

Tax Shield and Earnings Management in Nigerian Banks

Ndum, Ngozi Blessing

Department of Accountancy, Nnamdi Azikiwe University, Awka

Date of Submission: 25-12-2020

Date of Acceptance: 31-12-2020

ABSTRACT: This study examined the effect of corporate tax shield on earnings management in Nigerian banks. The study adopted an ex post facto research design. The population of the study consists of seven banks quoted on the Nigerian stock exchange. Data for the study were extracted from audited annual reports and accounts of the sampled banks from 2013 to 2019. The formulated hypotheses were tested using regression analysis with aid of E-view 9.0 to arrive at a logical conclusion. The study found that debt level has a positive effect on sampled banks earnings management while effective tax rate, has a negative effect on earnings management. Based on the findings of the study, the researcher recommended, that it is expected that the tax authority should observe and anticipate the taxpayers' behaviour before issuing regulations to get a proper response from taxpayers.

Keywords: Tax shield, Debt level, Effective tax rate, and Earnings management

I. INTRODUCTION

Tax shield, however, involves a deliberate, but the legally acceptable way of attempting not to pay tax while earnings management refers to the regulation of profit to reflect the goals of management, or stakeholders or special purpose income settings (Paohan, 2009). Besides, earnings management is the efforts of management to maintain a firm's fluctuations in earnings at a level that is considered normal according to sound accounting and management practices. One of the motivations for earnings management is taxation; raising income to reduce tax expenses in the following year. The phenomenon of effective tax rate increases the occurrence of earnings management and the quality of corporate profits (Martani & Persada, 2009). Studies have investigated the book-tax trade-off where firms must balance the incentive to minimize taxes and to maximize book income. However, engaging in significant tax shield can also increase tax authority scrutiny through more frequent audits or greater penalties (Bozanic, Hoopes, Thornock, & Williams, 2017).

Studies linking earnings management and corporate tax shield have explained the relationship relying heavily on the agency theory (Desai & Dharmaphala, 2008, 2009b). They argue that due to the conflict of interest between managers and shareholders, opportunistic managers seeking to maximize their self-interest resort to tax shield practices to divert rent to themselves through earnings management. Managers opportunistically adjust earnings to expropriate wealth from shareholders to themselves which tends affecting equity value negatively (Hunt, Moyer & Shevlin, 2000).

Moreover, the literature suggests one incentive for managing earnings is corporate tax shield. Christensen and Murphy (2004) argued that the corporate tax shield is valued accruing to shareholders hence managers are encouraged to employ their best effort to minimize taxes. A corporate tax shield is favoured by shareholders; it has been described as a transfer of value from the state to shareholders. However, tax shield techniques like interest payment, debt payment and differed tax liability give room for opportunistic management to manage earnings in a way that is beneficial to managers instead of the owners (Desai & Dharmapala, 2007). Hence managers managing earnings are more likely to insulate themselves by avoiding more taxes as avoidance offers them shield from shareholder scrutiny. This is possible because corporate tax shield techniques are secretive and require obfuscation of transactions to guarantee tax benefits whilst shielding such actions from tax authorities (Goncharov & Zimmermann, 2006a). Such mystification of transactions and its consequent shielding from the tax authorities reduce the ability of shareholders to monitor managers' behaviour.

In other words, shareholder wealth expropriation may not be the only incentive for earnings management. Some studies argued that, managers and controlling owners have incentives to manage reported earnings to mask true firm performance (Leuza Nanda & Wysocki, 2003), to conceal their private control benefits from outsiders, to manipulating earnings to depict good performance to meet bonus targets (Bartov, Gul &

Tsui, 2000), to meet the demands of their investors and creditors. Prior research shows that banks that have a higher likelihood of violating debt agreements are more likely to have an incentive to engage in earnings management to increase earnings (Rusmin, 2010).

Tax avoidance has been described as a transfer of value from the state to shareholders (Desai & Dharmapala, 2005). It is ascribed to be value-enhancing and beneficial to shareholders. Besides compliance costs are large (such as employing tax experts and filling of returns) and the burden of the tax paid by the company is borne by shareholders in the form of reduced dividends (Amiram Bauer, & Frank, 2013). Hence corporate tax avoidance is deemed desirable to shareholders as minimized tax payments leave excess “after-tax” cash flow that can either be distributed as extra dividends or invested in profitable projects. On the other hand, earnings management can be viewed as a transfer of value from shareholders to management. This is because diverted funds could have been used for profitable investments or paid out as dividends (Amiram et al., 2013).

However, the taxation of banks is of great interest because the banking sector plays a crucial role in the allocation of resources and the growth process (Albertazzi, & Gembacorta, 2006). In most countries, banking activity is subjected to general taxation (personal and corporate income taxes). Taxation of banks is of particular interest for various reasons, first, banks are financial intermediaries that perform unique and crucial functions, although in many countries they are currently subjected to increasing competition from investment funds and security markets. Secondly, banks are heavily regulated and monitored, which reduces the administrative costs of some forms of taxation, and at the same time, they are subsidized through underpriced deposit insurance and bailouts of insolvent banks. Thirdly, banks often enjoy some monopoly of power, especially in the household and small business sectors. Banks have been characterized as intermediaries that can perform three main functions: asset transformation, provision of transaction services and monitoring. First, banks can monitor entrepreneurs, which reduces agency costs in the credit market; second, they provide transaction services to investors (routine payments, check-writing); and third, they offer investors liquidity insurance (Caminal & Xavier 2004). According to Albertazzi and Gembacorta (2006), corporate income tax distorts the capital structure and raises the average cost of capital. In the case of banks, the effects of corporate taxes are quite different since banks are

subject to regulations that influence their liability structure. For example, in the presence of a minimum capital requirement, substitution effects between equity and other forms of financing are very limited for a bank (Gembacorta, & Mistrulli, 2004).

