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FACTORS THAT DETERMINE AGGRESSIVE TAX AVOIDANCE AMONG LISTED COMMERCIAL BANKS IN NIGERIA FROM 2014 TO 2023: EVIDENCE FROM PANEL REGRESSION ANALYSIS

[1]Ahmad Tijjani Usman
[1]Department of Accounting and Finance, North-Eastern University, Gombe, Nigeria

Corresponding Email Address: ahmad.usman@neu.edu.ng

Abstract

The objective of this study is to examine the factors that determine the aggressive tax avoidance among listed commercial banks in Nigeria. The selected factors include firm size, leverage, profitability and capital intensity, while tax avoidance was measured by Effective Tax Rate (ETR). The study used Political cost theory and Political power theory to underpin the established relationships in this study. Exploratory research design was adopted and secondary data was gathered from published annual reports of the selected banks for the period of 10 years (2014-2023). The population of the study are the 14 listed commercial banks as at 2025, while filtering approach was used to sample 13 banks that are listed throughout the period of the study. The collected data was analyzed using descriptive, correlation and panel regression analysis with the help of STATA 14.0. The study found that firm size has negative effect on aggressive tax avoidance by having positive impact on ETR; leverage and profitability have significant positive effect on tax avoidance by having negative effect on ETR, while capital intensity was insignificant. In view of these findings, the study concluded that tax avoidance behavior among Nigerian commercial banks is not universally derived by a particular inherent characteristic as every attribute has a way it affects the strategic behavior. It is therefore recommended that FIRS should leverage the accountability of larger banks by promoting compliance frameworks and transparent reporting requirement for such banks through mandatory disclosure rules of cross-border transactions and tax planning arrangements. There is also need for policymakers to strengthen thin capitalization rules so as to restrict the excessive interest deductions that leveraged firms are exploiting. Furthermore, tax authorities should tighten the scrutiny for the most profitable banks in the Nigerian financial industry for a potential aggressive tax planning scheme as they have incentive and resource to exploit the tax loopholes.

Keywords: *Aggressive tax avoidance, effective tax rate, firm size, leverage, profitability and capital intensity.*

INTRODUCTION

The principal objective of corporate entities throughout the world is continuous growth and profitability to maximize shareholders' wealth. This motivates financial managers to explore different means that mitigate tax burdens as the higher taxation is one of the major costs to the company thereby threatening the corporate objective (Sharif & Khan, 2024). In Nigeria, the corporate income tax (CIT), which is 30% plus 3% education tax among others takes close to one-third of companies' profit, which is considered reasonably high compare to the CIT of other countries in the world (e.g Switzerland 8.5%, Germany 15% and South Africa 15% among others), thus making tax strategy a crucial matter of concern (Ikechukwu & Ogbodo, 2024).

Consequently, the overburdening and multiplicity of the tax system in Nigeria make corporate entities implement strategies that identify the loopholes in the tax system in order to minimize, postpone or entirely avoid tax payments so as to reduce its adverse effect on their performance (Ebire et al., 2024).

In Nigeria, the banking sectors' contribution to the economy cannot be overemphasized as the sector contributes 26.5% (3.8 trillion) to the Nigeria's Gross Domestic Product (GDP) in 2023, out of which 91.99% was accounted by financial institutions. This reflects a significant increase of 26.2% from 3.01trillion contribution in 2022 (Kayode, 2024). Further analysis revealed that financial Institutions contributed N3.5 trillion in 2023, representing an increase of 28.86% from N2.722 trillion in 2022, while insurance sector contributed N305.02billion in 2023, a growth of 4.82% from N290.98 billion in 2022 (Taylor & Eshokeme, 2024). Despite these significant contributions to GDP, the tax burden of the Nigerian financial service companies is not efficient for their sustainability looking at the multiplicity and higher rate of the applicable to the sector. Consequently, in order to outsmart the overburdening tax system, the loopholes that minimize, postpone or avoid the payment of taxes in entirety are often applied by the companies (Abimbola, 2024). It is therefore pertinent to assess the factors that determine aggressive tax avoidance among Nigerian companies by focusing on their inherent characteristics including firm size, leverage, profitability and capital intensity.

Regarding firm size, larger firms have adequate resources to invest in aggressive tax avoidance strategies (Noviyanti et al., 2024). However, the larger companies tend to be subject to intense regulatory scrutiny that smaller companies, which may create a trade-off between the benefits of tax savings and the cost of penalties and reputational damage (Ikechukwu & Ogbodo, 2024). In addition, leverage level attract several challenges for tax planning as it directly affect companies' capital structure and tax liabilities (Asthalia, 2024). This is because, in the exploitation of tax shields, highly leveraged firms often overuse debt financing to maximize tax saving while increasing the financial risk on the other hand, and also decreasing the company's credit worthiness (Wibowo et al., 2024). Furthermore, despite the fact profitable companies have substantial surpluses to hire professional tax consultants and engage in aggressive tax avoidance, this practice tend to deviate the use of valuable financial resources for productive investment (Siyahfitri & Putri, 2024). On the other hand, there is also problem of reputational risk when highly profitable companies engage in aggressive tax avoidance by reducing their effective tax rate (Alkurdi et al., 2024). Moreover, the capital allowance granted by government for companies' investment in fixed asset is beneficial to reduce the tax burden. However, companies often exploit these incentives aggressively thereby investing only in fixed asset for the financial gain rather than operational needs (Fitriah, 2024). This misused of capital allowance often lead to inefficient resource allocation, which is detrimental to company's success and derive the entities to avoid tax (Zainazor et al., 2023).

