

TAX PLANNING AND FINANCIAL PERFORMANCE OF LISTED PHARMACEUTICAL FIRMS IN NIGERIA

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Abstract

Among the objectives of firms is maximizing financial performance continuously. Tax planning remains an under-exploited tool to increase the financial performance of firms. Thus, this study examined the effect of tax planning on the financial performance of all the seven listed pharmaceutical firms on the Nigeria Exchange Group over the period of 2013 to 2022. The study obtained data from the audited annual financial statements of listed pharmaceutical firms in Nigeria. The results of data analyses revealed that effective tax rate, capital intensity and tax savings have significant influence on the financial performance of pharmaceutical companies in Nigeria, while thin capitalization has no significant influence on the financial performance of pharmaceutical companies in Nigeria. Therefore, the study concluded that tax planning has significant influence on the financial performance of pharmaceutical firms in Nigeria. The study further recommended that the board of Directors of pharmaceutical firms in Nigeria should use effective tax rate, capital intensity and tax savings as tax planning to reduce their tax liabilities optimally to improve their financial performance while minimizing the tax liability.

Keywords: Tax Planning, Financial Performance, Effective Tax Rate, Capital Intensity, Thin Capitalization, Tax Savings

Introduction

Firms across the world seek to maximize their financial performance by engaging in efforts to improve their financial performance. Financial performance is defined as an indicator of the overall value of firms' operation (Kayode, 2020). Financial performance of firms around the world has raised concerns among academics and

professionals, particularly in the Nigerian pharmaceutical industry due to multiplicity of taxes which negatively affect performance indicators (Kayode, 2020). Similar to other countries, Nigerian taxes have a significant impact on the financial performance and survival of pharmaceutical firms (Felix & Mamidu, 2021). When tax regulations are flexible, firms pay reduced corporate tax obligations which

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increase their profitability. Among the existing tax planning options include effective tax rate, capital intensity, tax savings, and many others (Erasmus & Uwikor, 2021). In Nigerian health care sector, among the major challenges is the multiplicity and high corporate tax among the pharmaceutical firms. The challenge is compounded by poor tax planning, which result in high tax rates which negatively affect not only their profitability but also their liquidity, asset tangibility, among others (Nwaobia, 2016).

Tax planning (TP) has become an important aspect of financial planning of corporate organizations. This is premised on the view that TP has a substantial relevance to firm performance and other areas such as corporate governance frameworks, market valuation, and business going concerns (Olayiwola & Okoro, 2021). Tax planning entails the use of relevant incentive provisions for business taxpayers based on applicable tax regulations (Ogundajo & Onakoya, 2016). One of the most significant roles of corporate tax managers is to plan for the reduction of a company's overall tax liability. Theoretically, a firm's tax burden is proportionate to its profitability, hence achieving the firm's wealth maximization goal through various means of boosting profitability places greater strain on the firm's ability to lower its tax liability (Ogundajo & Onakoya, 2016). Nigerian Corporate Income Tax Act contains many sections that allow corporate tax managers to reduce the company's tax liability through efficient and effective tax planning tactics. Lower effective tax rates (ETRs) can significantly lead to highly leveraged firms and greater investment (Rohaya, Nursyazwani & Nor'Azam 2010). Similarly, effective tax planning is beneficial to the firms in terms of wealth creation strategies (Morien, 2008). The high operating costs challenge faced by firms in most developing countries, including Nigeria, has forced them to employ various tax planning strategies to enable them to reduce their tax obligations (Omesì & Appah, 2021). Taxation has many ramifications for a firm's investment, financing, and performance. A high tax burden

impedes a firm's efficiency, investment, and productive capacity by limiting the availability of financial resources (Felix & Mamidu, 2021).

