

Effect of International Tax Planning on the Financial Performance of Multinational Corporations in West Africa

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Abstract

The globalization process and, within the African framework, the implementation of the West African Single Market have led numerous corporations to overstep the national boundaries either to conduct phases of their economic process where it is more convenient or to expand their business abroad. Hence, the involvement of the diverse tax regulations of the countries, whose territories host such businesses, cannot be avoided. Thus, the lack of neutrality of taxation has brought the managers of Multinational corporations to take more and more into consideration of tax issues in their decision making process. The multinationals can pursue the aim of optimizing their fiscal burden by exploiting the legal options that the countries involved have given to their taxpayers, which constitute, de facto, the tax competition among the governments. Such planning of the cross-border activities of a business, taking into consideration the different tax laws of the concerned states, is known as international tax planning. This phenomenon is becoming increasingly concrete even within the West African borders, as companies located in one of the Member States of the West African Countries are entitled to take advantage of the numerous West African directives issued in order to guarantee the West Africa trade freedoms. Taxes on corporate profits are mandatory and usually constitute a large outflow for firms that, if not planned, lead to disproportionate and unwilling transfer of corporate resources to the government with its negative impact on the operating capacity and performance (firm value). The study which is anchored on the political cost theory on one hand and the managerial opportunism theory which is an extension of Agency theory examined the effect of international tax planning on performance of multinational corporations. The overall value of the firm is used as a yardstick to determine the bottom line performance of the multinational corporations. Ex-post facto research design was adopted. The study covered 5 firm-year observations for the period, 2015-2020. Data were drawn from the published financial statements of the sampled companies and analyzed using descriptive and inferential statistics centered on specified panel regression model. The joint effect of the considered tax planning proxies on the firm value was significant (F-stat. =2.580; P-value = 0.032) . While Effective tax rate (ETR), Dividend (DIV) and Firm age (FAG) are positively and significantly related to firm value, firm size, leverage and tangibility exert negative effect on firm value. The Adj. R² value of 20.6% was not sufficiently strong in explaining the variation in firm value. The study concluded that holistic approach to tax planning and optimal mix of tax planning strategies are important determinants and has a positive contributory effect on firm value(bottom line performance).

Keywords: Multinational Corporations, Bottom line performance, Firm value, Tax planning, Effective Tax Rate

INTRODUCTION

Tax is one of the major instruments of fiscal policy for regulating the economy of any nation. At various times, successive governments have employed the instrument of tax policy to encourage industrial and corporate growth in the private sector (Nwaobia, 2014). On the opposing side, taxation and tax policies do equally act as disincentive to different corporations to create value for stakeholders and enhance the value of the firms. As noted by Gatsi, Gadzo and Kportorgbi (2013) taxation, observably, plays a role in the misfortunes of the different multinationals because tax policies, apart from generating revenue for the state, serve several other purposes. It can be used as an avenue to protect infant industries, create incentive for investors to invest in certain areas of the economy or to create disincentive for other activities Gatsi et'al (2013). For example, Ihendinihu (2008) in Dickson and Nwaobia (2012) noted that unfriendly tax policies is one of the many reasons for the growth of the underground economy, where law-abiding individuals and corporate citizens seek refuge from wrongs inflicted on them by government. The major challenge of corporate entities, and in particular Multinational Corporation, come in a midst of high corporate tax rates and multiples of other taxes that lead to high effective tax rates far above the statutory company income tax rate. With the introduction of the Information Technology tax, there are about forty different taxes levied on companies and individuals (Taxes and Levies, Approved List for Collection Act 1998, Bammeke,

2012). Many of these taxes from the different levels of government overlap and are forcefully extracted from corporate organizations. The effect of these exactions of course is high cost structure for firms (Nwaobia, 2014). One will not fail to agree with Nnadi & Akpomi (2008) that a tax policy defines the cost structure of firms as it is factored into pricing. In addition, tax costs and eventual payout deplete the disposable income of individuals as well as the distributable profits of Multinational Corporation. These taxes in fact, do translate to a substantial cost to organizations and if not properly planned and managed can have adverse impact on the bottom line, cash flow and capacity to invest.