The motivation of this study is that despite the significant contributions of banking sector to Nigerian economy, the tax burden of the banks is not efficient for their sustainability looking at the multiplicity and higher rate of the applicable to the sector (Abimbola, 2024). Recently, there was an increase of windfall tax of commercial banks in Nigeria to 70%. Precisely, On 17th July 2024, the Federal Government of Nigeria sent a letter to the National Assembly to propose amendment of the Finance Act of 2023 among which include the imposition of additional 20% in addition to the previous 50%, increment of education tax to 3% among others (Adefarasin, & Eze, 2024). This windfall tax is considered relatively high in comparison with windfall in other countries like United Kingdom's energy profit levy of 38%, Germany and Netherland's windfall tax of 33% in different sectors as well as Austria's 40% windfall tax on oil and gas companies. In response to the Nigeria's increase, the chairman of Bank Directors Association of Nigeria (BDAN) asserted that this increment will impose further undue tax burden on the banks, which continue to stifle growth and innovation within the sector (Abimbola, 2024). Consequently, the increment may resulted to increased tax avoidance aggressiveness by the Nigerian banks, which makes it a worthy motive to investigate the drivers of aggressive tax avoidance among Nigerian banks as intended by this study.

Furthermore, substantial attempt was made in the literature by prior studies to address the issue of firm characteristics and aggressive tax avoidance in different contexts globally. For instance, studies such as Novianti et al. (2024); Shubita (2024) confirmed a significant positive effect of firm size on aggressive tax avoidance, Ikechukwu and Ogbodo (2024) observed negative effect while Viantiataini et al. (2024) among others affirmed insignificant relation. Regarding the leverage, studies like Saprudin et al. (2024) found its positive effect on aggressive tax avoidance, Asthalia (2024) found negative while Wibowo et al. (2024) obtained insignificant effect. The relationship between profitability and effective tax rate was found to be positive by Lailiyah et al. (2024); Siyahfitri and Putri (2024), whereas Alkurdi et al. (2024) found negative effect, while Widati et al. (2024) and Artha et al. (2024) found insignificant relationship. Also, capital intensity was found to be positively related to aggressive tax avoidance by Zainazor et al. (2023), while Saskia et al. (2024) argued that the constructs are not significantly related. Lastly, inventory intensity positively affects aggressive tax avoidance as observed by Pratiwi (2024). On the other hand, Syahfitri and Putri (2024) observed negative relation, while Goranka et al. (2024) found insignificant relation. In light of these contradictions, it becomes pertinent to validate this findings with contextual analysis in order to foster its applicability in the Nigerian banking sector which prompted this research.

Accordingly, insight from this study will help regulators to design tax policies that will discourage aggressive tax by ensuring fairness among companies based on their different characteristics. For tax authorities who are always concerned about tax avoidance in a sector with very complex transactions like banking sector, this study can help in understanding how tax compliance behavior differs among commercial banks based on their inherent characteristics like size, capital intensity or gearing level. This insight will enhance the enforcement mechanism and the effectiveness of risk assessment in Nigeria tax administration. In this regard, the study relevant and important to government, policymakers and tax authorities as part of the major stakeholders in tax affairs. Commercial banks, tax avoidance often leads to conflict of interest between management and shareholders over tax planning strategies. Therefore, examining the factors that determine aggressive tax avoidance will contribute to banking sector's corporate governance mechanisms on the ways to align the shareholders' interest with managerial actions regarding tax planning strategies.

Research Questions

i. Does firm size have significant influence on aggressive tax avoidance of listed commercial banks in Nigeria?
ii. Does leverage have significant influence on aggressive tax avoidance of listed commercial banks in Nigeria?
iii. Does profitability have significant influence on aggressive tax avoidance of listed commercial banks in Nigeria?
iv. Does capital intensity have significant influence on aggressive tax avoidance of listed commercial banks in Nigeria?

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LITERATURE REVIEW

Conceptual Framework and Review

Conceptual framework helps in explaining the relationship that the study strives to establish. It is a diagrammatical representation that shows the relationship between the variables (dependent and independent variable) of a study. In this study, the independent variables are firm size, leverage, profitability and capital intensity while the dependent variable is the aggressive tax avoidance in Nigerian banks.

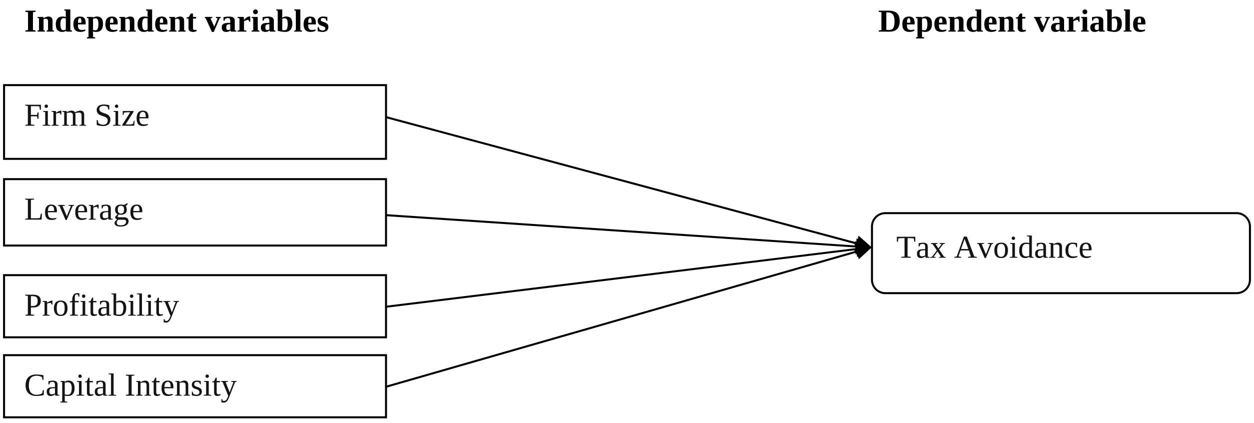

Figure 1: ***Research Framework***

This framework is guided by the political power and the political cost theory. The political power theory supported that larger banks and more profitable banks have enough capacity and connection to collude with tax authorities and manipulate the tax laws for their advantage. Also, intensive capital asset signifies financial strength which gives more power for the capitally intensive banks to avoid tax. On the other hand, political cost theory asserted that profitable or larger banks, capitally intensive and highly geared banks are more visible and therefore attract intensive public scrutiny, which make them refrain from avoiding tax. In either way, political power and political cost theory support the established relationships between the variables of the study.

