

COMPANY PROFITABILITY AND LIQUIDITY IMPACT ON TAX AGGRESSIVENESS: REACTIONS FROM MANUFACTURING COMPANIES IN NIGERIA

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Abstrak

Penelitian ini terkait dengan dampak likuiditas dan profitabilitas perusahaan terhadap agresivitas pajak di perusahaan manufaktur yang terdaftar di bursa produk konsumen Nigeria. Metodologi penelitian ex-post facto diterapkan. Sampel penelitian adalah 20 perusahaan manufaktur yang tercatat di Bursa Efek Nigeria antara tahun 2012 sampai dengan 2023. Data yang bersumber dari laporan keuangan tahunan perusahaan manufaktur terpilih yang terdaftar di Nigeria dianalisis menggunakan teknik regresi data panel, Matriks korelasi, Faktor Inflasi Varians, dan Uji Hausman. Analisis tersebut mengungkapkan bahwa likuiditas perusahaan, profitabilitas, leverage perusahaan semuanya memiliki korelasi positif yang tidak signifikan dengan agresivitas pajak, dan modal kerja tidak signifikan secara negatif. Terakhir, penggajian dividen memiliki signifikansi positif terhadap agresivitas pajak. Secara meyakinkan, likuiditas perusahaan, profitabilitas perusahaan, leverage perusahaan, dan modal kerja menimbulkan efek yang tidak signifikan terhadap agresivitas pajak tetapi penggajian dividen memiliki korelasi yang signifikan dengan agresivitas pajak di perusahaan manufaktur yang terdaftar di Nigeria. Oleh karena itu, direkomendasikan bahwa kebijakan pajak perusahaan harus memprioritaskan perluasan aset untuk menghasilkan nilai yang lebih besar bagi organisasi guna mengelola agresivitas pajak mereka dengan bijaksana. Selain itu, perusahaan manufaktur harus mengadopsi rencana manajemen likuiditas menyeluruh yang memperhitungkan tujuan keuangan jangka panjang dan persyaratan keuangan jangka pendek untuk menghindari jatuh ke dalam agresivitas pajak yang ilegal.

Keywords:

Tax Aggressiveness, Liquidity, Profitability, Leverage, Working Capital

Abstract

The impact of company liquidity and profitability on tax aggression in Nigerian consumer products listed manufacturing companies was investigated in this study. Ex-post facto research methodology was applied. The twenty manufacturing companies that were quoted on the Nigerian Stock Exchange between 2012 and 2023 made up the population. Data sourced from annual financial reports of chosen listed manufacturing companies in Nigeria analysed using the panel data regression technique, correlation Matrix, Variance Inflation Factor and the Hausman Test. The analysis revealed that firm liquidity, profitability, firm leverage all have positive insignificant correlation with tax aggressiveness, and working capital is negatively insignificant. Finally, dividend payroll has positive significance on tax aggressiveness. Conclusively, firm liquidity, firm profitability, firm leverage and working capital pose non-significant effect on tax aggressiveness but dividend payroll has a significant correlation with tax aggressiveness in quoted manufacturing companies in Nigeria. It is therefore recommended that companies' tax policy should prioritize asset expansion to generate greater value for the organization in order to judiciously manage their tax aggressiveness. Also, manufacturing firms should adopt a thorough liquidity management plan that takes into account both long-term financial goals and short-term financial requirements to avoid falling into illegal tax aggressiveness.

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INTRODUCTION

Maximizing the wealth of shareholders is one of a company's main goals. To do so mean lowering the expenses that the companies have to pay which directly affects profitability. Income tax is one of these incurred costs that is significant to a company. However, taxation is crucial to the growth of every country because it provides the funds necessary for the government to perform essential duties like provision of social amenities, employment generation and economic development, which can be realized from the income of both individual and organizations. (Adegbite 2023). According to Masnawaty, (2019), tax aggression is the term used to describe many actions taken by management to reduce taxable income, which may be done legally or illegally, in an effort to maximize profit. Government aims to maximize state revenue from the tax sector, but the firm's goal is to maximize profits through tax efficiency measures. The company sought to reduce tax burdens in order to increase profits which in turn increased shareholder wealth and corporate sustainability in the long run. However, the reduced tax revenues from the manufacturing sector negatively affect public facilities provided for society by the government (Adegbite 2023). This demonstrates why paying taxes is one of a firm's duties and contributions by the government to economic growth.

Taxes are an expense and a burden for the firm, which ignited the firms to device strategies to reduce or eliminate their tax liability. These strategies include tax management techniques to reduce the tax liabilities. According to Hutchen et al. (2019), businesses operating in the formal sector employ tax aggressiveness and proactive methods to mitigate their tax liabilities. According to Onatuyeh, & Odu (2019), businesses that are tax aggressive are those that implement suitable tax aggressive strategies to lower their income tax costs which leads to tax avoidance. Tax avoidance increases net cash flows, which can be used to boost corporate investment, pay off debt, or distribute dividends or share buybacks to shareholders. Tax avoidance is seen by organizations as a significant cost because it takes away a portion of their earnings without obvious and immediate compensation (Moez and Jihene, 2019).

Nonetheless, tax evasion jeopardizes the stability of any country's economy in which government views it as a serious issue. According to Ogbeide & Obaretin (2018), corporate tax aggressiveness is one of the most serious tax compliance problems endangering the ability of various countries to generate revenue. Tax aggressiveness fosters varied degrees of detrimental impact on the government and economy at large. First, a massive national debt resulted from tax aggressiveness. The fact that the nation's total debt increased gradually throughout the course of the last eight years, from 2015 to 2023, is not surprising if aggressive tax methods had not resulted in the loss of government cash, the debt profile would have been lowered. Secondly, it renders the government unable to carry out its responsibilities to the people, such as supplying public goods and services, basic healthcare and infrastructure. Furthermore, it further erodes tax fairness by shifting the tax burden to morally upright individuals and businesses. Finally, it prevents the government from creating social welfare programs and making investments in social infrastructure, which raises the poverty rate in Nigeria (Ogbeide et al, 2022).