To mitigate the effect of taxes on liquidity and profitability of corporate bodies and by extension firm value, tax planning becomes imperative. But unfortunately, many companies are ignorant of the strategies they can adopt to legally mitigate their tax burdens. A number of empirical studies on the impact of tax planning (using effective tax rate as proxy) on company earnings and value exist. Such studies include Phillips (2003), Ayers, Jiang and Laplante (2006), Wilson (2009), Minnick and Noga (2009), Noor (2010) and Md Noor, Fadzillah and Mastuki (2010). None of these studies have considered the influence of tax planning strategies in this study on value of firms in emerging economies like the West Africa. This study therefore sought to provide evidence on the effectiveness of tax planning strategies in driving Multinational corporate performance (represented in this study by the Firm Value concept) in the West African sub-region. This study extends extant literature on the firms' efforts and strategies to decrease their corporate tax liabilities and specifically investigates the influence of tax planning on firm value. The study also provides interesting insight into the structuring of tax planning strategies by firms and is expected to stimulate research into appropriate delineation of tax planning strategies into those that could positively influence firm value in the short - run and those that are better utilized for the purpose of cash flow enhancement, that would in the short run, improve capacity utilization and positively impact firm value in the long-run. Determining the optimal mix of strategies is important for tax planning to enhance firm value.

LITERATURE REVIEW

CONCEPT AND LEGALITY OF (INTERNATIONAL) TAX PLANNING

Over the years, experience has shown that the tax authorities can dip the largest possible shovel into the resources of an organization if left vulnerable. Fortunately, the law supports a tax payer if he arranges his affairs in such a way that the tax chargeable is minimized or even avoided (Ayrshire Pullman Motor services and David M. Ritchie V. Commissioner of Inland Revenue (1929) in TC 745. In this case, the Lord President (Lord Clyde) stated, No man in this country is under the smallest obligation, moral or otherwise, so as to arrange his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow and quite rightly to take every advantage which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket. And the taxpayer is in like manner entitled to be astute to prevent so far as he honestly can the depletion of his means by the Inland Revenue. This view was reiterated in IRC V. Duke of Westminster (1936) 19 TC 490 by Lord Temlin when he averred that: Every man is entitled if he can, to order his affairs so that the tax attracting under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity he cannot be compelled to pay an increased tax. Therefore, a company is not a bad corporate citizen if it can organize its business or trade in a legal manner to minimize its tax liability. This is the concept and essence of tax planning. Tax planning is thus one of the vital decisions that confront any proactive company management. Tax planning therefore is a conscious effort made by a tax payer, within the ambit of the law, to minimize the tax payable by the individual or entity. Tax planning has been variously described as managing taxable income downward (Ayers, Jiang and Laplante 2006); legitimate methods of increasing an entity's tax efficiency (Morie 2008); all activities designed to produce a tax benefit (Abdul-Wahab and Holland 2010) or legal activities designed by tax payers to lower the effective tax rate, described as the actual measure of the company's

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tax burden (Sabli, N. and Md Noor, R., 2012). Companies, in essence, prefer paying lower taxes or get some tax savings on tax payable given that the main purpose of the company is to maximize its after tax profit by minimizing its overall effective tax rate of the company. Indeed, many tax planning approaches have been used by companies to achieve this objective (Seyram & Holy 2013).

Prior literature has noted aggressive tax planning activities among large firms (Rego, 2003 and Frank, Lynch and Rego, 2009). Some of such studies have reported that large firms have sufficient resources and better opportunities to undertake tax planning strategies, for example, by utilizing the tax incentives provided to them. An effective tax planning strategy will reduce a firm's ETRs, to the extent that it falls below the statutory tax rate. Consequently, the tax planning strategy will give 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 pondered. These notwithstanding, Khaoula, Amor & Ayed (2013) have posited that the role of tax planning in the integration process of streamlining of financial and economic activity of the companies according to the strategy of its development have become increasingly necessary. Analyzing the specific mechanism through which tax planning affects firm market performance is important for a thorough understanding of the relation between tax planning and firm market value. Firm value is generally taken to mean an economic measure reflecting the market value of a whole corporation- an indicative of its bottom line performance. It is a summation of the claims of all contributors to the assets of a firm namely: creditors (secured and unsecured) and equity holders. In finance literature, firm value is the sum of the market value of equity and the market value of debt (Nwaobia, Kwarbai and Ajibade, 2015). Firm value is enhanced when shareholders' wealth is increased through profits and improved cash flow; hence the importance of tax planning as an integral part of the financial planning programme of any entity.