Concept of Tax Avoidance

Tax avoidance refers to the legal methods employed by individual taxpayers or mostly corporate entities to minimize their tax liabilities within the framework of the law (Anyaduba & Ogbeide, 2022). It is also refers to the tax payers' effort to find out different ways to lessen or eliminate their tax liability without showing their complete legal income and without violating the tax laws (Gumelar et al., 2024). Consequently, the avoidance mechanism is carried out legally and structured, where companies use strategies to minimize tax burdens through transactions that take advantage of legal loopholes (Suhada & Ryanto, 2025). However, despite the fact tax avoidance is legal, it often raises ethical concerns because it can be seen as a way for entities to reduce their contribution to public welfare and national development (Satria & Lunardi, 2023). The ethical considerations of tax avoidance are particularly important because, although it is legal, it often involves taking advantage of loopholes or ambiguities in tax regulations, leading to practices that may be deemed exploitative (Ikechukwu & Ogbodo, 2024). Thus, this ethical tension between legal tax avoidance and its broader social implications is essential to understanding the full impact of tax avoidance and its consequences for both companies and society (John et al., 2022). This aligns with Stakeholder's theory perspective which suggested that firms are accountable to multiple stakeholder groups which include government and the general public (Freeman, 1984). These stakeholders rely on the tax revenue from the entities to fund social amenities' expenditure for the citizens' benefit (Kimea et al., 2023). As such, aggressive tax avoidance despite its legal status violates the social contract, which can damage the companies' reputation and erode public trust.

Accordingly, effective tax rate refers to the acceptable yardstick for evaluating tax avoidance, which is based on actual average tax payable on a taxpayer's income before tax, as distinct from the statutory tax rate imposed on taxpayers (Sharif & Khan, 2024). Accordingly, Chang et al. (2023) stated that the tax rate is regarded as effective when the benefits are greater than the cost, which improves the entity's return. It measures a decrease in a firm's tax liability without a negative effect on the firm's accounting income. In Nigeria, the company income tax rate of 30%, which is considered high when compared with the 25.32% average of OECD countries (Ikechukwu & Ogbodo, 2024). As such, Anyaduba and Ogbeide (2024) argued that the applicable tax rate in making investment decisions should be the effective tax rate rather than the statutory tax rate. Hence, effective tax rate is considered as the proxy of tax avoidance of Nigerian banks.

Concept of Firm Size

Firm size is a measure that assesses the financial and non-financial strength of an entity, which is classified in different ways such as total assets, market value, number of employees among others (Saputri & Handayani, 2023). It is the scale that measures the capacity or ability of the company to carry out its economic or operational activities where bigger the companies become more concern for the government and influences the tendency of company leaders to evade or evade taxes (Azaria & Kuntadi, 2023). Thus it is used to determine large or small entity since the size is categorized into large, medium, and small companies. Accordingly, large-scale companies tend to be more tax aggressive than small companies because the companies usually have greater political and economic power and can reduce their tax burden (Asthalia, 2024). Also, large companies generally have large enough facilities that allow them to manage company activities to achieve optimal savings on tax costs (Damayanti et al., 2023). On the other hand, larger companies are not very much concern with excessive tax management because the bigger the size of the business, the more transactions will be made (Asthalia, 2024). Thus, company's operating income or profit is less affected by the movement in regulatory tax rate when it is voluminous. However, Saprudin et al. (2024) argued that large companies are considered to have decent tax planning available, which makes it possible to reduce company's tax expense, in order to obtain maximum profit thereby leads to tax aggressiveness.

Concept of Leverage

Leverage is the ratio of long term debt against total of paid-up share capital, premium, reserves and retained earnings which indicates how an entity finances its business by either debt or equity (Fitriani & Indrati, 2023). Accordingly, it is one of the financial determinants that have been supported to significantly influence tax planning activities considering that the financial ratios produce some of the exempted tax values that are of great concern to debt level (Zainazor et al., 2023). Furthermore, corporate managers tend to exploit these figures to control their tax planning activities. Thus, aggressive corporate tax planning employed by corporate managers would mostly enhance this ratio to obtain more tax relief (Chang et al., 2023). Equally, financial leverage is a determinant of company's effective tax burden because interest expenses represent a tax deduction in profit, which leads to tax savings due to the use of external sources of funds (Sharif & Khan, 2024). Therefore, it is a strategy adopted by companies to use the extensive level of the debt relative to equity so as to take the benefit of the interest on the debt in tax laws, which is an allowable expense (Azra & Rahma, 2023).

Concept of Profitability

Profitability is the extent to which the aims of the company and in which financial objectives have been met or will be met, which is measured by the corporate capacity to generate profits within a predetermined time frame from all of available assets and resources, including sales activities, idle cash, capital or investment decision (Handayani et al., 2024). It also reflects ability of organization to effectively utilize financial and production factors to generate revenue for shareholders has been the major focus of profit making organization (Alkurdi et al., 2024). Therefore, profitability is very vital to firms' existence, survival and fighting sound competition as compared to leading global market leaders because it helps to differentiate a brand and enhances shareholders' wealth maximization and also contributes to increasing the market value of specific firms (Saputri & Handayani, 2023). Consequently, the higher profitability allow managers to carry out tax management as much as possible so that the tax burden paid is small and the manager is compensated as part of the from agency cost (Syahfitri & Putri, 2024).