Concerns over the tax-aggressive practices in Nigerian manufacturing companies and their potential causes stem from a number of factors. Of these is the reality that all nation's economy is primarily dependent on efficient and productive manufacturing firms, which operate as a catalyst for the growth of any country's economy. (Bashiru et al, 2020). Maintaining the financial stability of manufacturing firms is therefore seen as critical, as much as governments want to maximize their tax revenue. Federal Inland Revenue Service disclosed in 2019 that tax avoidance and evasion cost the nation \$15 billion annually. In 2020, it was also reported that multinational companies operating in Nigeria had committed tax fraud, costing Nigeria around ₦5.4 trillion over a ten-year period (from 2007 to 2017) (FIRS Factbook). It was further disclosed that real tax collections from firm income tax has continuously lagged behind the yearly target, which unable the country to meet its yearly objective on corporate income tax collection due to tax aggressive methods by the manufacturing companies.

Previous studies Masnawaty, (2019); Ogbeide and Obaretin (2018) suggested that varying firm attributes (such as firm size, firm age, profitability, auditor type, firm complexity and ownership structure) play important roles in determining firms tax management strategies as well as the stage of firms' tax aggressiveness. However, absence of common conclusions amongst prior studies that firm attributes are the main influence of tax aggressiveness. The objective of this study is to determine how firm liquidity and profitability affects tax aggressiveness by reexamining the tax aggressive behaviors

of Nigerian manufacturing companies producing consumer goods in an effort to broaden our knowledge of the factors that actually create impact tax aggressiveness.

Literature Review

Tax Aggressiveness

According to Kibiya and Aminu (2019), tax aggressiveness is a strategically planned financial process that people or companies use to reduce their tax obligations within the law. It entails making well-informed decisions about revenue, expenditures, investments, and company structures in order to lower the general tax liability. The main objective of tax aggressiveness is to maximize the efficiency of taxes while ensuring adherence to tax laws. Using tax law deductions, credits, and exemptions along with calculated financial moves is a common step in this procedure to get the best possible tax result. To improve financial health and continuous existence of an organization, both individuals and enterprises must engage in efficient tax planning, according to Maigoshi and Tanko (2023). Companies use tax aggression to lower their corporate tax obligations and increase their profits. This could entail looking into prospects for foreign tax planning, employing existing tax relief and rewards, and designing corporate transactions in a way that minimizes taxes (Adegbite & Azeez, 2022). Entrepreneurs may also think about the best organizational structure for their company, considering elements including the firm's size, industry rules, and expansion goals (Jaffar, et al., 2021). A crucial element is tax planning connected to investments, which aims to maximize profits while lowering the tax effect on earnings from investments. This might include choosing tax-advantaged portfolios, deliberately timing capital investment profits and losses, and deploying tax-effective.

Tax aggressiveness is measured using Book Tax Difference. Differences between a company's taxable income reported to tax authorities and its book income as reported in its financial statements are known as book-tax differences (Hutchens et al, 2019) and are caused by differences in tax laws and accounting rules. Businesses typically keep different sets of records for tax and financial reporting, which can cause discrepancies in the way that income, expenses, and other financial elements are recognized. Depreciation schedules, revenue recognition, and the treatment of specific expenses are examples of items that can cause book-tax differences (Adegbite & Adegbayibi, 2022). The knowledge and analysis of these differences is essential for factual financial reporting, tax adherence, and systematic decision-making.

Firm Liquidity

According to Nworie and Agwaramgbo (2023), firm liquidity is the degree to which a business has easily available assets and finances that can be swiftly turned into cash or utilized to satisfy short-term financial commitments. According to Lee (2023), it's an essential financial indicator that determines how well a business can pay for its current obligations and weather unforeseen financial difficulties without jeopardizing its capacity to continue operations. The easy accessibility of cash and assets that are easily convertible into cash, such as debtors receivable and investments with a short duration, are commonly linked to liquidity. In order to pay its distributors, make wages and salaries, and settle short-term liabilities, among other daily financial obligations, firms must have sufficient liquidity, according to Sani (2023). It serves as a cushion of protection for finances, offering protection from unexpected expenditures and variations in cash inflows. Liquidity ratios, such the current ratio and quick ratio, are commonly used to evaluate a company's liquidity since they reveal information about the company's capacity to satisfy its short-term commitments. According to Joseph and Adelegan (2023), a greater amount of liquidity typically denotes a stronger ability to pay short-term obligations. For businesses, ensuring the right amount of liquidity requires careful moderation. While inadequate liquidity can put a business at danger, a surplus of liquidity may indicate untapped funds and result in lost possibilities for investments (Nworie & Agwaramgbo 2023). A crucial component of financial leadership is efficient control of liquidity, which guarantees a company's ability to bounce back from unplanned setbacks and changes in the marketplace as a whole. Any organization's capacity to satisfy its short-term commitments with its short-term funds is also referred to as liquidity. Given this, likelihood of cash shortage with the availability of liquid assets is decreased. Liquidity also refers as access to maximum cash on hand to cover one's financial

commitments, including tax liabilities. The organization's working capital is called liquidity. It is employed to ascertain the firm's ability to settle its liabilities by the times they mature.

