CORPORATE TAX AGGRESSIVENESS AND VALUE OF LISTED MANUFACTURING COMPANIES IN NIGERIA: THE MODERATING EFFECT OF AUDIT QUALITY

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Being a paper for presentation at the African Accounting and Finance Association, PhD and Emerging Scholars Colloquium, 1st and 2nd September, 2020

Abstract
The increasing drive for improved revenue generation via diversification of revenue sources by the government of Nigeria particularly through indirect taxes puts corporations at the center stage. This is due to different types of taxes paid by corporations to the government which consequently constitute economic burden on the firms as well as questioning their continued ability to create value for the shareholders. This development leaves corporations with no option than to be tax aggressive through exploitation of the loopholes in the tax laws. This study therefore examined the effect of corporate tax aggressiveness on the value of listed industrial goods firms for a period of 10 years (2009-2018). Both Long-Run Cash Effective Tax Rate (LRCETR) and Book-Tax Difference (BTD) were used as surrogates for tax aggressiveness while, market value of equity (MVE) was used to measure value. Correlational research design was employed while the quantitative data from the annual reports and accounts of the firms were analyzed using fixed effect regression. The results from the study revealed that a reduction in the proportion of the firms' income paid as tax as well as increase in the book-tax gap, significantly improve the value of the firms. Also, it was found that an increase in the size of leverage significantly reduced the value of the studied firms. It is recommended among others that the firms should continue to increase the book-tax gap through, transfer payment, tax credit and investment in R&D to continue to significantly improve value.

Keywords: Tax aggressiveness, book tax difference, effective tax rate, leverage, and firm value

1. Introduction

Corporate organizations are established to create value and improve shareholders' wealth. This is due to the separation of ownership from management in modern corporations which places managers in fiduciary positions with the thrust to protect and improve the value of the company. Generally, firm value is about the market price of a company's shares. This suggests therefore that, the higher the price, the higher the value, and vice versa. In line with the aforesaid, Moeljadi and Triningsih (2014) and Ofuan, Monday and Friday (2016) posited that share prices and return determine investors' perception about the company which also inform investors' investment decisions. The decision to invest in a company or divest depends on the perceived worth of the company. This is because investors require good returns on their investment and as such they tend to scout for corporations that guarantee the desired returns as well the safety of investments. Value creation within an organization therefore, is the brainchild of management strategic decisions which directly affect shareholders' wealth, the market value of shares as well as providing basis for government macroeconomic policies (Ofuan, *et al*, 2016).

In a bid to improve firm value, managers may put in place various profit maximizing strategies such as excellent inventory management practice, corporate social responsibility and sound Internal Control System. Corporate organizations are constantly reorganizing their operations/activities in tandem with the unfolding environmental dynamics to improve firm value. However, the government on the other side of the pendulum is striving hard to see how bulk of firms' profit can be transferred into government coffers via the formulation of tax policy (Dayday and Zaam, 2017; Lisowsky and Mescall, 2016). This therefore suggests that it is not enough to device profit-maximization strategies without guarding such profit from being transferred to the government through taxation. According to Contractor (2016), this can be achieved through corporate strategy aimed at reducing tax liability through the exploitation of the loopholes in the tax law. This practice is referred to as corporate tax aggressiveness and it constitutes a real lever of success and financial performance for the company.

In Africa, particularly in Nigeria, there is a renewed effort by the government to generate a large proportion of its revenue through taxation especially with the shrinking global oil price, pipe-line vandalism and very low tax to Gross Domestic Product (GDP) ratio, all of which culminated into dwindling the nation's revenue from oil in the last couple of years (Taiwo, 2018). This development has rekindled government's effort to diversify the revenue base of Nigeria to other sources of the economy with a particular focus on taxation (Nigeria National Tax Policy, 2017; Osaru and Moses, 2020). It has also been observed by Chinwendu and Nneka (2016) that following the introduction of national tax policy, several other programmes have been reeled out by the government to capture more tax payers into the tax net and harness new tax areas.

Various government tax policies are directed toward corporations due to myriad taxes paid by the corporations to the government which constitute huge revenue to the government (Waluyo, 2017). It therefore makes economic sense to guard the profits made by corporations through exploitation of the loopholes in the tax law to keep tax liability as low as possible if corporations must create true value (Rhida and Martini, 2014; Karthik, Jenifer and Wayne, 2017; Nengzih, 2018).

it is therefore clear that a relationship exist between corporate tax aggressiveness and firm value in that, firms that a tax aggressive are said to be value maximizing all things being equal. To ascertain a firm's level of aggressive tax practice, Charles (2018) and Jose and Francisco (2018) agreed that Effective Tax Rates (ETR), Book Tax Difference (BTD) and Tax Savings (TS) can be used as surrogates. Also, the relationship between corporate tax aggressiveness and firm value in this study is interpreted through the theoretical lens of agency theory given the nature of modern corporations where ownership is clearly separated from management. In this instance, it is believed that agency problems exist in corporation with absence of goal congruence in management-ownership relationship.

