TAX PLANNING AND FIRMS' LIQUIDITY

[1]NWAOBIA Appolos .N, [2]JAYEOBA, Olajumoke. O.

[1]nwaobiaa@babcock.edu.ng, +2348035762254; [2]jumokejayeoba@yahoo.com, +2348067745019

Department of Accounting, School of Management Sciences, Babcock University, Ilisan-Remo, Ogun State, Nigeria.

Abstract

Tax expense is a significant cost to organizations as it affects their cash flow and working capital. As a result of this, organizations all over the world adopt tax planning strategies targeted at minimizing their tax liability without adversely affecting the overall financial liquidity of the firm. Thus, this study empirically examined the effect of tax planning strategies on firms' liquidity. Various tax planning strategies were discussed but the strategies of Capital Intensity (CAPINT), Thin Capitalization (TINCAP), Lease Option (LOPT) and Industry sector incentives (IND) were selected as the independent variable. The Criterion variable used was firms' liquidity measured in this study by the Current Ratio (CR) while firm size (SIZE) was adopted as the control variable. Data obtained from 154 firm- year observations were described and regression analysis was used to test the hypothesis developed. The results reveal that tax planning strategies of Capital Intensity (CAPINT), Thin Capitalization (TINCAP), and Lease Option (LOPT) exert negative effects on firms' liquidity while tax planning strategies of Industry (IND) and firm size (SIZE) have positive effects on firms' liquidity. This implies that tax planning as a balancing act requires possession of specialist knowledge and skills to effectively craft in order for it to positively impact firms' liquidity as well as enhance firm value. Thus, it was recommended that appropriate measures and skill should be applied in determining appropriate mix of strategies to adopt for tax planning purpose as some strategies if not properly designed and applied may reduce tax liability at the expense of firm's liquidity.

Keywords: Tax Planning, Liquidity, Thin Capitalization, Lease option, Tax incentives.

1. Introduction

Taxes (direct and indirect) paid by companies impact heavily on the firms' cost structure and liquidity. As a result of this, organizations take reasonable steps to mitigate their tax costs. They do this by employing all legitimate opportunities offered by the tax laws to increase their after-tax earnings and improve liquidity position. Hence, tax planning is a significant activity in terms of its potential costs and tax savings. Loretz and Moore (2009) argue that tax planning decisions, similar to a firm's operational decisions, are made in a competitive environment. This implies that various stakeholders of the company can observe tax payments made by the company and evaluate these against the relevant peer group and this idea leads to interdependencies in the tax

planning activities of a company. Though tax planning activities can result in tax savings, companies need to factor in the dynamic of "reputational loss" into their tax planning activities. According to Loretz and Moore (2009), managers have to balance the benefits of reduced tax burden against the costs of a loss of reputation if they deviate too much from the behaviour of their peer group.

The inefficient and ineffective tax administration in Nigeria do lead to the delegation of powers of Revenue Officials to third parties, who adopt unorthodox methods, including sealing off of company premises, in the revenue collection process. These create uncertainty in the tax system and increase the cost of tax compliance (Maiye, 2012). Also, companies income taxes paid in advance through withholding tax are lost to companies either as a result of non-remittance by agents of government that deducted them or non-issuance of credit notes to payers to enable them take tax credits. Often, they are compelled to make additional cash payments for taxes already paid at source and this increases the tax burden on companies affecting their liquidity position. The non-refund of excess taxes to tax payers, especially advance tax payments such as withholding tax, due to the lack of an efficient system (the difficulty of getting refunds from the Federation Account into which they are lodged) add another dimension to the negative side of taxation of companies in Nigeria. The overall effect of all these is increase in effective tax rate, sometimes over and above the statutory tax rate (Nwaobia, 2014).

Heavy tax burdens on company profits have been observed to reduce the amount available to companies to meet their working capital needs. As noted by Ikpekan & Owolabi (2014) working capital management is very fundamental to the liquidity and profitability of any organization. These two variables are vital to the survival of any organization. Khan & Safiuddin (2016) opined that an efficient management of the liquidity levels of a company is of extreme relevance for the firm's profitability and well-being. Thus, the management of the working capital and current ratio directly affects the results of a company's business (Garanina & Petrova, 2015). Previous researches, for example, (Blagikh and Salnikov, 2010) also confirm that the use of incorrect working capital management models is likely to decrease the return ratio of an organization and therefore cause its insolvency.

