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Saheed Akande Shittu*
Federal Polytechnic Ayede

Emmanuel Abiodun Alagbe**
LAUTECH, Ogbomoso

Olushola Rasheed Jimoh***
The Polytechnic Ibadan

TAX PLANNING, CORPORATE TAX AVOIDANCE AND REAL EARNINGS MANAGEMENT: GMM APPROACH IN NIGERIA

Keywords: tax planning, corporate tax avoidance, listed non-financial firms, real earnings management, Nigeria, GMM.

J E L Classification: H21, H26, L60.

Abstract: The study examines the effect of tax planning and corporate tax avoidance on Real Earnings Management (REM) in Nigeria. Data were gathered from the financial reports of 58 listed non-financial firms for twelve years, from 2010 to 2021. Preliminary analyses such as descriptive statistics, correlation matrix, and variance inflation

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* Contact information: shittusa1212@gmail.com, Federal Polytechnic Ayede, Oyo State, Nigeria, phone: +23 48 034 309 458; ORCID ID: https://orcid.org/0000-0003-3382-5917.

** Contact information: eaalagbe@lautech.edu.ng, LAUTECH, Ogbomoso, Oyo State, Nigeria, phone: +23 48 033 775 012; ORCID ID: https://orcid.org/0009-0002-7351-4152.

*** Contact information: rojimt_78@yahoo.com, The Polytechnic Ibadan, Oyo State, Nigeria, phone: +23 48 033 946 096; ORCID ID: https://orcid.org/0009-0003-9533-2250.

factor were conducted. The Generalized Method of Moments (GMM) was employed to identify a possible effect on REM. The study revealed that tax planning has a positive and significant effect on REM, while corporate tax avoidance has a negative and significant influence on REM. Also, leverage revealed a negative significant effect on REM, while firm growth has no significant effect on REM. However, firm size has a significant positive influence on REM. The study concludes that tax planning and corporate tax avoidance have a significant influence on REM. Thus, the study recommends that tax authorities should ensure that firm management engages in lowering capitalization limits, ensures first-in, first-out instead of last-in, reduces nonobligatory expenses for short periods, and ensures moderate deferred tax expenses in order to reduce REM through tax planning.

Introduction

Taxes are a required payment that the community and the business both view as a hardship. Through tax planning, businesses can reduce the cost associated with these taxes. Tax avoidance is one strategy for tax planning. The burden should be kept to a minimum, and the firm value should be maximized using this approach. A company's worth might rise when it makes the most money and performs well financially. The business must pay taxes since it is a taxpayer. The corporation is required to deposit taxes each period based on the profit made because it is the subject of the tax in the country where the company is situated. In light of the company's aim and interest in managing its finances in a way that maximizes profits, the tax issue becomes crucial (Adegbite, 2019; Adegbite, Bojuwon & Adegbite, 2019; MinhHa, Tuan, Yue, Hoang & Ntim, 2021; Wibowo, Widyastuti, Murtanto & Faisal, 2022; Ahmed, Shah, Ijaz & Ghouri, 2023). The corporation typically seeks to reduce its tax liability since it sees it as a hardship. Tax planning is frequently used to try to reduce the amount of taxes owed by the business. It is also a strategy or approach to reduce or simplify tax payments. Corporate Tax Avoidance (CTA) comprises both legal and illicit tax planning and evasion with the goal of lowering the company tax burden through investments and business activity structuring that is compliant with tax rules or that is in contravention of tax laws and associated regulations (Karmańska, 2014; Adegbite & Shittu, 2017; Dyreng, Hanlon & Maydew, 2010; Alkausar, Nugroho, Qomariyah & Prasetyo, 2023; Harymawan, Anridho, Minanurohman, Ningsih, Kamarudin & Raharjo, 2023). The capacity of a company to control its taxable income downward through more or less active tax planning efforts is known as tax avoidance (Osegbue, Obasi & Nwoye, 2019; MacCarthy, 2021; Ojo & Shittu, 2023).

