling technique was used to select a sample size of twelve (12) listed industrial goods firms in Nigeria. Ordinary Least Square regression analysis was used in this study and the findings revealed that non-debt tax shield has significant effect on share price performance of listed industrial goods firms in Nigeria and that effective tax rate has significant effect on share price performance of listed industrial goods firms in Nigeria.

Adeleke and Mensah (2023), investigated the impact of corporate tax savings strategies on the financial performance of listed non-financial firms in Nigeria. This longitudinal study over a 5-year time horizon (2017-2022) The study used a sample size of 100 non-financial firms and utilized multiple regression analysis as the method of data analysis. The study findings revealed that corporate tax savings strategies had a positive and significant impact on the financial performance of non-financial firms in both Nigeria.

Osei and Okonkwo (2023), assess the impact of corporate tax planning on the financial performance of listed non-financial firms in Ghana. This quantitative research study covered a 4-year time horizon (2019-2022). The study used a sample size of 120 non-financial firms and utilized hierarchical regression analysis as the method of data analysis. The study findings revealed that corporate tax planning significantly influenced the financial performance of non-financial firms in Ghana.

Emmanuel and Olusesan (2022), examined the effect of tax incentives on financial performance of Small and Medium Enterprises in Nigeria. The study adopted a longitudinal research design with the use of the data obtained from the statistical bulletin of the Central Bank of Nigeria (CBN). The data was obtained from the statistical bulletin of the Central Bank of Nigeria and reports of the Federal Inland Revenue Service (FIRS) for the period between 1985 and 2020 for analysis. The findings revealed that Capital Allowance Incentives and Pioneer Status Incentives have positive and significant effects on the financial performance of SMEs in Nigeria.

Nnamdi and Amissah (2022), undertook a comparative analysis over a 6-year time period (2016-2021) in Nigeria to compare the effectiveness of corporate tax savings strategies on the financial performance of non-financial firms. The study used a sample size of 150 non-financial firms and utilized ANOVA and t-tests as the method of data analysis. The study findings revealed that the impact of corporate tax savings strategies on financial performance varied between non-financial firms in Nigeria.

Ibrahim and Abena (2022), investigated the relationship between corporate tax planning and the financial performance of listed non-financial firms in Nigeria. This cross-sectional analysis covered four years' period (2018 to 2021). They used tax deferral utilization and tax loss harvesting as proxies for independent variables and operating income margin and market value of equity as proxies for dependent variables. The study analyzed data from 100 non-financial firms using hierarchical regression and found that corporate tax planning significantly impacted the financial performance of the firms.

Olurankinse and Mamidu (2021), examined the effect of tax planning on the financial performance of Nigerian Development Banks. The study covered the period of 2012 to 2019 (post IFRS adoption era in Nigeria). Pooled regression analysis technique was adopted to establish the effect of effective tax rate, tax savings, intensity of capital and firm size on financial performance of the banks. It was discovered that effective tax rate had negative and insignificant effect on return on equity while tax savings had positive and insignificant effect on return on equity. However, intensity of capital and firm size were discovered to have positive and significant effect on return on equity. Gogo et al. (2021), investigated the relationship between tax planning strategies and financial performance of quoted banks in Nigeria. 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. Secondary data was obtained from audited annual financial reports of quoted banks in Nigeria from 2006-2019. The findings showed 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.

Olayiwola and Okoro (2021), examined the interactive effect of tax planning and corporate governance on the financial performance of 50 non-financial quoted companies in Nigeria between 2007 and 2018. The study sample that covers 9 sectors was selected purposively through stratified random sampling. A system GMM was employed to estimate the dynamic models, and results show that ownership structure (OS) and capital intensity (CI) exerted a significant and positive impact on the returns on assets. However, board diversity and thin capitalization wielded a significant and negative influence on return on assets

Ado et al. (2021), examined the impact of corporate tax planning on the financial performance of listed companies in Nigeria. The study also employed multiple regression as a method of analysis on 84 companies listed on the board of NSE with 756 observations for the duration of nine years from 2010-2018. The study found that the inventory intensity reveals no relationship with Return on Asset (ROA). Also, capital intensity reveals a negative significant relationship with ROA. However, the study further reveals that leverage is positively and significantly related to ROA. The findings suggest that firms need to employ the services of tax experts and implement healthier tax planning strategies for higher financial performance.

