CONCEPT ANALYSIS OF RELATIONSHIP BETWEEN TAX PLANNING STRATEGIES AND PROFITABILITY

Ibrahim Abubakar Abubakar[1], Shamsudeen Ladan Shagari Ph.D[2],
Umar Salisu Ph.D[3], & Abdulkadir Abubakar Ph.D[4]
[1]Department of Accounting, Gombe State University
[1]ibrahima@gsu.edu.ng
[2, 3, 4] Department of Accounting, Bauchi State University, Gadau
shagareez@gmail.com[2]
umarsalisu2005@gmail.com[3]
aakatagum@gmail.com[4]

Abstract

Nigerian tax system has recently witnessed dramatic improvement especially from 2015 to 2022. This gives opportunity to the government to be executing various developmental project. Companies on the other hand are negatively affected as heavy taxes imposed reduced their profitability as a result, various tax planning strategies are being employed to put the companies in advantageous position. This study therefore, conceptually examined the impact of tax planning strategies on profitability using an extensive review of the relevant literatures. The study is guided by Hoffman's Tax Planning Theory this is due to the theory's premise that it is legal for an entity to consider tax planning strategies that can lower its tax liability. some study's literature found a negative association between company tax planning and profitability, while others have found that it increases corporate profitability. The study concluded that Nigerian companies engages in illegal tax planning, which may be caused by a lack of tax experts in these companies. The majority of research on tax planning and profitability was done in industrialized countries, which may be why there are fewer reported instances of company errors brought on by inadequate or poor tax planning there. According to the survey, businesses should investigate additional tax planning strategies like tax expertise and non-debt tax shields.

Keywords: Thin capitalization, capital intensity, effective tax rate, profitability

Introduction

In order to project a favourable image that would appeal to investors, corporate entities strive to increase their profitability. Any economy's growth and health are determined by profitability (Batra, 2016). Profitability is the indicator of economic growth and development as well as an increase in the standard of living for the populace (Weston & Brigham, 1968 as cited in Tanko, 2020). It indicates efficiency, measures the control and value of investments for owners, the margin of safety for creditors, pools of benefits for employees, and provides the basis for legislative action. Due to excessive costs and taxes, profitability—the goal of every business—is frequently not achieved (Akintoye et al, 2020).

Tax expenses diminish the distributable profits available to stakeholders and raise production costs; as a result, they may need to be skillfully, legally planned for, and reduced; failing to do so could negatively influence cash flow and the capacity to make investments. In an attempt to plan tax, many companies pay higher than the statutory rate and this could be attributed to lack of tax expert who can correctly planned to minimize the tax payable in these companies. According to Beasley et al, 2020), a well-established tax planning procedure can significantly affect a company's success on both an economic and social level. Various tax planning strategies are been in practice among countries of the globe, among the employees, the nature and type of the business, opportunity, flexibility of the tax law as well as the strategies employed in reducing the tax.

Hitherto, a lot of studies on tax planning and profitability have been conducted using various strategies but there is still no conclusive empirical evidence in the literature about how CTP influences profitability. This can be evident from the study of (Wada, 2021) who found positive and significant impact between CTP and profitability. The study of Kayode and Folajinmi, (2020) and Oeta et al. (2019) found positive insignificantly impact between CTP and profitability. Study of Akintoye et al (2020), Dada, (2020), Ebubechukwu and Obada, (2021) found no significant impact between CTP and profitability. The study of Adejumo and Sanyaolu (2020) found significant negative relationship between CTP and profitability. Thanjunpong and Awirothananon, (2019) found insignificant negative impact between CTP and profitability. It is precisely in this context that the study aims to assess the Concept Analysis of Relationship between Tax Planning Strategies and Profitability

Theoretical Foundation

Hoffman's Tax Planning Theory is relevant when looking at how corporate tax planning strategies affect the profitability of non-financial enterprises in Nigeria. Hoffman (1961) introduced the thesis, which claimed that since business concepts underlie taxation, an organization could modify its operations to lessen its tax burden. Exploring tax planning strategies that can lower the company's tax liability may be a part of changing the way business is conducted. A further tenet of the theory was that since taxation is frequently based on business or accounting principles, a company might alter its operations to reduce its tax liability. Furthermore, according to this theory, tax planning entails businesses maximizing legal loopholes in order to minimize the tax liability (Akintoye et al., 2020). Thus, the goal is to step up efforts to lower taxable income in order to increase accounting profit (Peter et al, 2020). Therefore, this idea suggests a direct or advantageous relationship between corporate success and tax planning actions.

However, the approach is predicated on the idea that businesses' tax obligations are determined by taxable income rather than profitability. This theory of tax planning is applicable when it is necessary to reduce corporate tax income without negatively affecting profitability. Firms should only engage in tax planning activities when there is a tendency to reduce taxable income to the absolute minimum without doing so in a way that will negatively affect profitability because the appropriate tax authority evaluates the firm based on taxable income, not profitability. As a result, firms should deepen their understanding of how to reduce taxable income without negatively affecting profitability. Theoretically, entities should use tax planning strategies provided they are compliant with applicable tax laws. According to Omesi and Appah (2021), corporate entities that take advantage of tax law loopholes and maintain optimal leverage in order to have a tax shield on deductible interest tend to have lower tax burdens and higher after-tax income.