Where tax planning has International connections, it is referred to as International tax planning. Thus, multinational companies (MNCs) are able to cross international borders in search of low tax regimes in order to maximize their profits and capital returns. There have been various reports and studies implicating MNCs in designing and using a variety of tax schemes to reduce taxes, the ultimate effect of which has significantly undermined governing systems. The pursuit of corporate profits has thus been facilitated by local infrastructures, tax havens and offshore financial centers (OFCs). Increasing globalization has produced a multiplicity of linkages and interconnections associated with the growing mobility of goods, services, commodities, information, people and communication across national frontiers (Giddens, 1990; Harvey, 1989; Tomlinson, 1996). In the competitive process associated with globalization, the power of MNCs is strengthened, as nation-states compete with each other to attract investment funds to stimulate their own domestic economies, and do so by offering various subsidies and tax incentives. Such competition creates opportunities for MNCs to devise tax strategies to take advantage of tax differentials and to play one nation-state off against another. Some of these structures allow a variety of actors to establish 'secrecy missions' by devising impenetrable corporate structures for the purpose of evading or avoiding tax (Dasai et al., 2006; Hampton, 1996; Palan, 2003; Sikka, 2008b; Tax Justice Network, 2005). Thus, tax strategies have been established by financial engineering and the creation of 'novel' corporate structures (Mitchell and Sikka, 2005). Owing to the various tax avoidance and tax evasion strategies adopted by MNCs, and also by the economic elite, the ability of developing countries to generate revenue in their domestic economies is constantly frustrated (Sikka and Willmott, 2010). Although corporations are created through law and numerous social contracts, in their search for higher profits and financial gains, MNCs do not owe allegiance to any one particular nation, community or locality (Bakan, 2004). The mobility of MNCs is shaped by changes in contemporary capitalism where corporate performance and values are driven by higher earnings. Under pressure to compete with other companies and to increase profits, capitalist enterprises, including MNCs, constantly search for new ways of increasing their profits, and one way in which they do so is by developing complex financial structures in order to avoid or evade

the payment of taxes. Although taxes are crucial in any nation state for the purpose of redistributing wealth, alleviating poverty and providing public services (such as education and healthcare), corporations often see tax avoidance and tax evasion merely as strategies for reducing costs and increasing profits, and not as practices which undermine the development of just and fair societies (Sikka, 2008a). The sheer scale, power and complexity of globalization pose challenges to the taxation of corporate income and profits, as MNCs have become more mobile and foreign companies have established businesses in new jurisdictions or operated joint venture or contract agreements with local companies. Such international tax strategies have also been increasingly shaped by the emergence of tax havens which has made it possible for corporations to devise corporate structures, contracts and agreements, suited to shifting profits between subsidiaries and intermediaries (Mitchell et al., 2002; Palan, 2002)

Concept of Firm Value

Firm value represents the assets owned by a company. It is crucial because it describes the prosperity of the business owners. The manager being the representative of the owners of the business is responsible for optimal maximization of the value of the firm which forms the fundamental objective of any MNCs. A high firm value indicates that the company is prosperous and hence the shareholders' wealth is maximized. The prosperity level of the shareholders and investors are reflected in the firm value. Firm value is an indicator used to assess the performance of a company. Investors also perceive the company through its firm value, and this is related to the stock price. According to Ftouhi, Ayed and Zemzem (2010), the high stock price will make a higher firm value. Bhabra (2007) opines that firm value is the price paid by the wealthy buyer when a company is sold, and he also sees firm value as the objective value from the public and the orientation of company's survival. From the preceding, it is clear that firm value is the investors' perception towards a company's success level, and this is usually associated with stock price. Firm value is typically indicated by price to book value (PBV). When the PBV is high, it, therefore, means that the principle of going concern is operational which translates into shareholders' wealth. Modigliani and Miller (1961) opined that firm value is determined by company's asset earnings power. It implies therefore that, when the impact of asset earnings power is positive, the company is doing well, and its asset turnover will be more efficient, and this results in high profit. Firm value may be measured from two perspectives: from the point of view of accounting measure of profitability: return on assets (ROA), return on equity (ROE), **Tobin's Q**, net profit margin; and from the stock market perspective, using the share prices from the Stock Exchange market.

Tobin's Q as a Measure of Firm Value

Most empirical studies in tax planning, measure firm value using Tobin's Q. Desai and Dharmapala (2009) used Tobin's q as a proxy for firm value. Tobin's q is the ratio of the market value of a firm to the replacement cost or book value of assets at year-end (Allayannis & Weston, 2001). Tobin's q measures a firm value by scaling the market value of a company's assets with the costs that would be incurred to replace the asset at the current marketplace (Lewellen & Badrinath, 1997). Tobin's q is utilized as the market value of a firm in most studies (Allayannis & Weston, 2001). The popularity of the index is based on its ability to reflect the performance of management. According to Bhagat and Black (2002), high Tobin's q means that the managers of a firm have produced greater market value from the same asset. This is consistent with the position of Lewellen and Badrinath (1997) that, companies which exhibit Tobin's q greater than "one" means effective use of scarce resources, while Tobin's q less than "One," means the inefficient or poor use of scarce resources. Tobin's q is also widely used as a measure of firm value because of its usefulness in studies of tax avoidance (Desai & Dharmapala, 2009). The problem with the use of Tobin's q as a measure of firm value is the inability to obtain the exact replacement cost of the assets of a company. Aivazian (2005) therefore suggested a simplified form of calculation that provides an approximation to q. To resolve this problem, the replacement cost of the assets was replaced by the book