For a long time, many researchers have claimed that liquidity is the key to a company's survival. For this reason, a suitable portion of assets are anticipated to be retained in liquid form in order to support the day-to-day operations of the organization. Businesses experiencing liquidity issues may also be headed towards crises. Moreover, it serves as a signal to authorities, current and prospective investors, and additional interested parties that the company can continue to operate profitably and without experiencing ongoing issues. The liquidity ratio evaluates the company's ability to meet its liabilities when they fall outstanding through the comparison of current assets to current liabilities. Since company achievement is evaluated in accordance to set goals, a company's performance can be judged from a variety of angles. Organizations must assess their liquidity as well as profitability positions in order to assess how well they are doing financially as well as to determine if they will survive. Therefore, Nworie and Mba (2022) are important for tax planning. Research has indicated a correlation between a company's liquidity condition, profitability, and tax strategies. Still, liquidity is one of the main subjects of this investigation. A company's capacity to satisfy its immediate responsibilities with its short-term funds is known as liquidity. Therefore, successful liquidity control entails organizing and managing present assets and liabilities to remove the possibility of failing to fulfill upcoming short-term commitments.

H₁: Firm Liquidity has a significant impact on tax aggressiveness in Nigeria Manufacturing Companies

Firm Profitability

The extent to which a business generates revenue or profit from its operations is known as its profitability (Adegbite & Azeez, 2022). Either return on equity or return on assets are frequently used to calculate profitability. Research indicates that a company's profitability can affect the effective tax rate because it is a logical indicator. The goal of profitability is to assess a firm's capacity to earn a profit within a given time frame and the efficiency of its leadership in carrying out day-to-day operations. Return on Assets is used in this study as a stand-in for profitability (ROA). The return on all assets utilized by the business appears as a proportion, or ROA. The ROA, or return on assets, is among the most used indicators when analyzing profitability, because it shows the proportion of results in relation to the available assets (Maigoshi & Tanko, 2023). One managerial strategy to sustain high profits is tax planning when profitability ratios are high and tend to be stable under strong financial control. Businesses with significant profitability value can take use of tax planning strategies designed to reduce their overall tax liability (Chen et al., 2010). Accomplishing the business's financial goals and objectives is referred to as financial performance. It is a gauge of how well a business is doing financially and reaching its goals for growth, value creation, and profitability over a specific time period that includes the acquisition and distribution of capital as determined by profitability. Profitability determines the efficient ways a firm's management utilizes its resources, as demonstrated by its profit. Profitable businesses pay more taxes as a result of their increasing earnings. According to Tanko (2023); and Dewi and Yasa (2020), any company that experiences strong profitability would see an upsurge in tax dodging methods. An organization's outstanding profitability largely suggests that it can manage its resources profitably.

An association between profitability and tax aggressive methods was found by Ogbeide et al. (2022); Tanko (2023); Adegbite and Inyanda (2024); and Fatimah et al. (2021). This implies that the more companies engage in stronger tax avoidance and anticipating future strategies the bigger their annual profit margin. Further research by Ernawati et al. (2021); Fernández-Rodríguez et al. (2019); Yahaya and Yusuf (2020); and Pratama, A. (2017) demonstrated that tax aggressive actions are significantly and negatively impacted by profitability. Similar conclusions were reached by Santini and Indrayani, (2020); and Ogbeide et al. (2022) on the lack of significance of profitability in relation to tax aggressive methods. Nonetheless according to the course of these relationship, it is obvious that the bigger the earnings of the companies, greater how aggressive they likely to be regarding avoiding taxes. When the profitability of a firm is much, the tax liabilities which need to be settled will be high as well, therefore, the firms are likely to engage in tax aggressiveness. When the earning owned is high, the company adopt ways to reduce earnings just to achieve tax avoidance. Thus, firms with large earnings would tend to be involve in tax planning in order to reduce tax burden (John-Akamelu, et al., 2018). The need to adopt tax planning is necessary with the availability of exemptions, incentives and relief available to profitable firms. Ogbeide et al. (2022) included reported

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earnings in explaining tax planning aggressiveness and discovered a significant correlation between firm profitability and the book tax difference, suggesting that higher income provoke aggressive tax planning.

H₂: Firm profitability has a significant impact on tax aggressiveness in Nigeria Manufacturing Companies

Firm Leverage

Another element in this investigation that affects how aggressively a company pursues taxation is firm leverage. This is so since leverage shows how much of the company's assets are financed by borrowing. Increased firm leverage indicates greater interest costs, which limit the company's profitability and lower the corporate income tax liability, according to Santini and Indrayani (2020). The amount of external funding that makes up the assets of a company is measured by its leverage. The proportion of a firm's overall assets to its overall liabilities is used to calculate leverage. A company's share of assets financed by outside sources increases with its leverage ratio, according to Hutchens et al, (2019). Leverage indicates how much debt the business has taken on overall to fund investments. A ratio called leverage helps determine how well a corporation can afford to settle all its long-term liabilities. Leverage illustrates connection between total liabilities and equity held by investors. Conflict between the principle and the agent may arise from the companies' decreased funding. It is possible that the principle disagrees with the demands for corporate funding made by management.

Consequently, the management (agent) will borrow the funds to meet the company's financing demands. In general, firms with greater leverage ratios will make an effort to provide more details in order to lower investor monitoring expenses. Compared to the company with the lower leverage level, they address those needs with more extensive information in the annual report. According to the research conducted by Irianto (2017), there exists insignificant correlation in the practice of tax aggressiveness in commercial enterprises and their corresponding debt levels. According to Balakrishnan et al, (2019) assertion, debt can serve as a stimulant for companies as it has the potential to decrease their tax burden through the deduction of interest. Due to impact of payment of interest, which can be utilized to deduct tax expenses when computing corporation's taxable income.