The theory also emphasized that if tax planning actions are not adaptable in the sense of a continuity of the techniques, tax planning may not be sustained over the long term (Onyeka-Iheme , 2021). According to this theory, taxation is based on business or accounting principles, so a company can modify these activities in order to reduce its tax liability. As a result, the theory acknowledged a positive relationship between firm tax planning activity and firm performance (Kayode & Folajinmi, 2020).

Conceptual and Measurement Issues

Concept of Tax Planning

Since tax planning aims to reduce expenses and boost after-tax earnings, it is typically seen as being in shareholders' best interests. Through the use of various tax system loopholes, a business is able to legally decrease its tax liabilities (Adejumo & Sanyaolu, 2020). According to Herwati and Kumala (2001), tax planning is the process of structuring a taxpayer's or business entity's operations in order to take advantage of any available tax regulations loopholes. This allows the company to pay the least amount of tax possible. Therefore, tax planning in this study is the legal means of lowering or decreasing tax expenses with the intention of enhancing profitability.

Concept of Profitability

Profitability matters significantly for the long-term growth and survival of any business outfit. It can increase the firm's level of operation, meet the needs of customers, diversify into other areas of business, be able to withstand competition from firms in similar industries, and be able to withstand business risks. Miller and Modigliani (1961) introduced the theory of dividend irrelevance, which states that company performance is only determined by its basic ability to generate profits and face business risks. Profitability is a useful indicator of how firms will function in the future (Nguyen, 2020). Profitability is determine using financial ratios particularly the profitability ratios obtained from financial statements.

Financial ratios are the analytical tool in question. Profitability ratios measure management effectiveness based on the returns from sales and investment (Bramasta & Budiasih, 2021). The profitability of a company is one of the bases for assessing the condition of a company. Return on Asset, a metric used to assess an organization's ability to generate profits from asset management, measures profitability by comparing a company's revenue to its expenses and the extent to which it can increase sales, assets, and capital in order to generate income. (Novianto, 2021). Profitability gauges a company's ability to make money off of its investments or by using its production resources. As a result, profitability ratios assess a company's capacity to grow its profit, raise its sales, or improve its income (Olurankinse & Mamidu, 2021).

A ratio called profitability is used to evaluate a business's potential for profit. This ratio serves as a gauge of a company's management's efficacy (Sari et al, 2021). In order to calculate a company's profitability after taxes, return on capital employed (ROCE) is used. According to Kayode and Folajinmi (2020), the ROCE ratio is an accounting metric that expresses an organization's profit for a certain accounting period as a proportion of th e capital employed. After accounting for the quantity of capital spent, it is used to compare the relative profitability of businesses (Bayaraa, 2017). Therefore, profitability is the condition of being profitable.

Measurement of Tax Planning

Little guidance on company tax planning proxies were offered by prior studies. Studies like Salawu et al, (2017), Dharmarathna et al, (2019), Adejumo and Sanyaolu's (2020), and Vu et al, (2021) proxy corporate tax planning utilizing effective tax rate show that this is the case. Kayode and Folajinmi (2020) and Fagbem et al, (2019) used the effective tax rate, capital intensity, and thin capitalization as CTP. Oeta et al, (2019) use capital intensity, R&D spending, and firm size as proxy measures for corporate tax planning. Akintoye et al, (2020) employed thin capitalization, capital intensity, and research and development to measure corporate tax planning; Omesi and Appah (2021) used effective tax rate and tax savings. Akintoye et al, (2020) used thin capitalization, capital intensity and research and development.

Effective Tax Rate

The results of studies provide evidence that the effective tax rate affects how corporate tax planning changes. Effective Tax Rate is a technique used to determine the degree of tax system neutrality and the features of businesses with higher and lower tax burdens (Noor, 2010). According to Ardyansah (2014), the Effective Tax Rate is utilized to reflect the discrepancy between the calculation of Book Profit and Taxable Profit. According to Kraváek (2018), the effective average tax rate (EATR) is determined by dividing the present value of taxes by the present value of profits. The level of tax system neutrality in businesses with diverse tax loads is determined by the effective tax rate, which summarizes the cumulative effects of various tax incentives. ETR is preferred because it uses tax incentives to gauge how the tax burden is distributed. According to Kaoula (2021), it is determined by the tax expense to income before taxes ratio. The average tax rate at which a firm is assessed for its pre-tax earnings is known as the effective tax rate.