Concept of Capital Intensity

Capital intensity refers to the investment in financial resources made by the companies in tangible assets such as property, plants and equipment (Juwita et al., 2023). It also referred to the quantity of fixed or real capital present in a firm in relation to other components of production, particularly labor within a firm (Fitriah, 2024). As such, more capital intense firm has more investment in the noncurrent assets than other assets. Accordingly, investment in fixed asset qualifies the company to tax deductions (investment allowance), while on the other hand, the fixed assets have a detrimental effect on the company's earnings because they are subject to depreciation, which later becomes a burden on the company itself (Kurniawati & Mukti, 2021). Hence, capital intensity serves as a description of the amount of company investment in the company's fixed assets and the level of their reliance. Thus, using capital intensity information, management has a role to play in managing money from shareholders' fixed assets as the companies have a deductible expense when companies invest capital in fixed assets (Chang et al., 2023). Thus, firms which are more capital intensive benefit more from depreciations deductibility, and this is even more important since an asset economic life is longer than the depreciation period (Pratiwi, 2024).

Empirical Review

Numerous studies were conducted to assess the relationship between firm size and effective tax rate. Notable among them include Noviyanti et al. (2024), which examine the determinants of tax aggressiveness in Indonesia based on secondary data from 8 samples listed food and beverage companies for 2017-2022. It was found that firm size and capital intensity have negative effect on tax avoidance, while profitability and leverage were insignificantly related. The differences in with political environment between Nigeria and Indonesia limit the generalization of the findings thereby requiring local validation. Equally, Wati and Astuti (2025), which examined the factors that affect tax aggressiveness in manufacturing companies listed on the Indonesia for 2022 to 2022 period. It was found that company size and corporate governance have significant negative effect on tax aggressiveness while leverage and the

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intensity have positive effect. The short-term period considered by the study could limit its generalization to other periods especially in different context. Contrarily, Shubita (2024) examined the effect of firm characteristics on tax avoidance among listed companies in Jordan for the period of 2010 to 2020. The finding of regression analysis showed that profitability has positive association with tax avoidance, sales growth was insignificant while firm size was significantly negative. The coefficient of determination of the study revealed that the independent variables have less than 2% variation which suggests avenue for including other constructs for examination. However, insignificant effect was found by Viantiataini et al. (2024), which assessed the determinants of aggressive tax avoidance practices by focusing on firm size, leverage and sales growth in Indonesia for the period of 2019 to 2023. The GLS result showed that company size, profitability, and institutional ownership do not significantly affect tax avoidance, while leverage has a positive impact. The study used 5 years which is considered limited to observe long-term effect. In light of the foregoing, there is evidence of positive (Wati & Astuti, 2025; Novianti et al., 2024); negative (Shubita, 2024) and insignificant relationships (Viantiataini et al., 2024) between firm size and tax avoidance. This buttressed the need for further empirical review to understand the applicable result for the current subject matter.

In addition, the relationship between leverage and tax avoidance was intensively examined by previous studies such as Wafa et al. (2024), which assessed how leverage and firm size affect tax avoidance practices in Indonesia for the period of three years (2021 to 2023). The regression result from the manufacturing companies revealed a negative effect of leverage on tax avoidance, while firm size was insignificant. The study was limited to only five years which is considered small and limits the long-term generalizability. Accordingly, Ebire et al. (2024) examines the influence of firm attributes on tax avoidance among Nigerian banks with moderating effect of board independence spanning from 2012 to 2022. It was found from panel regression that leverage has negative effect on tax avoidance, firm size was positive while profitability was insignificant. On the other hand, Oktafiani et al. (2023) observed a positive effect of leverage on tax avoidance by assessing the determinants of tax avoidance among plantation firms in Indonesia, while profitability was negative. The result of plantation firms cannot be generalized to banking sector in addition to environmental difference, which makes it paramount to extend the model in different domain. Contrarily, insignificant relationship was found between leverage and tax avoidance by Gunawan and Mappadang (2024), which assessed the determinants of tax avoidance among Indonesian energy companies for 2018 to 2023. Consequently, it is evident that there contradictory findings from previous studies regarding the effect of leverage on tax avoidance like Wafa et al. (2024) and Ebire et al. (2024) who found negative effect; Oktafiani et al. (2023) found positive effect while Gunawan and Mappadang (2024) found insignificant effect. These contradictions serve as motive for this study to validate the findings using recent data in the Nigerian banking sector.

Regarding profitability, Ikechukwu and Ogbodo (2024) examined the influence of firm attributes on aggressive tax planning among listed manufacturing companies in Nigeria for 2013 to 2022 period. OLS regression result of 24 companies showed that firm size and leverage have negative effect on aggressive tax planning, profitability was positive, while liquidity and firm age were insignificant. Data from manufacturing sector cannot be generalized to banking sector due to differences in operational system and financial reporting which fosters empirical validation. Similarly, Siyahfitri and Putri (2024) assessed the determinants of tax avoidance among listed mining companies in Indonesia for 2019 to 2023. The regression analysis revealed that profitability, leverage and earnings management have negative impact on tax avoidance. On the other hand, positive relationship was found between profitability and tax avoidance by

Alkurdi et al. (2024) based on the data from 70 listed firms in Jordan for 2013 to 2020. However, the study focused on only one variable, which open the door for considering additional attributes as contribution. Contrarily, Widati et al. (2024) found insignificant relationship between profitability and tax avoidance in Indonesia. However, the shorter period for a panel study from which this study extends the period as well as the variables to more comprehensive observations in Nigerian banking sector. In this regard, evidence of inconsistency was observed in literature from positive effect of profitability on tax avoidance (eg. Ikechukwu & Ogbodo, 2024); negative effect (Alkurdi et al., 2024) to insignificant effect (Widati et al., 2024). This could be due to environmental differences, or sampling selection thereby prompting empirical validation to enhance its generalizability.