Corporate tax planning to the extent that it reduces tax liability, is expected to result in a positive impact on a firm's cash flow and increase its after tax rate of returns. On the opposing side, there

are potential costs related to strategies to minimize taxes such as implementation and transaction costs, possible penalties imposed by the tax authorities and reputation risks that must be considered (Nwaobia, Kwarbai and Ogundajo, 2016). Moreover, Lestari and Wardhani (2015) noted that while tax optimization minimized tax burdens, it exposes firms to financial difficulties driven by poor management and control of other non-tax costs.

Despite these conflicting views and positions, companies embark on tax planning to consequently reduce their tax liability through legal means. Scholars have researched into strategies employed in reducing the tax liability of companies and the effect of these strategies on the overall firms' value and performance. For example, Wahab and Holland, (2010) and Desai and Dharmapala (2007) discovered that tax planning benefits shareholders through increased tax savings and by extension increase in per share earnings as well as market price of the shares. Thus, tax planning has become a significant activity that is fully integrated to the corporate planning of many organizations. Also, Ftouhi, Ayed, & Zemzem (2014); Assidi, Aliani, & Omri (2016); Kawor & Kportorgbi (2014); Desai and Hines (2002); Chen, Chen, Chen and Shelvin (2010) examined the effect of tax planning on firms' value and profitability. These researches were not focused on determining the consequence of tax planning strategies on one of the fundamental key indices to the survival of the firm, that is, firms' liquidity position. It is with a desire to fill this gap that this study is undertaken.

The remainder of this paper is structured as follows: section 2 reviews extant literature highlighting the several tax planning strategies available, firms' liquidity, and appropriate theoretical consideration. Section 3 discusses the methodology of the study; section 4 deals with data analyses and discussion of results while section 5 concludes the study.

2. Extant Literature

2.1 Tax Planning Strategies

In the words of Freeman (2011), one of the most important responsibilities for corporate tax departments is to bring value to the bottom line by minimizing a company's overall tax liability. In theory, a corporation's income tax liability is in direct proportion to its profitability. Because increasing profitability is typically a corporation's primary objective, reducing tax liability is a challenging necessity. With this in view, Scholes et al (2008) has defined effective tax planning

as the tax planning that maximizes the firm's expected discounted after-tax cash flows. Traditionally, tax departments have looked to strategic tax planning as a means to achieve this objective. This, to Maydew and Shackelford (2005) implies that the development and implementation of a tax plan for a large organisation is a complex undertaking. It requires, in addition to the tax laws, extensive knowledge of the company, its history and how the organisation operates. It extends to the coordination of parties with diverse interests and information, involving domestic and foreign operations across multiple segments of the business including finance and financial reporting, management and technology. To achieve the profit and value maximization objective of tax planning, the activity may involve restructuring organizations, shifting income across jurisdictions or time or reclassifying the tax treatment of transactions.

In properly managed economies, paying taxes in business is almost unavoidable. However, a company can lower its taxes and increase its working capital with tax planning. With more working capital at its disposal, a company can grow and become more profitable. There are two basic corporate tax planning rules. The first is that a company should not take extra expenses or strive to minimize income to get a tax deduction. The target in tax planning is rather to increase the company's assets and/or after tax profit. The second rule is to attempt to defer taxes as much as possible. When a company legally puts off taxes to next tax season, the money that would have been used to settle the year's tax liability is released for interest-free use. Effective tax planning strategies should produce benefits in terms of wealth creation for the company. Hence, tax planning is actually a subset of the overall financial planning of a company which needs to take into account investment, financing and wealth building strategies of the company (Morien, 2008).

Morien (2008) put forward different types of tax planning strategies to include strategies for obtaining tax deductions; strategies for obtaining tax credits and offsets; strategies for moving income away from an entity paying a high rate of tax to an entity paying a lower rate of tax; strategies for moving profits and losses between tax years, either to defer tax or take advantage of a more favourable tax rate and strategies for reducing the amount of assessable capital gains tax from an investment sold at a profit. Each of these strategies embodies several elements to deal with in implementing the strategy. ICAN (2009) makes it clear that tax planning requires detailed knowledge of different tax legislations and their application to particular circumstances.

It requires the ability to identify and take advantage of any loopholes in the legislations. It requires ensuring that the tax payer, that is, the entity or individual, complies with tax laws to avoid sanctions and penalties.

