

POLITICAL COST AND TAX PLANNING IN NIGERIA

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**A PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTING IN PARTIAL
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DECLARATION

I, **OSAZEE SAMUEL OMOMA** hereby declare that;

- i. This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Dr. Uyi Obazee. This work has not been submitted for the award of degree elsewhere.
- ii. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged
- iii. Any liability arising from this work is to be wholly borne by me alone

OSAZEE SAMUE OMOMA

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DATE

CERTIFICATION

This is to certify that this work was carried out by **OSAZEE SAMUEL OMOMA** with Matriculation Number **MGS1814411** in the Department of Accounting, Faculty of Management Science, University of Benin, Benin City.

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Date

PROF. OSASU OBARENTIN
Head of Department

Date

DEDICATION

I dedicate this work first and foremost to Almighty God who has been there right from the beginning to this very point and also to my Late parents, Mr Alex Omozusi Omoma and Mrs Vero Esohe Omoma and also to my siblings, Esewi, Faith, Amen, Charity, Isoken, Enore for their relentless support and compassion towards me.

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Who have been there for me through thick and thin, Their unwavering support and encouragement have kept me going during challenging times, YOUR love, support and companionship means the worlds to me.

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ABSTRACT

The study examines how political costs of firms in Nigeria influences tax planning.

The study concludes political cost and institutional ownership has a negative significant effect on tax planning of listed manufacturing firms in Nigeria. However, profitability and managerial ownership has no insignificant effect on tax planning of listed manufacturing firms in Nigeria during the period under review. Finally, the study conclude that leverage has a positive insignificant effect on tax planning of listed manufacturing firms in Nigeria.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

There are some factors that are necessary for a business or organization to operate and survive. When making decisions in businesses, political considerations should be taken into account as they are one of the key variables that have a significant impact on the business. For instance, the government has a lot of influence over businesses since it controls the tax laws in the nation where the company operates.

Tax is a mandatory financial charge or sort of levy that the government imposes on people and legal businesses (also known as tax payers). Government expenses and other public expenditures can be paid for with the money made through these processes. Taxes are one of the biggest costs (Cong, Ryan, Shuran 2021), hence taxes. Because it decreases cash flow, paying taxes is a significant expense and liability for businesses and their owners (Tijjani & Peter 2020). All business owners (shareholders) want to maximize their wealth, thus pressure is put on their companies to reduce costs, which includes paying as little tax as possible (Tijjani et al 2020). As a result, the management of these companies employ techniques that allow them to pay less tax than they should. Tax Planning is the name given to these actions.

According to Akintoye, Adegbie, and Chimerue (2020), tax planning is the deliberate process of reducing one's tax liability by the meticulous organization of one's activities. It is also

viewed as the process of setting up the taxpayers' business so that their tax burden would be as low as possible, provided that they do it within the parameters of the current tax legislation (Nurfadila , Muslim 2020). All businesses would want to engage in tax planning because it is believed to be the most effective way to reduce tax liabilities without violating the law (Tijjani et al. 2020). However, because certain considerations must be made, it is not possible for all businesses to engage in tax planning. Political costs are a key factor.

Political costs comprise any expenses that companies incur related to governmental rules and regulations (Nurfadila et all 2020). Government and policymakers impose laws on businesses without taking into account the effects on their constituents, which results in political costs (Cong et all 2021).

1.2 Statement of Research Problem

In an ideal world, every business would want to engage in tax planning because it helps keep its tax liability to a minimal (Nurfadila, Muslim 2020). However, not all businesses can genuinely engage in tax planning because some businesses are the subject of more scrutiny and government examination than others. The type of commodities they produce is one of the causes.

Companies that are known to create goods and provide services outside society norms are subject to increased taxation (Cong, Ryan, Shuran, & Hong 2021). Taxes are one tool the government employs to cut back on social programs and services. These businesses then spend more on what are known as political costs (which are determined by size, profit, board

independence) attempting to curry favor with the government so that the taxes imposed upon them might be decreased.

These businesses are unable to engage in tax planning since they are already known to be subject to high taxes and run the risk of being requested to cease operations if found to be doing so because their financial reports are subject to public scrutiny from the government and public authorities.

These studies seek to produce appropriate literature on Political Cost versus Tax Planning in Companies Using Nigerian Companies for the five-year period from 2019 to 2024.

1.3 Research Questions

Using values gotten from Manufacturing companies in Nigeria as well as findings from existing literature; the above stated problem seeks to provide answers to the following questions:

- i. Is there a relationship between political costs and tax planning?
- ii. Does the size of a firm affect its level of engagement in tax planning?
- iii. Can the profitability of a firm influence tax planning?
- iv. Does managerial ownership have an influence in tax planning?
- v. How does leverage influences Tax planning?

1.4 Objective of the Study

The main objective of this study is to examine how political costs of firms in Nigeria influences tax planning. The specific objectives are:

- i. To determine the relationship between the size of a firm and Tax planning.
- ii. To examine how profit of a firm influences Tax planning
- iii. To investigate whether institutional ownership influences Tax planning
- iv. To determine how managerial ownership influences Tax planning
- v. To evaluate how leverage can influence tax planning

1.5 Research Hypothesis

The following hypothesis were in a null form;

H₀₁: There is no relationship between political costs and tax planning

H₀₂: There is no relationship between firm size and tax planning

H₀₃: There is no relationship between profitable firms and tax planning.

H₀₄: There is no relationship between leverage and tax planning

1.6 Scope of the Study

The area of this study covers political cost and tax planning of companies. However, this study is specifically focuses on Nigeria using all manufacturing firms that are listed on the floor of the Nigerian Exchange Group over a 6year period i.e., between 2019 and 2024. As of 31st December 2025, there were 59 manufacturing companies listed on the floor of the Nigerian Exchange Group. Tax planning is measured by Effective tax rate (ETR) as the dependent variable to reflect the actual tax burden borne by firms; while Political cost is measured using firm size, leverage and profit of the firm for the period of 2019 to 2024 (six years).