H₃: Firm Leverage has a significant impact on tax aggressiveness in Nigeria Manufacturing Companies

Working Capital

Working capital is a financial indicator that shows how liquid a business is on an operating basis. It is computed as current assets minus current liabilities. It basically assesses a firm's capacity to settle short term debt and costs. The working capital of a corporation indicates whether it would have difficulty meeting its short-term obligations or if it has sufficient current assets to cover them. According to Adegbite (2024), working capital is a genuine instrument for guaranteeing the existence, liquidity, profitability, and solvency of businesses. According to Adegbite and Ajagbe (2023), it is crucial for manufacturing companies since their main assets are trade debts and stocks. Businesses with adequate working capital can be more able to take use of tax-aggressive tactics to lower their overall tax liability. Conversely, organizations that engage in excessively active tax preparation may experience difficulties with liquidity in the event that tax authorities impose penalties or fines. Adegbite and Inyanda (2024) found that effective working capital planning influences quoted firms' success, which in turn affects their tax aggression using panel data analysis.

H₄: Working Capital has a significant impact on tax aggressiveness in Nigeria Manufacturing Companies

Dividend Payroll

The procedure by which a firm distributes dividends to its shareholders is known as dividend payroll. A percentage of the company's profits are given to its shareholders as dividends, which are normally paid out quarterly, semi-annually, or annually. In order to pay dividends to shareholders, the amount of dividends due to them is determined by their ownership stake in the firm. The payments are

then made, and the transactions are duly documented in the company's financial records. Companies frequently use this strategy to thank shareholders for their financial support. In terms of dividend payroll and tax aggression, businesses may employ payouts of dividends to lower their tax liability. Companies can reduce their taxable income and possibly their total tax liability by paying dividends to shareholders from their profits. Companies are using dividend payments as a strategic tax planning technique to minimize their tax responsibilities, which can be viewed as a type of tax aggression. According Etter-Phoya et al., (2019), the results said the more significant the tax aggressiveness is, the lower the company's cash dividend payroll, done through a related transaction. Also, the study conducted by Hutchens et al, (2019) discovered no impact of tax aggressiveness on dividend payroll.

H₄: Dividend Payroll has a significant impact on tax aggressiveness in Nigeria Manufacturing Companies

Theoretical Review

Agency Theory

The agency-view of avoiding taxes holds that disagreements among the owners of the company and their leadership could occur given that leaders, who tend to be envisioned to take tax-effective choices may choose to behave deliberately and redirect the wealth of the company for personal gain. Agency theory was first proposed by Jensen and Meckling in 1976. Agency theory is applied to discuss the working relationship among the managers (as agents) and the investors (as principals). Where disagreement between interest groups is present. The interaction between management and shareholders, who act as agents and principals, is explained by agency theory. As the individual who was selected, the management has the responsibility to oversee the assets of the business and handle the responsibilities entrusted to the selected individual. In the interim, shareholders want executives to make decisions and act according to their greatest benefit. There will be dispute if the agent disobeys the principal's instructions. Disputes may arise in relation to taxes among the government acting as the principal and management acting as the agent. The corporation is primarily requested by the government to settle taxes in compliance with applicable tax rules. Like an agent, however, management places a higher priority on maximizing the organization's revenues by reducing the tax liability by using tax avoidance.

As an agent with an interest, the leadership of the organization is entitled to take choices that would optimize earnings through the implementation of stated principles. The organization's manager's personality undoubtedly affects his choice on how to reduce expenses, such as tax obligations, without going against the law by not paying taxes. Taxpayers may take advantage of gaps in tax laws to settle for the lowest possible total tax due. While the firm, acting as the agent, is more focused on maximizing revenues while attempting to minimize tax obligations using tax aggressiveness, the government, acting as the principal, expects businesses to fulfill their taxes in compliance with current tax legislation and rules. The government would eventually lose funds if management used tax avoidance strategies to redirect these funds, concealing earnings from tax authorities. The executive's behavior greatly influences guidelines given and choices made, such as the choice of using aggressive tax avoidance. A company that participates in aggressive tax avoidance or other tax minimization techniques faces the risk of sanctions, which could lower the business's worth and expose it to tax-related threats. The advocates felt that the principal should generously motivate and reimburse the agent in addition to providing benefits, with the aim to avoid or minimize the expenses of the agency, Meckling and Jensen (1976).

Empirical Review

In Nigerian listed manufacturing enterprises, Tanko (2023) investigated the influence of financial characteristics on corporate tax planning. Utilizing the panel data technique, data was gathered from the yearly reports of a sample of manufacturing companies. Random effect was used for the regulated model and fixed effect assessment was used for the parsimonious model. It was found that financial leverage had a large and favorable impact on tax planning, but company expansion had a significant and adverse effect on the tax planning among these listed manufacturing companies.

In their analysis of publicly traded manufacturing companies in Nigeria between 2012 and 2022, Maigosshi and Tanko (2023) took Real Earnings Management's (REM) modifying impact into account. The study used the method of correlation with panel data analysis and used data from the yearly reports of 41 publicly traded manufacturing enterprises. The results showed that financial

leverage had a favorable and significant effect on tax planning. Furthermore, it was discovered that REM significantly moderated the association among financial qualities and tax planning and had an significant and beneficial effect on tax planning. The proposal places a strong emphasis on moral and lawful tax planning strategies that comply with applicable laws.