value of the assets. Tobin's q is invaluable because, it is a good indicator that captures future growth opportunities and long-term financial performance as expected by the stock market (Aivazian, 2005).

Concept of (International) Tax Planning and Firm Value

Tax planning and firm value are anchored on two theoretical perspectives: the traditional theory and the theory of agency. The traditional theory of tax planning (or tax avoidance) is seen as leading because it increases after-tax earnings and it is in the interest of the shareholders. As a result of this, it is usually taken in valuation model. Tax planning activities that reduce the transfer resources from shareholders to the government should enhance shareholders wealth or firm value. The agency theory perspective of tax planning posits that tax planning can be complex and vague, and this can result to managerial opportunism. According to this theory, tax planning can lead to a reduction in firm value when managers may either have the opportunity to understate reported accounting profit or have the incentive to reduce corporate incentive tax liability by understating taxable income (Desai & Dharmapala, 2009; Desai & Dharmapala, 2006; Minnick & Noga, 2010; Wahab & Holland, 2012)

Effective Tax Rate (ETR) and Firm Value

Effective tax rate is a measure of tax planning because it decreases the tax liability of a firm without necessarily decreasing its accounting income (Derashid & Zhang, 2003). It is calculated as the total tax expenses scaled by pre-tax accounting income. ETR assesses the tax performance of firms. It is a measure of a firm's tax burden. It provides a basic summary statistic of tax performance that describes the amount of tax paid by a company about its gross profit. ETR is seen to be appropriate as compared to book-tax gap measure. ETRs have been used by policymakers and interest groups in tax reform debates, especially those related to corporate tax provisions, the reason being that they summarized conveniently in one statistic, the cumulative effect of various tax preferences (Richardson & Lanis, 2015). Shareholders usually value tax planning by using ETR information which reflects tax planning activities, and this is publicly available for shareholders scrutiny. Slemrod (2004) argued that shareholders could discipline management when the ETR is high because this high ETR could have a detrimental effect on share price.

Firm Size and Firm Value

Firm size means how large a company is. There are different measures of firm size such as the number of employees, log of revenue, log of total assets and value added. The relationship between firm size and firm value is mixed. Lee (2009) and Josson (2007) recorded a positive correlation between firm size and firm value. To them, big firms are financially flexible. Hence, they can manipulate their cash flow to take advantage of investment opportunities. They equally have access to funds, lower financial difficulties and possibility of future growth. In the same vein, Saliha and Abdessatar (2011) found a positive relationship between firm size and profitability because profitability increases as the size of the firm expand. Big firms have more competitive power when compared to small firms and because they have a bigger market share, they have the opportunity to make more profit (Stierwald, 2009). On the contrary, Banchuenvijit (2012), Becker-Blease, Kaen, Etebari and Baumann (2010) found a negative relationship between profitability and firm size because organization costs increase with firm size, at some points, these costs will outweigh the benefits from economies of scale and hence profitability will fall. These inconsistencies in results and extant literature present a knowledge gap which forms a reasonable motivation for further study.

Dividend and Firm Value

Dividend means the distribution of earnings among the shareholders of the business in proportion to their ownership. The primary goal of management is the maximization of shareholders' wealth, and this translates into maximizing the wealth of the business which is measured by the price of the company's common stock. Many arguments have been made about the dividend policy to be adopted by a company. Ordinary shareholders would see companies that pay dividends as honest and less susceptible to accounting manipulations. Gordon (1961) argues that investors embrace stocks that pay healthy dividends because this