Furthermore, the relationship between capital intensity and tax avoidance was assessed by numerous studies like Zainazor et al. (2023) which investigate the financial determinants of corporate tax avoidance among Malaysian listed companies for 2016 to 2021 period. The panel regression result reveals that capital intensity and audit quality have negative relationship with the tax avoidance, leverage has positive effect while financial distress has insignificant effect. The period of the study ends in 2021 which may be overtaking by events in the global market thereby affecting its generalization presently. Correspondingly, Damayanti et al. (2023) examined the determinants of tax aggressiveness among listed mining companies in Indonesia. The regression result with E-views from 21 companies revealed that capital intensity and solvency have negative effect on tax aggressiveness while firm size, profitability and liquidity have significant positive effect. However, Salaudeen and Eze (2018) found positive relationship between capital intensity and tax avoidance by investigating the effect of firm characteristic determinants on effective tax rate among listed firms in Nigeria. The study covered numerous sectors which could limit the applicability of the finding to a particular industry like banking. Meanwhile, Saskia et al. (2024) examined the influence of capital intensity and political connection on aggressive tax management of listed manufacturing companies in Indonesia for the 2019-2021 period. The multiple regression analysis of 30 companies revealed that both capital intensity and political connection do not have significant effect on aggressive tax management. This further affirmed the contradictory nature of prior studies regarding the established relationship between capital intensity and tax avoidance which could be due to regional or time-frame differences thereby prompting further examination.

Theoretical Review

Political Cost Theory

Political cost theory was propounded by Watts and Zimmerman in 1986 as one of the major hypotheses of positive accounting theory, which argues that increasing political costs are a motivation for the management to take current earnings later instead of waking future profits now (Odeh & Attah, 2024). According to Zimmerman, (1990) there are mainly two arguments behind political cost theory where the first argument is that the government tends to impose additional requirements on larger businesses entities. Secondly, large firms are politically more susceptible to public criticism and scrutiny, which drives them to act socially responsibly and to alter their activities and corporate conduct to what is expected of them by their social context (Sharif & Khan, 2024). As such, political cost theory states that large corporations, rather than small companies, are more likely to utilize accounting choices that decrease declared profits (Watts & Zimmerman, 1990). Consequently, political cost theory considers effective tax rates as a metric for political costs because taxes paid are a means of transferring wealth from companies to other social groups (Anyaduba & Ogbeide, 2022).

In view of the foregoing, the present study underpins political cost theory to support a positive relationship between firm size and tax avoidance based on the fact that larger companies are more visible and thus subject to greater regulatory supervision than smaller companies, which make them reluctant to reduce their effective tax rates using aggressive tax planning. Similarly, regarding the relationship between profitability and tax avoidance, it is obvious that the most profitable companies in every industry always attract government attention in terms of regulation and scrutiny because they contribute more to the government revenue through tax. Therefore, the stiff regulatory observance and protecting public image will make the profitable companies hesitant to engage in aggressive tax planning by lowering their effective tax rates. Furthermore, this theory is also relevant to the relationship between capital intensity and tax avoidance because every company with intensive investment in fixed assets such as equipments, buildings and machineries have political visibility and subject to regulatory tax pressure. Therefore, their considerable fixed assets often translate into higher profitability, which subjected them for higher taxation and intervention of tax authorities. In light of the foregoing, this study underpins political cost theory to support a negative relationship between firm size, profitability and capital intensity with aggressive tax avoidance among commercial banks in Nigeria.

2.1.3.2 Political Power Theory

Political power theory was introduced by Siegfried in 1972, which provides foundation for exploring the intersection of economic structures and political influences regarding corporate tax outcomes (Siegfried, 1972). The theory proposed that large firms have greater political power than small firms that enable them to use their resources and position to negotiate their tax burden or influence legislation in their favor, which results in lower effective tax rates for larger companies (Kimea et al., 2023). In view of that, the theory is based on the premise that larger corporations participate in tax planning in a more aggressive manner and use their influence to support tax laws that are in their advantage, which results in larger tax savings for the larger companies (Sharif & Khan, 2024). Also, the theory maintains that profitable firms pay lower taxes because they have substantial resources (such as financial capacity and manpower), which capacitate them to hire competent tax planners to organize their financial affairs for optimal tax saving (Okerekeoti, 2022).

Consequently, political power possessed by larger firms allows them to negotiate with revenue authorities about their tax position. It is also possible that larger and the most profitable banks can use their power to influence tax policies applicable in Nigeria. As such, this is contrary to the proposition of political cost theory, which proposed a direct relationship between firm size, profitability and effective tax rate. This is because, larger have political connection and resources to influence the tax system to their advantage. Thus, higher size of corporate entities means lower effective tax rate. Regarding the profitability also, the successful and profitable companies have adequate resources to hire professionals to manage their tax planning strategies so as to pay lower taxes and boost their performance. In view of that, the higher the profitability of the company, the lower their effective tax rate thereby avoiding tax burden.