Using a longitudinal research approach and concentrating on 13 listed commercial banks, Ogbeide et al. (2022) investigated the influence of corporate characteristics on tax aggression in Nigeria. The results showed that firm size and complexity have an important correlation with tax aggressiveness, whereas firm age and profitability had a substantial adverse correlation with tax aggressiveness. Panel data regression techniques were used to evaluate predicted capacities with MAPE and Theil's disparity coefficient. Together, this research highlights the complex relationships between tax-related tactics and financial characteristics in the Nigerian corporate environment, offering insightful information to scholars and business professionals equally. Danladi and Alhassan (2022) investigated how tax aggression in Nigerian banking was affected by business size, profitability, liquidity, and leverage. The 14 (DMBs) that are listed on the Nigerian Stock Exchange were the population under examination. The study used Ordinary Least Square (OLS) regression and descriptive statistics for analysis, employing secondary data gathering techniques from yearly financial statements covering the five-year period (2017–2021). The findings indicate that, in the Nigerian banking industry, tax aggression is highly influenced by business size, leverage, and liquidity, whereas profitability has a little impact. The study's conclusion, which suggests that tax measures should focus on asset expansion and value creation, is that business characteristics are good markers for forecasting the degree of sophisticated tax planning in this industry.

The study conducted by Jaffar et al. (2021) examined the factors that influence tax aggression by examining various company attributes such as size, profitability, capital motivation, leverage, financial crisis, and nationality. They used a balanced pooled OLS regression approach and chose 105 businesses listed on Bursa Malaysia between 2014 and 2018. The other characteristics, such as company size, capital utilization, inventory quantity, leverage, and ethnicity, were not highly significant in clarifying the disparities in tax aggressiveness in Malaysia, according to their findings. The only important factors that influence of tax aggressiveness are profitability and financial crisis. In another study, Sulfia & Rusmanto, (2024) used a few corporate management factors as a stand-in for company features to investigate the factors that contribute to tax avoidance in Indonesian. Using the panel regression method, researchers selected a total of 46 organizations for five-year period (2018 - 2022). Their findings demonstrated that both foreign ownership and managerial ownership possessed significant and positive impact on tax avoidance in Indonesian listed companies.

The effect of tax planning techniques on the financial performance of Nigerian listed manufacturing companies was investigated by Akintoye et al. (2020). From 2008 to 2017, they arrived at a selection of 46 manufacturing enterprises. They analyzed the secondary data using both descriptive and inferential statistics. Their findings demonstrated that tax planning has no discernible impact on the profitability of Nigerian manufacturing companies, as measured by return on assets. Their study, nevertheless, was different from ours in that it concentrated on manufacturing companies rather than the financial industry, which is subject to more stringent regulatory oversight and has a significant stakeholder following because of its role as an economic middleman. In order to demonstrate how profitability, size, leverage, and capital expenditure can all have an impact on tax evasion in the food and beverage industry, either separately or concurrently, Muhamad et al. (2020) looked at the elements that impact tax evasion in Indonesia. Purposive sampling was employed in the study, processing 195 data points. Using the SPSS software, multiple linear regression analysis was performed on the data. It was shown by the results that, at least in part, capital expenditure had no bearing on tax avoidance, size had an impact on tax avoidance, and profitability had no bearing on it. This study has methodological flaws because it does not explicitly indicate the research methodology that was used.

Yahaya and Yusuf (2020) looked at how company attributes affected tax aggressiveness in insurance companies that were listed in Nigeria. They concentrated on using business size, age, profitability, and leverage as evaluations of company attributes and independent variables. Twenty (20) insurance companies that were listed between 2010 and 2018 on the Nigerian Stock Exchange make up their selection. Utilizing the two-step system GMM panel regression model for analysis, they discovered that while firm age and profitability had valuable adverse effects on tax aggression, business size and leverage have beneficial effects. Nevertheless, their research only looked at

insurance businesses, which is merely a small portion of the financial industry as a whole, which is the subject of this study.

Using deposit money banks, Aladesunkanmi (2020) also looked at the effects of leverage, company size, company age, and profitability on aggressive tax behavior. Using the correlation coefficient, found that while leverage failed to adequately clarify tax aggressive planning, firm size, firm age, and profitability did favorably reveal tax aggressive behavior. Regression analysis was used by Mita and Indriani (2020) to examine the effects of company age, size, expansion of sales, and profitability on tax evasion using pharmaceutical enterprises from 2016 to 2019. The study discovered all business variables are unable to explain aggressive tax behavior. Masnawaty (2019) used the Multiple Linear Regression Method to look at the impact of firm size and profitability on tax evasion in businesses from 2014 to 2018. The study discovered that tax aggressive behavior is influenced by both firm size and profitability. Using secondary data from fifteen (15) DMBs between 2013 and 2017, Atu et al. (2018) investigated the impact of corporate attributes on tax aggressiveness in Nigeria. They implemented the OLS regression methodology. According to the research findings, tax aggressiveness in Nigeria is significantly influenced by firm size, leverage, and liquidity, but tax aggressiveness is not significantly influenced by profitability.

According to Ugbogbo et al. (2018), firm-specific variables were used to examine the business factors that influence aggressive tax avoidance in Nigeria. From 2013 to 2017, 40 Nigerian listed firms' yearly statements contained secondary data that was used. They discovered empirical data, with the help of the OLS multiple regression technique, indicating that, while profitability and leverage have adverse important associations with corporate tax aggressive avoidance, business size has a beneficial correlation with it. Their study's main flaw is that they did not specify how many industries were classified as "manufacturing companies," which forced them to rely solely on a sample of 40 businesses and ignore other industries like the oil and gas industry which remain involved in production.