Thin Capitalization

A corporation is thinly capitalized, according to Farrar and Mawani (2008), if its capital structure contains a higher percentage of debt than equity. The advantage of high leverage is the tax deduction for interest payments made on borrowed money, which means that the more debt a company has, the more interest it will pay and the less tax it will have to pay. According to country's debt/equity ratios, the following are the definitions of thin capitalization: China - Financial Institutions 5:1, Others 2:1, and Germany - deductibility of interest up to 30% of income (Mathew, 2016). The United States and France have debt/equity ratios of 1.5:1, 1.5:1, 2:1, 2:1, and 3:1, respectively. Canada and Ghana have debt/equity ratios of 2:1 and 3:1. Thin capitalisation is the term for when a corporation is financed with a disproportionately large amount of debt in comparison to equity (Pratama, 2017).

Thin capitalization describes the situation in which a company is financed through a relatively high level of debt compared to equity. It is crucial, particularly when it comes to tax planning, as it has a significant impact on the amount of profit a firm reports for tax purposes. The higher the level of debts that a firm has, the higher the interest that must be paid, which will result in a lower taxable profit (Akabom & Ejabu, 2018). The approach used by corporate organizations to take advantage of the interest on debt's status as an acceptable expense under tax regulations when there is a high level of debt compared to equity is known as thin capitalization. According to Fagbemi et al. (2019), thin capitalisation is a method employed by businesses to organize their financial structure by having a high debt-to-equity ratio. When a company's capital structure is developed with ownership of more debt than capital, the circumstance is known as thin capitalization (Yanti, 2023). Therefore, having more debt as a company's capital composition results in thin capitalization.

Capital Intensity

The capital to labour ratio, such as from the points along a capital/labour isoquant, can be used to estimate capital intensity. Capital intensity is defined as the amount of fixed or real capital present in relation to other factors of production, particularly labour, at the level of either a production process or the overall economy (Knesl, 2018). According to Simeon, (2019), capital intensity describes how much a company has invested in real estate, manufacturing facilities, and equipment. The quantity of money required to generate one Naira is known as capital intensity, and the more capital is used to produce a single unit, the more capital intensive the firm is said to be (Onyeka-Iheme, 2021). Therefore, capital intensity is an investment in fixed assets for capital allowance purposes that lowers the taxed liability and increases the profitability of the business. To determine how well a corporation uses its assets to produce revenue, capital intensity is employed (Farid, 2022).

Empirical Review

Effective Tax Rate and Profitability

In numerous studies, the effective tax rate (ETR) has been identified as one of the most popular company tax planning techniques. Studies have used ETR to investigate the profitability of corporate entities (Fagbem et al, 2019; Adejumo & Sanyaolu, 2020; Dharmarathna, 2020; Kayode & Folajinmi, 2020; Onyeka-iheme, 2021; Ebubechukwu & Obada, 2021; Omesi & Appah, 2021;

Olabisi et al, 2021; Saifuddeen & Muhammmad, 2021). These studies have revealed conflicting results about the relationship between the effective tax rate and corporate profitability. According to research by Richard et al. (2019), Otuya and Omoye (2021) and Dwinta and Gabrilfani (2022), the effective tax rate (ETR) has a favourable impact on profitability. Contrarily, research by Garcia & Trindade (2018), Erin (2019), Fagbemi et al. (2019), Dharmarathna (2020), Olurankinse and Mamidu (2021) indicated a negative correlation between the effective tax rate and profitability.

In addition, Adejumo and Sanyaolu (2020) found that effective tax rate has a significant negative effect on profitability. The study investigated on Tax planning and Profitability of Nigerian Deposit Money Banks: Evidence from Dynamic Panel Model. Variables used are Tax Planning (ETR) as independent variables, Capital adequacy, Age and Age as control variables and Profitability (ROA, as dependent variables. Data for the study where collected from annual financial statements. Ex-post facto research design was employed. The study recommended the need to engage the services of a tax consultant. The study focused on banks, it can be expanded to cover non-financial companies.

Furthermore, Olurankinse and Mamidu (2021) revealed that effective tax rate had negative and insignificant effect on return on equity. The study examined the effect of tax planning on the financial performance of Nigerian Development Banks for the period 2012 to 2019. Variables used are tax planning (effective tax rate, tax savings, intensity of capital and firm size) as independent variable and financial performance (return on equity) as dependent variable. The data were collected from annual financial statements and reports of the selected Nigerian Development banks. Pooled regression analysis technique was used and it denies the heterogeneity of variables. In addition, Ebubechukwu and Obada (2021) found that Effective Tax Rate (ETR) has no significant effect on performance. The study examined the effect of tax planning on performance of Nigerian corporate firms for the period 2009-2019; variables used are Effective Tax Rate as independent variables and Return on Assets as dependent variable. Data for the study where collected from annual reports and accounts of the sampled firms. Ex-post facto design employed and Ordinary Least Square regression analysis was used. The study recommended that Nigerian firms should engage the services of tax consultants in managing their tax computations and remittances. The variables used by Jacinta O Ebubechukwu and Paradise J Obada (2021) exclude other measures of financial performance such as ROCE. However, the technique of data analysis is appropriate. This result could not be solid over methodologies that used both ROA and ROCE.