1.7 Significance of the Study

There have been various research and studies on taxation both locally and internationally. Considerable efforts on empirical literature on studies on tax avoidance and tax evasion have been made also. However, there is very limited study on Political cost and Tax planning in Nigeria. Also, there are inconsistencies in institutional ownership, leverage and managerial ownership influence on tax planning. These study is going to be significant to these persons in the following ways:

- 1. Academia and Financial accounting researchers:** adding to existing and emerging literature that examines the relationship between political cost and tax planning.
- 2. Government, Policy makers and Politicians:** to give an insight on how to go about tax allocations in companies and save the Nigerian economy from collapse.
- 3. Tax practitioners:** knowledge on considerations on the status and nature of their client firms before carrying out tax planning decisions.
- 4. Public:** a better knowledge and understanding on how the differences between taxpayers and government can be resolved.

CHAPTER TWO

LITERATURE REVIEW

This chapter is divided into: Conceptual clarification, Review of past studies and Review of relevant theories.

2.1 Conceptual Clarification

2.1.1 Political Costs

Political costs have been characterized in a variety of ways by different authors, all with the same basic meaning. According to Mohammad, Shadi, and Mohsen (2016), political pressure, legal action, and regulatory approval are all ways that political cost is placed on businesses. They cited taxes as an important illustration of political cost. Another meaning is that political costs are expenses borne by businesses that opt for more cautious accounting practices to either avoid or lower the costs of scrutiny (Lillian, Sarah, & Casey 2010). According to the research done by Cong, Ruan, and Hung in 2021, political costs are expenses incurred as a result of politicians' use of regulations to both generate and extract rents from commercial activity.

Cong et al. (2021) state that Political costs are wealth transfers that the government imposes. They argued that the political cost of more rules was significant because they could generate wealth transfers away from the company. Pensions, insurance, and payments to unions are additional examples of political expenses. Additional industry-specific levies and product

market involvement in the capital markets were cited as instances of political costs in their investigations.

Taxes, the price of commodities, insurance expenses, gifts to individuals and organizations, and political pressures are all examples of political costs (Mohamuad, Bahareh, & Kaveh 2012).

Laws have political costs because businesses operate in a political environment. Mahdi, Hashem, Reza, and Mahammad (2009) used the following instances to illustrate political costs:

- Taxes, which statistical societies regard as obligatory political costs, are one of the fundamental and significant elements in all of the chosen companies.
- Insurance properly (these political costs recognize as the compulsory and important things in political costs group).
- Assist in sports (which is voluntary political costs).
- Aid in the development of the educational sector (which is voluntary political costs).
- Setting up seminars and conferences is expensive (which are voluntary political costs).
- Biological environment costs protection (which is compulsory political costs).
- Costs are one thousand and two thousand (which is compulsory political costs).
- Export regulations (which are compulsory political costs).

They also noted that items with the title "political costs" are quite prevalent in the companies they surveyed. Other political costs can be categorized as such due to their low

importance in terms of price and frequency across all businesses (There were these political costs in some of the surveyed companies).

2.1.2 Tax Planning

Different names are used to describe the action of tax payers decreasing their tax burden, including tax planning, tax aggression, and tax avoidance. Companies engage in tax planning as a strategy to lower taxes because they feel that paying taxes will negatively impact their cash flow (Niluh, Iman & Arui 2021). According to Tijani and Peter 2020's research, tax planning is the most effective way to lower tax obligations while abiding by the law. Another definition of tax planning is the use of strategies by businesses to reduce their tax obligations. The transfer of value from the government to the business through tax planning enhances shareholder interest (Desai & Dharmapala 2009; Zaitul & Desi, 2019).

The effective tax rate (ETR) is a measure of how much of a company's commercial profits are actually paid in taxes (Putu & Sukartha, 2021). ETR can be estimated using various measures of tax liability and pre-tax income, and the time periods that make up the measure can change. A firm is more likely to evade taxes the lower the ETR is (Arranti, 2020 & Putu et al 2021). Low ETR companies are seen as tax doggers who use accounting tricks to push the boundaries of tax law by the media, policymakers, and public interest groups, who view these companies as carrying higher tax risk than companies with higher ETR. Effective tax planning requires an in-depth understanding of the tax policies and other regulations that are explicitly

stated in the country's government fiscal policies (Oyeyemi & Onakoya, 2016). This is because excessive tax planning may be viewed negatively by regulators and policy makers, which could result in retaliation in the form of additional taxes and regulations.

2.1.3 Firm Size

The scale or volume of production produced by a single firm is referred to as the size of the firm. Firm size is frequently cited as a crucial, essential firm characteristic (Chongyu & Frank, 2015). Typically, it depends on the type of business, capital invested, cost of the products used, accessibility of the resources, total assets, output value, etc. The business is strongly impacted by a company's size, which also plays a key role in the attainment of the firm's efficiency and profitability. Many proxies can be used to measure it. The most popular substitute is total assets (Khadijat & Kabir 2020). According to Mohamed, Bahareh, and Kaveh (2012), as firm sizes grow, so do political costs, and as firm sizes shrink, so do political costs.

2.1.4 Leverage

Leverage is the proportion of a company's debt to the value of its common stock (equity). It refers to how much of a company's funding comes from external, wholly debt-based sources. Leverage gives tax benefits because it is closely related to interest costs, which can lower the company's tax liability (Putu et al 2021). The company's tax policy plays a big part in how much tax planning is done, including deciding whether to finance the business with debt or leverage (Bambang, Yudha & Abim 2017).

2.1.5 Profitability

A company's capacity to turn a profit is its profitability. It is described as having the property of being successful. A corporation is said to be profitable when it is making money. When an entity's total revenue is higher than its total expenses within a reporting period, this is when profitability is considered to have occurred. Making money is the main objective of all businesses, thus it is important to take this into account, especially if the firm wants to continue operating as a going concern and satisfy its stakeholders (Ishola, Fola & Chimerue 2020). Return on assets or Return on capital utilized are common metrics for determining profitability (ROA)

2.1.6 Board Independence

The term “board independence” describes the presence of independent directors in a company. The majority of the Board of Directors are regarded as independent when they have no connection to the company other than their service as directors. Because of their independence, they may make decisions that are more objective, which helps the firm function better. The ratio of non-executive directors divided by the total number of board members is typically used to calculate board independence.

