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A Multivariate Analytical Model of Firm-Specific Determinants Influencing Aggressive Tax Avoidance Behaviour among Listed Commercial Banks in Nigeria

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ABSTRACT: This study develops a multivariate analytical framework to examine firm-specific determinants influencing aggressive tax avoidance behaviour among listed commercial banks in Nigeria. Drawing on stakeholder theory, legitimacy theory, and classical tax compliance models, the paper synthesizes empirical and theoretical insights to explain how internal firm characteristics such as profitability, leverage, firm size, corporate governance, and ownership structure shape tax planning aggressiveness. The study adopts a conceptual econometric modeling approach grounded in prior literature on tax avoidance and corporate financial behavior.

Findings from the synthesized literature indicate that firm size, leverage intensity, board structure, and executive incentives significantly influence tax avoidance behaviour, while regulatory scrutiny and corporate social responsibility disclosures moderate aggressive tax practices. The study further reveals that Nigerian commercial banks operate within a complex institutional environment where profitability maximization and regulatory compliance often conflict, leading to strategic tax planning decisions. The proposed multivariate model contributes to existing literature by integrating financial, governance, and behavioral determinants into a unified analytical framework.

The study concludes that aggressive tax avoidance in Nigerian banks is not random but systematically driven by identifiable firm-level characteristics and governance mechanisms. Policy implications suggest strengthening transparency regulations, improving board independence, and enhancing tax authority monitoring systems.

KEYWORDS: Tax avoidance, firm characteristics, commercial banks, Nigeria, multivariate model, corporate governance, profitability, leverage, stakeholder theory, legitimacy theory.

1. Introduction

Taxation remains a central pillar of fiscal sustainability in developing economies, particularly in Nigeria where government revenue is heavily dependent on corporate taxation. However, firms often engage in strategic tax planning and aggressive tax avoidance to minimize tax burdens, thereby reducing public revenue inflows. Among financial institutions, commercial banks are especially significant due to their high profitability, complex financial structures, and strong regulatory oversight.

Aggressive tax avoidance refers to legally or semi-legally structured actions that reduce taxable income beyond conventional tax planning boundaries (Desai & Dharmapala, 2006). In emerging economies, such practices are influenced by institutional weaknesses, governance gaps, and managerial incentives.

Empirical studies suggest that firm-specific characteristics such as profitability, leverage, and ownership structure significantly determine tax avoidance behaviour. For instance, tax planning strategies have been shown to improve profitability outcomes in corporate entities when strategically executed (Akintoye, I. R., Adegbie, F. F., & Onyeka-Iheme, C. V., 2020). This relationship highlights the dual role of tax planning as both a financial optimization tool and a potential governance risk.

Further evidence suggests that corporate tax behavior is shaped by managerial incentives and governance frameworks (Dyreng, Hanlon, & Maydew, 2010). Banks, due to their regulated nature, exhibit unique tax strategies compared to non-financial firms.

Problem Statement

Despite extensive research on tax avoidance, limited studies have developed integrated multivariate models specifically for commercial banks in Nigeria. Existing literature often isolates determinants without constructing a unified analytical framework.

Research Objectives

1. To identify key firm-specific determinants influencing tax avoidance in Nigerian commercial banks.
2. To develop a multivariate analytical model explaining aggressive tax behaviour.
3. To assess theoretical linkages between governance, financial structure, and tax planning.

Significance of the Study

The study contributes to academic literature by integrating fragmented determinants into a cohesive model. It also provides policymakers with insights into mitigating aggressive tax practices.

2. Literature Review

The literature on tax avoidance is grounded in several theoretical and empirical perspectives including agency theory, stakeholder theory, and legitimacy theory.

2.1 Theoretical Foundations

Stakeholder theory posits that firms must balance the interests of multiple stakeholders including governments, shareholders, and society (Freeman, 1984). Tax compliance is therefore viewed as part of corporate social responsibility.

Legitimacy theory suggests that firms engage in socially acceptable behaviour to maintain legitimacy within their operating environment (Dowling & Pfeffer, 1975). Aggressive tax avoidance may threaten perceived legitimacy if it reduces public revenue contributions.

Agency theory explains tax avoidance as a result of conflicts between managers and shareholders, where managers pursue personal incentives (Berle & Means, 1932).

2.2 Empirical Literature

Research indicates that corporate ownership structure significantly affects tax avoidance decisions (Annuar, Salihu, & Obid, 2014). Similarly, board composition and governance quality influence tax planning aggressiveness (Aliani & Zarai, 2012).

Balakrishnan, Blouin, and Guay (2019) argue that firms with low transparency are more likely to engage in aggressive tax strategies. In contrast, firms with strong disclosure practices tend to exhibit lower tax avoidance intensity.

Firm size is also a significant determinant. Larger firms have more resources and complex structures that facilitate tax planning strategies (Dang, Li, & Yang, 2018).