In addition, Gita et al, (2021) indicated that profitability had a positive and significant effect on the effective tax rate. The study was conducted on manufacturing companies listed on the Indonesia Stock Exchange. The types of data used are quantitative data and data sources are secondary data in the form of annual financial reports of manufacturing companies in the reporting period at 2015 to 2019. The sample selection used a purposive sampling method with 53 companies and a total of pool data are 202 data. The data analysis method used is multiple regression analysis. The sampling method gives room for bias selection, and the time frame is inadequate to show a variation in company's activities.

In addition, Bachas et al, (2022) showed the results for the Dominican Republic, where the corporate statutory tax rate is 27% in 2015, the ETR averages 16% across all firms, increases over the firm-size distribution, and decreases at the top for the largest firms. The study use administrative tax data in many countries to systematically calculate firm-level effective tax rates (ETRs) and study how ETRs vary across the firm size distribution. The time the study was conducted 2015 is not too current and factors capable of influencing the result such as currency fluctuations and devaluation of currencies can affect the result and so the need to reexamined.

Furthermore, Dwinta and Gabrilfani (2022) carried out a study on food Sub-sector Company in the form of baking solution. The study used secondary data obtained directly from the PT Jaya Fermex Company for the period 2017 to 2020. The research employed quantitative method with a descriptive verification approach. The results showed that net profit margin have a significant effect on the Effective Tax Rate. Result of the study could be misleading because part of the time frame was corona period which can have possible impact on the result, also the study was conducted on only one company and it is unfair to generalize on the entire companies.

Thin Capitalization and Profitability

Thin capitalisation (TC) has been used in studies to approximate corporate tax planning strategies (Fagbem et al, 2019; Akintoye, et al, 2020; Kayode & Folajinmi, 2020; Onyeka-iheme, 2021).As a result, this study adopts TC as a useful business resource that focuses on evaluating companies' tax planning strategies. According to the studies, thin capitalisation and profitability are positively correlated (Akabom & Ejabu, 2018; Otuya & Omoye, 2021; Fasasi et al, 2022). But research by Sohail and Ulfat (2019); Merlo et al, (2020); Akintoye, et al, (2020) revealed a negative correlation between thin capitalization and profitability.

However, Merlo et al, (2020) examined and found that stricter thin capitalisation rules were found to negatively affect location choices of MNCs. the impact of thin-capitalisation rules on the location of multinational firms' foreign affiliates. Using information on nearly all new foreign investments of German MNCs, the study provides a number of new and interesting insights on how thin capitalisation rules affect the decision of where to locate foreign entities. In addition, Ngo et al, (2020) revealed that debt has a statistically significant negative effect on corporate profitability. The result is stronger in a non-linear (concave) way, that the debt ratio has nonlinear effects on corporate profitability. The study was conducted on non-finance listed companies on the Vietnam stock market. The panel data of the research sample includes 118 non-financial listed companies for a period of nine years, from 2009 to 2017. The Generalized Method of Moments (GMM) is employed to address econometric issues and to improve the accuracy of the regression coefficients. The methodology adopted was comprehensive, similar studies can be conducted in Nigeria.

However, Akintoye et al, (2020) revealed that thin capitalization has negative and insignificant effect of TP on Return on Assets (ROA), investigated the effect of Tax Planning (TP) Strategies on Profitability of manufacturing firms in Nigeria for the period 2008 – 2017. Variables used are thin capitalization, capital intensity and research and development as independent variables and Return on Assets as dependent variable. Data for the study where collected from annual reports of the sampled companies. Ex-post facto research design. The study used just ROA as profitability proxy. Similar study can be conducted using different profitability proxy. Although the variables used excluded ROCE which is strategic variable in measuring profitability, the technique of data analysis is appropriate.

In another study, Eneisik and Moses (2021) found that thin capitalization has negative and insignificant impact on return on equity of quoted banks in Nigeria. The study adopted judgmental sampling techniques to select twelve banks as sample size for the study. Secondary data was obtained from audited annual financial reports of quoted banks in Nigeria from 2006-2019. The study adopted the use of descriptive statistics for univariate analysis while hypotheses were tested using ordinary least square regression statistical tool with the aid of E-view 10 econometric statistical software. Ordinary least square regression used deny the heterogeneity of the variables. Similar study can be conducted using other techniques of data analysis.

However, Otuya and Omoye (2021) indicated that thin capitalisation have a positive but insignificant association with MNCs financial performance. The study adopted the ex post facto research design and obtained relevant data from financial statements of sampled MNCs for the period 2014 to 2018. The analytical techniques are descriptive, correlation and regression analyses. The time frame used was too small to show enough impact of thin capitalisation on profitability.

In addition, Fasasi et al, (2022) showed that short term debt has a significant positive effect and long-term debt had a significant negative effect on profitability of listed agricultural companies in Nigeria. The study sampled listed Agricultural companies in Nigeria on Nigeria stock exchange (NSE). Secondary data for the study was extracted from the annual report of listed agricultural firms and the data was analyzed using multivariate regression analysis.