Gaps of the Literature

Certain gaps in the literature were found when previous investigations, both domestic and foreign, were reviewed. First off, the vast majority of relevant studies which have been conducted in Nigeria were largely limited to financial companies and non-financial sector (Adegbite and Azeez (2022) ; Atu et al., (2018), Salaudeen and Eze (2018), Salaudeen (2017), Athifah & Mahpudin (2021), Yahya and Yusuf (2020); among others). Also, almost the entire reviewed studies by Nigerian authors used the Generally Accepted Accounting Principles ETR to evaluate tax aggressiveness and fails to look at the different ways of evaluating tax aggressiveness. This makes up a gap in literature that result to the use of the Total Book Tax Difference measures based on the recommendation by the recent study of Kibiya & Aminu, (2019). Anticipatedly, the results will enhance current understanding and facilitate comprehension of whether the discrepancies in earlier research may be ascribed to methodological flaws or sector-specific variations.

METHODOLOGY

Secondary data, in the form of financial statements and the NGX website (<https://ngxgroup.com>), were gathered from the consumer goods manufacturing companies listed on the Nigeria Exchange Group (NGX) and used in this study. The twelve (12) fiscal years that this study covers are 2012–2023. Because of this, the financial statement data that is used is taken from the income statements and the statement of financial position as of the evaluation period's financial year's end on December. Targeted population of this study consists several selected quoted manufacturing companies in Nigeria. Descriptive and econometric approaches are used. For the econometric analysis, the Panel Data Analysis techniques is utilized. The statistical tools employed are the correlation analysis, pooled regression, fixed effects regression, variance inflation factor and random effects Generalized Least Square (GLS) regression. The hypotheses are tested using panel least square regression.

Model Specification

To investigate how listed manufacturing businesses' tax aggression is impacted by company liquidity and profitability. The model used in Ogbeide et al. (2020)'s study was modified for this one. The functional expression of the model is:

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$$\text{BOTAXD} = f(\text{firm profitability, firm liquidity, firm leverage, working capital, dividend payroll } \mu) \quad 1$$

The general econometric models:

Econometric Model:

$$\text{BOTAXD} = \beta_0 + \beta_1\text{ROA} + \beta_2\text{LIQTY} + \beta_3\text{LEVG} + \beta_4\text{WORKCAP} + \beta_5\text{DIVP} + \varepsilon \quad 2$$

Fixed effect model

$$Y_{it} = \beta X_{it} + \alpha_i + u_{it}$$

$$\text{BOTAXD}_{it} = \beta_0 + \beta_1\text{ROA}_{it} + \beta_2\text{LIQTY}_{it} + \beta_3\text{LEVG}_{it} + \beta_4\text{WORKCAP}_{it} + \beta_5\text{DIVP}_{it} + y_2E2 + \dots + y_nE_n + u_{it} \quad 3$$

$$\text{BOTAXD}_{it} = \beta_0 + \beta_1\text{ROA}_{it} + \beta_2\text{LIQTY}_{it} + \beta_3\text{LEVG}_{it} + \beta_4\text{WORKCAP}_{it} + \beta_5\text{DIVP}_{it} + y_2E2 + \dots + y_nE_n + \delta_2T2 + \dots + \delta_tT_t + u_{it} \quad 4$$

Random effect model

$$\text{BOTAXD}_{it} = \beta_0 + \beta_1\text{ROA}_{it} + \beta_2\text{LIQTY}_{it} + \beta_3\text{LEVG}_{it} + \beta_4\text{WORKCAP}_{it} + \beta_5\text{DIVP}_{it} + y_2E2 + \dots + y_nE_n + u_{it} + \varepsilon_{it} \quad 5$$

Where:

β_0	-	represents the constant
$\beta_1 - \beta_4$	-	Coefficient of the parameter estimate
BOTAXD	-	Book Tax Difference
ROA	-	Firm Profitability
LIQTY	-	Firm Liquidity
LEVG	-	Firm Leverage
DIVP	-	Dividend Payroll
WORKCAP	-	Working Capital

Table 1. Measurement of Variables

VARIABLE	PROXIES	VARIABLE TYPE	MEASUREMENT
Book Tax Difference	BOTAXD	Dependent	$\frac{\text{PBT} - \text{CTE}}{\text{STR}}$
Firm Profitability	ROA	Independent	Ratio of profit after tax to total asset
Liquidity	LIQTY	Independent.	Current asset/Current liabilities
Leverage	LEVG	Independent.	Liabilities/Total asset
Working Capital	WORKCAP	Independent	Current Asset-Current Liabilities
Dividend Payroll	DIVP	Independent	Total amount of Dividend paid

RESULTS AND DISCUSSION

Results

Table 2. Correlation Matrix

	BOTAXD	LIQTY	LEVG	WORKCAP	DIVP	ROA
BOTAXD	1.0000					
LIQTY	0.2436*	1.0000				
LEVG	-0.2388*	-0.5044*	1.0000			
WORKCAP	-0.0462	-0.6048*	-0.0279	1.0000		
DIVP	0.3911*	0.0553	-0.0640	-0.1105	1.0000	
ROA	0.0683	-0.2033*	0.2374*	0.0173	0.2532*	1.0000

Source: Authors' Computation (2024)

This section reveals the relationship that exist among the two variables as well as among the independent variables themselves on the other hand. It gives straight correlations between variables and their level of significance. Correlation matrix was examined to determine the relationships among the following variables BOTAXD, LIQTY, LEVG, WORKCAP, DIVP and ROA. LIQTY and ROA displays a weak positive correlation with BOTAXD at 0.2436 and 0.0683 respectively. It was

observed that BOTAXD shows moderate adverse relationship with LEVG by -0.2388, suggesting no significant collinearity between BOTAXD and LEVG. In addition, WORKCAP, shows a weak negative correlation with BOTAXD (-0.0462), while DIVP has a strong positive correlation with BOTAXD (0.3911), indicating potential collinearity.