Despite the paucity of Nigerian studies in this area of research, the Nigerian studies worthy of mention are the studies of Salawu, Ogundipe and Yeye (2017) and Monday and Abure (2018). The mentioned studies used the GAAP effective tax rate which this study considered inappropriate due to its inclusion of both current and previous tax expenses. This practice undermines the yearly determination of tax aggressive efforts of the firms. It is therefore necessary to contribute towards improving the paucity of Nigerian studies in this area of research on one hand, and to introduce other variants of tax aggressiveness measures into the existing models, on the other hand. It is on the strength of the foregoing background that this study evaluated the effect of corporate tax aggressiveness on the value of listed industrial goods companies in Nigeria. Also, the following research hypotheses stated in null forms were tested in this study.

i. Long-Run Cash Effective Tax Rate (LRCETR) has insignificant effect on the value of listed industrial goods firms in Nigeria
ii. Book Tax Difference (BTD) does not have significant effect on the value of listed industrial goods firms in Nigeria.
iii. Leverage has no significant effect on the value of listed industrial goods firms in Nigeria

2. Literature Review

Several conceptual explanations of various concepts in relation to firm value, tax aggressiveness have been offered by scholars. For instance, Bambang, Elen and Andi (2012) see firm value as an economic incentive created through firm's earnings. It therefore follows that, firm value is the worth or earning power of a firm's assets and that an increase in the earning power is an indication that the firm is doing well. Moeljadi and Triningsih (2014) defined firm value as the investors' perception of the company which represents an important consideration for investment purpose. According to Sasivimol, Vimol, Sarayut and Binshan (2011), Ebrahim, Abdullahi and Faudziah (2014), William and Jay (2016), Adunugba, Ige and Kesinro (2016), Tanya (2017), Ravi (2018), Monday and Abure (2018) and Charles (2018) that firm value can be viewed or measured along two dimensions. The two dimensions according to them are the accounting based measures (Earnings Per Share, Net Book Value per Share) and stock market-based measurements (Market Value of Equity and Tobin's Q) in this study MVE of equity is considered as surrogate for firm value because of its endogenous consideration.

Given the aforementioned dimensions, the study finds explanation in fovour of market value of equity more appealing than other measure. This is premised on the contention of Yengyang, Henock and Leon (2019) that shareholders' interest in a company is measured in terms of the market value of their shareholdings and in a highly efficient market, managers are expected to maximize the market value of the firm's shares if they truly act in the best interest of the shareholders. It was observed by Tanya (2017) that market value of equity is the price at which a firm's shares is sold in the market and that the market will also react positively to the announcement of stock bonuses to existing shareholders which is an indication that the firm is doing well. In this instance, high performance will no doubt, push the company's stock market price upward and make investors respond positively by investing much of their funds in the company thereby increasing firm value (Ofuan *et al*, 2016). This position presupposes that investors are rational and that increasing share price is a fundamental aspect of a company's assessment.

Tax aggressiveness, according to Guodong (2014), Ying and Tingting (2015), Onyeka and Nwankwo (2016), Arie (2017) is a tax planning effort that consists of a great variety of transactions and arrangements of financial affairs with the aim of paying the least possible tax without violating the legal rules. Trisna and Bagus (2018) posited that corporate tax constitutes an economic burden on the company. Shailendra, Mehul and Stephanie (2018) further added that a company's effort to minimize tax burden and increase after-tax profit for the shareholders is called tax aggressiveness. This is carried out by corporations through the exploitation of the loopholes in the tax law which makes tax aggressiveness legal as against tax evasion. Sunday, Nosa and Imuetinyan (2019) defined tax aggressiveness as the transfer of value from the government to shareholders. Tax aggressiveness has also been argued from the perspective of its legality. In this regard, Clarisa and Yanuar (2018), Chyz and Gaertner (2018), Travis, Allen and Kai (2019) and Clarisa and Yanuar (2019) contended that tax aggressiveness covers all corporate activities to reduce the explicit tax from perfectly legal to gray areas of the tax laws. The legality of tax aggressiveness therefore is as determined by the court as well as the tax administrators (Clarisa and Yanuar, 2019).

In measuring tax aggressiveness of firms, Ibrahim, Sati and Hairul (2013), Henry and Sansing (2014) and Markus (2017) argued that the choice of tax aggressiveness measure depends on the underlying rationale for the measurement. The measures are summarized into three categories: tax proportion on business income, tax gap and tax shelter (Ibrahim, *et al*, 2013). From these broad classifications of measures of tax aggressiveness, the proportion of corporate income paid as tax measured through Effective Tax rates (Long-run Cash Effective Tax Rate) and Book Tax Difference (BTD) as used in this study are reviewed herein

i. Effective Tax Rates (ETRs)

Effective Tax Rates (ETRs) are commonly used measures of tax aggressiveness or tax avoidance. According to Hanlon and Heitzman (2010), Henry and Sansing (2014), Ying and Tingtin (2015) and Markus (2017), ETRs are computed by dividing tax liability by pre-tax accounting profits or cash flow which indicates the average rate of tax burden on company's income or gross earnings. It therefore follows that a company's tax burden is often reflected through its ETRs which show the slice of the company's profits that should be paid to the government as corporate income tax (Petr, 2019). There are different variants of ETRs. The variants are Generally Accepted Accounting Principles Effective Tax Rate (GAAP ETR), Cash Effective Tax Rate (CETR) and Long-Run Cash Effective Tax Rate (LRCETR). The GAAP-ETR according to Ibrahim, Sati and Hairul (2013) and Mihir and Dhamamika (2015), measures corporate tax burden by considering the company's total tax expense viv-a-vis the pre-tax book income. To reduce the current tax burden/expenses, firms may use defer tax strategy and accelerated depreciation to shift the current tax burden to a future time (Karthik, *et al*, (2017). This often resulted in variation between ETR and Statutory Tax Rate (STR). The share of the company's profit paid to the government in this case may be higher or lower than the statutory tax rate depending on the tax strategies deployed by the managers. In ex-raying the variation between Effective Tax Rates and Statutory Tax rates, Richardson and Lanis (2015) confirmed that such variation measures a firm's tax performance. Also, Petr (2019) affirmed that firms with lower Effective Tax Rates than the statutory Rate are considered more tax aggressive than firms with higher Effective Tax Rates.