METHODOLOGY

Design

The research design employed by this study is exploratory research design. It is an exploratory research design because the study explores and describes the factors that determine the

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aggressive tax avoidance among listed commercial banks in Nigeria. The population of this study are the fourteen (14) listed commercial banks in Nigeria. The study considered filtering approach to select the targeted sample for the analysis. Therefore, the criteria set is that for any bank to be considered in this study, it must be listed for the entire period considered in this context (2014 to 2023). Therefore, Jaiz bank will not be considered in the sample considering that it was listed after the considerable period of the study (2014). Furthermore, the data for the study was sourced from the published annual reports of the banks under study. The collected data was also analyzed using panel regression technique with STATA software. Accordingly, the variables of the study were measured as follows:

Table 1 ***Measurement of Research Variables***

S/N	Variable(s)	Category	Measurement	Source
1	Tax Avoidance	Dependent variable	$\frac{\text{Corporate income tax}}{\text{Profit before tax}}$	Sharif and Khan (2024); Saskia et al. (2024)
2	Firm size	Independent variable	Natural Logarithm of total assets	Juwita et al. (2023); Damayanti et al. (2023)
3	Leverage	Independent variable	$\frac{\text{Total debt}}{\text{Total equity}}$	Azra and Rahma (2023); Asthalia (2024);
4	Profitability	Independent variable	$\frac{\text{Profit after Tax}}{\text{Total Asset}}$	Handayani et al. (2024); Chang et al. (2023)
5	Capital intensity	Independent variable	$\frac{\text{Non} - \text{Current Asset}}{\text{Total Asset}}$	Fitriah (2024) Salaudeen and Eze (2018)

Model Specification

ETR = $\beta_0 + \beta_1$FSi + β_2LVRi + β_3PROi + β_4CIi + ꬲ

Where: ETR = Effective Tax Rate (Tax Avoidance), FS = Firm Size, PRO = Profitability, LVR = Leverage, CI = Capital Intensity and ꬲ = error term.

RESULT AND DISCUSSION

Descriptive Statistics

The descriptive statistics shows that, the dependent variable of tax avoidance (ETR) had a mean, standard deviation, minimum and maximum values of 0.1896429, 0.1996657, .09 and 0.34 respectively. The mean value of 0.1896429 suggests that on average, the banks pay an effective tax rate of 21.96% of their earnings, which suggests a moderate tax avoidance as its lower than the statutory rate of 30% applicable in Nigeria with the lowest of 9% and the highest of 34% thereby signifying 19% variation. In addition, the descriptive statistics of firm size depicts 19.20e+10, 0.302219, 13.04e+10 and 32.59e+10 for mean, standard deviation minimum and

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maximum respectively. The mean value of 19.20e+10 implies an average size of the commercial banks based on their total asset is 1.92 trillion naira which suggests that the sampled banks are averagely bigger, with the minimum of 411 billion, maximum of 18.259 trillion and a variation of 30%. In this regard, the Nigerian banks can only be among the Small Regional Banks (tier 4) in the Global Banking tiers ranking, who are the banks with asset base of $5billion to $20 billion. Furthermore, the descriptive statistics of leverage shows a mean value of 0.2945153, which indicates the average leverage ratio among the sampled banks and implies that they finance 29.4% of their assets through debt, while having 13.4% and 38.6% for minimum and maximum leverage ratio respectively with a variation 41%. Moreover, the profitability statistic shows the values of 0.0130867, 0.1473306, -0.018 and 0.13 for the mean, standard deviation, minimum and maximum respectively. Impliedly, the mean of 0.0130867 implies that on average, commercial banks are making around 1.31% profit relative to their total assets, which is adequate in line with the global ROA rate in banking industry, the maximum of 13% represents the apex level of performance by the banks, while the minimum of -0.018 indicates that some banks in the dataset experience loss up to 18% of their total asset with a variation of 14.7%. Lastly, the statistical value of capital intensity showed mean, standard deviation, minimum and maximum of 0.4506352, 0594096, 0.337563 and 0.584439. This implies that on average about 45% of asset in Nigerian banks is capital asset; the minimum value of 33% implies the least capital asset ratio observed in the dataset, while the maximum of 58% represents the largest capital intensity ratio in the industry. In this regard, Nigerian banks are asset heavy due to heavy infrastructures and branch investment in ATMs and vehicles that give them large physical footprints.

Table 2: Descriptive statistics of latent variables

Variables	Obs.	Mean	St. Dev.	Min	Max
ETR	130	.2196429	.1996657	.09	.34
FS	130	19.20e+10	.302219	4.11e+11	182.59e+10
LVR	130	.2945153	.415294	.1341	.3861
PRO	130	.0130867	.1473306	-.018	.13
CI	130	.4506352	.0594096	.337563	.584439

Source: Researcher's output, STATA 14, 2025.

Correlation Analysis

Table 3 Correlation Matrix of the Study Variables

Variables	ETR	FS	LVR	PRO	CI	VIF
ETR	1.0000					
FS	0.0226	1.0000				1.69
LVR	-0.0165	-0.0614	1.0000			1.32
PRO	-0.0367	0.0568	-0.0208	1.0000		1.01
CI	0.0122	0.0328	-0.4925	0.0454	1.0000	1.44

Source: Output of data analysis by author, 2025.

In this study, correlation was conducted to assess the interrelationship and to detect the presence of multicollinearity among variables as suggested by Hair et al. (2013). The strength of the relationship between variables is interpreted based on criteria popularized by Cohen (1988) as the value between 0.1 to 0.29 is small, 0.3 to 0.49 and 0.5 to 1.0 are medium and large respectively. The result in Table 3 reveals that there exists an association between all the

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variables in the distribution. Also, relationship strength between the independent and the dependent variables is said to be between the region of small and large correlations because the matrix values range from -0.0122 to -0.4925. it can also be observed that the correlation between leverage and capital intensity is nearly moderate which implies that high-debted banks are avoiding large asset investment to preserve flexibility and liquidity. Furthermore, the correlation table diagnose possible existence of multicollinearity based on the rule of thumb suggested by Tabachnick and Fidell (2007), which suggested a correlation value higher than 0.90 is considered harmful and a sign of multicollinearity in the model. Notwithstanding, in order to prove the findings of the correlation matrix, Variance Inflation Factor (VIF) test was conducted, which proves the absence of multicollinearity because the results of the VIF test ranges from a minimum of 1.01 (for profitability) to a maximum of 2.69 (for firm size). Consequently, considering that Hair et al. (2013) asserted that VIF of 5.00 and above can be evidence that multicollenearity, the variables of this study do not have problem of multicollenearity.