Since all of the correlations are below 0.7, there is generally no strong collinearity between BOTAXD and the other variables, except for DIVP. The strong correlation between DIVP and BOTAXD, as well as the very strong negative correlation between LIQTY and LEVG at -0.5044 and -0.6048 respectively, may require further examination. Thus, based on the correlation matrix results, performing a VIF (Variance Inflation Factor) test would be advisable to evaluate collinearity among the variables.

Table 3. VIF Test

VARIANCE	VIF	1/VIF
LIQTY	6.19	0.161523
LEVG	5.56	0.179891
ROA	1.43	0.700163
WORKCAP	1.33	0.749348
DIVP	1.10	0.909580
MEAN VIF	3.12	

Source: Authors' Computation (2024)

The (VIF) test is conducted to assess multicollinearity presence. The results indicate that multicollinearity is not a significant concern for variables considered in this research work, in Table 3 all VIF values are within the critical threshold of 10. LIQTY exhibits the highest VIF at 6.19, closely followed by LEVG at 5.56. ROA and WORKCAP shows moderate VIFs of 1.43 and 1.33 respectively, while DIVP demonstrate low VIF of 1.10. The mean VIF across all variables is 3.12, which is considerably below the level of concern. The outcome of the study reveal that the variables do not suffer from problematic levels of multicollinearity.

Table 4. Impact of Firm Liquidity and Profitability on Tax Aggressiveness Nigeria Manufacturing Companies

	1	2	3	4
BOTAXD	Regression	Linear regression	Fixed-effects (within) regression	Random-effects GLS regression
ROA	0.271 (0.179)	0.271 (0.175)	0.271 (0.175)	0.246 (0.258)
LIQTY	0.372	0.372	0.372	0.506
LEVG	-0.255 (0.630)	-0.255 (0.628)	-0.255 (0.628)	0.0191 (0.973)
WORKCAP	-3.82e-09 (0.442)	-3.82e-09 (0.440)	-3.82e-09 (0.440)	-2.78e-09 (0.606)
DIVP	7.84e-08*** (0.002)	7.84e-08*** (0.001)	7.84e-08*** (0.001)	7.19e-08*** (0.007)
_CONS	14.08*** (0.000)	14.08*** (0.000)	14.08*** (0.000)	14.20*** (0.000)
N	83	83	83	83
R ²	0.223			0.204
adj. R ²	0.173			0.011

Source: Authors' Computation (2024)

Several analytical techniques were employed to assess the relationship between tax aggressiveness and company profitability and liquidity in Table 4. First column presents the pooled regression outcomes of the analytical model. However, to address potential issues like heteroskedasticity, Linear Regression (Robust) was employed, as shown in column 2. According to the Robust Regression results, liquidity (LIQTY) and leverage (LEVG) do not have significant effects on Book Tax Difference (BTD). The Dividend payroll (DIVP) shows favorable correlation with

BOTAXD at 0.05 level. Working Capital (WORKCAP) and Firm Profitability (ROA) does not show a significant effect on BOTAXD.

Table 5. Hausman Test

	B Fixed effect	B Random effect	b-B Difference	sqrt(diag(V_b-V_B)) S.E.
LIQTY	.5059693	.3716527	.1343165	.1091982
LEVG	.0191477	-.2554929	.2746406	.1981362
WORKCAP	-2.78e-09	-3.82e-09	1.04e-09	2.08e-09
DIVP	7.19e-08	7.84e-08	-6.52e-09	6.81e-09
ROA	.2455648	.2707313	-.0251665	.0806982
chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)				
= 2.05				
Prob>chi2 = 0.5622				

Authors' Computation (2024)

FE regression model and RE model is tested, as shown in columns 2 and 3 respectively. According to the result in Table 5, the RE was considered because Prob>chi2 = 0.5622, which is greater than the 0.05 significance level. Based on RE firm liquidity (LIQTY) has a favorable relationship with (BOTAXD) a percentage increase in firm liquidity increases BOTAXD by approximately 0.3717%. Firm Leverage (LEVG) have an insignificant impact on BOTAXD at 0.05 level, Firm Profitability (ROA) has a favorable correlation on BOTAXD significant at 0.05, a percentage increase in the Firm Profitability measure increases BOTAXD by approximately 0.2707%. Dividend Payroll (DIVP) has a favorable impact on BOTAXD at 0.07 level. WORKCAP has an adverse impact on BOTAXD, percentage increase in Working Capital decreases BOTAXD.

Discussion of Findings

This examines the impact of LIQTY and ROA on BOTAXD. The data available was gathered between 2012 and 2023 from the yearly financial reports of twenty Nigerian listed manufacturing firms. It was discovered according to the Robust Regression results, that firm liquidity (LIQTY) possessed positive but insignificant effect on BOTAXD. This implies that a company with higher liquidity will have a higher BOTAXD because it signifies that the company has more cash and easily convertible assets. Companies with higher liquidity can manage their tax obligations in a proactive manner by holding onto more liquid assets, which allows them to accelerate the deductibility of costs or delay the recognition of income, thus reducing the book tax difference. This result contradicts the submission of Lanis et al. (2015) and is consistent with the work of Salawu and Adededeji (2017); Adegbite and Inyanda (2024); Adegbite (2024); Atu et al. (2018), Aladesunkanmi (2020); and Danladi and Alhassan (2022). Therefore, the alternate hypothesis which stated that firm Liquidity significantly affect tax aggressiveness in Nigeria Manufacturing Companies is rejected.