Literature have focused on tax planning and firm financial performance. However, most of the previous researchers focused on financial institutions (Erasmus & Uwikor, 2021; Felix & Mamidu, 2021; Adejumo & Sanyaolu, 2020; Fagbemi et al., 2019). Others (Olayiwola & Okoro, 2021; Timothy, Izilin & Ndifereke, 2020) have focused on non-financial institutions. Manufacturing sector has also drawn the attentions of Onyeka-Iheme, (2021), while Olabisi et al. (2019) focused on the oil and gas sector. Tackie et al., (2022) studied the Insurance sector, Omesì and Appah (2021) focused on the consumers' goods sector while food and beverages while had been studied by Kayode and Folajinmi (2020). A major deficiency of the above mentioned studied was the use of primary data from survey instead of secondary data. The past studies also failed to focus on pharmaceutical firms in their studies on tax planning strategies (using the combination of effective tax rate, capital intensity, thin capitalization and tax savings as proxies) and financial performance (using return on assets as a proxy) despite the contribution of the pharmaceutical sub-sector to the Nigerian health care sector. To this end, this study on the pharmaceutical firms in Nigeria by examining the effects of tax planning on financial performance. The hypotheses of the study are to:

- i. examine the impact of effective tax rate on the financial performance of listed pharmaceutical firms in Nigeria.
- ii. examine the impact of capital intensity ratio on the financial performance of listed pharmaceutical firms in Nigeria.
- iii. ascertain the impact of thin capitalization on the financial performance of listed pharmaceutical companies in Nigeria.
- iv. determine the impact of tax savings on the financial performance of listed pharmaceutical companies in Nigeria.

Literature Review

Concept of Tax planning

The term "tax planning" refers to the legitimate actions taken by businesses to control their revenue and spending with the intention of avoiding, lowering, or postponing paying taxes while adhering to the applicable tax laws (Erasmus & Uwikor, 2021). Pniowsky (2010) stated that tax planning is the practice of arranging one's finances in a way that will delay, reduce, or eliminate taxes being owed to the government. Tax planning is the legal measures that taxpayers use to lower their tax bill and produce tax savings (Kayode & Folajinmi, 2020). Examples of tax planning include but not limited to capital intensity, thin capitalization, lease option, industrial sector tax incentives, tax savings and effective tax rate (Nwaobia & Jayeoba, 2016).

Tax liability is a major expense to firms representing 20% to 30% of their returns (Salawu, Ogundipe & Yeye, 2017). Therefore, increasing financial performance is dependent on firms' ability to reduce their tax burdens (Erasmus & Uwikor, 2021). Capital intensity has been discovered to be a good measure of tax planning, which firms can use as a strategy to secure allowances and incentives in relation to the amount they have invested in non-current assets (Erasmus & Uwikor, 2021). The amount of investment made by firms in non-current assets is regarded as Capital Intensity (CI) and there is nexus between firms' financial performance and capital intensity (Ilaboya1, Izevbekhai & Ohiokha, 2016). On the other hand, thin capitalization is experienced when in a firm's capital composition, the debts exceed its equity (Erasmus & Uwikor, 2021). The existence of positive relationship that exist between thin capitalization and financial performance of firms is a pointer to the fact that firms can achieve the objective of maximizing their financial performance by improving on their thin capitalization (Kayode & Folajinmi, 2020). Felix and Mamidu (2021) asserted that there is positive relationship between tax savings and financial performance of firms in Nigeria.

Theoretical Review

Hoffman's Tax Planning Theory

Hoffman's tax planning theory was propounded by Hoffmann in 1961. The theory posits that taxation, mostly are based on business or accounting concepts and a firm can modify such activities towards the attainment of reduction in tax liability. Hoffman (1961) developed the tax planning hypothesis, which favored businesses using corporate returns for internal purposes rather than giving them to the government. He added that "legal loopholes that allow taxpayers to profit from their tax positions are unavoidable given the intricate and complex nature of tax law and procedure". He further explained that tax planning would entail businesses employing legal strategies to maximize the legal system's loopholes in order to minimize their tax bill. Hoffman's tax planning theory underpinned this study because it is in line with the objective of this study, which is to assess how tax planning as a strategy can impact the financial performance of pharmaceutical firms in Nigeria.