Coefficient of Determination

Table 4: Coefficient of Determination (R^2)

Measures	Observed Variables
Number of obs	130
R-squared	0.3601
Adjusted R-squared	0.3392
Prob>F	0.035

Predictors: FS, LVR, PRO, CI

The result presented in Table 4 shows the R square value of 0.3601, which means that 36% changes in aggressive tax avoidance by Nigerian banks is explained by firm size, leverage, profitability and capital intensity. The value further reduced to around 34% when the adjusted R square value of 0.408 was considered. The value of 0.035 is less than the 0.05 level of significance, which indicates that the model is fit.

Regression Result

Table 5: Direct Relationship between CSR Mechanisms and Financial performance

Variables	Coef.	Std. Error	T-Value	P Value
CONS	1.8232	.8851981	2.06	0.009
FS	7.31991	4.136078	1.77	0.039
LVR	-.26783	.166389	-1.61	0.046
PRO	-2.47563	.955334	-2.59	0.001
CI	.079134	.069582	1.14	0.122

Source: Researcher's output, STATA 14, 2025.

In view of the regression result obtained, effective tax rate of the Nigerian commercial banks is positively influenced by firm size, which implies a negative effect on tax avoidance because higher effective tax rate implies lower tax avoidance strategies by an entity. This contradicts the postulation of Political Power Theory that larger firms lobby for lower tax but aligns with Political Cost Theory that larger firms are more visible thereby subject to greater regulatory supervision than smaller companies. On the other hand, leverage has negative influence on effective tax rate which implies a positive effect on tax avoidance because lower effective tax rate indicate higher aggressiveness in using tax planning to minimize tax burden by the banks.

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The result of leverage on tax avoidance aligns with tax shield logic and further showcased the effect of exempting Nigerian banks from thin-cap rule of Finance Act of 2023, which suggest the interest deduction to be limited to 30% of EBITDA. This means that Nigerian banks continue to use thin capitalization as tax planning strategy through interest deduction.

Furthermore, profitability was found to have negative effect on effective tax rate implying positive effect on tax avoidance. This implies that most of the profitable Nigerian banks lobby for lower taxes due to their market and political influence. However, there is ethical concern for this because the profitable banks tend to owe large social contribution due to the profit they generate from the society. Hence, avoiding tax through legal mean will have ethical implication by eroding public trust since the banks avoid their proportionate contribution to national development. It also indicates misalignment of Corporate Social Responsibility (CSR) despite the banks' contribution to health and education, tax is the fundamental social responsibility. Moreover, capital intensity was found to have an insignificant effect on effective tax rate, which implies that the level of fixed asset employed by the banks do not influence their tax behavior. This can be explained by the fact that tax planning strategies often do not depend on physical tangible assets but rather intangibles like transfer pricing, related party transactions or cross-border financing among others. This implies that tax behavior is less about physical investment but more about policy navigation and accounting structuring. The following section presents the discussion of findings based on the obtained result.

Discussion of Findings

Result discussion is the section where the researcher explains the obtained the result and also justifies the findings with the result of previous studies. Regarding the first objective, the regression result revealed a significant positive relationship between firm size and effective tax rate of listed commercial banks in Nigeria with coefficient and p-value of 7.311937 and 0.039 respectively. This means that the first null hypothesis, which stated the "there is no significant relationship between firm size and aggressive tax avoidance" is rejected and therefore the alternate hypothesis is accepted. The result also implies that larger commercial banks in Nigeria are not aggressively avoiding tax liabilities since the bigger the size of the bank, the higher their effective tax rate. In this regard, firm size has negative influence on tax avoidance by increasing the effective tax rate. This result corroborates with the findings of numerous studies that examined similar relationships such as Noviyanti et al. (2024) and Shubita (2024), who found that firm size was significantly and positively related to effective tax rate in different contexts. Theoretically, this result aligns with Political Cost theory which suggested that larger entities are more visible and subject to greater regulatory supervision than smaller entities and are thereby reluctant to aggressively avoid tax so as to avoid penalties and reputational damage.

The second regression result was on the relationship between leverage and aggressive tax avoidance measured by effective tax rate, which found a significant negative association based on Beta value of -0.26783 and p-value of 0.046. Therefore, the second null hypothesis which presumed and no significant relationship between financial leverage and effective tax rate is rejected and the alternate hypothesis is then accepted. This implies that increase in the level of financial gearing will make companies to avoid tax more since increase of leverage lead to decrease in effective tax rate. As such, financial leverage has positive influence on aggressive tax avoidance. This result is justified by the finding of prior research on similar relationship, which include Oktafiani et al. (2023); Asthalia (2024). These studies found that financial leverage has negative influence on effective tax rate thereby positively affective aggressive tax avoidance. Accordingly, Political Power theory can explain this relationship because highly

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leveraged firms have strong negotiation power with tax authorities especially in a weak institutional environment like developing countries. As such, the theory supports the idea that high leverage firms have greater ability to avoid taxes through tax shield schemes.