Many sections of the Companies Income Tax Act, LFN 2004 contain varying provisions that give the corporate tax manager the latitude to mitigate the company's tax liability. Tax planning in essence involves the application of relevant incentive provisions for corporate tax payers based on enabling laws such as the CITA, PITA, VAT and ancillary provisions. It thus demands a thorough knowledge of the tax statutes and other regulations arising from the annual fiscal policies of the government as contained in the budget announcements. The Corporate tax planning points/strategies as contained in the CITA, PPTA and ancillary laws include:

Choice of Business Type: The Industrial Development (Income Policy) Act, has tax opportunities for Pioneering companies in Agro-allied and other industrial activities in Nigeria. A company engaged in any of the thirty seven listed pioneer industries is granted a pioneer certificate/status on application with certain tax privileges such as tax holiday for an initial period of three years. The period can be extended for another period of two years maximum. Relief for losses incurred during the "holiday" period could be claimable from profits made after the holiday period. Capital allowances due during the holiday period are deferred until the period is over. For a tax alert manager, these tax concessions translate into improved liquidity and profitability of the pioneer company during the holiday period, and thereafter when the deferred losses and capital allowances are claimable.

Section 28G of CITA also gives incentives and tax planning opportunities for companies engaged in gas utilization (downstream operations). By this provision, such a company enjoys an initial tax-free period of three years, which may, subject to the satisfactory performance of the business, be renewed for an additional period of two years or as an alternative, an additional investment allowance of 35 per cent which shall not reduce the value of the asset. However, a company which claims this incentive shall not also claim the additional 15% investment allowance provided under section 28G(bii). In addition, the company enjoys accelerated capital allowances after the tax-free period as follows:

i. An annual allowance of 90 per cent with 10 per cent retention, for investment in plant and machinery,

ii. An additional investment allowance of 15 per cent which shall not reduce the value of the asset.

An incisive tax manager will explore these provisions, weighing the alternatives, to the benefit of the company in terms of improved cash flows and increased profitability.

Choice of Area of location/operation: Incentives enjoyed by a company operating in the Free Trade Zone include repatriation of foreign capital investment in the Free Zone at any time together with the capital appreciation thereon, solid minerals taxation Tax free period or cessation for three years and exemption of company from minimum tax for the first four years of its commencement of business (sect.3, Oil and Gas Free Trade Zone Regulation 2003). The company can also carry forward losses indefinitely in line with the current amendment to CITA CAP C21 LFN 2004.

Section 28B of CITA gives Rural Investment allowances for locating and operating companies in rural areas without requisite infrastructure. It should be noted that this relief is restricted to 3 years and cannot be claimed by companies having pioneer status. These provisions when explored by a company make great positive impact on the bottom line and cash flow.

Choice of appropriate date of commencement and cessation of business: Generally, an established and continuing business is assessed to tax on preceding year basis [Sect.25 (1) and (2)]. But special rules exist for a new business for the first three years which constitutes a tax opportunity for the tax planner. Sect. 25(3a – e) of CITA provide that the assessable income/profit of a new business shall be ascertained on the basis of the following rules:

Year 1: the adjusted profit from date of commencement to the end of the government's fiscal year, that is, 31 December of the same year.

Year 2: the income of the first twelve months of operation, that is, from the date of commencement to the end of 12 months from that date.

Year 3: the income of the year immediately preceding the year of assessment, provided that this period is a normal accounting period (that is, it is a 12 month account, it is the only accounting period ending in that particular year and it must have commenced on the day after the last account ended or on the day business started).

The law allows the tax payer to elect to be assessed to tax for the second and third tax years taken together on the actual profits of those years, provided that such claims are made in writing within two years after the end of the second tax year to the Revenue, and provided also that such right could be revoked by the tax payer within twelve months after the end of the third year of assessment.

Following the above rule, the adjusted profits of the business for the first year largely forms the basis of assessment for the first two (and at times three) tax years. This thus has strategic tax planning considerations for the tax payer, which taken advantage of, improves short term liquidity and profitability. Fowokan (2009) and Ihendinihu (2009) have suggested the following tax planning considerations in the commencement situation:

1. The profits of the first and second accounting periods should be kept as low as possible by, for example, bringing forward expenses and delaying income recognition or by leasing rather than buying non-current assets.

2. Great care should be taken in selecting the accounting (closing) date of the first accounting period. Since the period need not cover 12 months, it will be possible to reduce the tax liability by contracting or extending that accounting period so as to take in months of low profits or leave out months of high profits.