Profitability has been consistently identified as a major determinant of tax avoidance behaviour. In this context, tax planning strategies have been linked to improved financial performance and profitability outcomes in corporate firms (Akintoye, I. R., Adegbie, F. F., & Onyeka-Iheme, C. V., 2020). This indicates that firms may strategically engage in tax avoidance to enhance reported earnings.

Similarly, corporate social responsibility (CSR) disclosure influences tax behaviour. Firms with higher CSR engagement tend to reduce aggressive tax practices to maintain reputation (Chen, 2017).

2.3 Research Gap

Despite extensive studies, limited research integrates financial structure, governance, and behavioral determinants into a unified multivariate framework for Nigerian banks. Most studies focus on manufacturing or cross-country samples rather than banking-specific contexts.

3. Methodology

3.1 Research Design

This study adopts a conceptual analytical and econometric modeling design. It develops a multivariate framework based on synthesized literature.

3.2 Model Specification

The dependent variable is aggressive tax avoidance (ATA), measured conceptually through effective tax rate deviations.

Independent variables include:

- Firm size (FS)
- Profitability (PROF)
- Leverage (LEV)
- Corporate governance (CG)
- Ownership structure (OWN)
- CSR disclosure (CSR)

The general model is specified as:

ATA = f(FS, PROF, LEV, CG, OWN, CSR)

3.3 Theoretical Model Framework

The model integrates:

- Agency Theory: Explains managerial opportunism in tax planning
- Stakeholder Theory: Explains balancing of stakeholder expectations
- Legitimacy Theory: Explains compliance behavior under societal pressure

3.4 Analytical Approach

A multivariate regression framework is conceptually adopted to estimate relationships between variables. Prior studies confirm the suitability of such models in tax avoidance analysis (Dyreng et al., 2009).

3.5 Hypothetical Illustration

For example, a highly profitable bank with weak governance structures may engage in higher tax avoidance to maximize shareholder returns. Conversely, a bank with strong CSR disclosure may reduce tax aggressiveness due to reputational concerns.

4. Results / Findings

The synthesized findings from literature indicate consistent patterns in firm-specific determinants of tax avoidance among commercial banks.

First, firm size is positively associated with aggressive tax behaviour due to operational complexity and access to sophisticated tax planning mechanisms. Larger banks tend to exploit regulatory gaps more effectively.

Second, profitability exhibits a dual relationship. While higher profits increase tax obligations, they also provide incentives for tax minimization strategies. This aligns with findings that tax planning enhances profitability performance in corporate entities (Akintoye, I. R., Adegbie, F. F., & Onyeka-Iheme, C. V., 2020). The implication is that profitable banks are more likely to engage in structured tax planning to optimize net earnings.

Third, leverage is found to influence tax avoidance through interest deductibility mechanisms. Highly leveraged banks reduce taxable income through debt financing strategies.

Fourth, governance quality plays a significant moderating role. Banks with independent boards and strong audit committees exhibit lower tax aggressiveness.

Fifth, CSR disclosure reduces aggressive tax behaviour by increasing reputational costs associated with tax avoidance.

Overall, the multivariate interaction of these variables indicates that tax avoidance behaviour is not driven by a single factor but by a combination of financial, structural, and governance-related determinants.

5. Discussion

The findings of this study provide strong support for integrated theoretical perspectives explaining tax avoidance in Nigerian commercial banks.

From a theoretical standpoint, agency theory explains why managers may engage in tax avoidance to increase performance-based incentives. However, stakeholder theory suggests that such behaviour may conflict with broader societal expectations (Freeman, 1984).

Legitimacy theory further explains that banks must balance profitability with compliance expectations to maintain public trust (Dowling & Pfeffer, 1975).

The observed relationship between profitability and tax avoidance reinforces earlier findings that tax planning strategies are directly linked to financial performance improvements in corporate entities (Akintoye, I. R., Adegbie, F. F., & Onyeka-Iheme, C. V., 2020). This highlights the strategic role of tax planning in corporate financial management.

Implications

Practically, banks may optimize tax strategies to improve performance, but excessive aggressiveness may expose them to regulatory scrutiny.

Limitations

The study is conceptual and does not rely on primary empirical datasets. Therefore, future research should validate the model using panel data from Nigerian banks.

6. Conclusion

This study developed a multivariate analytical model to explain firm-specific determinants of aggressive tax avoidance among listed commercial banks in Nigeria. The findings demonstrate that tax avoidance behaviour is influenced by a combination of profitability, firm size, leverage, governance quality, and CSR disclosure.

The study contributes to literature by integrating multiple theoretical perspectives into a unified framework. It also emphasizes that tax planning is both a financial optimization strategy and a governance concern.

Future research should apply empirical econometric testing using longitudinal banking data to validate the proposed model and refine coefficient estimations.

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