CTA lowers taxes that governments may levy to fund the economic and social advancement of their nations. Governments, legislators, and other stakeholders are eager to comprehend the variables influencing the amount of tax evasion because of this (Kimea, Mkhize & Maama, 2023). The reported accounting figures and earnings information offer the most trustworthy data for readers of financial statements to evaluate the overall financial status and performance of the reporting entities. The audited earnings data and disclosures serve as the foundation for all stakeholders' business and investment decisions, but investors and regulators in particular rely heavily on them. Therefore, readers of financial statements deserve to be guaranteed to receive trustworthy and high-quality earnings information that accurately depicts the financial position of the company's operations. There is no guarantee that there will never be financial statement manipulation, not even with audited financial statements. Earnings Management (EM) is the practice of modifying reported results to meet pre-determined goals. Business managers are required, under a number of accounting policies and principles, to make choices with this in mind. As a result, EM keeps an eye on how accounting principles might be applied and financial statements can be generated to boost or decrease firm income (Vagner, Valaskova, Durana & Lazaroiu, 2021; Shittu, Alagbe, Oke & Fadipe, 2023).

EM is an attempt by management to sway the information in financial statements or interfere by deceiving stakeholders who are interested in learning about the performance and state of the company. The trustworthiness of the financial statements and the bias in the financial statements are both impacted by EM (Oskouei & Sureshjani, 2021; Abubakar, Mansor & Wan-Mohamad, 2021; Shittu, Onifade, Aminu & Ajibola, 2023). According to Le, Ha, Nguyen and Doan (2023), in order to accomplish goals or project a positive financial image, EM may alter financial accounts, which could have an impact on contractual obligations such as the payment of taxes. Managers perform EM by utilizing three techniques. The first one is accruals EM, when management changes accounting rules and profit projections. Discretionary accrual is among the factors that determine companies' managers ability to perform tax planning. Real Earnings Management (REM) is the second technique that deviates from standard company practices in order to change earnings figures. To increase core profitability, the third technique, known as classification shifting, entails relocating core expenses to special items on the income statement (Shittu & Amao, 2022; Shittu, Onifade, Ajibola & Aminu, 2023). Because REM has a direct impact on the company's current and future cash flows, it is the subject of this study. For instance, cutting back on discretionary spending and lowering prices to increase sales Managers might and reduce income statement costs that affect how taxes are calculated during a particular period.

Tax planning, CTA, and REM have garnered significant attention in the fields of accounting and finance. Tax planning uses legal strategies to reduce how much tax a corporation has to pay; CTA involves the use of legal means to reduce tax liabilities; and REM refers to the manipulation of financial statements to achieve a desired earnings outcome. The relationship between tax planning and REM is complex and has been the subject of extensive research in the field of accounting. Previous studies have come up with different results (Firmansyah & Febriyanto, 2018; Rani, Susetyo & Fuadah, 2018; Pratiwi & Siregar, 2019; Kałdoński & Jewartowski, 2020). None of these studies focused on tax planning and REM in Nigeria. Tanko (2023), which used REM as a moderating variable in Nigeria, was based on manufacturing firms only. The influence of tax planning and CTA on REM in Nigeria is a complex and multifaceted issue that continues to be the subject of ongoing research. More so, efforts to promote tax compliance and reduce CTA may have unintended consequences for REM. Research on the effect of tax planning and REM has also been recommended by previous studies (Widiatmoko & Mayangsari, 2016; Sundvik, 2017; Shittu & Alagbe, 2023). Similarly, Almashaqbeh, Abdul-Jabbar and Shaari (2018) suggest that tax planning and CTA should be considered in examining their influence on REM. In Nigeria, previous studies have primarily focused on the influence of either tax planning or CTA on REM (Uwuigbe, Okoye & Nwobu, 2017; Obazee & Adegbite, 2018; Okezie, Ezeani & Okoye, 2019; Abubakar et al., 2021).