In the same vein, Osamor (2022) uncovered that thin capitalisation had effects on firms' financial performance in both multinational and non-multinational firm in Nigeria. Thin capitalisation was proxy with debt-to-equity ratio, firms' financial performance was proxy with return on invested capital. The data was obtained from the annual reports of the firms from 2006 to 2020 and was analysed using descriptive statistic, unit root test, co-integration and panel data regression. The study measures financial performance using just return on investment. Similar studies can be conducted using different proxies of financial performance.

In another study, Osamor et al, (2023) examined the effects of thin capitalization on the financial performance of multinational firms in Nigeria. Secondary data was obtained from the annual reports of eight selected multinationals from 2014 to 2021. Thin capitalization was a proxy with financial leverage ratio, fixed-charge coverage ratio and debt ratio; financial performance was a proxy with return on asset, while the firm's size was used as a control variable. Data were analyzed using descriptive statistics, cross-sectional dependence tests, serial correlation, normality tests and regression analyses. The findings revealed that financial leverage and debt ratio do not significantly affect ROA, while fixed-charge coverage ratio had an effect on ROA.

Capital Intensity and Profitability

The research (Fagbem et al, 2019; Akintoye et al, 2020; Kayode & Folajinmi, 2020; Omesi & Appah, 2021; Olurankinse & Mamidu, 2021) demonstrates the capacity of capital intensity (CI) to mirror the corporate's tax planning techniques.

Positive correlations between capital intensity and profitability were found in studies by Richard and Joseph (2019); Astrinur et al, (2020); and Putu & Made (2021). While (Akintoye et al., 2020) found a negative correlation between capital intensity and profitability.

In the same vein, Astrinur et al, (2020) revealed that capital intensity has a positive and significant effect on tax management. data research are secondary data obtained through the company's financial statements of 87 sampled in agricultural, mining and property sector companies that have been listed on the Indonesia Stock Exchange in 2018. The data analysis technique used the requirements analysis test, classic assumption test, multiple regression test, and hypothesis test. The methodology adopted is appropriate and comprehensive. Also, the study limits itself to just agricultural, mining and property sector companies. Similar study can be expanded to cover other sectors.

However, Akintoye et al, (2020) found that capital intensity negative and insignificant effect of TP on Return on Assets (ROA). The study investigated the effect of Tax Planning (TP) Strategies on Profitability of manufacturing firms in Nigeria for the period 2008 – 2017. Data for the study where collected from annual reports of the sampled companies. Ex-post facto research design was employed. The study limits itself to just return on Assets as profitability proxy. Other strategic measure of profitability such as ROCE was excluded.

In the same vein, Ifoastri et al, (2020) uncovered that capital intensity has a significant negative effect on profitability and working capital management and intensity capital together has an impact on profitability. The study was conducted on Consumer Goods Industry Sector, food and beverage sub-sector of Indonesia in particular. The data were collected from the account of the sampled companies listed on the Indonesia Stock Exchange. The data were analysed using multiple linear regression analysis. The methodology used by Ifoastri, Nur-Cahyo, Rahayu and Ratnawati (2020) is appropriate and variables are adequate to make their results robust over other methodology.

However, Martina et al, (2020) found that companies mainly implement modest investment development, which was characterised by the high effectiveness of capital usage, diminishing labour productivity, low labour endowment, but at the same time, increasing profitability. The study used data from 875 enterprises from the V4 countries, which were divided into categories according to the development of capital intensity and labour productivity. The study limits itself to just V4 countries. Similar study can be conducted in Nigeria.

In addition, Nangih and Onuora (2020) revealed that firms with higher capital intensity were bound to perform financially better than those with lower ones. Purposive sampling procedure was used in selecting nine (9) listed oil and gas companies for the period of five years (2014 to 2018). The study adopted the ex post facto research design. The random effect regression model was used to analyse the relationships between the variables of study. Purposive sampling procedure was applied in selecting the sample and that gives room for bias selection. The findings could therefore be misleading.

Furthermore, Nawang et al, (2020) showed that capital intensity has a positive effect on tax avoidance. The study employed purposive sampling techniques and for data analysis using multiple linear analysis techniques. The research focused on companies listed in Jakarta Islamic Index (JII) period 2015-2019.

Also, Putu and Made (2021) conducted a study and uncovered that capital intensity ratio have a positive effect on tax avoidance. The research was conducted at mining sector companies listed on the Indonesia Stock Exchange in 2015-2019 using purposive sampling technique with a total of 45 samples. Data were analyzed using multiple linear regression analysis.

In addition, Otuya and Omoye (2021) indicated that capital intensity have a positive but insignificant association with MNCs financial performance. The study adopted the ex post facto research design and obtained relevant data from financial statements of sampled MNCs for the period 2014 to 2018. The analytical techniques are descriptive, correlation and regression analyses.