However, despite the overwhelming use of GAAP ETR to measure tax aggressiveness, its appropriateness in measuring the tax aggressive efforts of corporations has been extensively criticized. For instance, Motta and Martinez (2015) Antonio (2017), Medeiros and Costa (2017), Da Silva and Martinez (2017) and Sonja and Ryan (2018) agreed that the GAAP ETR measure undermines a firm's true level of tax aggressiveness because previous year's tax expenses may be brought into consideration in the current year thereby undermining the current year tax aggressive efforts of the firm. To this end, a firm's tax expenses may become a noisy indicator of the firm's tax aggressive efforts. Also, Zezheng (2018) opined that companies that report zero or negative pre-tax income in a particular year are excluded from GAAP ETR calculations for that year and such exclusion could distort results, make interpretation difficult and misleading as to the true burden of the tax on the company. In a bid to make up for the shortcoming of GAAP ETR other variants of ETR were introduced. The variants developed by Dyreng, Michelle and Edward (2008) are the Cash Effective Rates (CETR) and Long-run Cash Effective Tax Rate (LR-CETR). According to Dyreng *et al* (2008), CETR is the ratio of cash income tax paid by corporations to pre-tax book income after special items. Also, Ying (2015) posited that CETR has an advantage over the conventional GAAP ETR in that, CETR helps to determine the actual

yearly tax payment given the pre-tax income which is a better estimate of the firm's true tax liability/burden. In this instance, lower cash tax payments associated with tax aggressiveness will have a lower cash effective tax rate and vice versa.

The LR-CETR according to Fernandes, Martinez and Nossa (2013), captures a firm's level of consistency in tax aggressive efforts over a relatively long period. Da Silva and Martinez (2017) added that such consistent tax reduction efforts include but not limited to reporting expenses more aggressively than capitalizing them, overstretching advantages from tax incentive programs and engaging in timely strategies that accelerate deductions and postponement of earnings respectively. Markus (2017) posited that LR-CETR is the sum of cash taxes paid over a long period of time (3,4,5 or more) divided by the sum of pre-tax income (excluding special items) over the same time period. There is however no restriction with regards to the maximum number of years to be used in the computation of Long-run Cash Effective Tax Rate. This is, subject to availability of data, but the minimum number of years must not be less than three (3) years (Dyreng *et al*, 2008; Nathan, 2016; Victor, 2016). The forgoing positions informed the choice of 3 years in the determination of LR-CETR in this study as it helps to eliminate the volatility in the year-to-year measure of ETR.

ii. Book Tax Difference (BTD)

Book-Tax Difference (BTD) is another measure of tax aggressiveness introduced by Manzon Jr and Plesko in 2002 and it is measured as the difference between the pre-tax income and taxable income (Guenther, 2014). In other words, BTD is the difference between what a firm would ordinarily have paid if all of its book income were subjected to tax, and what it actually paid expressed as a ratio. Also, BTD arises from the difference between accounting income prepared under accounting rules and taxable income computed in line with the tax laws. Book tax difference is often considered from two perspectives. That is, temporary and permanent book-tax differences respectively. According to Tang and Firth (2011) and Terrence and Jenifer (2016), the temporary BTD often identified by deferred tax expenses is driven by the company's accounting accruals which capture expense or income items that are recognized partially or wholly at different periods in accounting and tax accounts. On the other hand, the permanent book-tax difference is the differences in income recognition as well as deduction rules for both costs and expenses in line with the relevant accounting principles as well as the tax laws (Tang and Firth, 2011). In other words, Permanent Book-Tax Difference is the difference between estimated total book-tax difference and temporary book-tax difference which is indicative of aggressive tax reporting. In this study, total BTD is used to measure tax aggressiveness because it contains components of both temporary and permanent book-tax difference.

In recognition of the fact that other factors not captured in the independent variable may also affect firm value, this study deemed it necessary to control for leverage. According to Ribeiro (2015), leverage represents a fundamental factor that influences value given that every firm is at liberty to choose an appropriate financing mix that suits its operation which also provides tax shield as well as basis for enhancing value. Boussaidi and Hamed (2015) therefore pointed out that a company's choice of debt over equity or vice-versa hinges on the benefit of either of the two to overall value of the firm. Leverage is the size of debt in the capital structure of a firm (Adenugba, *et al*, 2016). However, the choice of capital structure depends on the yielding capacity of the components as value remains the sum of the yielding capacity of firm's debt and

equity (Samuel, Ebenezer and Xicang, 2012; Soufiene *et al* 2016). In the same vein, Eko (2018) opined that leverage represents a firm's measure to discipline managers to reduce their rent-seeking tendencies. This is because having higher debt in the capital structure helps to tame managers to be prudent in the choice of investment as well as in the management of resources in order to meet the debt servicing arrangements imposed by the creditors. Ribeiro (2015) added that leverage further reduces the leeway available to make decisions that are self-serving or not value-maximizing.