Abimbola and Antwi (2021), assessed the effectiveness of corporate tax savings strategies on the financial performance of non-financial firms in Nigeria. They used tax inversion strategies and tax expenditure efficiency as proxies for independent variables and return on capital employed and earnings before interest and taxes (EBIT) as proxies for dependent variables. The study analyzed data from 130 non-financial firms using ANCOVA and multivariate analysis and found that the impact of corporate tax savings strategies on financial performance differed between non-financial firms in Nigeria. Kamau and Amadi (2021), conducted a cross-sectional study over a 3-year time horizon (2018-2020) in Nigeria to examine the relationship between tax planning strategies and financial performance in listed non-financial firms. The study used a sample size of 80 non-financial firms and utilized panel data regression as the method of data analysis. The study findings revealed that tax planning strategies were positively associated with the financial performance of non-financial firms in Nigeria.

Adejumo and Sanyaolu (2020), focused on tax planning and profitability of Nigerian deposit money banks: Evidence from dynamic panel model. The study adopted an ex post facto research design by obtaining relevant data of sampled 9 banks from 2012 to 2018 from their annual financial statements. Findings from the study show that tax planning (effective tax rate) has a significant negative effect on profitability. The study further found a significant positive effect of capital adequacy ratio as a control variable on profitability.

Handayani (2020), determined the effect of Tax Avoidance and the ratio of the company's financial performance to firm value of the Indonesia Stock Exchange (IDX) for the period of 2016-2018. The financial performance ratios used are Return On Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER). The data testing method used is multiple linear regression analysis. The results showed that ROA and CR had a positive effect on firm value, while tax avoidance and DER had no effect on firm value. These results indicate that investors see the value of financial ratios as indicators of company performance.

Bhagiawan and Mukhlasin (2020), examined the effect of tax planning on firm value with the moderating influence of corporate governance including board size, board independence, audit quality, board gender diversity and audit committee size. The research was conducted on manufacturing companies listed on the Indonesian Stock Exchange (IDX) for the period 2016- 2018, with 266 observational data. The results of

the regression analysis proved that tax planning had a positive effect on firm value. Other regression analysis results, gender diversity board of directors and audit committee size weakened the relationship between tax planning and firm value. However, board size, board independence, and audit quality did not affect tax planning in relation to firm value.

METHODOLOGY

This study adopted the ex-post facto research design and employed secondary data gathering technique. Purposive sampling technique was employed to select twenty-four non-financial firms comprising of Industrial goods, Healthcare, and Conglomerates listed on the Nigerian Exchange Group from 2014 to 2023. The data employed was analyzed using descriptive statistic technique, multiple regression analysis and the analytical software employed was E-views version 10. The descriptive statistics was used to evaluate the characteristics of the data: mean, maximum, minimum, and standard deviation and also check for normality of the data. Correlation analysis was employed to evaluate the association between the variables and to check for multicollinearity.

Model specification and operationalization of variables

The model for this study was adopted from the study of Omesi and Appah (2021) but modified to suit the hypotheses of this study. Succinctly, the model for this study is stated as;

ROCE = f (TCAP, DETS, ETR, CAPINT)

Hence, the author specifies the econometric function

as; $ROCE_{it} = \beta_0 + \beta_1 TCAP_{it} + \beta_2 DETS_{it} + \beta_3 ETR_{it} + \beta_4 \text{CAPINT} + \mu_{it}$

ROCE	=	Return on Capital Employed
TCAP	=	Thin Capitalization
DETS	=	Depreciation tax shield
ETR	=	Effective tax rate
CAPINT	=	Capital Intensity
β_0	=	Constant
β_1- β_4	=	Slope Coefficient
μ	=	Stochastic disturbance
i	=	i^{th} firm
t	=	time period

ANALYSIS AND DISCUSSION OF RESULTS

Table 1 Descriptive statistics results

	ROCE	TCAP	DETS	ETR	CAPINT
Mean	6.177667	41.74275	3.063625	23.46996	54.99272
Median	6.910000	42.14000	2.410000	23.94391	57.73704
Maximum	123.8200	106.8200	49.88000	2383.270	170.9602
Minimum	-179.5200	-122.9700	0.000000	-1179.322	0.043943
Std. Dev.	18.73927	24.50659	3.847377	188.9761	24.09543
Skewness	-2.817493	-1.110204	7.867135	7.029363	-1.577729
Kurtosis	49.41159	10.66166	92.92114	110.3597	4.328278
Jarque-Bera	21857.89	636.3117	83333.78	117237.5	17.65318
Probability	0.000000	0.000000	0.000000	0.000000	0.000147
Sum	1482.640	10018.26	735.2700	5632.791	131.9825
Sum Sq. Dev.	83927.33	143536.9	3537.753	8535157.	13.87608
Observations	240	240	240	240	240