However, Eneisik and Moses (2021) uncovered that capital intensity has negative and insignificant impact on return on equity of quoted banks in Nigeria. The study adopted judgmental sampling techniques to select twelve banks as sample size for the study. Secondary data was obtained from audited annual financial reports of quoted banks in Nigeria from 2006-2019. The study adopted the use of descriptive statistics for univariate analysis while hypotheses were tested using ordinary least square regression statistical tool with the aid of E-view 10 econometric statistical software. The study limits itself to just descriptive and univariate analysis. Similar study can be conducted using different tools of analysis.

In addition, Ayodeji (2022) revealed that capital intensity is only viable for loss sustaining firms, but not attractive for firms operating in profitable bandwidth. The population of the study consisted of twenty-one (21) listed Consumer goods manufacturing firms in Nigeria. Data for the study were generated from the companies' annual reports and statements of account for an eight –year period:

2013-2020. The stated hypotheses were statistically tested using fixed-effect regression technique. The study limit itself to just manufacturing firms. Similar study can be expanded to cover other sectors.

Conclusion and Implication

Using a thorough analysis of the literature, this research investigated the concept analysis between corporate tax planning and the profitability. The relationship between business tax planning and profitability has been studied empirically in both industrialized and developing nations, although more research is needed. Challenges revealed by the study include inconsistent measurement in concept which consequently influenced the research findings, determining an adequate tax planning measurement, and corporations' propensity for engaging in illegal tax planning, which may be caused by in adequate tax experts in such organizations. Additionally, it was discovered that the majority of research on tax planning and profitability was done in developed countries. This finding may account for the fact that there are less occurrences of company error brought on by inadequate or subpar tax preparation in developed countries. This could be evident based on the fact that the reviewed literatures in this study, tax planning error are less frequent in developed than developing nations. The report suggests hiring tax professionals for organizations and using other non-debt tax shield strategies for tax planning purposes. In order to improve generalization on the topic of tax planning in developing nations using Nigeria as a reference point, more empirical studies on tax planning and profitability need to be undertaken in Nigeria.

References

Abdelkader, M., & Sghaier, D. (2022). The factors determining the profitability of Tunisian banks 1-21. doi: https://ssrn.com/abstract=4050611

Adejumo, B. T., & Sanyaolu, W. A. (2020). Tax planning and Profitability of Nigerian Deposit Money Banks: Evidence from Dynamic Panel Model. *Accounting and Taxation Review, 4*(2), 162-169.

Agus, H., & Teddy, C. (2022). *Intellectual capital and firm size impact on profitability and firm value on financial sector*. Paper presented at the nd International Conference on Business & Social Sciences (ICOBUSS) Surabaya.

Akabom, I. A., & Ejabu, F. E. (2018). Effects of thin capitalization and international law on performance of multinational companies in Nigeria. *Journal of Accounting and Financial Management*, *4*(2), 47-58.

Alamgir, H. M., & Saifullah, K. (2018). Determinants of Bank Profitability before and during Crisis: Evidence from Bangladesh. *International Journal of Finance and Accounting*, *7*(5), 142-146. doi: 10.5923/j.ijfa.20180705.02

Ardyansah, D. (2014). *Pengaruh Size, Leverage, Profitability, Capital Intensity Ratio Dan Komisaris Independen Terhadap Effective Tax Rate (ETR).* (Diponegoro), dan Bisnis Univ.

Ayodeji, A. S. (2022). Moderating impact of financial performance on capital intensity strategy of tax avoidance and corporate liquidity. *Academic Journal of Accounting and Business Management*, *3*(2), 53-62.

Bachas, P., Brockmeyer, A., Dom, R., & Semelet, C. (2022). Effective tax rates and firmsize: the case of the Dominican Republic. *Institute for fiscal studies, World Bank Group*.

Bayaraa, B. (2017). Financial Performance Determinants of Organizations: The Case of Mongolian Companies. *Journal of Competitiveness*, *9*, 22-33.

Bramasta, R. Y., & Budiasih, Y. (2021). The Effect Of Profitability, Book Tax Difference And Tax Planning On Income Management In Automatically Sub-Sector Manufacturing Companies And Components Registered In Indonesia Stock Exchange. *International Journal of Economy, Education and Entrepreneuship*, *1*(1), 22-30.

Dada, S. O. (2017). Tax planning and firms' performance in nigeria. *International Journal of avanced research*, *5*(5). doi: 10.21474/IJAR01/4600

Dharmarathna, D. G. (2020). Corporate Tax Planning and Financial Performance of Companies Listed in Colombo Stock Exchange (CSE). *International Institute for Applied Research Skies Educational*, *3*(2), 1-15.

Dwinta, M., & Gabrilfani, S. (2022). Analisis capital intensity & net profit margin terhadap effective tax rate. *Jurnal Financia, 3*(1), 11-23.

Ebubechukwu, J. O., & Obada, P. J. (2021). Effect of tax planning on performance of nigerian foods and beverage firms. *Research Journal of Management Practice*, *1*(2), 8-16. doi: 10.46654/RJMP

Eneisik, G. E., & Moses, K. U. (2021). Tax Planning Strategies and Financial Performance of Quoted Banks in Nigeria. *Journal of Accounting and Financial Management*, *7*(5), 60-79.