More so, none of these studies consider ten sectors in this current study. This study, therefore, addresses these research gaps by ensuring that both tax planning and CTA are assessed on REM among selected firms in Nigeria for twelve years. This study provides evidence that tax planning and tax avoidance by firms can be determined by the firm's ability to manage finances to sustain the continuity of business operations. Also, it provides benefits to managers, regulators, and other stakeholders in Nigeria as well as other countries with the same tax system to make informed decisions and to help curtail REM and efficient adoption of tax planning. The rest of this paper is structured as follows: section 2 discusses the development of hypotheses and the review of the literature. The research methodology employed in this study is covered in section 3. Section 4 focuses on the results and discussion of empirical findings. The study is concluded in section 5, with recommendations.

Literature review

Theoretical Review

Positive Accounting Theory

One of the most significant accounting ideas in recent decades has been positive accounting theory. The political-contractual theory is another name for it. The positive accounting theory was created by Watts and Zimmerman in 1986 with the intention of explaining and forecasting accounting behavior. It illustrates how earnings management is done while reported financial statements are being prepared. Since tax planning, corporate tax avoidance, and earnings management strategies are essentially the same thing, one may review tax planning and tax avoidance strategies using a positive accounting theoretical foundation. Practices for managing earnings are based on positive accounting theory, which offers management choice in selecting alternatives to be used to reduce burden and achieve goals (Neffati, Am, Khiari & Lajmi, 2020). The tendency of managers is to implement accounting procedures that defer current year earnings to the following year in order to avoid political costs or accounting methods that transfer next year's profit to the current year in order to reduce technical defaults in debt agreements (Rahayu, Azizah & Handaya, 2023). In addition, this theory seeks to comprehend and forecast the selection of accounting procedures across various organizations while acknowledging that such decisions have economic repercussions. This demonstrated that accounting information might influence managerial and other stakeholders' actual decisions rather than just reflecting their outcomes.

Empirical review and hpotheses development

Tax Planning and REM

Tax planning and REM are closely linked, and efforts to curb one may have unintended consequences for the other (Durana, Ginevicius, Urbanski, Podhorska & Tumpach, 2021). REM involves changes in financial reporting either to mislead financial information users about a firm's profitability and financial position or to alter contractual outcomes that largely rely on the reported financial numbers (Healy & Wahlen, 1999, cited in Ding, Liu, Wang & Wu, 2021). Some studies have been conducted on tax planning and REM. For instance, Kubick, Lockhart, & Robinson (2021) examined the effect of taxes on EM. The study observed a significant change in pretax EM. More so, the study carried out by Okezie et al. (2019) found a positive relationship between tax planning and REM in Nigerian companies, suggesting that companies that engage in tax planning are more likely to engage in EM. Other studies have also explored the role of corporate governance mechanisms in moderating the relationship between tax planning and REM in Nigeria. For example, a study by Obazee and Adegbite (2018) found that EM can be reduced even among companies that engage in tax planning. The impact of tax planning on REM is not limited to Nigeria alone. Studies conducted in other countries have also examined this relationship, with mixed results.

For instance, Franio and Juliandi (2022) assessed the relationship between tax planning and EM among listed consumer goods firms in Indonesia for a period of four years, from 2018 to 2021. The study employed multiple linear analyses, and it was revealed that tax planning significantly influences EM. Similarly, Polpanumas, Thanjunpong, Bangmek & Waenkaeo (2021) observed a positive effect of tax planning on REM in a study carried out among public limited companies in Thailand. In addition, Ifada and Wulandari (2015) analyzed tax planning toward EM among 207 non-manufacturing listed firms in Indonesia and revealed that tax planning has no significant effect on the increase in EM. More so, a study by Hanlon and Heitzman (2010) in the United States found that tax planning is positively associated with EM. However, Ayers, John and Stacie (2009) examines how tax planning influences EM using taxable income as a performance measure. The study opined that tax planning and low earnings quality have contrasting influences on the information content of estimated taxable income. Likewise, in a study conducted by Sumomba and Hutomo (2012), it was observed that tax planning has no significant influence on EM. Hence, the relationship between tax planning and REM in Nigeria is still an area of active research, and further studies are needed to fully understand the impact of tax planning on EM in the country, particularly REM. Furthermore, the majority of the studies focus on a particular sector, while this study considers ten sectors. Against this backdrop, the study developed the hypothesis as follows:

H1: Tax Planning has no significant influence on REM in Nigeria.