Thirdly, the panel regression result assessed the relationship between profitability and effective tax rate as a proxy of aggressive tax avoidance among Nigerian listed commercial banks. Evident from the empirical result, profitability has a significant negative effect on the dependent variable (-2.47563 and p-value = 0.001), which led to the rejection of the third null hypothesis that proposed an insignificant relationship between the variables. As such, the alternate hypothesis that presumed a significant relationship is accepted. In this regard, profitability contributes positively to aggressive tax avoidance by having negative influence on effective tax rate. The result coincides with the result of Alkurdi et al. (2024); Yahaya and Yusuf (2020), who affirmed the existence of negative relationship between the profitability and corporate effective tax rate, which implies positive relationship with tax avoidance. In terms of theory, Political Power theory suggested that profitable entities have adequate resources to hire professionals to manage their tax planning strategies so as to pay lower taxes and boost their performance. As such, this justifies the reason why higher profitability leads to lower effective tax rate among Nigerian banks.

Lastly, the relationship between capital intensity and aggressive tax avoidance as measured by effective tax rate was tested using panel regression and expected to be significant. However, the output of the result shows an insignificant relationship between variable evident from Beta value and P-value of 0.079134 and 0.122 respectively. Hence, the forth null hypothesis of this study cannot be rejected as the p-value is above the threshold of 0.05 and is therefore accepted. This result means that regardless of the amount of capital asset acquired or possessed by the banks, their approach to tax planning is not affected. This result corroborates with the finding of Fitiriah (2024), Kimea et al. (2023); Saskia et al. (2024) who found an insignificant relationship between capital intensity and effective tax rate as a proxy of tax avoidance. This result can be explain by Resource Based View theory which posited that despite the fact all resources like capital assets are used for strategic competitiveness, not all resources contribute directly to tax planning behavior especially if they are not acquired for that purpose. This implies that a bank can be capital intensive, but it will not influence tax avoidance behavior without tax planning intention, capability, specialized personnel or incentive structures.

CONCLUSIONS

Based on the findings of this study, it is concluded that tax avoidance behavior among Nigerian commercial banks is not universally derived by a particular inherent characteristic as every attribute has a way in which it affects the strategic behavior. Precisely, this study concludes that firm size acts as a deterrent to aggressive tax avoidance considering that larger banks in the Nigerian banking industry are more visible to the relevant stakeholders like the tax authorities, media houses and the general public. This makes them cautious about engaging in aggressive tax avoidance considering that they can be easily traced which could lead to reputational damage and public backlash. In addition, this study concludes that Nigerian banks are using debt not only for financing purpose or financial difficulty but to also reduce the taxable income through interest deductions. As such, banks with higher debt obligation are resorting through leverage to improve liquidity and preserve cash for debt servicing especially in the wake of financial distress that is endangering the Nigerian financial sector. Furthermore, the study concludes that more profitable banks are prone to tax avoidance because their tax burden is higher considering that the tax is charged based on the profit. This serves as an incentive for the profitable banks to seek legal counsel or aggressively involve in tax planning strategies to reduce their effective tax rate so as to retain more income. Finally, it is concluded that the capital investment in the Nigerian banking industry is non-tax driven as the banks are investing firmly based on strategic and operational needs rather than to exploit capital allowance or depreciation.

RECOMMENDATIONS

In view of the conclusions presented in this study, the following recommendations were made thus:

i. This study recommends tax authorities (FIRS in this case) to leverage the accountability of larger banks by promoting compliance frameworks and transparent reporting requirement for such banks through mandatory disclosure rules of cross-border transactions, details on beneficial ownership and tax planning arrangements. On the other hands, the banks are encouraged to adopt CSR-linked tax policies considering that their reputation and public perception on their brand is crucial for competitiveness.
ii. In addition, there is need for policymakers to strengthen thin capitalization rules so as to restrict the excessive interest deductions that leveraged firms are exploiting. Also, tax authorities are suggested to enhance the applicability of risk-based audit models by targeting highly leveraged banks particularly those with related-party debt structures. As such, the banks should be required to disclose the detailed interest-related transactions so as to prevent exploitive tax avoidance through debt structuring.
iii. Furthermore, it becomes a necessity for tax authorities to tighten the scrutiny for the most profitable banks by employing digital audit trial and continuous monitoring which promote advanced audit system that will lead to a real-time monitoring system using Artificial Intelligence (AI) and data analytics. This will also reduce the time lag between offence and detection thereby increase deterrence. Also, it is recommended that the Based Erosion and Profit Shifting-Pillar2 (BEPS-2) should be enforced in the Nigerian banking industry as the global minimum tax for the Nigerian banks so as to ensure that even highly profitable banks contribute a baseline amount to public revenue.
iv. Finally, the Nigerian government is advised to review and evaluate the capital allowance policy to ensure its effectiveness in encouraging investment without being misused for tax planning purposes. There is also need for conducting sector review for capital allowance policies to assess whether capital intensive industries like banking are benefiting from tax reliefs meant to encourage capital investment.

LIMITATION AND SUGGESTIONS FOR FUTURE STUDIES

Basically, it is obvious that the factors that can determine tax avoidance aggressiveness are unlimited. However, this study was limited to only four of the inherent firm characteristics. Also, it is apparent that the decision about firms' tax behavior is done by board members which can be driven by the inherent characteristics simultaneously. In this regard, this study recommends future researchers to exploit other firm attributes alongside board characteristics that can predict tax avoidance in the Nigerian context and beyond. In addition, the study was limited to banking sector only, which prompted the need for future studies to extend the examination to other sectors like industrial, manufacturing or consumer goods companies in Nigeria and other global contexts. Furthermore, tax planning and avoidance is a strategic matter that requires in-depth experience in the financial reporting process. Therefore, inherent attributes alone may not result into an extensive tax avoidance schemes by firms. As such, this study recommends future studies to examine the moderating effect of board financial expertise

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on the relationship between firm characteristics and aggressive tax avoidance. This is important because, lack of financial expert among board members as the central decision-makers will make the tax planning ineffective or too aggressive that can cause reputational damage or financial penalties.

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