Erin, H., & Richard, S. (2019). The Relation between Effective Tax Rates and Firm Profitability.

Fagbemi, T. O., Olaniyi, T. A., & Ogundipe, A. A. (2019). The Corporate Tax Planning And Financial Performance Of Systemically Important Banks In Nigeria. *Economic Horizons*, *21*(1), 15-27. doi: 10.5937/ekonhor1901015F

Farrar, J., & Mawani, A. (2008). Debt-equity limitations in thin capitalization rules: Canadian evidence. *Electronic Journal of Asian Finance, Economics and Business 10*(2139), 39.

Fasasi, K. A., Ahmad, A. A., & Nnejiwuihe, F. C. (2022). Effect of debt financing on profitability of listed agricultural companies in nigeria. *International Journal of Education, Business and Economics Research (IJEBER)*, *2*(5), 66-74.

Garcia, M. T. M., & Trindade, M. J. (2018). Determinants of banks' profitability in Angola. *African Journal of Economic and Management Studies*. doi: 10.1108/AJEMS-06-2018-0161

Gita, I. A. M. A., Partika, I. D. M., & Suciwati, D. P. (2021). Effect Firm Size, Profitability and Inventory Intensity Against Effective Tax Rate (ETR). *Journal of Applied Sciences in Accounting, Finance, and Tax*, *4*(1), 9-15.

Goso, G. (2022). The Influence of Capital Structure, Liquidity, and Company Size on Sulselbar Bank's Profitability. *Enrichment: Journal of Management*, *12*(4), 2847-2853.

Hasan, M. A.-S., Nawzad, M. H., Rahim, J. M. S., Rizgar, A. S. j., & Farhad, A.-K. (2021). The role of the size and growth rate of the bank in determining the effect of financial leverage on the profitability of Jordanian commercial banks. *Journal of Contemporary Issues in Business and Government, 27*(1), 1962-1978.

Herwati, E. B., & Kumala, R. (2021). Analysis of The Implementation of Tax Planning in Efforts to Save Corporate Income Tax Expense in PT GMT Year 2017. *International Journal of Trends in Accounting Research, 2*(1), 130-139.

Hoffman, W. (1961). The Theory of Tax Planning. *The Accounting Review, 36*(2), 274-281.

Ifoastri, M., Nur-Cahyo, T. B., Rahayu, Y. N., & Ratnawati. (2020). Role of working capital management, capital intensity in affecting the profitability of manufacturing company. *Eurasian Journal of Economic and financial research, 4*(3), 1-13. doi: 10.46827/ejefr.v4i3.907

Kayode, O. O., & Folajinmi, A. F. (2020). Corporate Tax Planning and Financial Performance of Quoted Food and Beverages Firms in Nigeria. *Journal of Finance and Accounting, 8*(6), 266-275. doi: 10.11648/j.jfa.20200806.13

Knesl, J. (2018). Capital intensity and investment shocks: Implications for stock returns. *SSRN Electronic Journal, 1*(1), 1-62.

Martina, N., Ivana, F. L., Jirí, A., & Tomáš, V. (2020). Capital Intensity and Labour Productivity in Waste Companies. *Sustainability*. doi: 10.3390/su122410300

Mathew, O. G. (2016). *Transfer Pricing and Thin Capitalization*. Paper presented at the 2016 Tax Conference, Chartered Institute of Taxation of Nigeria (CITN).

Merlo, V., Riedel, N., & Wamser, G. (2020). The impact of thin-capitalisation rules on the location of multinational firms' foreign affiliates. *Review of International Economics*, *28*(1), 35–61.

Miller, M., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *Journal of Business*, *34*, 411-433.

Nangih, E., & Onuora, J. K. J. (2020). Capital intensity and firm profitability interconnectedness in nigeria. *Journal of accounting, business and social sciences, 3*(2).

Nawang, K., Solihin, Saptono, Yohana, & Devia, R. Y. (2020). The influence of capital intensity, firm size, and leverage on tax avoidance on companies registered in jakarta islamic index (jii) period 2015-2019. *International Journal of Economics, Business and Accounting Research (IJEBAR), 4*(3), 272-278.

Neneng, D., & MCom, B. J. W. (2020). *Conference Series, 3(1), 111-124. Retrieved from https://adi-journal.org/index.php/conferenceseries/article/view/354*. Paper presented at the ADI International Conference Series.

Ngo, V. T., Tram, T. X. H., & Vu, B. T. (2020). The Impact of Debt on Corporate Profitability: Evidence from Vietnam. *Journal of Asian Finance, Economics and Business, 7*(11), 835–842. doi: 10.13106/jafeb.2020.vol7.no11.835

Nguyen, V. C. (2020). Human capital, capital structure choice and firm profitability in developing countries: An empirical study in Vietnam. *Accounting, business and Financial History, 6*, 9. doi: http://www.growingscience.com/ac/ac.html

Novianto, R. A. (2021). The Influence Of Liquidity And Profitability On Tax Avoidance (Case Study On Consumption Goods Industry Registered On The Idx 2015-2019). *Turkish Journal of Computer and Mathematics Education, 12*(11), 1358-1370.