Source: Researcher's computation (2024) using E-views 10.0

The results in table 1 above indicates that the dependent variable – return on capital employed (ROCE) have mean scores of approximately 6.17% with a standard deviation of 18.73927. This suggests substantial variation in financial performance across the sampled firms. The negative minimum value of 179.5200 indicates that some firms experienced a decrease in financial performance, while the highest value was 123.8200. For the

thin capitalization (TCAP), the average was approximately 42%, minimum was approximately - 123 and maximum was approximately 107. Depreciation tax shield (DETS) of the pooled listed non-financial firms have a mean value of 3.06% with minimum and maximum value of 0.000000 and 49.88000. Also, the mean value of effective tax rate (ETR) of the pooled non-financial firms was 23.47% with minimum and maximum values of -1179.322 and 2383. 270. The mean value of capital intensity (CAPINT) of the pooled listed non-financial firms was 54.99% with minimum and maximum values of 0.043943 and 170.9602 respectively.

Table 2 Spearman's rank correlation matrix

	ROCE	TCAP	DETS	ETR	CAPINT
ROCE	1.000000	0.423971	-0.009583	0.080587	0.066613
TCAP	0.423971	1.000000	0.069541	0.125384	0.007010
DETS	-0.009583	0.069541	1.000000	0.114763	0.065597
ETR	0.080587	0.125384	0.114763	1.000000	0.096082
CAPINT	0.066613	0.007010	0.065597	0.096082	1.000000

Source: E-views 10.0 Output (2024)

The correlation analysis in table 2 showed that all independent variables- thin capitalization (TCAP), depreciation tax shield (DETS), effective tax rate (ETR) and capital intensity (CAPINT) of listed non-financial firms in Nigeria over the period under study (2014-2023) had coefficients lesser than 0.80 respectively confirming absence of multicollinearity issues.

Table 3 Robust least squares results

Dependent Variable: ROCE
Method: Robust Least Squares
Date: 03/12/24 Time: 05:59
Sample: 2014 2023
Included observations: 240
Method: M-estimation
M settings: weight=Bisquare, tuning=4.685, scale=MAD (median centered)
Huber Type I Standard Errors & Covariance

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-2.785624	1.543765	-1.804435	0.0712
TCAP	0.190629	0.019808	9.623705	0.0000
DETS	0.016731	0.126164	3.132613	0.0045
ETR	-0.000153	0.002514	-0.060882	0.9515
CAPINT	2.847916	1.970863	2.445010	0.0485

Robust Statistics

R-squared	0.132608	Adjusted R-squared	0.117844
Rw-squared	0.303274	Adjust Rw-squared	0.303274
Akaike info criterion	352.8959	Schwarz criterion	371.8958
Deviance	13661.72	Scale	6.297420
Rn-squared statistic	99.28664	Prob(Rn-squared stat.)	0.000000

Non-robust Statistics

Mean dependent var	6.177667	S.D. dependent var	18.73927
S.E. of regression	17.48715	Sum squared resid	71863.13

Source: Researcher's computation (2024) using E-views 10.0

Considering the regression results in table 3 above, when the independent variables- thin capitalization (TCAP), depreciation tax shield (DETS) and effective tax rate (ETR) are held constant (equal Zero), the

dependent variable– return on capital employed (ROCE) decreased at a constant average of approximately 2.78%. However, a rise in thin capitalization (TCAP), depreciation tax shield (DETS) and capital intensity (CAPINT) by one percent (1%) increases returns on capital employed (ROCE) of listed non-financial firms in Nigeria by approximately 0.19%,0.017% and 2.85% while similar variation in effective tax rate (ETR) decreases return on capital employed by approximately 0.0001%.