Conceptual Framework

The subject matter of the study though, not new in accounting, is currently enjoying renewed and overwhelming attention from both academics and practitioners. This is due to the government's renewed efforts to generate more revenue through taxation to defray government expenditure. Relevant conceptual issues with respect to corporate tax aggressiveness, firm value and control variable (Leverage) have been reviewed. It is clear that a relationship exists between corporate tax aggressiveness (LR-CETR and BTD) and firm value (MVE). This is due to the fact that firms that keep their LR-CETR low and increase the BTD are expected to maximize value all things being equal. The pattern of relationship among the variables used in this study is depicted in figure 2.1

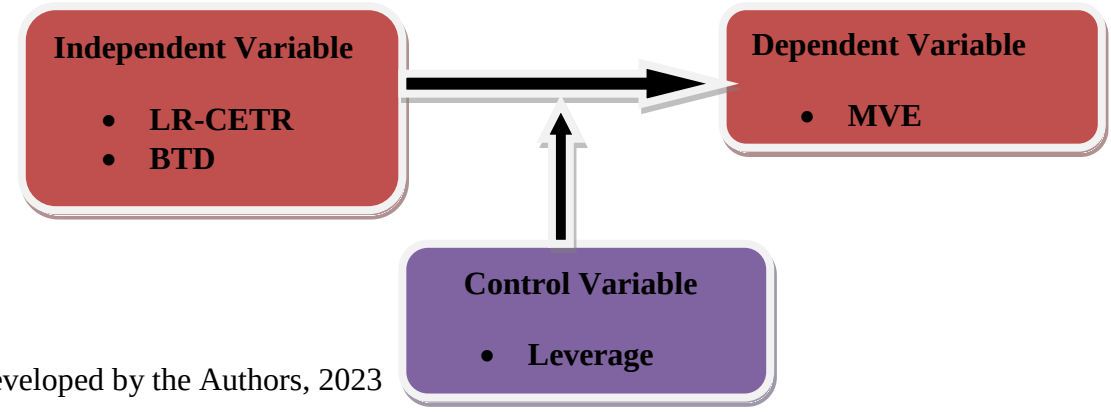

Fig. 2.1 Developed by the Authors, 2023

Review of Empirical Studies

Studies that examined the impact of corporate tax aggressiveness/tax avoidance on firm value are reviewed herein. The review is structured in line with the objectives of the study. In this stance, the first segment of the review focuses on Effective Tax Rates and Firm Value. This is followed by the review of the relationship between Book Tax Difference and Firm Value, and finally, the study reviewed the relationship between the control variable (Leverage) and firm value.

i. Effective Tax Rates and Firm Value

Effective tax rate represents a widely used measure of tax aggressive efforts of corporations which seeks to establish the level of tax burden facing the firm as well as its effects on the value of firms. For instance, Akmalia and Hafiz (2014) examined the effect of tax avoidance on firm value and whether the strength of such relationships is dependent on the quality of governance. The study was carried out on 203 firms that are listed on the MCG Index between 2009 and 2011. GAAP Effective Tax Rates (ETR) was used to measure tax avoidance while market value of equity was used to measure firm value. The study found that tax avoidance has a significant negative relationship on firm value. This suggests that a reduction in corporate tax burden increases after-tax profit which consequently improves firm value. This makes logical sense as

investors perceive efforts that reduce firm's tax burden as value-maximizing. Also, Wayne, Edmund and Anh (2016) examined the effect of tax risk, tax avoidance on stock price reaction in Luxembourg. Corporate tax aggressiveness was proxied by Cash Effective Tax Rate while stock market demand was used as the dependent variable. The result of the cross-sectional regression analysis revealed a negative and insignificant relationship between tax aggressiveness and firm value. This indicates that the lower the amount of cash tax paid emanating from aggressive tax practice, the higher the value of the firms.

Similarly, Kang (2018) studied the effect of tax risk on tax avoidance and firm value. Both Cash Effective Tax Rate (CETR) and Long-Run Cash Effective Tax Rate (LR-CETR) were used to measure tax avoidance while, market value of equity was used to measure firm value. The result of the regression showed a negative and insignificant relationship between tax avoidance proxies and firm value. Though, findings from the foregoing studies are mixed with regards to the degree of significance, they all agreed that tax aggressiveness has a negative relationship with firm value. This suggests that increased tax burden (GAAP ETR) reduced firm value or vice versa, while, reduced cash tax paid (CETR and LR-CETR) improved firm value.

Conversely, Mohd, Siti, Jenifer and Josephine (2018) carried out a study on the impact of tax planning on the firm value of firms listed in Bursa-Malaysia for a period of three years (2014-2016). Tax planning proxies used in the study are the Effective Tax Rate (ETR) and Book Tax Differences (BTDs) while both Tobin's Q and MVE were used as measures of firm value having controlled for firm size, leverage, asset tangibility, firm age and dividend. The regression results reveal that ETR has a significant positive relationship with firm value. This indicates that an increase in cash tax paid also increased the value of the firms. Though this submission does not make logical sense however, the increase in value in the face increasing tax payment may be occasioned by the need to defray accumulated tax liability to enable the firms stabilize which shareholders may perceive as the right thing to do to foreclose the possibility of being blackmailed by the relevant tax authority.

ii. Book Tax Difference (BTD) and Firm Value

Book tax difference is another deep-seated measure of corporate tax aggressiveness that ascertains a firm's ability to downwardly manage its earning (book income) such that taxable income is reduced. Corporate tax aggressiveness results in the difference between book income and taxable and the wider the gap, the more aggressive the firm is and vice versa.

In examining the effect of BTD on firm value, Beng *et al* (2013) studied the effect of tax aggressiveness (tax shelter, Book tax difference and long-run cash effective tax rate on firm value (market value of equity). The result of the multiple regression showed that book-tax difference has a positive but insignificant effect on firm value. Similarly, Mihir and Dhammika (2015) investigated investors' value of managerial actions designed solely to minimize corporate tax obligations. The study employed Effective tax rate, book-tax difference, tax savings and tax shelter as proxies for tax avoidance, while equity value was used as a proxy for investor's value. The empirical results from the regression analysis indicated that book-tax difference has a positive but insignificant effect on firm value. Similarly, Wiem and Boubaker (2016) examined the effect of book-tax difference, accruals, and cash flow on earning persistence of 21 sampled firms listed in the Tunisian stock exchange between 2003 and 2012. Using multiple regression

analysis, the result of the study disclosed an insignificant positive relationship between book-tax difference and market value of equity. The foregoing findings reveal that the firms have been able to downwardly manage their taxable income which informed increased gap between book and taxable income respectively but, such increase does not significantly improve the value of the firms. This may be suggestive of managerial opportunism where tax aggressive effort rather than benefiting the shareholders the more, is expropriated by the managers and possibly concealed relevant information from the shareholders. In this instance, managers benefit more from tax aggressive efforts than shareholders.