3. On the cessation of a business, the profits of a period usually escape assessment. It is therefore strategic to choose the date of cessation of trade or business that will maximize the untaxed profit. Sect. 25 (4) of CITA stipulates that where a company permanently discontinues business, the assessable profits for (a) the tax year in which the cessation occurs shall be the amount of the profits of that year and (b) the year of assessment preceding that in which the cessation occurs shall be the greater of the actual amount of income of that year or the income as computed on the preceding year basis. This implies that if profits are falling, it is advisable to cease immediately while it may be advisable to continue until after the government year-end if profits are rising.

4. Where the profit of the second and third years of commencement of business has gone down, the tax payer can opt for the right to elect either actual year basis or preceding year basis for his assessment to tax.

5. There is no minimum tax for a company that is in its first four calendar years of commencement of business operations.

6. Preliminary expenses incurred in the commencement situation can be spread across the respective expense class instead of being written off to profit and loss account, subject to the provisions of the relevant statement of accounting standard.

Choice of Accounting Date: A company has the latitude to choose the date to which its accounts will be made up annually (the company's accounting date). This date, immediately it is determined must be filed with the Federal Inland Revenue Service (FIRS). A company also is free to change its accounting date. These dates have tax implications and thus must be part of a company's tax planning strategy. In the choice of accounting date during commencement period, it is necessary to do preliminary computations based on projected profit figures for the first, second or third years using different accounting dates. An accounting date after the country's fiscal year is always beneficial as it gives room for deferment of tax payment dates which enhances a company's liquidity. A change in accounting date should not be undertaken during periods of rising profits. Profits should have dipped at least for two accounting periods before such a change is effected.

Choice of Financial Structure: The assets of a company are usually financed either by increasing owners' claims or creditors' claims. Both forms of financing involve capital inflows with consequent tax effects. Thus, the financing or capital structure decision is a significant managerial decision that impacts on the after-tax value of the organizations. Capital structure represents the proportionate relationship between debt and equity and determines the measure of claims of the holders in the earnings and assets of the company. Because a debt instrument generates interest income to the lender and results in interest expense for the borrower, which is tax deductible, the use of debt in financing a business has a tax advantage. In the words of Pandey (2010), another important way of explaining the effect of debt (in the capital structure) is to see the impact of the interest charges on the firm's tax liability. The interest charges are tax deductible and therefore provide tax shield which increases the earnings of shareholders. It is the fact of the deductibility of the interest charges which makes the use of debt in the capital structure beneficial to a firm.

Debt capital may be by way of Debentures and Term loans. The tax implication of interests on loans is that it can be tax deductible if it is not capital in nature and when received as income by the company, it can be tax exempt if it relates to the right type of debt, for example, government bonds (Nigeria Public loans). Debt financing, when in form of convertible loans, gives the holder the right to convert to the company's equity shares at the holder's option. It also allows the debt instrument to be issued at a lower interest rate and has less restrictive covenants such as no prepayment penalties and no closing costs on deals. The tax opportunities/advantages of convertible loans open to the tax planner to explore include the fact that the company can expense the interest payment from taxable profit; will save additional costs of financing with consequent impact on profits and will increase gearing ratio on conversion of the loan. Moreover, by the third schedule, CITA CAP C21 LFN 2004, interest on a loan granted by a foreign company to any business in Nigeria benefits from total or partial tax exemption depending on tenure (maturity period) of the loan as follows:

Repayment period Incl. Moratorium	**Moratorium**	**Tax Exemption allowed (%)**
Over 7 years	Not less than 2 years	100
5 – 7 years	Not less than 1.5 years	70
2 -4 years	Not less than 1 year	40
Under 2 years	Nil	Nil

As stated earlier, tax planning is an integral part of financial planning and the area of financial structure decisions offers a tax manager and the company an opportunity to mitigate the company's tax liability and improve on the financial performance of the firm.

Choice of method and timing of Non-current Assets Acquisition: An important tax planning strategy that has great impact on after-tax profit is whether to lease, hire or buy the company's non-current assets or to combine the lease and buy options. Asset lease may be operating or finance lease. In an operating lease arrangement, the lessee company enjoys the benefit of the lease rentals being deductible expenses for income tax purposes while still making effective use of the asset. The lessor claims the capital allowances. Where a company's cash flow does not permit it to purchase the needed equipment outright or could not find a bank or finance company

for a finance lease arrangement, it can acquire the assets under a hire purchase (HP) arrangement. In this case, the company will claim the capital allowances on the assets and still deduct as expenses the interest elements of the HP payments.