Empirical Reviews

Tackie et al. (2022), investigated interactions among corporate governance, tax planning and performance of insurance companies in Ghana to determine the nature and extent of the cause-and-effect relationship between the variables in the study. Data on 35 Ghanaian insurance companies with 117 observations between the years of 2012 and 2017 were collected. The study found that the effectiveness of tax planning, proxied by the effective tax rate (ETR), was found to have a nonlinear relationship with insurance company profitability measured by return on equity (ROE) and return on asset (ROA). Erasmus and Uwikor (2021) investigated the relationship between tax planning and financial performance of quoted banks in Nigeria. The study employed judgmental sampling techniques to select sample of 12 banks and collected data from audited annual financial reports of quoted banks in Nigeria over 2006-2019. The study analysed the

data with Ordinary Least Square (OLS). The study found that effective tax rate, thin capitalization and capital intensity has negative and insignificant impact on return on equity of quoted banks in Nigeria. It was also revealed that effective tax rate, thin capitalization and capital intensity has positive and significant impact on net interest margin of quoted banks in Nigeria.

Ado et al., (2021) assessed the impact of corporate tax planning on the financial performance of listed companies on the Nigerian Exchange Group (NGX) using the secondary data from Thompson Reuters DataStream and annual reports of listed companies. Multiple regression analysis was used to analysed 756 observations obtained from 84 firms listed on the NSE over 2010 to 2018. The study found no no correlation between inventory intensity and return on asset. The conclusion suggests that a percentage rise in the company's inventory intensity may not in any way improve financial success. Additionally, a substantial negative link between capital intensity and ROA was found. The results suggest that financial performance would be negatively impacted by a considerable increase in capital intensity. The study, however, found that leverage is strongly connected to ROA.

Kayode and Folajinmi (2020) evaluated the effect of corporate tax planning on the financial performance of quoted food and beverages firms in Nigeria, with the 15 quoted food and beverages firms on the Nigerian Exchange Group over 2008 to 2018 with data extracted from audited financial statements The results of data analyses show that corporate tax planning proxies of effective tax rate, capital intensity, thin capitalization do not have a significant positive effect on financial performance of quoted food and beverage firms in Nigeria. Thus, the research concluded that corporate tax planning proxies of effective tax rate, capital intensity and thin capitalization, has a significant positive effect on the performance of quoted food and beverages firms in Nigeria. Iriyadi et al., (2019) examined the effect of tax

planning and asset use on profitability, moderated by corporate governance proxied by managerial ownership, among 15 purposively selected listed manufacturing firms in the consumer goods industry over the period of 2014-2018 periods on Jakarta Stock Exchange, Indonesia. The testing result showed that tax planning and the use of assets significantly influence the profitability positively while the relationship was not moderated by corporate governance.

Fagbemi et al., (2019) examined the corporate tax planning and financial performance of systemically eight banks in Nigeria. The study shows that the effective tax rate has a negative and significant impact on financial performance. Thin capitalization has a positive significant impact on the financial performance of SIBs in Nigeria, whereas capital intensity and the lease option have demonstrated an insignificant impact on the financial performance of banks in Nigeria. Olabisi et al., (2019) examined the relationship between tax planning and performance of Nigerian listed oil and gas firms with secondary data collected from financial statements of sample of five firms over a period of six years (2012-2017). Simple pooled Ordinary Least Square regression was used to evaluate the probable relationship among the variables. The indices of determination for corporate tax planning used were Effective Tax Rate (ETR), Financial Leverage (FL) and Return on Assets (ROA) for performance. The results of the study showed that ETR, has significant relationship with ROA of Nigerian listed Oil and Gas firms, while, FL has negative but insignificant relationship with ROA of Nigerian listed Oil and Gas firms.

Methodology

Research Design

This study adopted causal-effect and ex-post facto designs. The ex-post facto research design was used because of the nature of the data collected was historic in nature. The population of this study consisted of seven pharmaceutical firms listed on the Nigerian Exchange Group

namely Ekocorp Plc, Fidson Healthcare Plc, Glaxo Smithline Consumer Nigeria Plc., May and Baker Nigeria Plc, Morison Industries Plc., Neimeth International Pharmaceutical Plc. and Pharma-Deko Plc. The entire seven (7) firms were selected because the study adopted census sampling technique.