will indicate that the companies are making real profits instead of propagating creative accounting, this no doubt will affect the value of the firm positively. A positive relationship exists between dividend and firm value because investors want dividends for self-control, they want to restrict themselves from consuming too much in the present, they do not want to dip into capital. Therefore, they only allow themselves to consume current income such as dividends (Shefrin&Statman, 1984). The authors argued that retired investors (elderly) would rely on the incomes from their securities holding because they have little or no labour income. Hence, a positive relationship exists between dividend and firm value. Gordons (1961), in his “Bird in Hand Theory”, supports the above argument based on future uncertainties towards dividends. A positive and significant relationship exists between dividend and firm value, because, a firm that has the policy to pay dividend will influence its profitability (John & William, 1985 ; Miller & Rock, 1985). In addition to firm value, dividend also affects share prices positively (Allen &Michaely, 2002; Easterbrook, 1984; Gordon, 1961; Shefrin&Statman, 1984). Miller and Modigliani (1961) , in their irrelevance theory of dividend, opines that a negative relationship exists between dividend and firm value because dividend policy is irrelevant for the cost of capital and firm’s value when taxes or transaction costs are not taken into cognizance. They argued that as far as investors can raise income either by buying or selling shares, the expected return required to induce them to hold the firm’s share will be at variance with payments and new issues of shares. Based on the above, they said dividend policy is irrelevant and as such, the firm can choose any payment pattern without affecting their value. These different theoretic and empirical literatures present a methodological deficiency which makes the issue of dividend and firm value open for further consideration. Hence, a non-significant relationship between dividend and firm value is proposed.

Leverage and Firm Value

The leverage ratio is widely used to measure the portion of long term debts towards total assets of business organization’s activities. It means the capability of a business organization in financing its total assets with long-term debt (Danelova&Sarka, 2011). Fama and French (2002) found a positive relationship between leverage and firm value. Ward and Price (2006) opined that an increased debt – equity ratio – increases shareholders’ return because the firms are profitable ones, though this result may not be the same for non-profit making organization even if we do not have empirical justification for this proposition. On the contrary, Rajan and Zingales (1995) found a negative relationship between leverage and profitability. The study result is consistent with De Wet (2006) who opined that a significant amount of value can be unlocked in moving closer to the optimal level of gearing. Modigliani and Miller (1963) conclude that the cost of equity of a firm increases the debt of the firm increases. Consistent with Rajan and Zingales (1995), Ruf (2008) opined that the leverage level of a business organization would result in a negative relationship with income tax expenses, and this negative correlation could be due to the interest in the long-term debts which might be used as a tax deductible item in business transaction activities and this will affect the value of the firm negatively. The combination of negative and positive results on the relationship between leverage and firm value shows that the issue is largely unsettled, and this creates a gap which requires further clarification. Hence, we propose an insignificant relationship between leverage and firm value.

Tangibility of Assets (TANG)

According to Rajan and Zingales (1995), Sehrish, Zeeshan, Bilal (2013) Tangibility of Assets is also an important factor in determining firm values. It shows the impact of tangible assets of firms on the Leverage level of firms. According to Static Trade off Theory, the Tangibility of Assets is positively associated with the Leverage. If a firm has a higher amount of fixed assets it can acquire loan on more favorable terms. Tangibility 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. This is the context of use of tangibility in this study and in this sense it has been found to be a good tax planning point. Allowances and incentives based on capital intensity include: Capital allowance (initial and annual), Re-investment Allowance (RIA)

Firm Age (FAG) and Value of a Firm

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In this study, firm age is used as a proxy for firm's tax planning experience. Institutional knowledge in tax planning is a function of age and accompanying experience of managers in tax matters in an organization. Experience goes with technical skill, knowledge and competence and constitutes the thread that binds all tax strategies into productive tax planning activity (Nwaobia, 2014). There tend to be a relationship between industry-specific managerial experience and innovations in different facets of a firm's activities. It is costly to replicate firm-specific skills, knowledge and relationships acquired and institutionalized over a period of time. Some tax managers may spend their entire career in a single organization and it may take several years to develop such firm-specific tax and business expertise that such managers and experts have acquired. Managerial knowledge about how to deal with institutional shortfalls and governmental obstacles is, no doubt, an important and rewarding factor in tax planning and management. Firm age/tax planning experience is measured in this study as the log number of years between date of establishment of company and the year of observation, that is, 2020.