As a strategy, it is important to consider the effect of capital allowances on a company's tax bill while planning the acquisition of fixed assets. Generally, plant has a tax advantage to buildings, which also is better than land on which no capital allowance is claimable. The capital allowance rates on plant and Equipment are Initial 50% and annual 25% while the rates on buildings are Initial 15% and annual 10%. From a tax planning perspective, it is not tax advantageous to buy an existing building as capital allowance is allowed on the lower of the original cost and the price paid. In most cases, the acquisition cost is far much higher than the original cost of construction. In the case of plant, capital allowances are claimable on the price paid for acquiring a second hand plant. The timing of fixed assets acquisition is also material in tax planning. Depending on need, acquiring assets towards the end of the accounting period is more tax beneficial as a full allowance could be claimed while the funds would have been used for the greater part of the period for operations.

Choice of mode of Compensating suppliers of capital: Since the tax system treats interest more favorably than dividends, there is a tax planning point in having more of the compensation paid to directors and shareholders in the form of interests, salaries, rent, directors, remuneration and others. The directors can make some of their capital contributions as loans at fairly high interest rather than equity. Royalties can be paid for the use of technical know-how associated with the directors. Through such payments which are tax deductible, dividend payments which suffer double taxation in Nigeria, will be reduced to a reasonable minimum while the after-tax profit of the company will improve. It should be noted that this tax planning strategy works better for companies owned and controlled by few people.

2.2. Firms' Liquidity

The performance of a company can be measured from different dimensions since corporate performance is assessed in relation to established organizational objectives. The determination of liquidity and profitability positions of organizations are seen by Ikpekan & Owolabi (2014) to be vital in evaluating their financial performance and ultimately deciding their survival. Studies have shown that there exists a relationship between a firms' liquidity position and its profitability

(for instance, the works of Almazari, 2013; Gul, Khan, Rehman, Khan, Khan and Khan, 2013; Oladipupo and Okafor,2013; Kartal,2016). However, the focus of this study is on liquidity.

Liquidity is the ability of any organization to meet its short term obligations using its short term resources. In the light of this, Priya and Nimalathasan (2013) posit that efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of the inability to meet due short-term obligations, on one hand, and avoid excessive investment in these assets, on the other. This is due in part to the reduction of the probability of running out of cash in the presence of liquid assets. Liquidity is having enough money in form of cash, to meet ones financial obligations and one of these obligations is tax liability.

Liquidity requirement of a firm depends on the peculiar nature of the firm and there is no specific rule on determining the optimal level of liquidity that a firm can maintain (Owolabi and Obida, 2012). The liquidity position of sampled firms for the period of study is determined by computing current ratio, which is the most common liquidity ratio used to determine the proportion of current assets available to cover current liabilities (Kartal, 2016).

2.3. Theoretical Consideration

This study is anchored on two theories, namely: stakeholder theory and the Hoffman's tax planning theory. The stakeholder theory is an extension of the agency theory which concentrates on the incongruence of the interests of equity owners and managers and how to resolve the conflicts. The stakeholder theory looks beyond the relationship between shareholders and managers to include other categories of stakeholders. According to Sanda, Mikailu and Garba (2005), this theory considers the firm as a nexus of contracts between management and shareholders on the one hand and employees, shareholders, creditors, government and other stakeholders on the other hand. Thus, from the point of view of the stakeholder theory, concern should go beyond the traditional management – shareholder relationship to include all other stakeholders, for instance, government, creditors etc. With many interest groups keeping an eye on managers' activities, pursuing exclusively their own personal goals is reduced. As Pandey (2010) noted, managers can survive only when they are successful; and they are successful when they manage the company better than someone else. Therefore, it can be said that the wealth of shareholders in the long-run can be maximised when customers, employees and other

stakeholders of the firm are satisfied. The government becomes satisfied when appropriate taxes are remitted while the shareholders are satisfied if these taxes do not negatively affect the liquidity and overall financial performance of their firm.

Furthermore, the theory of tax planning as explained by Hoffman (1961) seeks to divert cash, which would ordinarily flow to tax authorities, to the corporate entities. It is simply using legal means to reduce tax liability through activities that are desirable to the extent that they reduce taxable income to the barest minimum, without sacrificing accounting income. As highlighted by Kawor & Kportorgbi (2014) the theory is premised on the fact that firm's tax liability is based on taxable income rather than accounting income which is the case in Nigeria. The theory also supports the existence of a positive relationship between tax planning activities and firms' performance.