The study used secondary data from secondary sources, which were sourced from the financial statements of all the pharmaceutical firms listed on the Nigerian Exchange Group. Data collected were analysed using descriptive statistic, correlation statistics and multiple regression to test the various hypotheses set up in the study with aid of statistical package STATA 16.0.

Variable Measurement **Effective Tax Rate**

Erasmus and Uwiko, (2021) argued that the percentage of a company's tax burden that is decreased without a negative effect on its accounting income is known as the effective tax rate. Real corporate tax burdens are compared to the ratio of a firm's tax expense to its earnings before tax to determine how well firms do in terms of paying their fair share of taxes. Effective tax rate demonstrates how aggressively a corporation uses tax planning. Effective tax rate is measured as: $ETR = (\text{Income Tax Expense} / \text{Profit Before Tax}) \times 100$ (Felix & Mamidu, 2021).

Capital Intensity

Capital intensity is defined as the amount of investment made by the firms towards the business properties, plants and the equipment (Rashid, Noor, Mastuki and Barjoyai, 2015). Capital intensity is the ratio of non-current assets (fixed assets) to total assets, and it indicates capital intensity for business *i* in year *t*. This ratio determines how much a company invests in fixed assets and, consequently, how much capital assets related incentives it is eligible to receive. Capital allowances (both initial and annual), Investment Tax Credits (ITC) and Reinvestment Allowances are among the

allowances and incentives based on capital intensity (Ftouhi, Ayed & Zemzem, 2014). Capital intensity is measured as: $\text{Non-current assets} / \text{total assets}$ (Felix & Mamidu, 2021).

Thin Capitalization (TCAN)

Thin capitalization refers to the situation in where a company is financed through a relatively high level of debt compared to equity (Pratama, 2017). Thinly capitalized companies are sometimes referred to as highly leveraged or highly geared. The way a company is capitalized will often have a significant impact on the amount of profit it reports for tax purposes (Kayode and Folajinmi, 2020). Thin capitalization is measured as total debts divide by total assets of firms (Erasmus & Uwikor, 2021).

Tax Savings (TSG)

Tax savings refer to the difference between the statutory tax rate and the effective tax rate (Kayode & Folajinmi, 2020). Accordingly, businesses can utilize tax savings as a method to obtain either temporary or long-term tax savings. Tax savings is measured as the difference between the statutory tax rate and the effective tax rate (Christina, 2019)

Financial Performance (FP)

Financial performance is the analysis of a firm policies and operational activities in monetary terms. Financial performance measures are given in monetary terms in terms of revenue or profit (Mashovic, 2018). Mostly financial performance variables can be found in the annual financial statements of an organization (Simons, 2000). Financial performance is a tool used in measuring a company's financial health over a period of time (Farah, Farrukh & Faizan, 2016). Firm performance is the outcome of company's operational activities within a period under consideration. It is the result of the activities of a firm for a period(s) presented to the stakeholders (Kayode & Folajinmi, 2020).

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Return-On-Assets (ROA)

Return on assets is the profit before tax divided by net assets. Return on Assets (ROA) is adopted for this study because is the most often used accounting measure of financial performance of firms. Return on assets is measured as profit before tax divided by total assets (Ogundajo, 2016).

Model Specification

The study was anchored on Hoffman's tax planning theory propounded by Hoffman (1961). The study stressed the impact of effective tax planning as effective tool in reducing tax liability of firms through legal exploration of the loopholes in the tax laws with the aim of minimizing tax liabilities that would in turn enhance the financial performance of the firms. However, the study adopted the model of Felix and Mamidu (2021). The model is mathematically given as:

$$\text{Perf} = F(\text{TP}) \dots\dots\dots (1)$$

Where: Perf = Performance proxied as return on assets (ROA).