Firm Profitability (ROA) does not show a significant effect on BOTAXD. This suggests that businesses with significant profits had a higher probability of avoiding taxes. This explains why the majority of significant, well-off companies often participate in extensive charities and emergency assistance to become well-known and be eligible for government tax incentives. In contrast to the findings of Adegbite and Inyanda (2024); Chytis et al. (2017); and Danladi and Alhassan (2022); Ernowati et al. (2021); who found an important correlation between firm profitability and tax aggressiveness but this submission supported the views of some Nigerian researchers (Atu et al., 2018; Salawu and Adededeji, 2018, Sulfia & Rusmanto, (2024), who found a lack of correlation between profitability and tax aggression. Also, the alternate hypothesis that stated that firm profitability significantly affect tax aggressiveness in Nigeria Manufacturing Companies is rejected.

Firm leverage (LEVG) does not have significant effects on book tax difference (BOTAXD). This means that businesses with a lot of debt will most likely be highly motivated to reduce their taxes in order to maintain cash flow for debt repayment. Nonetheless, the lack of significance in the outcome may indicate that businesses with large debt loads could be less inclined to employ other non-debt tax shelters since they stand to gain greater advantages from the regulatory tax dodge. Prior research by Adegbite (2024); Atu et al. (2018); Danladi and Alhassan (2022); Ernowati et al. (2021); Fatimah, et al, (2021); and Onatuyeh and Odu (2019) likewise revealed a lack of relationship between

tax aggression and corporate leverage. Furthermore, the company leverage result contradicts the conclusions of a few other research, including Ogbeide (2017), Salaudeen and Eze (2018); Adegbite and Inyanda (2024); and Tanko, (2023), which discovered a strong correlation between leverage and corporate tax aggression in Nigeria. Therefore, the alternate hypothesis that stated that firm Leverage has a significant impact on tax aggressiveness in Nigeria Manufacturing Companies is rejected.

WORKCAP lacks a relationship with tax aggressiveness (BOTAXD). It has become challenging for manufacturing companies to invest in tax-aggressive techniques due to their limited access to financing. This research supports the suggestion made by Adegbite and Ajagbe (2023); Bradshaw et al. (2014); Adegbite and Azeez (2022); Onatuyeh and Odu (2019), Atu et al. (2018); and Sulfia and Rusmanto (2024). Therefore, this finding negates the alternate hypothesis that states working Capital has a significant impact on tax aggressiveness in Nigeria Manufacturing Companies. The Dividend payroll (DIVP) has a favorable correlation with BOTAXD at 0.05. The BOTAXD of Nigerian listed manufacturing businesses is positively impacted by the dividend payroll (DIVP) in a substantial way. This demonstrates how dividend payments can strike a balance between management and shareholder interests, making management less inclined to operate in a way that could benefit them at the expense of shareholders yet be tax-aggressive. The submission here tallies with that of Adegbite and Inyanda (2024); Pratama, A. (2017); Onatuyeh, and Odu, (2019), Atu et al. (2018), Adegbite (2023); and Sulfia and Rusmanto (2024). Therefore, the alternate hypothesis that stated that dividend Payroll has a significant impact on tax aggressiveness in Nigeria Manufacturing Companies is accepted.

CONCLUSION

The purpose of this study was to determine the impact of firm liquidity and firm profitability on tax aggressiveness in Nigerian quoted manufacturing companies. The collected data were obtained from yearly financial reports of Nigerian quoted manufacturing companies published between 2012 and 2023. The data were analyzed using a panel data set. A panel data analysis that includes pooled regression, Fixed effect regression, Random effects GLS regression Robust and Linear regression as well as Hausman test. The result from the findings shows that firm liquidity (LIQTY) possessed positive but insignificant effect on BOTAXD. This implies that a company with higher liquidity will have a higher BOTAXD because it signifies that the company has more cash and easily convertible assets. Companies with higher liquidity can manage their tax obligations in a proactive manner by holding onto more liquid assets, which allows them to accelerate the deductibility of costs or delay the recognition of income, thus reducing the book tax difference. Firm Profitability (ROA) does not show a significant effect on BOTAXD. This suggests that businesses with significant profits had a higher probability of avoiding taxes. This explains why the majority of significant, well-off companies often participate in extensive charities and emergency assistance to become well-known and be eligible for government tax incentives. And firm leverage (LEVG) did not have significant effects on book tax difference (BOTAXD). This means that businesses with a lot of debt will most likely be highly motivated to reduce their taxes in order to maintain cash flow for debt repayment. Nonetheless, the lack of significance in the outcome may indicate that businesses with large debt loads could be less inclined to employ other non-debt tax shelters since they stand to benefit more from the administrative tax shield. WORKCAP lacks a correlation with tax aggressiveness (BOTAXD). It has become challenging for manufacturing companies to invest in tax-aggressive techniques due to their limited access to financing. The Dividend payroll (DIVP) is favorably connected with BOTAXD at 0.05. The tax aggressiveness of Nigerian listed manufacturing businesses is positively impacted by the dividend payroll (DIVP) in a substantial way. This demonstrates how dividend payments can strike a balance between management and shareholder interests, making management less inclined to operate in a way that could benefit them at the expense of shareholders yet be tax-aggressive.

Conclusively, firm liquidity, firm profitability, firm LEVG and WORKCAP has no important correlation with tax aggressiveness but dividend payroll has a correlation with BOTAXD in quoted manufacturing companies in Nigeria. It is therefore recommended that companies' tax policy should prioritize asset expansion to generate greater value for the organization in order to judiciously manage their tax aggressiveness, Also, manufacturing firms ought to adopt a thorough liquidity management plan that takes into account both long-term financial goals and short-term financial requirements to avoid falling into illegal tax aggressiveness.

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