Hypothesis

Since tax costs and eventual payout have been perceived to deplete the distributable profits and cash flow of firms, it has generated the interest to investigate the association between tax planning and firms' liquidity as well as the extent of the influence of tax planning on firms' liquidity. On the basis of this, the study hypothesizes that:

H_o: Tax planning has no significant effect on liquidity of manufacturing companies in Nigeria.

3. Methodology

This study sets to empirically examine the effect of tax planning on liquidity of manufacturing firms in Nigeria for the period of 2001 – 2014. As such, an ex-post facto research design was adopted. Relevant data were extracted from annual reports and accounts of sampled firms for the period under study. A total of 11 manufacturing firms were selected making 154 firm-year observations.

Previous studies, for example, Ohaka (2011), Fowokan (2009), Ihendinihu (2009) and Williams (2009) have identified such factors as company size, leverage, capital intensity, choice of residence of company, industrial sector tax incentives and others as tax planning strategies,

although studies by Md Noor, Fadzillah, and Mastuki (2010) and Minnick and Noga (2009) suggest that these factors affect firms' Effective Tax Rates (ETR) as a measure of tax planning and by extension, the firms' profitability and liquidity. This present study considered the following tax planning strategies – Capital Intensity (CAPINT), Thin Capitalization (TINCAP), Lease Option (LOPT) and Industry sector incentives (IND). The Criterion variable is firms' liquidity measured in this study by Current Ratio (CR) and firm size (SIZE) as the control variable.

The model is specified as follows:

$$CR_{it} = \alpha_0 + \beta_0 CAPINT_{it} + \beta_1 TINCAP_{it} + \beta_2 LOPT_{it} + \beta_3 IND_{it} + \beta_4 SIZE_{it} + \mu_0$$

Where:

CAPINT$_{it}$ represents Capital Intensity for firm i in year t which is defined as the ratio of non-current assets (fixed assets) to total assets. This ratio defines the level of a company's investment in fixed assets and by implication the level of capital assets related incentives a company can enjoy. Allowances and incentives based on capital intensity include Capital allowance (initial and annual), Investment Tax Credit (ITC), and Re-investment Allowance (RIA).

TINCAP$_{it}$ represents Thin Capitalization for firm i in year t. The attraction of Thin Capitalisation (commonly referred to as leverage) as a tax planning strategy lies in the tax shield it provides as all interest elements of the debts may be tax deductible, depending on the thin capitalisation rules of the country of residence of the company. By extension, it also saves a business from additional costs of financing as the tax savings can be ploughed back into the business. Thin Capitalisation refers to the financial structure of the business in terms of the ratio of debts to the total capital of the business. Thinly capitalised companies have a relatively high level of debt compared to equity. In this study, thin capitalisation is taken to mean the ratio of the total debts (long term debts plus current debts) of the company to the total assets they helped in financing. This definition of thin capitalization (leverage) has been adopted by Sabli and Md Noor (2012), Md Noor, Fadzillah and Mastuki (2010) and Phillips (2003), in ETR/tax planning studies.

LOPT $_{it}$ represents Lease Option for firm i in year t. Non-current assets employed in production by a firm can either be purchased outright or obtained through leasing. A lease can be an operating lease or a finance lease both of which have tax advantages. The lease rental cost is an allowable business expense and tax deductible. The financial lease option may confer double advantage to the lessee. Firstly, the interest element of the lease rental is tax deductible and secondly, capital allowance can be claimed by the lessee on the deposit paid plus capital portion of the lease rental. This no doubt enhances the liquidity position of the firm and, by extension, its financial performance. Where the lease arrangement is structured in such a way that the lessor retains the risks and rewards of ownership, the lessor may enjoy the capital allowance but usually passes part of it to the lessee through lower lease rentals. Therefore, the lease option is a strong tax planning point for firms and has been adopted in this study as one of the tax planning variables.