Empirical Review

Correlative-description design using cross sectional method of analysis was conducted by Desai and Hines (2002), Chen and Shevlin (2010). They established that intensive tax planning is associated with higher firm performance. On the other hand, the study reported that tightening of the tax system is positively associated with higher market performance of firms. The same positive association was reported between tax planning savings and performance for well-governed firms by Desai and Dharmapala (2009). They concluded that corporate governance mediates the tax planning-firm performance relationship. Mahfoudh & Ku NorIzah (2015) conducted a library research on Corporate Tax Planning Activities and concluded that there are several approaches to tax planning such as income shifting, modification of characteristics of income, organizational structure and tax-exemption. The study opined that the primary motivations for undertaking tax planning are the expected financial benefits. Rohaya, NurSyazwani and Nor'Azam (2010) are of the opinion that larger companies endure higher effective tax rates (ETR) in the examination of Malaysian public companies listed on Bursa Malaysia. This conclusion was established during official assessment system and self-assessment system tax regimes. The study also concluded that lower ETRs are significantly related to highly leverage companies, greater investment in fixed assets and lower investment in inventory.

The results of the investigation by Abdul-Wahab and Holland (2012) which sought to know the relationship between tax planning savings of firms and their value utilized the regression model was negative. Indeed, relationship between firm value and tax planning activities from the perception that as tax planning activities increase, the tax costs and risks outweighs the benefits. On the other hand, Kawor & Kportorgbi (2014) found that tax savings enhanced after tax earnings of Ghanaian firms but does not reflect in the firm's value. The result is consistent with the Agency theory notion that not all management strategies tends towards the achievement of wealth maximization objectives. In a similar vein, the adoption of the Generalized Least Squares (GLS) regression model by Ftouhi, Ayed & Zemzem (2014) to examine the relationship between firms' value and tax planning with firm size, leverage, capital intensity, dividend and earnings management as control variables found a significant and negative relationship between firm value and tax planning also supports the Agency cost theory of tax planning. Heitzman and Ogneva (2015) evaluated the relationship between Corporate Tax Planning and Stock Returns of all U.S. firms traded on NYSE, AMEX or NASDAQ from 1988 to 2013 using panel regression analysis, they concluded that high tax planning firms do indeed earn higher returns, but only during periods when tax enforcement is low. The study also discovered that small firms have less diversified tax strategies than large, complex firms due to lack of scale and complexity, high exposure to adverse consequences of government actions and inability to finance high fixed costs of tax planning strategies. The study found that large firms are less exposed to tax policy risk because they are consistently audited. The study suggested that boards and managers should primarily focus on the expected incremental cash flows from tax planning.

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Desai and Dharmapala (2009) supported the assertion that tax savings enhances the financial performance of an entity; while Kawor& Kportorgbi (2014) found that tax savings enhanced after tax earnings does not reflect in the firm's value, this allied with the studies of Abdul-Wahab and Holland (2012). Also, Rohaya, NurSyazwani and Nor'Azam (2010) opined that larger companies endure higher effective tax rates (ETR) as supported by the studies of Heitzman&Ogneva (2015) and Armstrong, Blouin&Larcker (2012) . The findings of these studies corroborated the proposition of political cost theory. Finally, thin capitalization effect was found in the study of Rohaya, NurSyazwani and Nor'Azam (2010) in their conclusion that lower ETRs are significantly related to highly leverage companies, greater investment in fixed assets and lower investment in inventory.

Theoretical Framework

This study is anchored on the Political cost theory and the Managerial Opportunism theory (an extension of the agency theory). The Political cost theory advanced by Salamon and Siegfried (1977), maintains that larger firms possess superior economic and political power relative to small firms. Larger firms take advantage of their economic and political power to mitigate their tax burden as they are able to engage in aggressive tax planning and can manipulate the political process in their favour. In support of this theory, Porcalo (1986) submitted that larger firms have smaller effective tax rates (ETRs) while Rego (2003) posited that economies of scale can significantly affect a firm's ability to reduce its tax burden. Loretz and Moore (2009) however, argue that tax planning decisions, similar to a firm's operational decisions, are made in a competitive environment. This implies that where tax payments made by the company deviate significantly from those of the peer group, it could lead to "reputational loss." According to them, 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 behavior of their peer group. The proponents of the Managerial Opportunism theory, Desai and Dharmapala (2006) and Desai, Dyck and Zingales (2007) consider the interaction of tax planning activities and the agency problems inherent in Multinational companies. The theory argues that the obfuscatory tax planning activities can create a shield for managerial opportunism and the diversion of rents. They posit that straightforward diversion and subtle forms of earnings manipulation can be facilitated when managers undertake tax avoidance activity. It is their view that tax planning has the direct effect of increasing corporate profitability and firm value only for firms with strong governance institutions. Where there are weak governance institutions, increased opportunities for managerial rent diversion dominate these effects.