TP = Tax planning proxied as Effective Tax Rate (ETR), Capital Intensity (CIY), Thin capitalization (TCN) and Tax Savings (TSG).

$$\text{ROA} = f(\text{ETR, CIY, TCN, TSG, FMS and FAGE}) \dots\dots\dots (2)$$

Thus, the model is econometrically given as:

$$\text{ROA}_{it} = \beta_0 + \beta_1 \text{ETR}_{it} + \beta_2 \text{CIY}_{it} + \beta_3 \text{TCN}_{it} + \beta_4 \text{TSG}_{it} + \varepsilon_{it} \dots\dots\dots (3)$$

Where: ROA = Return-On-Assets

ETR = Effective Tax Rate

CIY = Capital Intensity

TCN = Thin Capitalization

TSG = Tax Savings

β_0 = Constant term

$\beta_1, \beta_2, \beta_3$, and β_4 = Parameters to be estimated

i = Cross-sectional variable

t = Time series variable

ε = Error term

Data Presentation, Interpretation and Discussion of Findings

Data presentation and Interpretation

Table 1: Descriptive Statistics of Variables

VARIABLES	OBS	MEAN	STD. DEV.	MIN	MAX
ROA	67	0.6366437	0.0926385	0.3549537	0.8390817
ETR	67	0.5373284	0.5196693	0.063	3.434
CIY	67	0.7186269	0.2104641	0.217	1.066
TCN	67	0.7260597	0.1103545	0.464	1.034
TSG	67	0.4559702	0.0898492	.158	0.548

Source: Author's Computation (2023)

Table 1 shows that the average value for Return on Assets (ROA) is 0.6366437 and the standard deviation is 0.0926385. This implies that the pharmaceutical companies were able to generate nearly 63.66% returns on the invested assets. The small standard deviation implies that observed values of ROA were closely clustered around the mean value. The minimum value of ROA is 0.3549537 while the maximum value stands at 0.8390817. The average value of Effective Tax Rate (ETR) is 0.5373284 and the standard deviation is 0.5196693. This means that Nigerian pharmaceutical companies were able to reduce their tax expenses by 53.73%. The minimum and maximum values of ETR varies from 0.063 to 3.434. The mean value of Capital Intensity (CIY) is 0.7186269 and the standard deviation stands at 0.2104641. This denotes that the observed values of CIY were clustered around the average score by 71.86%. The minimum and maximum values of CIY range from 0.217 to 1.066.

Thin Capitalization (TCN) has an average value of 0.7260597 with a standard deviation value of 0.1103545. This implies that the total assets of the Nigerian pharmaceutical companies were acquired through debt financing by 72.61% in order to take advantage of finance expenses that result in tax reduction. Tax Savings (TSG) has a mean score of 0.4559702 and a standard deviation of 0.0898492. This implies that TSG has an average value of 45.60%. The observed values of TSG ranges from minimum of 0.158 to maximum 0.548. The little standard deviation shows that the observed values were closely clustered around the mean value of the Nigerian pharmaceutical companies. It can be observed that Tax Savings (TSG) has the lowest mean value. This implies that the data distribution of Tax Saving is very clustered around the mean value.

Pooled Regression Result

Table 2: Pooled Regression Result

VARIABLES	Coefficient	Std Error	t-Statistics	Prob.
ETR	-.0691137	.0101619	-6.80	0.0000
CIY	-.040671	.0236263	-1.72	0.090
TCN	-.057386	.0435177	-11.99	0.192
TSG	-.7387404	.0616182	-.23	0.000
R-Square	0.8497			
Adjusted R-Square	0.8347			
F-Statistic	56.53			
Root MSE	0.037667			
Prob. (F-Statistic)	0.0000			

Source: Author's Computation (2023)