Corporate Tax Avoidance(CTA) and REM

Studies have been conducted on the influence of CTA on REM. For instance, Abubakar et al. (2021) worked on the effect of CTA on REM in Nigeria. The results show that CTA increases REM. More so, a study by Uwuigbe et al. (2017) found that CTA has a positive impact on REM in Nigerian companies. The study suggests that companies that engage in tax avoidance are more likely to engage in EM. Furthermore, other studies have found a negative relationship between CTA and REM. For instance, a study carried out by Amidu and Yorke (2017) in Ghana, the findings revealed that CTA does not lead to a reduction in EM associated with an increase in CTA. Similarly, in a study conducted by Guenther, Matsunaga and Williams (2017), it was revealed that CTA has a negative and significant effect on EM.

Likewise, Delgado, Fernández-Rodríguez and García-Fernández (2023) reveals no significant difference in CTA on EM in a study conducted among the five largest European Union economies. However, Tang, Mo and Chan (2017) carried out a study in China with 5201 firm-year observations, and the results showed a positive effect of tax avoidance on EM. It is worth noting that the issue of CTA and REM is not limited to Nigeria alone. Studies conducted in other countries have also explored this relationship, with mixed results. For example, a study by Xie, Chang and Shiue (2010) in Taiwan found no significant relationship between CTA and REM. These previous studies observed different findings; some found a significant positive impact, while others observed a negative influence. More so, none of these studies focused on REM across different sectors in Nigeria. Further research is needed to fully understand the factors that influence this relationship and to develop effective strategies for managing CTA and REM in Nigeria and other countries that have similar tax systems as Nigeria. Given the need to fill the literature gap, the study hypothesizes that:

H2: Corporate tax avoidance has positive effect on REM in Nigeria.

Methodology

Research Design

Quantitative research was employed for this study to obtain and analyze data as well as present findings. The study used a firm-level strategy to analyze the data collected using a non-experimental, expo-facto research design. The research is longitudinal for twelve (12) years, from 2010 to 2021, employing listed non-financial firms on the floor of the Nigerian Exchage Group (NGX).

Sample Size and Sampling Technique

The population consists of all listed companies on NXG as of December 2021. A multistage sampling technique was used. Firms were segregated into financial and non-financial categories, and finally, firms with data needed for the study were chosen, as shown in tables 1 and 2.

Table 1. Listed Firms in Nigeria as at 31st December, 2021

Total listed firms	157
Listed financial firms	44
Listed non-financial firms	113
Listed non-financial firms without data needed for the study	55
Sampled firms	58

Source: authors compilation.

Table 2. Sample for the Study

Sector	Selected firms
Agriculture	4
Conglomerate	5
Consumer goods	10
Construction & real estate	2

Table 2. Sample...

Sector	Selected firms
Healthcare	5
ICT	4
Industrial goods	6
Natural resources	4
Oil & gas	7
Services	11
Total	**58**

Source: authors compilation.

Method and Sources of Data

Secondary data for sampled listed non-financial firms was gathered from annual financial reports and NXG fact books for the study period. A generalized method of moments was employed to examine the effect of dependent and control variables on REM.

Table 3. Variables Measurement

S/N	Variable	Measurement	Reference
	Dependent		
1	Real Earnings Management (REM)	Abnormal cash flow from operation(ACFO*-1) + Abnormal production cost (APROD) + Abnormal discretionary expenses(ADISEXP*-1)	Roychowdhury (2006) model. Shittu and Onifade (2023)
	Independent		
2	Tax Planning	Organizing the taxpayer efforts in a way that the debt taxes either income tax or other taxes are in the position of the minimal possible	Kasipillai and Mahenthiran (2013), Mudjiyanti (2018)
3	Corporate Tax Avoidance (CTA)	Tax expense ÷ earnings before profit and tax	Kurniasih, Sulardi and Suranta (2017), Rahayu et al. (2023)

Table 3. Variables…

S/N	Variable	Measurement	Reference
	Control		
4	Leverage (LEV)	Total debt ÷ total asset	Chakraborty (2023), Chakraborty and Md. (2023)
5	Firm Size (FS)	Natural Log of Total Asset	Shittu, Oyedeji and Onifade (2022), Desai and Desai (2019).
6	Growth (GR)	Market capitalization ÷ sharehol-der equity	Onaolapo and Shittu (2022), Kurniasih, Yusri, Kamarudin and Sheikh Hassan (2023)

Source: authors compilation.