2.1.7 Managerial Ownership and Institutional Ownership

When mutual or pension funds, insurance firms, or other sizable organizations that manage money on behalf of others own a significant portion of a company's stock, this is referred to as institutional ownership. The ratio of outstanding shares to shares that all members

(directors) owe is known as managerial ownership. At the end of the accounting year, it is expressed as the proportion of equity shares that directors and members of their immediate families owed.

2.2 Review of Literature

Political Cost and Tax Planning

In their study undertaken to find evidence on the relationship between political costs and accounting choices using federal contract data, Lillian, Sarah, and Casey (2010) looked at whether businesses engaged in tax planning as a result of increased governmental scrutiny. It was discovered that federal contractors spend less time on political expenses and less time on tax planning. Additionally, their investigation revealed that a bigger portion of the company's revenue comes from federal contracts. Smaller contractors are subject to greater scrutiny, whereas large, politically influential contractors are not bound by such expenses, it was determined. Therefore, they recommended that only business owners with significant political clout engage in tax planning.

In the study on political costs and tax avoidance by Cong, Ryan, Shuan, and Hong (2021) using sin manufacturing companies as a case study, it was discovered that businesses that produce goods that are perceived negatively as being against social norms face greater political costs and thus do not engage in tax planning. According to Kayode, Saheed, and Yusuf's (2020) research on the effects of leverage, profitability, and firm size on tax aggressiveness, firm size is

one of the key factors used to explain the tax burden of a company. Greater regulatory actions by the government and wealth transfers are more likely to affect larger, more successful businesses the more visible they are. According to Kayode, Saheed, and Yusuf (2020), the size of the firm has little bearing on tax planning.

Thomas, Dominik and Christian (2018) used a meta regression analysis to review the relation between firm size and ETR based on a unique hand collected meta data set of 49 primary studies and supports the Political cost theory that ETR and size has positive relationship due to greater regulatory actions as well as public pressure and scrutiny on larger firms. Countries with a low degree of transparency or a high degree of corruption show more negative firm size estimates.

Profitability is higher for politically connected companies (Zaitul & Desi; 2019). Increase in Return on Assets can lead to increase in ETR which implies low level of tax planning. Profitability has a significant negative influence on tax planning. Tax planning would be less common because an increase in income would result in an increase in taxes as well. Managers are advised by Mohammad, Bahareh, and Kaweh (2012) to cultivate positive relationships with legislators so they can have an impact on tax legislation, specific regulations, and knowledge of political difficulties. For firms with political ties, the leverage is reduced Leverage has a considerably detrimental impact on ETR, according to Cagri's 2019 study on the factors affecting ETR.

Highly leveraged companies have lower ETR, suggesting that tax planning is practiced. Due to the fact that interest costs are tax deductible, a company's capital structure can affect ETR. Leverage and ETR might be negatively correlated. According to Kayode, Saheed, and Yusuf (2020), leverage significantly improves tax planning.

2.3 Review of Theories

2.3.1 Political Cost Hypothesis

According to the political cost theory, management is more inclined to employ accounting practices to delay reported earnings from current periods to future periods the higher the political costs to the company. The efforts of Ross Watts and Jerold Zimmerman led to its organization as an academic school of thought of discipline. The political cost hypothesis postulates that businesses will typically use different accounting methods and procedures to present their earnings as lower in order to avoid attracting the attention of politicians, who will be keeping an eye on lucrative industries. According to this theory, politics influences the selection of accounting principles.

The political cost theory's justification can be separated into two categories: First, there are more rules imposed on larger businesses. Second, they must perform responsibly and conform their business behavior to what their social environment expects since they are politically more susceptible to public criticism and scrutiny (Watts and Zimmerman (1986); Thomas et al. 2018). The association between taxes-one element of political costs-and firm size

can be used as an empirical test of the political cost theory: This finding is consistent with the political cost theory if larger enterprises do actually experience consistently greater ETRs than smaller firms (Thomas et al 2018). Because highly profitable businesses attract media and consumer attention, taxes and other regulations are raised (Scott, 2014; Mohammad, Shadi and Mohsen 2016). According to the political cost hypothesis, businesses with high profits will typically shift their income from this period to the following ones in order to avoid political costs.

2.3.2 Hoffman Tax Planning Theory

Hoffman first proposed the Hoffman tax planning theory in 1961. It stated that a firm can establish its business or accounting concepts in way so as to achieve the reduction in the amount of taxes payable. According to this theory, there are four (4) important points in tax planning:

- Planning your taxes is not an easy task
- When done correctly, tax preparation will yield enormous benefits
- Many tax payers do not use tax planning to their greatest benefit. Only a small percentage of tax payers are aware of the benefits of tax planning

Hoffman (1961) added that a company can alter its operations in order to reduce its tax liability. Due to the unclear intentions of the legislators, he found some ambiguity and loopholes in tax laws. He came to the conclusion that successful tax schemes adhere to very precise legal concepts and statutory wording, and that doing so benefits businesses in the form of tax savings.

2.3.3 Stakeholders Theory

This theory was introduced by Freeman (1984) to solve problems with business management and instilling values into the company. According to the view, the organization operates not in a vacuum but rather in communities. Therefore, during decision-making processes, the needs of individuals impacted in the areas where the organization operates must be taken into account. (Clarke 2001; Oyetunji and Timothy 2018) They comprise the community, the government, the shareholders, the employees, and the suppliers. Before beginning tax planning operations, tax payers should take into account how they will affect various stakeholders (Ishola, Akintoye, Folajimi & Chimerue 2020).