Table 2, presents the regression value of the impact of explanatory variables (ETR, CIY, TCN and TSG) on dependent variables (ROA). R-Squared (R^2) is the coefficient of determination that measures the degree of change in dependent variable that is jointly explained by the independent variable in a linear regression model. From the regression result in Table 6, the R^2 is about 84.97%. This implies that the variations in the independent variables

jointly explain about 84.97% of the variations in the dependent, which is ROA. The Adjusted R-squared of 0.8347 denotes that 83.47% change in the dependent variable (ROA) is affected by the combined effects of the explanatory variables of ETR, CIY, TCN and TSG. F-Statistics measures the overall goodness of fit of the model as indicated by 56.53%. Root. Mean Squared Error (Root MSE) provides the estimation of how effectively the model is able to predict the

dependent variable. As a rule of thumb, a perfect model that would accurately predict the dependent variable should have a root mean squared error of zero (0). This implies that the lower the value of the root mean squared error, the better the model is in efficiently predicting the expected value. From the result shown in Table 6, it can be seen that the Root Mean Squared Error of the model is 0.037667. This denotes that the model which has root mean squared error of about 3.8% is very strong to predict the dependent variable, ROA. The P-Value of 0.0000 shows that the model is good for measuring the impact of tax planning on the financial performance of pharmaceutical firms in Nigeria.

Test of Hypothesis 1

H₁: Effective tax rate has no significant influence on the financial performance of listed pharmaceutical firms in Nigeria.

The result from Table 2 shows that Effective Tax Rate (ETR) has significant effect on the financial performance of listed pharmaceutical firms in Nigeria as pointed out by t- statistics of -6.80 with a P-Value of 0.000 at 1% significant level. Since the P-Value of 0.000 is less than acceptable level of 0.05 (5%), the null hypothesis was rejected. Hence effective tax rate has significant influence on the financial performance of listed pharmaceutical firms in Nigeria.

Test of Hypothesis 2

H₂: Capital intensity ratio has no significant impact on the financial performance of listed pharmaceutical firms in Nigeria.

From Table 2, the result infers that Capital Intensity (CIY) has significant impact on the financial performance of listed pharmaceutical firms in Nigeria negatively as indicated by t-statistics of -1.72 with a P-Value of 0.090 at 10% level of significance. The result led to the rejection of null hypothesis which states that Capital intensity ratio has no

significant impact on the financial performance of listed pharmaceutical firms in Nigeria. Hence Capital Intensity ratio has significant impact on the financial performance of listed pharmaceutical firms in Nigeria.

Test of Hypothesis 3

H₃: Thin capitalization has no significant influence on the financial performance of listed pharmaceutical companies in Nigeria.

Result of the regression in Table 2 infers that Thin Capitalization (TCN) does not influence the financial performance of listed pharmaceutical companies in Nigeria as shown by the t-statistics of -1.32 with a P-Value of 0.192. This implies that there is enough statistical evidence to accept the null hypothesis since the P-Value of 0.192 is more than the acceptable level of 0.05 (5%). This led to the acceptance of null hypothesis. Hence thin capitalization does not influence the financial performance of listed pharmaceutical companies in Nigeria.

Test of Hypothesis 4

H₄: Tax savings has no significant effect on the financial performance of listed pharmaceutical companies in Nigeria.

From the regression result in Table 2, Tax Savings (TSG) does affect the financial performance of listed pharmaceutical companies in Nigeria as denoted by t-statistics of -11.99 with a P-Value of 0.000 at 1% level of significance. The result led to the rejection of the null hypothesis since the P-Value of 0.000 is less than the acceptable level of 0.05 (5%). This implies that there is no enough evidence to reject the null hypothesis. Hence tax savings does not affect the financial performance of listed pharmaceutical companies in Nigeria.

Discussion of Findings

The result of Hypothesis 1 shows that ETR negatively affects the financial performance of listed pharmaceutical firms in

Nigeria as indicated by coefficient of variance of -0.0691137 with a p-value of 0.000. This denotes that a unit increase in effective tax rate will reduce the financial performance of listed pharmaceutical firms in Nigeria by 6.9%. What this implies is that any increase in the effective tax rate will bring about reduction in the tax expenses of the listed pharmaceutical firms as a result of reduction in the net income propelled by increased effective tax rate. The finding is in line with Hoffman's tax planning theory where he opined that tax planning would involve firms using legal means to minimize the tax liability by maximizing the loopholes in the legal system which will in turn lead to reduction in tax payable as a result of reduction in after tax return. The finding is also inconsistent with the findings of Olabisi et al., (2019); Kayode and Folajinmi, (2020) and Erasmus and Uwikor, (2021) where it was found that Effective Tax Rate has significant influence on the financial performance.