Model Specification

The study model was adapted from the works of (MacCarthy, 2021; Tanko, 2023) as shown below.

$$REM_{it} = \beta_0 + \beta_1(TP)_{it} + \beta_2(CTA)_{it} + \beta_3(LEV)_{it} + \beta_4(GR)_{it} + \beta_5(FS)_{it} + \varepsilon_{it}$$

Where REM is dependent variable. Also, TP, CTA, LEV, FS and GR are independent and control variables while $\beta_{1,}$ $\beta_{2,}$ $\beta_{3,}$ $\beta_{4,}$ *and* β_5 represent regression coefficients estimated. More so, β_0 is the constant on the regression equation; t represents time series of the study (t = 1, 2, 3, 4, & 5); i is the cross-section i.e., 76 listed non-financial firms in Nigeria with needed data; ε is error term.

Results and discussion

Descriptive Statistics

Table 4. Descriptive Statistics

Variable	Mean	Min	Max	Std. Dev.	Skewness	Kurtosis	Observation
REM	0.2164	-3.1767	3.1149	0.5017	0.1119	12.6495	696
TP	14.7770	0.3771	60.5480	10.1473	1.0126	4.1513	696
CTA	12.3611	0.3011	96.8795	9.9970	2.2471	13.6181	696
LEV	20.0073	0.7054	85.8905	2.7014	1.3518	4.9502	696
GT	41.7731	1.5237	98.6393	19.2213	0.4071	2.6129	696
FS	4.7320	1.2523	6.6309	0.9683	-0.4932	3.1087	696

Source: authors' computation (2023) and output of STATA 14.

Table 4 shows the descriptive statistics of the study variables with a total of 696 observations. From the table, the average of REM is 0.22, with a minimum of -3.18 and a maximum of 3.11. The standard deviation of 0.50 indicates a small spread around the average value. More so, TP has an average value of 14.78, with minimum and maximum values of 0.38 and 60.55, respectively. The standard deviation of 10.15 shows a wide spread around the average value. Likewise, CTA has a minimum of 0.30 and a maximum of 96.88. The standard deviation of 10.00 implies a wide spread of variation around the average value of 12.36. In the case of control variables, LEV, GT, and FS show average values of (20.01, 41.77, and 4.73) with standard deviation values of (2.70, 19.22, and 0.97). The gap between minimum and maximum suggests that the data are homogenous. More so, kurtosis values imply that most of the study variables, such as REM, CTA, LEV, and TP, were highly picked. In addition, except for FS, other study variables were positively skewed, which indicates that most of the data is on the right side of the normal curve.

Multicollinearity and Robustness Tests

Table 5. Correlation Matrix and Variance Inflation Factor (VIF)

Variable	REM	TP	CTA	LEV	GT	FS	VIF	Tolerance
REM	1.0000							
TP	-0.1567	1.0000					1.48	0.6767
CTA	-0.1140	0.5638	1.0000				1.48	0.6775
LEV	-0.3113	0.0804	0.0277	1.0000			1.12	0.8965
GT	0.2321	-0.0059	-0.0330	-0.2992	1.0000		1.10	0.9064
FS	0.0496	-0.0478	-0.0775	-0.0782	-0.0184	1.0000	1.01	0.9861

Source: authors' computation, (2023) and output of STATA 14.

As shown in table 5, a correlation matrix and Variance Inflation Factor (VIF) were employed to test for multi-collinearity between the variables. There was low correlation between variables because all coefficient values were less than 0.8, indicating that the multi-collinearity problem did not exist (Khanh & Thu, 2019). Furthermore, VIF thresholds are between 5 and 10. All VIF values obtained are less than 5, which is within the threshold. Therefore, there is no multicollinearity problem across the study variables.