2.4 Theoretic Framework

The political cost theory, Hoffman's tax planning theory, and stakeholder theory serve as the foundation for this research. Hoffman's tax planning theory encourages businesses to use tax planning strategies because they are legal, which is why it was used in this research project. Stakeholder theory was employed because it considers all factors relating to manufacturing companies and the potential direct and indirect effects that tax planning activities may have on them.

2.5 Prior Empirical Review

According to Sinclair and Richard's study on ETR and the political cost hypothesis from 2012, the political cost hypothesis predicts that younger enterprises would have higher ETR,

indicating that they do not engage in tax planning. They came to the conclusion that larger corporations pay higher taxes than smaller corporations. According to their study, there is a nonlinear link between business size and ETR.

Politically connected corporations are shown to be more tax aggressive than non-politically connected companies, according to Effiezal, Akmalia, Marzaina, and Zuraida's 2017 study on political ties and tax aggression in Malaysia. In their investigation of tax-aggressiveness in politically connected businesses, Zaitul & Desi (2019) came to the conclusion that politically connected businesses are more tax-aggressive than unconnected businesses, but their findings also revealed that there is no discernible difference between connected and unconnected businesses.

A study on the factors that affect corporate effective tax rates that is firm-specific was undertaken by Yinka and Uchenna (2018). (ETR). The study looked at Nigeria's corporate tax system's neutrality as well as the corporate ETRs of listed non-financial companies on the Nigeria Stock Exchange (NSE). In an effort to identify the factors contributing to ETR variability in Nigeria, the association between company characteristics and variances in their ETRs was tested using seven accounting variables. These accounting factors are capital, leverage, profitability, and business size. Firm size, leverage, profitability, capital intensity, inventory intensity, labor intensity, and auditor type are some examples of these accounting factors. The calculations are based on a panel sample of 59 non-financial companies listed in Nigeria from

2010 to 2014, totaling 123 company years. Additional support for the considerable positive association between company size and ETR is provided by the fixed effect and pooled OLS models in addition to the empirical findings. The correlation suggests that larger businesses pay more in income taxes. Additional support for leverage, capital intensity, and auditor type comes from the results of the random effect and pooled OLS models. According to the study, companies who use the big 4 audit firms and are highly leveraged or capital intensive may have lower tax liabilities. Additionally, the study finds evidence that enterprises with large profits and inventory needs pay higher taxes. The fact that there is a positive correlation between corporation ETR and labor intensiveness suggests that businesses may be unaware of or not utilizing the tax benefits that come with being highly labor intensive.

Companies with political ties engage in tax planning more because they have fewer political expenses and detection risks, and they have better access to information about potential changes in tax regulations or enforcement (Kim, Liandong 2016). In order to defend themselves against such accusations, authorities may treat the tax planning practices of affiliated companies with greater vigilance at the same time. Thus, having political connections may help to lower the political costs associated with tax planning (Kim, Liandong 2016). In their investigation of political links and tax evasion, Putri, Iman, and Arun (2002) corporate responsibility for According to Tax Aggressiveness, businesses with political ties may be more likely to face

political costs and hence are less likely to engage in risky activities like tax planning that can harm their reputation.

Using more than 26000 publicly traded corporations from 48 countries between the years 2000 and 2016, April, Simone, Georgios (2019) on Corporate Tax Planning and Political Costs investigated whether equity investments by foreign institutions have an impact on the invested firms' tax planning. According to them, while some strategies or actions can result in tax savings, others run the danger of raising red flags with the relevant authorities in the event of future tax audits. Additionally, they discovered that overseas organizations effectively monitor managerial tax-related conduct.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

Ex-post facto research design has been employed in this study. The *ex-post facto* research design is adopted for this study since the study is set to determine the cause-effect relationship between the independent and dependent variables with a view to establishing a causal effect of political cost on tax planning of listed manufacturing firms in Nigeria.

3.2 Population of the Study

The population of this study is made up of all the manufacturing firms that are listed on the floor of the Nigerian Exchange Group over a 6year period i.e., between 2019 and 2024. As of 31st December 2025, there were 59 manufacturing companies listed on the floor of the Nigerian Exchange Group.

3.3 Sample Size and Sampling Technique

Particularly, this study draws the final sample size through a procedure of purposive non-probability sampling technique which takes cognizance of availability and accessibility of relevant information (data) needed for the study. First, the study deselected all manufacturing firms that joined the Nigerian Exchange Group after year 2019 which connotes the start period for this study. This was done to ensure a balanced panel data structure which will also give rise to a homogenous periodic scope necessary for the estimation process. The study also deselected

all the firms lacking complete information (in relation to data requirements) needed for the estimation. Hence, the final sample size consists of forty-three (43) listed manufacturing companies in Nigeria.

3.4 Source of Data and Method of Data Collection

This study employed secondary data collection technique. Secondary data collection is the gathering of information already researched and presented by other scholars or data obtained from other sources. The secondary sources which data for this stud were collated from include Audited annual reports of the related listed companies on the Nigerian Stock Exchange website.

3.5 Method of Data Analysis

This study employed analytical software of Stata version 14 and Microsoft excel for the analysis. The secondary data collected was analyzed using descriptive statistics, correlation, and regression analysis. The descriptive statistics was used to evaluate the characteristics of the data in terms of its 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 collinearity. Panel regression analysis technique was employed to find the cause effect relationship between the independent variables and the dependent variables. However, this method of analysis helps to establish the relationship between the independent variables and the

dependent variable of interest and to identify the direction of the relationship. It reflects the level to which a set of variables is capable of predicting a specific outcome.

3.5.1 Normality Test

Different normality tests frequently yield contradictory results, i.e. some tests reject while others fail to reject the null hypothesis of normality. The contradictory results are deceptive and frequently confuse practitioners. The Shapiro Wilk test for data normality is used in this study. The original Shapiro and Wilk (1965) test was limited to sample sizes of less than 2000. This was the first test that could detect deviations from normality caused by skewness, kurtosis, or both (Althouse et al., 1998). Because of its high power, it has become the preferred test (Mendes & Pala, 2003). As a result, the Shapiro Wilk test is justified for data normality, based on the findings of Mendes and Pala (2003) and Keskin (2006), who concluded that the Shapiro-Wilk test is the most powerful normality test. When testing for normality, probabilities values greater than 0.05 indicate that the data is normally distributed. In contrast, if the probabilities values are less than 0.05, the data is not normally distributed.