On the other hand, James, Derek and Lisa (2016) examined the market valuation of annual changes in the additional paid-in capital (APIC) tax pool, which captures the permanent book-to-tax differences related to stock-based compensation awards. The result of the study revealed a significant negative relationship between book-tax difference and firm value. This finding is consistent with the result of Inger (2014) who also found a negative and significant relationship between book-tax difference and equity market values. This implies that increased tax aggressive effort (wider boot-tax difference) resulted in a dwindled value of the studies firms.

The reviewed empirical studies concerning book-tax difference and firm value revealed mixed conclusions. While some of the studies found a positive and significant relationship between book-tax difference and firm value which indicates that the wider the difference between pre-tax income and taxable income, the better the value. However, there are studies that found such relationship to be significantly negative while a few of other studies found the relationship between BTD and firm value to be insignificant.

iii. Leverage and Firm Value

Apart from the reviewed independent variables, the study also controls for leverage to account for other factors that could also affect firm value. The effects of leverage on firm value are well documented. In this regard, Nurul (2014) examined the Effect of Company Characteristics on the value of companies listed on Indonesian stock exchange. It was found that leverage has an insignificant positive effect on the value of the studied firms. This suggests that an increase in the size of debt in the firms' capital structure, increases value though, with very small worth. On the other hand, Divya and Purna (2017) explored the effect of capital structure and firm quality on the value of some selected BSE-listed Indian hospitality firms and documented a significant positive relationship between leverage and firm value. Also, Salawu and Adedeji (2017) documented a positive and significant relationship between leverage and firm value. In consistence with the foregoing findings is the study of Ogbulu and Emeni (2012) on the impact of capital structure on the value of firms listed on the Nigerian stock exchange. This shows that an increase in the size of debt in the capital structure of the firms accounts for the significant increase in value. This suggests that increased debt in the capital structure is value-maximizing.
On the contrary, Soufeiene et al. (2016) found in their study 'corporate tax optimization and firm's value in the Tunisian context over an 11 year period' a negative and insignificant relationship between leverage and firm value. This implies that an increase in the size of debt in the capital structure reduces firm value though, by very slight value.

Theoretical Perspective

Extant works of literature on tax aggressiveness and firm value provide different theoretical perspectives through which the relationship between tax aggressiveness and firm value can be

explained. In this study, Traditional Theory Perspective provides the theoretical lens through which the relationship between corporate tax aggressiveness and firm value is explained. The traditional tax avoidance perspective evolved from Scholes and Wolfson's paradigm for tax strategy in 1992. Their tax strategic paradigm is based on contractual perspective which places emphasis only on the contracting parties (shareholders and managers) as well as utilization of all tax favoured transactions for the benefit of the shareholders (Kumar, 2007). By extension of Scholes and Wolfson's paradigm, Kim and Zheng (2011) and Victor (2016) added that tax avoidance strategies decrease firms' tax liability and consequently increase the present value of future cash flows available to shareholders. Hence, tax authority is an uninvited party to shareholders and management contractual relationship. Generally, the traditional theory holds that tax aggressiveness represents value-maximizing strategy used by firms to increase after-tax profit and tactically transfers wealth from the government to shareholders (Khurana, and Moser, 2013; Ying, 2015; Nanik and Ratna, 2015; Victor, 2016; Riu, 2019). This, in summary, suggests that managers engage in aggressive tax practice in the best interest and the overall wellbeing of the shareholders.

3. Methodology

This section explains various methods used in carrying out this study. Specifically, it covers the philosophical assumption, research design, population and sample size of the study respectively. Also presented and discussed herein are the source and method of data collection, measurements of variables, method of data analysis as well as model specification.

Philosophical Assumptions

Generally, the fundamental assumption of quantitative research relies on the conviction of the existence of reality which can be observed by the researcher (ontology) and the knowledge of such reality can be measured objectively (epistemology). Also, the position taken by the researcher in conceptualizing and communicating the reality depends on his standpoint in viewing the reality (paradigm) and how he decides to interpret reality (approach). To this end, this study adopts the positivist stance as it allowed the study to measure quantitative reality objectively, using measurable properties (data regarding tax aggressiveness and firm value) that are independent of the researcher. The result of the study is also interpreted using deductive approach as the researcher remains objective and unbiased all through the process.

Research Design

The general quantitative framework according to Creswell and Creswell (2018) is in three designs; experimental, correlational and survey designs respectively. Given these three perspectives, correlational research design suits the nature of this study because it provides the context within which the relationship between quantitative variables is established. The nature of this study also requires the use of existing quantitative data in establishing the relationship among quantitative variables. The preceding submissions provide justifiable reasons to align the study with correlational research design. This is to allow quantitative relationships between corporate tax aggressiveness and firm value to be established. Hence, the research design for this study is correlational research design and this choice aligns with the studies of Seyram and Holly (2014) and that of Mohammed (2017).

Population and Sample of the Study

The population of the study consists of all the 23 industrial goods firms that are listed on the floor of the Nigeria stock exchange as at December 2007. It is believed that the firms, being listed, will by default be more courteous and law-abiding in their quest to minimize tax liabilities than non-listed companies. As regard the sample size, the study used filter method to select firms that are listed on or before 2007 and remain listed up till December 2018 and whose annual reports are available. This reduced the population of the firms to a sample size of ten (10). Both the population and the sample are shown in Table 3.1.