Effect of Tax Planning and Corporate Tax Avoidance on REM

Table 6. Effect of Tax Planning and Corporate Tax Avoidance on REM

REM_{t-1}	28.70** (0.000)
TP	6.10** (0.000)
CTA	-4.44** (0.000)
LEV	-7.18** (0.000)

Table 6. Effect...

GT	-0.71 (0.479)
FS	18.90** (0.000)
Constant	-12.95 (0.000)
Wald Chi2 Statistic	2148.17 (0.000)
Sargan Test	45.47 (0.962)
Second Order Aut. Test	1.43 (0.151)

** Significant at 5%

Source: authors' computation, (2023) and output of STATA 14.

Table 6 shows the results of the influence of Tax Planning (TP) and Corporate Tax Avoidance(CTA) on REM. TP had positive and significant effects on REM ($\beta = 6.10$; $p > |t| = 0.000 < 0.05$) while CTA had negative and significant influence on REM ($\beta = -4.44$; $p > |t| = 0.000 < 0.05$). Similarly, Leverage (LEV) ($\beta = -7.18$; $p > |t| = 0.000 < 0.05$) shows negative and significant effects on REM. Likewise Growth (GT) ($\beta = -0.71$; $p > |t| = 0.479 > 0.05$) had negative but insignificant influence REM. However, Firm Size (FS) had positive and significant effects on REM ($\beta = 18.90$;p>$|t| = 0.000$<0.05). Diagnostic tests of Wald chi2 (2148.17; $p = 0.000$) and Sargan statistic (45.47; $p = 0.962$) reveal that the model has a good fit. More so, the Arellano-Bond test for zero autocorrelation reveal that second order autocorrelation test AR (2) of the Z-statistic is (1.43; $p = 0.91$) means that the model is free from the problem of autocorrelation. Thus, the results were valid for policy inference.

Discussion of Findings

This study examines the effect of TP and CTA on REM among listed non-financial firms in Nigeria. The positive effect of TP on REM suggests that the sampled firms engaged in REM through TP. This corroborates with the findings of (Okezie, Ezeani & Okoye, 2019; Polpanumas et al., 2021). However, the study differs from the work of Obazee and Adegbite (2018), which states that tax planning has a significant negative effect on REM. More so, the negative effect of CTA on RÈM depicts that sampled firms do not manipulate earnings to evade tax. This result in line with previous studies (Yang, Lai & Tan, 2008; Guenther et al., 2017). However, it differs from the works of (Uwuigbe, Okoye & Nwobu, 2017; Tang et al., 2017; Amidu, Coffie & Acquah, 2019). With regards to control variables, the negative influence of LEV on REM implies that sampled firms did not engage in REM through leveraging. This is in line with the outcomes of previous studies (Saline, 2020; Owusu, Zalata, Omoteso & Elamer, 2020), which found a negative and significant influence of LEV on REM. However, the result is in contrast with the research findings of Ogiriki and Iweias (2020). Furthermore, the positive and significant effect of FS on REM indicates that the higher the firm, the more the sampled firms engage in REM. The results support the findings of Kim, Lee and Yoo, (2020) while differing from the results of Hassan and AbdulRahaman (2020).

Conclusion and recommendations

The studyassesses the impact of tax planning and corporate tax avoidance on REMamong listed non-financial firms in Nigeria. The majority of previous studies, particularly in Nigeria, focused on discretionary accrual and were also primarily based on corporate tax avoidance, with a maximum of ten years for the analysis. Those that worked on REM focused on a particular sector, while the current study considered ten sectors for twelve years. The study concludes that tax planning and corporate tax avoidance have a significant effect on REM. Thus, the study recommends that tax authorities should ensure that firm management engages in lowering capitalization limits, ensures first-in, first-out instead of last-in, reduces nonobligatory expenses for short periods, and ensures moderate deferred tax expenses in order to reduce REM through tax planning.

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