3.6 Model Specification

The econometric model of the study is expressed as;

$$DTAX_{it} = b_0 + b_1FSIZ_{it} + b_2RETA_{it} + b_3IOWN_{it} + b_3MOWN_{it} b_4DETA_{it} + e_{it}$$

Where:

- DTAX = Debt tax shield measure of tax planning
- FSIZ = Firm size
- RETA = Return on Asset Measure of profitability
- IOWN = Institutional ownership
- MOWN = Managerial ownership
- DETA = Leverage
- "{i}" = Cross Section (Sample Companies)
- "t" = Time Frame (2019 to 2024)
- e_{it} = Stochastic error Term

3.7 Variable Measurement

Table 1: Operationalization of Variables

| | Variable | Measurement | Sources |
|------------------------------|-----------------|--|--------------------------------|
| Dependent Variable | | | |
| 1 | Debt Tax Shield | Debt Tax Shield in Percentage is computed as finance cost divided by total asset | Lubis, 2019 |
| Independent Variables | | | |
| 1 | Firm size | Log of the total asset in thousands is computed as the natural logarithm of Total asset. | Umobong and Ibanichuka, (2017) |
| 2 | Profitability | Return on asset in percentage is computed as profit after tax divided Total asset | Umobong and Ibanichuka, (2017) |

| | | | |
|---|-------------------------|--|--------------------------------|
| 3 | Institutional ownership | Institutional ownership in percentage is the shares ownership concentration of all the block institutional shareholders with 5% and above controlling interest | Mohamed, Ehab & Omar (2016) |
| 4 | Managerial ownership | Managerial ownership in percentage is computed as directors' direct and indirect shares divided by outstanding shares | Asuzu, etal (2021) |
| 5 | Leverage | Debt to Total Asset in percentage is computed as total liabilities divided by Total asset | Umobong and Ibanichuka, (2017) |

CHAPTER FOUR

PRESENTATION ANALYSIS AND DISCUSSION OF RESULTS

4.0 Introduction

The study investigates the effect of political cost on tax planning in Nigeria by employing samples from listed manufacturing firms in Nigeria over a period between 2019 and 2024. In this study, the explanatory variables include firm size, profitability, institutional ownership, managerial ownership, and leverage. The dependent variable of tax planning is measured in terms of debt tax shield. Particularly, this chapter shows the descriptive statistics, normality of data test, correlation analysis, regression analysis, test of hypotheses, and the discussion of findings.

4.1 Data Presentation

The study conducted pool ordinary least square regression analysis to achieve the objective of the study which is to examine the effect of political cost on tax planning of listed manufacturing firms in Nigeria. However, the authors also perform preliminary pre-regression analysis which include descriptive statistics, correlation analysis and test for normality of data. The results are analysed as follows.

4.1.1 Descriptive Statistics Analysis

The descriptive statistics for both the explanatory and dependent variables of interest are evaluated in this study. Particularly, each variable is examined based on the mean, standard deviation, maximum and minimum. Table 1 below displays the descriptive statistics for the study.

Table 2: Summary of Descriptive Statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|----------|-----|----------|-----------|---------|--------|
| dtax | 301 | 2.946944 | 3.236575 | 0 | 25.17 |
| fsiz | 301 | 7.289003 | .8610387 | 5.24 | 9.38 |
| reta | 301 | 3.039867 | 16.42194 | -179.92 | 108.9 |
| iown | 253 | 54.01186 | 25.41301 | 0 | 95 |
| mown | 301 | 17.59721 | 25.00229 | 0 | 88.44 |
| deta | 301 | 59.65595 | 24.23025 | 3.55 | 222.97 |

Source: Author (2025)

Table 2 shows the descriptive statistics of the study. In the case of the dependent variable, the table shows that the mean value of tax planning measured in terms of debt tax shield (DTAX) is 2.95 with a standard deviation of 3.24. This implies that on average, debt tax shield is 2.95 across the manufacturing firms under study for the period between 2016 and 2021. In the case of the independent variables, the table shows that firm size (FSIZ) had a mean value of 7.29 and a standard deviation of 0.86 with a minimum value of 5.24 and a maximum of 9.38. In the case of profitability measured in terms of return on asset (RETA), we find that the mean of return on asset (RETA) is 3.04 and a standard deviation of 16.42. The descriptive statistic result with respect to profitability indicates that on average, all the firms under study were profitable during

the period under study. Table 2 also shows that the mean value of institutional ownership (IOWN) is 54.01 with a standard deviation of 25.41 indicating that on average, about 54% of the shares of the listed firms under study were held by institutional investors. Similarly, the table 2 shows that managerial ownership (MOWN) had a mean value of 17.60 and a standard deviation value of 25.00 indicating the about 18% of the shares of the manufacturing firms under study were held by the firm managers. For capital structure as measured by debt to asset ratio, the table 2 show that that the mean of debt to asset ratio (DETA) is 59.67 together with a standard deviation value of 24.23. Particularly, in terms of debt to asset ratio, the descriptive statistics result shows that on average, the asset of the companies can conveniently be used to off-set the debt obligations of the firms under study.