METHODOLOGY

An ex-post facto research design was adopted in this study. The population comprised of 80 different Multinational Corporations from Three West Africa countries of Nigeria, Ghana and Ivory Coast, who are also a member of the African Securities Exchange Association. A sample of 10 Multinational Companies from different sector and of different sizes were chosen for this purpose. The study covered 5 firm-year observations for the period, 2015-2020. Scholars have widely employed Tobins Q as a proxy for firm value, particularly in valuing publicly traded companies (Nwaobia, Kwarbai & Ajibade, 2015; Tahir and Rosalie, 2011; & Smithson & Simkins 2005). This study used approximate Tobin's Q as introduced by Chung and Pruitt (1994) and used in Nwaobia, Kwarbai & Ajibade, (2015). It is calculated thus: Approximate Tobins Q = $MVE+PS+DEBT/TA$ Where:

MVE: market value of equity

PS: The liquidating value of the firm's outstanding preferred stock

DEBT: The value of firms' short term liabilities net of its short term asset, PLUS the book value of the firms long term debt

TA: The book value of the total assets of the firm

The control variables are as follows; Firm size (SIZE) - in this study is measured as Ln (Total Assets); Leverage

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(LEV)- as total debts divided by total assets; Tangibility of Asset (TANG); Firm Age (FAG); Dividend (DIV) and; Effective Tax Rate (ETR)- Tax paid/Profit before tax

Model specification

The following multiple regression model was utilized to examine how tax planning affects firm’s value: Tobin’s $Q_{it} = \beta_0 + \beta_1 ETR_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 TANG_{it} + \beta_5 DIV_{it} + \beta_6 FAG_{it} + \epsilon_{it}$

A prior expectation $\beta_1 - \beta_6$ are expected to be greater than zero and positively signed.

RESULT AND DISCUSSION

Descriptive Analysis

Table 1 below highlights the mean, standard deviation, minimum and maximum values of the variables used. With the Exception of firm value, dividend and age, the values of the variables cluster around their means. All variables except leverage are leptokurtic in nature since their values for kurtosis are more than 3. This indicate a higher than normal distribution.

Table 1: Descriptive Analysis

	mean	Median	max	Min	Std.	skewnes	kurtosi	Jarqueber	Pro.
TOBINS Q	11.331	4.206	71.691	0.209	17.225	2.091	6.632	63.903	0
ETR	0.271	0.28	0.898	-0.377	0.144	-0.226	16.038	354.576	0
SIZE	8.559	8.225	10.805	1.145	1.44	-2.453	15.179	359.167	0
LEV	0.388	0.462	0.93	0.004	0.284	-0.211	1.787	3.439	0.179
TANG	0.975	0.366	31	0.004	4.342	6.813	47.629	4536.284	0
DIV	3.409	1.25	20	0.004	4.908	1.97	6.395	56.358	0
inFAG	3.833	3.951	4.745	2.283	0.656	-0.879	3.16	6.492	0.039

Source: Authors’ computation (2021)

Table 2 shows the correlation matrix. The explanatory variables SIZE, ETR, DIV and FAG, are positively associated with the firm value while TANG and LEV are negatively correlated with firm value. FAG has the highest positive correlation with Firm value (Tobins $Q_r = 0.3546$). All relationships are significant at $\alpha = 0.05$. It is to be noted that the correlation matrix in table 2 merely gives the relationship among the variables; it does not tell the impact of the explanatory variables on firm value. The OLS modeling in section 4.2 captures this aspect of the analysis.

Table 2: Correlations Matrix

	TOBINS Q	ETR	SIZE	LEV	TANG	DIV	FAG
TOBINS Q	1.0000						
ETR	0.08811	1.0000					
SIZE	0.13289	0.04707	1.0000				
LEV	-0.33578	0.01526	-0.16290	1.0000			
TANG	-0.11013	-0.09768	-0.75975	-0.14896	1.0000		

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DIV	0.09297	-0.20281	-0.20841	0.32400	-0.06416	1.0000	
FAG	0.35456	0.08559	-0.25183	-0.06993	-0.32891	0.25665	1.0000

Source: Authors' computation (2021)

The result of the multiple regression analysis is presented in Table 3. In table 3, the regression model given in the equation was evaluated. Adj. R² was used to assess the proportion or percentage of the variance in the dependent variable that is explained by the independent variable within the model. The coefficients of the variables (denoted by β in the model) indicate the extent to which the dependent variables will change following any change in independent variables while other independent variables are held constant. The significance of the coefficients is assessed using the t-statistic while the overall goodness of fit of the model and its significance are assessed by the use of the F-statistic.