From the result of Hypothesis 2, it can be inferred that CIY has negative impact on the financial performance of listed pharmaceutical firms in Nigeria. This is indicated by coefficient of variance -0.040671 with a P-value of 0.090 at 10% level of significance. This implies that a unit increase in capital intensity ratio of the listed pharmaceutical firms in Nigeria, will cause the financial performance measured by return on assets to reduce by 4.1%. This denotes that when Nigerian listed pharmaceutical firms deploy more of non-current assets to generate returns and enjoy different allowances as provided for in the tax law, this will lead to reduction in the taxable returns thereby causing a corresponding reduction in the amount of tax expenses payable. This finding is in line with the findings of Iriyadi et al., (2019); and Ado et al., (2021) where it was revealed that capital intensity has no statistical impact on the financial performance. In contrast, the finding of this study disagrees with the findings of Fagbemi et al., (2019) where it was found that capital intensity does not statistically impact the financial performance.

As for Hypothesis 3, TCN does not statistically influence the financial performance of listed pharmaceutical companies in Nigeria as indicated by coefficient variance of -0.057386 and a P-value of 0.192 at all levels. This denotes that any increase or decrease in thin capitalization will not affect the financial performance of listed pharmaceutical companies in Nigeria. This finding is against the findings of Fagbemi, et al., (2019) and Kayode and Folajinmi, (2020) where it was found that thin capitalization has statistical influence on financial performance. The finding also contradicts the Hoffman's Tax Planning Theory.

The result from hypothesis 4 shows that Tax Savings does affects the financial performance of listed pharmaceutical companies in Nigeria as denoted by coefficient of variation of -0.7387404 with a P-Value of 0.000 at 1% level of significance. This implies that a unit increase in tax savings will reduce the financial performance by 73.87%. What this connote is that when listed pharmaceutical firms in Nigeria tap into the loopholes in tax laws, this will reduce the taxable profits, which will in turn lead to a significant reduction in the amount of tax expenses payable. The finding of this study is consistent with the findings of Olayiwola and Okoro, (2021) where it was found that Tax Savings does statistically affects the financial performance.

Conclusion and Recommendations

Based on the findings of this study it was concluded that tax planning has significant influence on the financial performance of pharmaceutical firms in Nigeria. A tax planning that is capable of producing lower effective tax rate will maximize the financial performance of pharmaceutical firms in Nigeria. Based on findings of the study, the following recommendations were proposed for policy formulation and implementation of pharmaceutical firms in Nigeria: The study recommends that the Board of Directors of pharmaceutical firms in Nigeria should use effective tax rate as tax planning to reduce their

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tax liabilities and optimally utilize it in such a way that would result in improving their financial performance while minimizing the tax liability. Nigerian pharmaceutical firms should consider engaging the services of tax consultants when taking investment decisions on the acquisition and disposal of non-current assets so as to maximize the benefits it accrues for the organisation as a tax planning strategy whilst increasing its contributions to the financial performance of the firms.

Thin capitalization as a source of finance should be reviewed as a tax planning strategies by the management of Nigerian pharmaceutical firms in such a way that only sources of finance with fixed interest rates would be considered when making investment decision in assets. This will yield maximum reductions in their corporate tax expenses giving that interest paid on debt financing is tax deductible or allowable expenses in under the tax law. Tax savings as one of the available tax planning strategies should be adopted by the management of Nigerian pharmaceutical companies as an integral part of the overall financial planning of the pharmaceutical companies by leveraging on loopholes in tax laws such as: tax incentives, tax holidays, tax haven, tax credits and leveraging on decided court cases in order to reduce the tax liability of Nigerian pharmaceutical firms.

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