Table 3: Test for Data Normality

| Variable | Obs | W | V | z | Prob>z |
|-----------------|------------|----------------|---------------|---------------|------------------|
| dtax | 301 | 0.82430 | 37.544 | 8.512 | 0.00000 |
| fsiz | 301 | 0.97585 | 5.161 | 3.853 | 0.00006 |
| reta | 301 | 0.61347 | 82.593 | 10.363 | 0.00000 |
| iown | 253 | 0.90899 | 16.680 | 6.551 | 0.00000 |
| mown | 301 | 0.73087 | 57.507 | 9.513 | 0.00000 |
| deta | 301 | 0.89323 | 22.815 | 7.342 | 0.00000 |

Source: Author (2025)

The table 3 shows the result obtained from the Shapiro-Wilk normality test for the data employed in this study. It is observed that the dependent variable of tax planning [debt tax shield

($Z=37.544$; $\text{Prob}>Z=0.00000$) is not normally distributed since the probability of the z-statistics is significant at 1% level. In the case of the independent variables, the table shows that firm size ($Z=3.853$; $\text{Prob}>Z=0.00006$), profitability ($Z=10.363$; $\text{Prob}>Z=0.00000$), institutional ownership ($Z= 6.551$; $\text{Prob}>Z=0.00000$), managerial ownership ($Z= 9.513$; $\text{Prob}>Z=0.00000$), and leverage ($Z=7.342$; $\text{Prob}>Z=0.00000$) are not normally distributed due to statistical significant probabilities (are at 5% and 1% level) of their z-statistics as the case may be.

4.1.2 Correlation Analysis

In this study, the Spearman rank correlation is employed since the data employed does not come from a normal distribution. The result obtain from the Spearman correlation is presented

Table 4: Correlation Analysis

| | dtax | fsiz | reta | iown | mown | deta |
|------|---------|---------|---------|---------|--------|--------|
| dtax | 1.0000 | | | | | |
| fsiz | 0.1292 | 1.0000 | | | | |
| reta | -0.2607 | 0.1731 | 1.0000 | | | |
| iown | -0.2679 | 0.3709 | 0.1107 | 1.0000 | | |
| mown | 0.2267 | -0.2956 | -0.1514 | -0.3693 | 1.0000 | |
| deta | 0.4697 | -0.0131 | -0.4027 | -0.1862 | 0.1400 | 1.0000 |

Author's computation (2025)

The correlation between political cost and tax planning obtained from the Spearman rank correlation analysis in table 4 shows that there exist a positive association between firm size (0.1292) and tax planning. Similarly, we find that there is a positive association between

managerial ownership (0.2267) and the dependent variable of tax planning. The correlation analysis also shows that there is a positive association between leverage (0.4697) and tax planning. However, we find that there is a negative association between profitability ($=-0.2607$) and tax planning when proxied in terms of debt tax shield. There is also a negative association between institutional ownership (-0.2679) and tax planning. Specifically, the results of the correlation analysis reveals that when the independent variables of political cost, managerial ownership, and leverage moves in a positive direction, tax planning also move towards a positive direction. However, when the independent variables of profitability and managerial ownership moves towards a positive direction, tax planning tend towards negative direction. Conclusively, all the level of association are seen to be weak (ie less than 80%), hence, there is no room to suspect of the presence of collinearity among the variables under study.

4.2 Regression Analyses

Specifically, to examine the cause-effect relationships between the dependent variable and independent variables of the study, the study employed the panel regression analysis technique. However, pool ordinary least square regression analysis was first conducted and proceeded to validate the estimates. The result obtain are presented below

Table 5: Regression Result

| | DTAX Model (Pool OLS) | DTAX Model (FIXED Effect) | DTAX Model (RANDOM Effect) | DTAX Model (LSDV Regression) |
|-------------------------|--------------------------------------|--|---|---|
| CONS. | -3.985 {0.017} ** | 27.576 {0.001} ** | -0.242 {0.930} | 25.745 {0.000} *** |
| FSIZ | 0.816 {0.000} *** | -2.978 {0.006} ** | 0.564 {0.134} | -2.978 {0.006} ** |
| RETA | -0.000 {0.969} | 0.000 {0.981} | 0.001 {0.938} | 0.000 {0.981} |
| IOWN | -0.034 {0.000} *** | -0.068 {0.000} *** | -0.046 {0.000} *** | -0.068 {0.000} *** |
| MOWN | 0.019 {0.010} ** | 0.019 {0.080} | 0.016 {0.072} | 0.019 {0.080} |
| DETA | 0.046 {0.000} *** | 0.011 {0.304} | 0.025 {0.011} ** | 0.011 {0.304} |
| F-stat/Wald Stat | 14.95 {0.0000} *** | 6.47 {0.0000} *** | 32.68 {0.0000} *** | 8.33 {0.0000} *** |
| R- Squared | 0.2324 | 0.1357 | 0.0734 | 0.6503 |
| VIF Test | 1.24 | | | |
| Hetero. Test | 19.67 {0.0000} *** | | | |
| Fixed/Random Effects | | YES {6.00 (0.0000)} | YES {88.03 (0.0000)} | |
| Hausman Test | | 22.69 (0.0004) ** | | |

Note: (1) bracket { } are p-values; (2) *, **, implies statistical significance at 5% and 1% levels respectively

Table 5 represent the results obtained from the regression analyses for this study. From the table 5, the F-statistic value of 14.95 and the associated p-value of 0.0000 shows that the

specified model on the overall is statistically significant at 1% level suggesting that the regression model is valid and can be used for statistical inference at a confidence interval level of 99%. Further, R-squared value of 0.2324 is observed and this indicate that about 23% of the systematic variations in tax planning among manufacturing firms in Nigeria is jointly explained by the independent variables in the model. Particularly, the significance of the goodness of fit test (F-STAT {14.95 [0.0000]}) at 1% level suggest that the 23% changes in tax planning as captured by the R-Square is statistically significant, thus, implying that the political cost proxies employed in this study significantly explain over 20%% of the changes in tax planning of manufacturing firms in Nigeria during the period under study. In line with the position of Gujarati (2004) in his famous book “Basic Econometrics”, we note that irrespective of the level or magnitude of the R-Square across all kinds of regression, if the goodness of fit as measured by the F-Statistics, is not statistically significant either at 5% or 1% level, such magnitude of the R-Square cannot be relied upon. In this study, some post regression test which includes multicollinearity and heteroscedasticity were tested to ascertain the validity of the estimates. Specifically, as indicated in the table 5, a mean VIF value of 1.24 shows that VIF is within the benchmark value of 10, which indicates the absence of multicollinearity.