Oeta, S. M., Kiai, R., & Muchiri, J. (2019). Influence of tax planning on financial performance of manufacturing companies listed at Nairobi Securities Exchange. *International Journal Of Research In Business And Social Science, 8*(6), 262-270.

Olabisi, J., Kajola, S. O., Oladejo, D. A., Ajayi, J. A., & Hamzat, I. A. (2021). Corporate tax planning and performance of nigerian listed oil & gas firms. *The Journal Contemporary Economy, 4*(1), 12-24.

Olurankinse, F., & Mamidu, A. I. (2021). Corporate Tax Planning And Financial Performance Of Development Banks In Nigeria. *European Journal of Accounting, Auditing and Finance Research, 9*(5), 53-72.

Omesi, I., & Appah, E. (2021). Corporate Tax Planning and Firm Value of Listed Consumer Goods Companies in Nigeria. *IOSR Journal of Business and Management (IOSR-JBM), 23*(2), 42-51.

Onyeka-Iheme, C. V. (2021). Tax Planning Strategies and Liquidity of Manufacturing Companies Quotedin Nigeria. *American Journal of Humanities and Social Sciences Research (AJHSSR, 5*(2), 138-148.

Osamor, I. (2022). Thin Capitalisation and Firms' Financial Performance: Evidence from Selected Multinational and Non-Multinational Firms in Nigeria. *Acta Universitatis Danubius*.

Osamor, I. P., Omoregbee, G., & Olugbenga, A. T. (2023). Effects of Thin Capitalization on The Financial Performance of Multinational Companies in Nigeria *Iranian Journal of Accounting, Auditing and Finance, 7*(2), 99-110.

Otuya, S., & Omoye, A. S. (2021). Thin Capitalisation, Effective Tax Rate and Performance of Multinational Companies in Nigeria. *Accounting & Taxation Review, 5*(1), 45-59.

Pandapotan, J., & Lastiningsih, N. (2020). The Effect of Capital Structure, Liquidity, and Company Size towards Profitability. *Journal of Economics and Behavioral Studies, 12*(4), 59-66,.

Peter, Z., Hamid, T. K., & Ibrahim, M. (2020). Board attributes and tax planning of listed non-financial companies in nigeria. *International Journal of Accounting & Finance (IJAF), 9*(1).

Pratama, A. (2017). Does corporate governance reduce thin capitalization practice? The case of Indonesian Manufacturing firms Does corporate governance reduce thin capitalization practice? The case of Indonesian Manufacturing firms. *Review of integrative Business and Economic Research, 6*(4).

Putu, A. D., & Made, I. S. (2021). The Effect of Institutional Ownership, Profitability, Leverage and Capital Intensity Ratio on Tax Avoidance. *American Journal of Humanities and Social Sciences Research (AJHSSR), 5*(1), 13-22.

Saifuddeen, I., & Muhammmad, A. I. (2021). *Tax planning and value of the listed deposit money banks in nigeria.* Paper presented at the 3rd annual international academic conference of the chartered institute of taxation of nigeria 2020, Igbinedium University, Okada, Edo state.

Salawu, R. O., Ogundipe, L. O., & Yeye, O. (2017). Granger Causality between Corporate Tax Planning and Firm Value of Non-Financial Quoted Companies in Nigeria. *International Journal of Business and Social Science, 8*(9), 91-103.

Sari, D., Wardani, R. K., & Lestari, D. F. (2021). The Effect of Leverage, Profitability and Company Size on Tax Avoidance (An Empirical Study on Mining Sector Companies Listed on Indonesia Stock Exchange Period 2013-2019). *Turkish Journal of Computer and Mathematics Education, 12*(4), 860-868.

Simeon, M. O., Richard, K., & Joseph, M. (2019). Capital Intensity and Financial Performance Of Manufacturing Companies Listed At Nairobi Securities Exchange. *International Journal of Scientific & Engineering Research*, *10*(9), 1647-1658.

Sohail, A., & Ulfat, A. (2019). Effect of Debt Financing on Firm Performance: A Study on Non-Financial Sector of Pakistan. *Open Journal of Economics and Commerce, 2*(1), 8-15.

Sutrisno. (2019). Capital Structure, Business Risk and Corporate Performance (Case Study on Construction and Real Estate Sector). *Islamic Banking and Finance Journal, 10.21070/perisai.v3i2.2670*(3), 2.

Thanjunpong, S., & Awirothananon, T. (2019). The Effect of Tax Planning on Financial Performance in the Stock Exchange of Thailand. *International Journal of Trade, Economics and Finance, 10*(1), 25-29. doi: 10.18178/ijtef.2019.10.1.632

Vu, T. A. T., & Le, V. H. (2021). The Effect of Tax Planning on Firm Value: A Case Study in Vietnam. *Journal of Asian Finance, Economics and Business, 8*(2), 0973–0979. doi: 10.13106/jafeb