Table 3. Result of Multiple Regression Analysis

Variable	Model			
	Coefficient	Std.Error	t-Statistic	prob.
C	-22.064	15.548	-1.42	0.163
ETR	18.524	10.365	1.79	0.081
SIZE	-0.053	1.706	-0.03	0.975
LEV	-4.193	8.386	-0.5	0.620
TANG	-28.346	12.559	-2.26	0.029
DIV	1.129	0.487	2.32	0.025
FAG	9.533	4.081	2.34	0.024
R2	0.304			
Adj.R ²	0.206			
F-statistics	2.58			
Prob. (F-statistics)	0.032			
No. of Obs.	50			

Source: Stata 13 output (2021)

4.3 Results and Discussions

The results of the robust pooled OLS show that the coefficient of the tax planning proxy (ETR) is statistically significant at 10% level and has positive value of 18.524 (p-value 0.081). The control variables of Size and leverage(LEV) exerted negative and insignificant effect on firm value while tangibility exerted negative but significant impact on firm value at 5% level. Firms' payout ratio proxy by dividend (DIV) and firm tax experience proxy by firm age (FAG) are statistically significant and positively associated with firm value. The Adj. R² value of 0.2064 reveals that tax planning and its control variables (ETR, SIZE, AGE, LEV, DIV and TANG) account for only 20.64% percent of the variation in their performance (Firm value). Though the individual effects of the proxies on firm value are mixed, the F-ratio of 2.508 and associated P-value of 0.032 indicate a joint, statistically significant effect of ETR, SIZE, LEV, TANG, DIV and FAG on firm value. The significant nature of the F-stat implies that the overall goodness of fit of the model is satisfactory. The positive association/effect of ETR and firm value aligns with many prior studies such as Khaoula, Amor & Ayed (2013), Chen, Chen and Cheng and Shevlin (2010), Md Noor, Fadzillah

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and Mastuki (2010), Wilson (2009) and Desai and Hines (2002). The negative effect of LEV on firm value is also in agreement with some prior studies, for example, Karwor and Kportorgbi (2014). However, the negative association between firm size and firm value simply means that large firms have both the resources and the political power to undertake tax planning activities that can positively impact their firm performance and value. The results of this study with regard to DIV and FAG are in accord with many prior studies, such as Murekefu and Ouma, (2012), Al-Kuwari (2009) and Amidu (2007) that have maintained the relevance of dividend payout as a factor that influences firm value. The studies of Nwaobia (2014) and Dyreng, Hanlon and Maydew (2008) concluded that tax planning experience and manager effects (proxied by FAG) positively drive tax planning activities that enhance firm performance and value. Experience of managers in a firm, institutional knowledge handed over from generation to generation, including firm's established relationship with government agencies, go a long way to impact the firm's tax management activities. Overall, this study affirms that effective tax planning will enhance the performance of MNCs.

CONCLUSION AND RECOMMENDATIONS

This study examined the effect of International tax planning on performance of MNCs. The study established that tax planning affects corporate firm value but the nature of the effects depends on the tax planning variables adopted. While some of the tax planning variables such as ETR, DIV, and FAG has positive effect on firm value, SIZE, LEV and TANG have negative effect. Results suggest that ETR, SIZE and DIV are important tax planning variables that can positively impact the value of MNCs. Findings of this study therefore provide interesting insight into the structuring of tax planning strategies by MNCs and is expected to stimulate research into appropriate delineation of tax planning strategies into those that could positively influence firm value in the short - run and those that are better utilized for the purpose of cash flow enhancement, that would in the short run, improve capacity utilization and positively impact firm value in the long-run. The study thus concludes that only an optimal mix of tax planning strategies could yield optimal benefits in the area of firm value enhancement of MNCs. The present study provided empirical support for the political cost theory which asserts that larger firms take advantage of their economic and political power to mitigate their tax burden as they are able to engage in aggressive tax planning and can manipulate the political process in their favour. In Nigeria, for instance, such power matters.

From the outcome of this study, it is recommended that Management commitment to tax planning as part of the overall financial planning of the firm is important. This is because tax planning activity requires the deployment of resources and the experience of knowledgeable practitioners to produce effective results; tax implications of all business transactions need be considered before execution. For example, Nigerian tax laws and environment are complex and volatile as they change almost on yearly basis. This makes it difficult for an average corporate management to navigate, understand and fully explore the opportunities and gaps in the tax statutes for beneficial tax planning. This study recommends firms' use of tax professionals and consultants for effective tax planning that will meet corporate tax needs. Firms should not hinge their firm value maximization mechanism on tax planning alone since this has been found in this study to explain variations in firm value indicator from a weak position.

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