Much more the result obtained from the regression pooled ordinary least square regression reveals that the probability value of the heteroscedasticity test is significant at 1% level {19.67 [0.0000]}. indicating that the assumption of homoscedasticity has been violated.

However, the model was re-specified to control for this violation by employing the panel fixed and random effect regression analysis as recommended by Greene, (2003).

Specifically, in this study, the F-statistic and Wald-statistic value {6.47 (0.0000) and 32.68 (0.0000)} for fixed and random effect regression analysis respectively shows that both models are fit since they are both statistically significant at 1%. Further, the coefficient of determination of about 14% (fixed effect) and 7% (random effect) reveals the magnitude of the systematic changes in tax planning of manufacturing firms in Nigeria that was explained by the independent variables in both models.

Specifically, a look at the p-value of the Hausman test {22.69 [0.0004]} implies a 5% level of significance indicating that the study should adopt the fixed effect panel regression estimates. However, the fixed effect model has evidence of errors due to the present of time and cross-sectional effect that leads to unobserved heterogeneity. Therefore, the Least Square Dummy Variable Regression analysis was employed to control for the unobserved heterogeneity in the fixed effect regression.

Specifically, the study provide interpretation and make policy recommendation with the least square dummy variable regression analysis model. The model goodness of fit as captured by the Fisher statistics (8.33) and the corresponding probability value (0.0000) shows a 1% statistically significant level suggesting that the entire model is fit and can be employed for

interpretation and policy implication. Further, an R^2 value of 0.6503 indicates that about 65% of the systematic changes in tax planning is jointly explained by the independent variables.

4.3 Test of Hypotheses

Hypothesis 1: Political Cost has no significant effect on tax planning of listed manufacturing firm in Nigeria

The results obtained from the least square dummy variable (LSDV) regression model revealed that political cost which in this study is proxied as firm size [coef. = -2.978 (0.006)] has a negative significant effect on tax planning of listed manufacturing firms in Nigeria. The result implies that political cost measured in terms of firm size significantly reduces the value of debt tax saving during the period under study. Specifically, based on the decision rule to reject the null hypothesis where the probability value of the variable is significant at either 5% or 1%, this study reject the null hypothesis that political cost has no significant effect on tax planning of listed manufacturing firm in Nigeria during the period under review.

Hypothesis 2: Profitability has no significant effect on tax planning of listed manufacturing firms in Nigeria

The results obtained from the least square dummy variable (LSDV) regression model revealed that profitability (RETA) [coef. = 0.000 (0.981)] has no significant effect on tax planning of listed manufacturing firms in Nigeria. Specifically, based on the decision rule to

accept the null hypothesis where the probability value of the variable is insignificant at either 5% or 1%, this study accept the null hypothesis that profitability has no significant effect on tax planning of listed manufacturing firm in Nigeria during the period under consideration.

Hypothesis 3: Institutional ownership has no significant effect on tax planning of listed manufacturing firm in Nigeria

The results obtained from the least square dummy variable (LSDV) regression model revealed that institutional ownership (IOWN) [coef. = -0.068 (0.000)] has a negative significant effect on tax planning of listed manufacturing firms in Nigeria. Specifically, based on the decision rule to reject the null hypothesis where the probability value of the variable is significant at either 5% or 1%, this study reject the null hypothesis that institutional ownership has no significant effect on tax planning of listed manufacturing firm in Nigeria during the period under review.

Hypothesis 4: Managerial ownership has no significant effect on tax planning of listed manufacturing firm in Nigeria

The results obtained from the least square dummy variable (LSDV) regression model revealed that managerial ownership (MOWN) [coef. = 0.019 (0.080)] has no significant effect on tax planning of listed manufacturing firms in Nigeria. Therefore, based on the decision rule to accept the null hypothesis where the probability value of the study variable is insignificant at either 5% or 1%, this study accept the null hypothesis that managerial ownership has no

significant effect on tax planning of listed manufacturing firm in Nigeria during the period under investigation.

Hypothesis 5: Leverage has no significant effect on tax planning of listed manufacturing firm in Nigeria

Further, the results obtained from the least square dummy variable (LSDV) regression model revealed that leverage (DETA) [coef. = 0.011 (0.304)] has no significant effect on tax planning of listed manufacturing firms in Nigeria. Therefore, based on the decision rule to accept the null hypothesis where the probability value of the variable is insignificant at either 5% or 1%, the study accept the null hypothesis that leverage has no significant effect on tax planning of listed manufacturing firm in Nigeria during the period under investigation.

4.4 Discussion of Findings

With respect to the first independent variable of this study, the results shows that firm size (FSIZ) [coef. = -2.978 (0.006)] has a negative significant effect on debt tax shield measure of tax planning of listed manufacturing firms in Nigeria. The result implies that firm size significantly decreases debt tax shield measure of tax planning of manufacturing firms during the period under study. Our study finds inconsistency with the studies of Rahimipour, 2017; Hoseini & Gerayli, 2018; Hazir, 2019 who noted that when income increases drastically, large companies are able to defer income to the next period. The deferred income has an impact on earnings that look smaller, resulting in fewer tax payments. We also opined that based on our results, the

bigger the firm the more they tend to behave as if it is too big to fail and thus may not necessarily want to save cost through tax planning. Consequently, mega corporations do not use common stock or debt to discount the saving that may arise from debt tax shielding. However, since firms do not use equity or debt, they may not consider the earnings advantage in tax saving process in the form of depreciation tax savings, thereby permitting significant negative association between size and tax saving of firm (Aliani & Zarai, 2012b; Lanis et al., 2015; Rahimipour, 2017; Hoseini & Gerayli, 2018).

The study show that profitability as measured by return on asset (RETA) [coef. = 0.000 (0.981)] has a positive insignificant effect on debt tax shield measure of tax planning of listed manufacturing firms in Nigeria. The result implies that profitability insignificantly increases debt tax shield measure of tax planning of manufacturing firms during the period under study. The findings is against the study of Sucuahi & Cambarihan, 2016; and Hatem, 2017 who showed that to create value for its shareholders, a company has to exhaust the possibilities of getting profits. To realize it, the company avoids paying the tax to the government by effectively and efficiently planning her tax approach (Pohan, 2013). Hence, manufacturing companies with this tendency must be having a low value of debt tax shield (Rahimipour, 2017). Specifically, the study contradicts the findings of Kurniasih & Sari (2013), Arianandini & Ramantha (2018), and Hazir (2019) who concluded that the more profits the company gets the more they tend to apply tax saving technique via debt tax shield.