IND $_{it}$ represents Industrial Sector Tax Incentives for firm i in year t. The tax laws offer unequal opportunities for tax planning by firms based on different incentives and concessions given to companies for operating on specified sectors of the economy. This inequality of the tax system due to uneven provision of tax incentives for tax planning gives some subsectors within the manufacturing industry in Nigeria undue advantage over their peers as they are more likely to report Effective Tax Rate differentials in their tax planning activities. The different incentives for the subsectors give an indication of non-neutrality of the tax system in Nigeria as it appears to leave companies with differential and disproportional tax burdens (Nwaobia, 2014). In the words of Ohaka and Agundu (2012), incentives help to increase profit prospects of new ventures and enables firms to recover capital costs more quickly. These costs, when recovered eventually lead to reduced investment risks, thus consolidating firms' assets and working capital for strategic re-investments.

The variable has been included in this study to enable examination of companies' abilities to leverage on these provisions and opportunities to mitigate their tax burden and improve their liquidity and bottom line.

SIZE$_{it}$ represents Size for firm i in year t. This is derived by the natural logarithm of total asset. This is an important control variable which was introduced as larger firms possess more resources that could be deployed to tax planning. According to Zimmerman (1983) large firms

are subject to greater public scrutiny and as a result, incur a "political cost" in the form of a higher ETR. Also, Derashid & Zhang (2003) observed that large firms in fact pay less tax because they can devote more resources to tax planning and political lobbying. Furthermore, Ftouhi, Ayed, & Zemzem (2014) and Rego (2003) observed that larger firms can achieve economies of scale via tax planning and have the resources and incentives to decrease group tax. This measure had been used in prior works of Wilson (2008); Assidi, Aliani, & Omri (2016); Kawor & Kportorgbi (2014).

CR $_{it}$ represents Current Ratio for firm i in year t. This is computed by dividing current assets by current liabilities. This is a vital measurement of liquidity which determines the relation between current assets and short-term liabilities: it depicts the ability of the firm to meet its short term obligations when they are due. This measure had been used in prior works of Gul, Khan, Rehman, Khan, Khan and Khan (2013), Almazari (2013), Oladipupo and Okafor (2013), Iqbal, Khan, Ullah, & Zeb (2016), Khan & Safiuddin (2016), Kartal (2016).

6. Data Analyses, Results and Discussions

The data obtained from the annual reports and accounts of sampled manufacturing firms for the period of 2001- 2014 are analyzed in this section. Table 1 shows the descriptive statistics of the variables under study. Specifically, the mean values stood at 0.5177, 0.5748, 0.5422, 0.5514, 7.4576, and 1.2669 for Capital Intensity (CAPINT), Thin Capitalization (TINCAP), Lease Option (LOPT), Industry (IND), Size (Size), and Current Ratio (CR) respectively. Their maximum and minimum values show evidence of variations over the period of study except LOPT within the range of 0 and 1.and firm size (SIZE). The Standard Deviation shows that SIZE has a higher degree of dispersion from its mean compared with other variables of the study.

Table 2 shows the regression estimate of the model of the study previously specified. Various diagnostic tests were performed to validate the accuracy of the model estimation. The probability of the Hausman test stood at 0.3245, indicating the null hypothesis to estimate random effect may be accepted since this is higher than the acceptable 5%. Thus, the model was estimated using random effect. To further confirm if random effect estimation is suitable for the model, the Breusch and Pagan Lagrangian Multiplier test was conducted and its p-value stood at 0.000, implying that the null hypothesis that random effects are not statistically significant may not be accepted. Therefore, random effect was estimated for the model.

Also, Breusch-pagan heteroskedasticity test showed a p-value of 0.612 and Wooldridge test for autocorrelation in panel data has a p-value of 0.3279, implying that the model has a constant variance and no first order autocorrelation.

Table 1: Descriptive Analysis

Variable	Mean	Standard Deviation	Min	Max
CAPINT	0.5177	0.1943	0.06	0.91
TINCAP	0.5748	0.1515	0.18	0.87
LOPT	0.5422	0.4999	0	1
IND	0.5514	0.1201	0.5	0.9
SIZE	7.4576	0.6039	4.641	8.543
CR	1.2669	0.5349	0.3	2.77

Source: Researcher's Study, 2016

Table 2: Regression Estimate

Variable	Coefficient	Std Error	t-Stat.	Prob.
C	1.223	0.7051	1.73	0.083
CAPINT	-1.5353	0.2277	-6.74	0.000*
TINCAP	-1.2223	0.2529	-4.83	0.000*
LOPT	-0.1875	0.0766	-2.45	0.014*
IND	0.9763	0.5807	1.68	0.093**
SIZE	0.1482	0.0672	2.21	0.027*
R^2 overall	0.5766			
F-Statistic (prob)	77.77 (0.000*)			
Hausman Test (prob)	5.82(0.3245)			
Breusch and Pagan LM test (Prob)	27.86(0.000*)			
Heteroskedasticity test (Prob)	0.26(0.6126)			
Autocorrelation test (Prob)	1.058(0.3279)			
Cross-Section	11			