Table 3.1 Population and sample of the Study

S/N	Population	Year of Listing	Sample
1	African Paints Nig. Ltd	1996	
2	Ashaka Cement Plc	1990	
3	Berger Paints Plc	1974	Berger Paints Plc
4	Chemical and Allied Products Plc	1978	Chemical & Allied Products Plc
5	Cement Company of Northern Nig. Plc	1993	Cement Company of Northern Nig. Plc
6	Dangote Cement Plc	2010	
7	First Aluminium Nig. Plc	1992	
8	DN Mayer Plc	1979	DN Mayer Plc
9	IPWA Plc	1978	
10	Paints and Coating Man. Nig. Plc	2010	
11	Portland Paints and Products Plc	2007	Portland Paints and Products Plc
12	Premier Paints Plc	1995	Premier Paints Plc
13	Laferge Wapco Plc	1979	Laferge Wapco Plc
14	Curtix Plc	1987	Curtix Plc
15	Nigeria Wire and Cable Plc	1995	
16	Avon Crowncaps and Containers Nig. Plc	1994	
17	Beta Glass Company Plc	1986	Beta Glass Company Plc
18	Poly Products Nig. Plc	1979	
19	Grief Nig Plc	1979	Grief Nig Plc
20	W.A. Glass Industry	1998	
21	Nigeria Ropes Plc	1978	
22	Nig. Sewing Machines Manufacturing Co. Plc	1978	
23	Stokvis Nigeria plc	1978	

Source: *Generated from NSE fact book 2012 and NSE website 2023.*

Source and Method of Data Collection

In line with the research design, secondary source of data collection was employed. This allowed the study to quantitatively extract the required data from the published annual reports of the firms for a period of ten (10) years (2009-2018). The type of data used in this study, therefore, was through *ex-post facto* method where data that are already in existence were extracted from the firms' annual reports. Data type as well items on which the data were required are briefly identified as follows. Book values of total debt, number of shares, the market value of equity as well as total equity were extracted to enable the study compute for firm value (MVE) and leverage. Also, annual cash tax paid, pre-tax income and taxable income were extracted to help determine cash effective tax rate and book-tax difference.

Variables Specification and Measurements

To achieve the objectives of this study, three category of variables were employed. The variables are independent variable (corporate tax aggressiveness), dependent variable (firm value), and control variable (leverage). Proxies for corporate tax aggressiveness are Long-Run Cash Effective Tax Rate (LR-CETR) and Book Tax Difference (BTD) while, market value of Equity (MVE) was used as proxy for firm value. Measurements for each of the mentioned variables are specified as follows:

i. Independent Variable

Proxies for independent variable (corporate tax aggressiveness) are:

Long-Run Cash Effective Tax Rate

This is taken as the sum of Cash Tax Paid over a three Year period (3 years) divided by pre-tax income for three years. This measurement is in line with that used in the studies of Nelhan (2016), Wayne *et al* (2016), Dasilva and Martines (2017) and Silvy (2019).

Book Tax Difference

Book Tax Difference (BTD) was measured in line with the measurement used in the empirical works of Maria *et al* (2016) Markus (2017), Indah *et al* (2017), Tanya (2017) and Carlos (2018) as the difference between the book income according to the financial statement and taxable income. The values for the BTD of the studied firms are in billions and for ease of description in summary statistics. That is, the values were scaled by 1billion. However, for the purpose of regressions, BTD values were scaled by total assets.

ii. Dependent Variable

Market Value of Equity (MVE) is used as the explained variables. Measurement of MVE was adopted from David *et al* (2018) and Kang (2018) as market price per share of the studied firms as at every year-end.

iii. Control Variables

Leverage is used as surrogate for control variable and it is measured as the ratio of total debt to total assets of the firms. Soufeiene *et al* (2016) and Dayday and Zaam (2017) also measured leverage the same way in their respective empirical works. Summary of the variables together with their measurements is presented in Table 3.2.

Table 3.2 Variable Measurements and A priori expectation

Dependent Variable	**Measurements**	**Sources**	**A priori Expectation**
MVE	Price per share at the end of each year	Kang (2018)	
Independent variables			
Long-Run Cash ETR	Cash Tax Paid for 3 Years /Pre Tax Income for 3 Years	Markus (2017) and Silvy (2019)	- & Significant
Total BTD	Book Income - Taxable Income scaled by total asset: Taxable Income =Tax Expenses/Statutory Tax Rate	Amy *et al* (n.d.), Markus (2017)	+ & Significant
Control Variable			
Leverage	Total debt/ total assets	Dayday and Zaam (2017)	- & Significant

Source: *Generated by the Authors, 2023*

Method of Data Analysis

Given the research design as well as the nature of data used in this study, descriptive statistics, correlation and multiple regressions were used to summarize the data, ascertain the relationship among the variables and analyze the data respectively. Descriptive statistics serves as the first step in determining and describing the nature of data distribution from which the variables were drawn. Specific descriptive statistics employed to reveal the distribution pattern of the data are the mean, standard deviation, minimum and maximum values respectively. Also, correlation analysis was used determine the association among the variables as well as checking for the existence of multi-collinearity. According to Gujarati (2004) and Daniya 2021, the threshold for the identification of multi-collinearity is a correlation coefficient of 0.8. Finally, and for the purpose of analyzing the data, ascertaining the degree of relationship among the variables, the study used fixed effect regression. The choice of the regression types was determined through the outcome heteroskedasticity test. Variance Inflation Factor (VIF) test was used to ascertain existence or otherwise of multi-collinearity.