This study document that institutional ownership (IOWN) [coef. = -0.068 (0.000)] has a negative significant effect on debt tax shield measure of tax planning of listed manufacturing firms in Nigeria. The result implies that institutional ownership significantly decreases debt tax shield measure of tax planning of manufacturing firms during the period under study. This finding is in sharp contrast with those of Shleifer and Vishny 1986, 1997 who showed that institutional shareholders with high percentages of institutional ownership are more motivated and capable of intervening in corporate tax avoidance behaviour and gaining more profits compared to minority shareholders. This study shows that Hedge fund investors such as institutions enjoy more profits compared with other institutional investors. However, hedge fund investors are less motivated to participate in corporate governance (Cheng, Huang et al. 2012). The result show that the existence of institutional ownership means supervision from outside parties to run the company's operations properly and in accordance with regulations (Gillan & Starks 2003; Shleifer & Vishny, 1986). But the percentage of institutional ownership causes an oversight from outside parties, thus decreasing the possibility of tax planning practices in the company. Hence, the findings agree with the position of Agnes Cheng et al. (2012); McGuire, Wang, and Wilson (2014).

Further, the findings from this study shows that managerial ownership (MOWN) [coef. = 0.019 (0.080)] has a positive insignificant effect on debt tax shield measure of tax planning of listed manufacturing firms in Nigeria. The findings contradict those of Oktaviyani and Munandar

(2017) who showed that in improving the performance and value of the company to meet the interests of the owner, managers store important information by developing strategies to reduce cost. Furthermore, Oktaviyani and Munandar (2017) note that lack of supervision from the owners on managers, allow them (managers) to take advantage of asymmetric information that affects the financial statements. However, the findings contradict the position of Bauer, Kourouxous, and Krenn (2018) who showed that tax avoidance practices have a negative impact on the owner because the information conveyed in the financial statements is not in accordance with the actual conditions and the manager uses methods that have an impact on the reduction in the amount of tax. (Bauer, Kourouxous, and Krenn 2018; Oktaviyani and Munandar 2017).

Finally, leverage (DETA) [coef. = 0.011 (0.304)] has a positive insignificant effect on tax planning of listed manufacturing firms in Nigeria. The result contradicts those of Aliani & Zarai, (2012b); Lanis et al., (2015) who note that companies that have a high level of leverage will usually try to avoid paying a lot of taxes because the company considers that there are still debts to creditors that must be repaid, and the tax figures are not proportional to the profits obtained through debt that still must be paid. The use of debt can result in an increase in the interest expense that must be paid and can be used as a deduction in the calculation of profit before tax. This causes the tax burden to be paid by the company to be less so that the company is less likely to do tax avoidance (Aliani & Zarai, 2012b; Lanis et al., 2015; Rahimipour, 2017; Hoseini & Gerayli, 2018). This is supported by studies which reveals that leverage has a significant positive

effect on tax avoidance (Melisa & Tandean, 2014). However, this stud findings agree with those of Irianto, Sudiby, and Wafirki, (2017) who did not find a significant effect of leverage on tax planning.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

The study investigates the effect of political cost on tax planning in Nigeria by employing samples from listed manufacturing firms over a period 2019 to 2024. In this study, the explanatory variables include political cost, profitability, institutional ownership, managerial ownership, and leverage. The dependent variable of tax planning is measured in terms of debt tax shield. The results of empirical findings with respect to each specific objective of the study are as follows:

1. Political cost in terms of firm size (FSIZ) [coef. = -2.978 (0.006)] has a negative significant effect on tax planning of listed manufacturing firms in Nigeria.
2. Profitability in terms of return on asset (RETA) [coef. = 0.000 (0.981)] has no significant effect on tax planning of listed manufacturing firms in Nigeria.
3. Institutional ownership (IOWN) [coef. = -0.068 (0.000)] has a negative significant effect on tax planning of listed manufacturing firms in Nigeria.
4. Managerial ownership (MOWN) [coef. = 0.019 (0.080)] has no significant effect on tax planning of listed manufacturing firms in Nigeria.
5. Leverage (DETA) [coef. = 0.011 (0.304)] has no significant effect on tax planning of listed manufacturing firms in Nigeria.

5.2 Conclusion

Political costs result from the reaction of public agencies to corporate tax avoidance. If the relationship between a firm and the tax authority degenerates into distrust, that firm can expect to be under constant surveillance (Badertscher et al., 2009). In this case, an increase in costs can result from, e.g., devoting more resources to the preparation of financial statements or losing the favor of the tax authorities and thus having fewer opportunities for tax avoidance in the future. Specifically, the study concludes political cost and institutional ownership has a negative significant effect on tax planning of listed manufacturing firms in Nigeria. However, profitability and managerial ownership has no insignificant effect on tax planning of listed manufacturing firms in Nigeria during the period under review. Finally, the study conclude that leverage has a positive insignificant effect on tax planning of listed manufacturing firms in Nigeria.

5.3 Recommendations

In view of the findings drawn from the analysis of this study, we recommend that:

1. Firm managers of manufacturing concerns in Nigeria should explore options that will reduce political cost of the firm since this study findings establishes the fact that political cost tends to impact tax savings negatively.

2. So much attention and scarce firm resources should not be allocated to accounting profit (return on asset) if the interest of the firm managers is to save tax
3. Allotting company's stock to institutional investors seems to hamper the gains of debt tax strategy hence this study recommends that lesser interest should be accorded institutional investors in the interest of saving funds via tax management
4. Allocating stock ownership to firm managers for the purpose of saving funds through debt tax shield strategy should be given less attention

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