DISCUSSION OF FINDINGS

Thin capitalization and return on capital employed

The result from the regression output in table 3 shows that thin capitalization (Coeff. 0.190629; p-value = 0.0000 has a significant positive relationship with return on capital employed (ROCE) of listed non-financial goods firms in Nigeria. This implies that a unit increase in thin capitalization is associated with a 0.1906-unit increase in ROCE, holding all other variables constant. The positive relationship between thin capitalization and ROCE suggests that listed non-financial goods firms in Nigeria that employ thin capitalization strategies tend to have higher returns on capital employed. This finding is consistent with the notion that tax planning strategies, such as thin capitalization, can contribute to improved financial performance. This agrees with the findings of Adeleke and Mensah (2023). Their study revealed that corporate tax savings strategies had a positive and significant impact on the financial performance of non-financial firms in both Nigeria. It also aligns with that of Olurankinse and Mamidu (2021), Usman et al., (2020), Oyeshile and Adegbie (2020) and Fagbemi et al., (2019).

Depreciation tax shield and return on capital employed

The result from the regression output in table 3 reveals that depreciation tax shield (Coeff. 0.0167 and p-value = 0.0045 has a significant positive relationship with return on capital employed (ROCE) of listed non-financial goods firms in Nigeria. This implies that a one-unit increase in depreciation tax shield is associated with a 0.0167-unit increase in ROCE, holding all other variables constant. The positive relationship between depreciation tax shield and ROCE suggests that listed non-financial goods firms in Nigeria that have higher depreciation tax shields tend to have higher returns on capital employed. It suggests that firms that utilize depreciation tax shields, which involve claiming tax deductions for asset depreciation, tend to experience improved financial performance as measure by ROCE. This in in line with the findings of Adeleke and Mensah (2023), Olurankinse and Mamidu (2021), Usman et al., (2020), Oyeshile and Adegbie (2020) alongside Fagbemi et al., (2019)

Effective tax rate and return on capital employed

The result from the regression output in table 3 shows that effective tax rate (Coeff = -0.0001 and p-value = 0.9515) has a non-significant negative relationship with ROCE of listed non-financial goods firms in Nigeria suggests that the effective tax rate does not have a significant impact on financial performance. The non-significant negative coefficient of -0.0001 indicates that the relationship between effective tax rate and ROCE is not statistically significant, and therefore, one cannot conclude that there is a meaningful relationship between the two variables. This finding is not surprising, as the effective tax rate is influenced by various factors, including tax laws, accounting policies, and industry-specific factors, which can make it difficult to establish a significant relationship with financial performance. This aligns with the second strand of literature (for instance, Omesi & Appah, 2021; Umeh et al., 2020; Nwaobia et al., 2016) which documented proof that tax savings have a negative relationship with financial performance.

Capital intensity and return on capital employed

The result from the regression output in table 3 shows that capital intensity (Coeff = 2.8479 and p-value = 0.0485) has a significant positive relationship with return on capital employed (ROCE) of listed non-financial goods firms in Nigeria. This suggests that companies with higher capital intensity tend to have higher ROCE. The significant positive coefficient of 2.8479 indicates that a one-unit increase in capital intensity is associated with a 2.8479-unit increase in ROCE, holding all other variables constant. This finding is consistent with the notion that companies with higher capital intensity tend to have higher returns on capital employed, as they are able to generate more sales and revenue from their capital assets.

Igbinovia and Usman (2024), Jackson and Ine-Tonbarapa (2023), and Kinyua and Okiro (2022). Igbinovia and Usman (2024) found that capital intensity exhibits an inverse and statistically significant impact on Tobin's Q measure of performance of manufacturing firms in Nigeria. Jackson and Ine-Tonbarapa (2023) found that there is no significant relationship between capital intensity and profit after tax of listed pharmaceutical companies in Nigeria. Kinyua and Okiro (2022) found that capital allowance, which is a form of capital intensity, positively influences the profitability of Savings and Credit Cooperative Societies (SACCOs) in Nairobi County, Kenya. These studies suggest that capital intensity can have a significant impact on financial performance, although the direction of the relationship may vary depending on the context and industry.

CONCLUSION AND RECOMMENDATIONS

Overall, the study concludes that corporate tax savings plays a pivotal role in shaping financial performance of firms, and firms that effectively manage their tax saving strategies are likely to achieve competitive advantages in financial performance and competitiveness. The findings of this study have implications for policymakers, managers, and investors. Policymakers can use the findings of this study to inform tax policy decisions that promote economic growth and development. Managers of listed non-financial firms in Nigeria can use the findings of this study to inform their tax planning strategies and improve their financial performance. It was recommended that Managers of listed non-financial firms in Nigeria should adopt thin capitalization strategies, and consider investing in capital-intensive projects to improve their financial performance.

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