Model Specification

This study adapts the models used by Chen *et al* (2014) in their study on, Tax Avoidance and Firm Value: Evidence from China. The adaption of Chen *et al* (2014) models is due to the common features this study shares with theirs. Functionally, the relationship among the variables is expressed thus:

FV = f(CTA, CV)
Where:
FV = Firm Value
CTA = Corporate Tax Aggressiveness
CV = Control Variable

From the above equation and with reference to the modified models of Chen et al. (2014) the broad model for the study is stated as follows:

$MVE_{it} = \beta_0 + \beta_1 LR\text{-}CETR_{it} + \beta_2 BTD_{it} + \beta_3 LEV_{it} + e_{it}$

Where:
MVE = Market Value of Equity
LRCETR = Long-run Cash Effective Tax Rate
BTD = Book Tax Difference
LEV = Leverage
e = Error term
β_0 = Intercept
β_1-β_3 = Regression Coefficients

4. Results and Discussion

This section presents and discusses the results of the analyzed data generated for the study. It covers introduction and discussion of the results of descriptive statistics, correlation, robustness test and regression analysis.

Descriptive Analysis

The results of the summary statistics for the variables are shown in Table 4.1. This helps to provide detailed understanding of the nature of the data upon which analysis was carried out. The various statistical measures used to describe the data are measures of central tendency (mean),

measure of dispersion (standard deviation) was used to ascertain the level of spread and distribution of the variables as well as the minimum and maximum values for each dependent and explanatory variables.

Table 4.1 Summary Statistics of the Variables

No. of Obs. 100				
Var.	Mean	Std.	Min	Max
MVE	6.35	12.95	0.08	66.79
LRCETR	0.26	0.06	0.1	0.44
BTD	0.95	1.68	-5.66	8.56
LEV	0.13	0.12	0.01	0.47

Source: *Generated from the annual reports of the studied firm through 'stata' 2023*

Table 4.1 shows that industrial goods firms have 100 observations across the variables accounted for by 10 firms studied for 10 years. The result reveals that market value of equity (MVE) has a mean value of 6.35 while the minimum and maximum values are 0.08 and 66.79 respectively. This indicates that the average market value of equity for the entire firms was 6.35 naira per share which suggests that the firms have a single-digit market value of equity on the average. The standard deviation of 12.95 reveals high dispersion in MVE among the firms. With regards to the minimum and maximum market value of equity, the firms have maximum of 66.79 naira while some firms' shares are priced as low as 8 kobo per share.

Also, Table 4.1 also reveals that long-run cash effective tax rate has a mean value of 0.26 with minimum and maximum values of 0.06 and 0.44 respectively. This suggests that some firms paid as low as 3% as tax and as high as 44% which is above the statutory rate of 30%. On the average, the firms paid 26% which is below the 30% statutory rate. This implies a tax savings of 7%. The standard deviation of 0.06 shows that the firms do not considerably vary with regard to long-run cash effective tax rate.

Similarly, the mean value for book-tax-difference is 0.95 while the minimum and maximum values are -5.66 and 8.56 respectively. The mean value implies that the firms were able to averagely reduce their taxable income by 950 million naira thereby making them pay less in tax than they would have paid if all income earned were subjected to tax. Also, there is relatively high dispersion among the firms in the downward management of taxable income as captured by the standard deviation of 1.68. Leverage has a mean value of 0.13 with minimum and maximum values of 0.01 and 0.47 respectively. This proves that on the average, debt represents 13% of the capital structure of the firms. The standard deviation of 0.12 shows an inconsequential dispersion of leverage among the firms.

Correlation Analysis

Table 4.2 presents the correlation results of the dependent variable (market value of equity), independent variable (long run cash effective tax rate and book-tax difference) and control variable (leverage). The Variance Inflation Factor (VIF) of the proxies for independent variables and control variable are also presented in Table 4.2. This is necessary to establish the association between the explanatory and the dependent variable on one hand, and among the explanatory variables themselves on the other hand.

Table 4.2 Correlation Matrix of Dependent and Explanatory Variables

Var.	MVE	LRCETR	BTD	LEV	VIF
MVE	1.000				
LRCETR	0.015	1.000			1.25
BTD	0.117	-0.419	1.000		1.21
LEV	0.087	0.060	-0.187	1.000	1.04
				Mean VIF	**1.17**

Source: *Generated from the annual reports of the studied firms using stata 2023*

The result of the correlation as shown in Table 4.2 discloses the correlation coefficients of the variables which range from -1 to 1 with indicative signs (positive and negative) that denote the pattern or direction of the relationship. For the correlated variables, the results show that Long-Run Cash Effective Tax Rate (LRCETR), Book Tax Difference (BTD) and leverage are positively correlated with the Market Value of Equity (MVE). The positive relationship between the identified explanatory and dependent variables respectively indicates that, LRCETR, BTD and Leverage are moving in the same direction with the dependent variable (MVE). In other words, as LRCETR, BTD and Leverage are increasing, MVE is also increasing. Generally, the correlation coefficients for each explanatory variable show absence of multi-collinearity as all the correlation coefficients are below the 0.8 threshold recommended by Gujarati. In addition, the result of the VIF test shows a mean value of 1.17 which is less than 10 further confirms absence of multi-collinearity among the explanatory variables. Thus, the predictive ability of the explanatory variables is not adversely affected by the relationship.