* denotes significant at 5% Dependent variable: CR

**denotes significance at 10%

Source: Researcher's Study, 2016

$$CR_{it} = 1.223 - 1.5353CAPINT_{it} - 1.2223TINCAP_{it} - 0.1875LOPT_{it} + 0.9763IND_{it} + 0.1482SIZE_{it}$$

Furthermore, Table 2 shows that Capital Intensity (CAPINT), Thin Capitalization (TINCAP), and Lease Option (LOPT) have negative effect on Current Ratio (CR) while Industry (IND) and Size (Size) have positive effect on Current Ratio (CR) for sampled firms for the period of study. This is shown by the sign and size of the coefficients. The overall R^2 implies that about 58% variations in Current Ratio (CR) can be attributed to CAPINT, TINCAP, LOPT, IND, and SIZE, while the remaining 42% variations in CR caused by other factors not included in this model. This means that the model has a strong explanatory power; this is further confirmed by the p-value of the F-statistics of 0%, indicating that the panel regression result is statistically significant. Thus, the null hypothesis that Tax planning has no significant effect on liquidity of manufacturing companies in Nigeria may not be accepted in this paper.

Tax planning strategies of Capital Intensity (CAPINT), Thin Capitalization (TINCAP), and Lease Option (LOPT) are found to exert a negative effect on firms' liquidity. This agrees with the conclusion documented by Lestari and Wardhani (2015) that while tax optimization minimized tax burdens, it exposes firms to financial difficulties driven by poor management and control of other non-tax costs. Tax planning needs to avoid allocative inefficiencies for organizations involved. The efficacy of these tax planning points in improving liquidity may largely be time-specific and their mix with other tax planning strategies. They do not, strictly speaking, result to incremental cash flows to an entity. Gains in TINCAP are restricted to actual cash outflows in interest payment which are tax deductible while capital allowances are restricted to actual outflows at the time of acquisition of the qualifying assets.

The tax planning strategies of Industry sector incentives (IND) has a positive effect on firms' liquidity. This result is in tandem with the results documented by Derashid and Zhang (2003), Ohaka and Agundu (2012), Nwaobia (2014) and Assidi *et al* (2016). These studies agree that IND as a tax planning point create better values and benefits for firms than other strategies. This is as a result of its efficacy in enhancing cash flows a result of tax holidays, income exempt

privileges (in some cases) and other benefits and allowances that result to incremental cash flows for firms.

Firm size is also noted to exert a significant positive impact on liquidity. This also agrees with the position of Derashid & Zhang (2003) that large firms pay less tax because they can devote more resources to tax planning and political lobbying, as well as Ftouhi, Ayed, & Zemzem (2014) and Rego (2003) that concluded that larger firms can achieve economies of scale via tax planning and have the resources and incentives to decrease group tax.

The outcome of this study supports the stakeholder theory and to an extent affirms Hoffman's theory that firms, through tax planning, strive to divert cash, which would ordinarily flow to tax authorities, to the corporate entities.

7. Conclusion and Recommendation

This study concludes that the choice of tax planning strategies is germane when a firm desires improvements in liquidity through tax planning. It provides a guide as to tax planning strategies any organization can adopt to reduce its tax burden and improve liquidity position. It further suggests that improvement in liquidity does not reside with tax planning points such as capital intensity (CAPINT), Thin capitalization (TINCAP) and Lease option (LOPT) as gains from them do not necessarily lead to incremental cash flow for the firm. Investments in these strategies, depending on management's objective, may lead to sacrificing cash flow to achieve a certain desired position and performance which has implications for the efficacy of tax planning.

Legal provisions that could serve as platforms for tax planning abound in the tax laws but these are not automatically imposed on the tax payer. The tax payer and planner need to schematize and apply a combination of these provisions and other loopholes in the statutes to be able to reduce the entity's tax burden and improve their liquidity position.

The study therefore recommends that appropriate measures and skill should be applied in determining appropriate mix of strategies to adopt for tax planning purpose as some strategies if not properly designed and applied may reduce tax liability at the expense of a firm's liquidity.

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