Regression Results of Corporate Tax Aggressiveness and Firm Value

In this section, the fixed effect regression result is presented in Table 4.3. Our choice of fixed effect regression stemmed from the outcome of the heteroskedasticity test result with a chi-probability value of 0.368, indicating that the data set are homoskedastic. Table 4.3 therefore, presents the fixed effect regression results of the explained and the explanatory variables respectively.

Table 4.3 Fixed Effect Regression Results

Var.	MVE
LRCETR	*-13.19****
	(0.000)
BTD	*0.02**
	(0.082)
LEV	*-2.68***
	(0.050)
No. of Obs.	100
R^2	0.22
F-value	10.66
P-value	0.0000

Source: *Generated from the annual reports of the studied firms through 'stata' 2023.*

Note: The coefficients for each variable are shown in italics while their respective p-values are in parenthesis. Corporate tax aggressiveness variables that show significant relationship with firm value are shown in asterisks together with their various degrees of significance. ***, **and * denote significance at 1%, 5% and 10% respectively.

The regression results displayed in Table 4.3 have a total of 100 observations with an overall R^2 of 0.22. This implies that the study covered 10 firms for 10 years and that 22% of the total variation in the dependent variable is explained by explanatory variables. That is, the selected corporate tax aggressiveness proxies (LRCETR and BTD) together with the control variable (leverage) account for the change in the market value of the listed industrial goods firms in Nigeria. Given the few selected proxies of corporate tax aggressiveness coupled with coefficient of determination, the model is fit and this was further confirmed by the value of F-statistics of 10.66. This implies that the model properly fit the variables at 1% level of significance ($P < .001$).

The results presented in Table 4.3 show that Long-Run Cash Effective Tax Rate (LRCETR) has a negative relationship with firm value given the coefficient of -13.19 ($P < .001$). The result show that LRCETR has a significant negative relationship with firm value which suggests that, a reduction in the proportion of corporate income paid as tax significantly improves firm value. This implies that the value of listed industrial goods firms in Nigeria is significantly enhanced when LRCETR is reduced. This finding is in agreement with our a priori expectation where a significant negative relationship was anticipated between LRCETR and firm value. The finding is consistent with the conclusions of Akmali and Hafiza (2014), Mihir and Dhammaka (2015), Monday and Abure (2018), Mohd *et al* (2018), Chen *et al* (2018) and Haliawati (2019) but, contradicts the findings of Wayne *et al* (2016), Nwaobia *et al* (2016), Salawu *et al* (2017) and Kang (2018).

Also, Book-Tax Difference (BTD) shows a significant positive relationship with firm value (MVE) with a coefficient of 0.02 ($P = .082$). Generally, the result reveals that BTD has a significant positive effect on firm value. This suggests that the increase in the book-tax gap accounted for the significant improvement in value listed industrial goods firms. This result is consistent with our a priori expectation where a positive and significant relationship between BTD and firm value was expected. The result is also consistent with the findings of James *et al* (2016), Tanya (2017), Taher *et al* (2017), Indah *et al* (2017) and Mohd *et al* (2018), but, inconsistent with those of Beng *et al* (2013), Mihir and Dhamika (2015) and Weim and Boubakar (2016).

The effect of Leverage on firm value is also presented in Table 4.3. Leverage has a significant negative relationship with MVE having a coefficient of -2.68 ($P = .05$). This suggests that an increase in the size of debt in the capital structure of the firms reduces their equity market value. This finding agrees with our a priori expectation. Plausible reason for this finding could be that shareholders may perceive increased debt in the firms' capital structure detrimental to the wealth maximization objective of shareholder. This may have informed the significant negative relationship between Leverage and MVE. This finding agrees with the results of Divya and Purna (2017) and Muhd *et al* (2018), Seyram and Holly (2014), Soufeiene *et al* (2016) and Chen *et al* (2018).

Theoretically, the findings of this study support the traditional theoretical assumption especially where a reduction in the proportion of cash tax paid as well as increase in the book-tax gap led to significant increase in the MVE of the studied firms. This is an indication that managers engage in tax aggressiveness in the best interest of the shareholders

5. Conclusion and Recommendations

In this study, the relationship between corporate tax aggressiveness and value of listed industrial goods firms has been examined using LRCETR and BTD as surrogates for tax aggressiveness, Leverage as proxy for control variable while, MVE was used to measure firm value for a period ten (10) years (2009-2018). From the findings of this study, the following conclusions have been derived.

It is clear that firms deployed appreciable tax avoidance strategies to significantly enhance value through a reduction in LRCETR and increase in the book-tax gap. This is an indication that the management of the firms understands the loopholes in the tax laws and has so deployed appropriate tax-reduction strategies to increase the after-tax profit of the firms. Also, the result revealed an inverse relationship between leverage and market value of equity. This shows that the existing size of debt in the firms' capital structure is not yielding the desired result of improving the market value of the firms' equity. In real sense, increase in leverage dwindles the MVE of the studied firms.

Given the findings as well the conclusion emanating from this study, the following recommendations have been suggested.

i. The firms should sustain and consolidate on the existing tax aggressiveness strategies so as to continue to enjoy improved value. This will not only help to reduce the LRCETR but also, increase the firms' book-tax gap. To achieve this, the firm may consider in corporate strategic activities that reduce tax liability. Such strategies include the use of accelerated depreciation, transfer pricing investment in research and development, strategic investment in qualifying capital assets to enjoy capital allowance as well strategic business location and investment to take advantage of tax credit.

ii. The firms should reduce the proportion of debt in their capital structure in order to significantly enhance their value. This can be achieved by floating more equity instruments than debt instrument. This will reduce the firms' financial risk especially in a fragile and unpredicted market like Nigeria; reduce the rate of dilution of shareholders' interests in the firms. An average debt-equity mix of 30-70% respectively is hereby suggested to the firms.

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