However, competitions between different deposit money banks provide funds for private investments, and compared to other non-financial establishments, market competition is often seen as a prerequisite for an effective banking system (Beck & Laeven, 2008). Corporate bodies and banks in Nigeria may want to embark on tax shield (and thereby reducing their tax liability/obligation to the government) due to the competitive environment in which they operate. Banks under greater competitive pressures may be motivated to tax shield (avoid tax) in the name of interest expenses, net deferred tax liability, corporate debt to retain money that will enable them has a competitive edge in the marketplace. Competitive environments often provide the platform for banks/firms to engage in tax shield (Beck & Laeven, 2008).

According to the Central Bank of Nigeria (2010), a credit facility is deemed to be non-performing when the interest or the principal is due and unpaid for 90 or more days. Interest on loan is an income accruable to banks which increases their net profit during the financial year. If the customers do not pay these interests as at when due, it would reduce the banks bottom line profit.

Many studies have also carried out on tax shield/tax avoidance and earnings management; many of these studies found positive significant between tax avoidance, debt/leverage and firm's earnings management; that the significant operating leverage affects earnings management EM associated with increased tax avoidance activities. Moreover, Nigerian government, like every other government in the world, needs tax revenues to provide socially mandated services and infrastructure. However, the drive to increase government revenue through an effective corporate tax regime is often jeopardized by the competitive strategy of tax avoidance adopted by banks. Jim-Suleiman (2015) documented that Banks generally under a competitive market environment are more motivated to avoid tax so as to boost their profit levels and have more capital to compete well in the market. They may not increase the charges for their services to retain their customers, but prefer to engage in activities leading to tax avoidance to remain in the competition and declare a reasonable profit.

The prior findings were inconsistent from, from insignificance to negative effect, besides the study of this nature is limited in Nigerian context. It is against this backdrop that this study intends to determine the effect of corporate tax shield on earnings management in Nigerian banks.

II. REVIEW OF RELATED LITERATURE

Taxation

In every country of the world, including America, a country with a strong belief in the right of private property, the government undertakes a lot of activities for the common good, and government extracts in various proportions from the wealth of the citizens for this purpose. It is in this sense that taxation connotes a sense of rights and responsibility, rights owed to individuals and duties owed by the individuals to the society (Jim-Suleiman, 2015). As a result of the process of taxation, some taxpayers find themselves with less money to spend and the government finds itself with more money. This transfer of property rights from citizens to the government gives rise to an obligation on the government to use this right in a way that is most beneficial to the citizens as a whole (Soyode & Kajola, 2006).

Taxation is a system of raising money for government expenditure using contributions from individual persons or corporate bodies (Soyode, & Kajola, 2006). They posited that taxation is a system of imposing a certain amount of money on individuals, companies and agencies by the government to make funds available to enable her to perform her duties. Similarly, Osita (2004) stated that taxation is a compulsory levy by the government through its various agencies on the income, capital, or consumption of its subjects. These levies are made on personal income such as salaries, business profit, interests, dividends, commissions, royalties and rent. It may also be levied on capital gains and petroleum profits.

According to Kotakorpi (2009), when the government's and consumers' preferences differ, the government might wish to influence consumer choice through public policy. An example is excessive consumption of goods with negative health effects (such as unhealthy food, cigarettes and alcohol). Here, the government uses taxes to discourage the consumption of such goods. Taxation in this context is to be considered by government to discourage some habits (Rabin, 2006). Taxation is a potential tool for reducing harmful consumption (Koszegi, 2005). In this study, taxation is a very important tool for the government to generate money for its operations

and also as a deterrent from some harmful practices. Having looked at the definition of tax and taxation, the classification of tax and types of taxes will now be discussed.

A tax is a compulsory deduction of money by public authority for public purposes (Soyode, & Kajola, 2006). It is also a levy imposed by the government on the income, profit, or wealth of individuals, partnerships and corporate organizations. By law, all Nigerian Banks are required to pay their taxes to the Federal Government to increase the total revenue of the country. Tax can be classified into two broad categories. It could be classified as Direct or Indirect Taxes (Ojo 2009).

Tax Shield

The term "tax shield" references a particular deduction's ability to shield portions of the taxpayer's income from taxation. Tax shields vary from country to country, and their benefits depend on the taxpayer's overall tax rate and cash flows for the given tax year. For example, because interest payments on certain debts are a tax-deductible expense taking on qualifying debts can act as tax shields. Tax-efficient investing strategies are cornerstones of investing for high-net-worth individuals and corporations whose annual tax bills can be very high. The ability to use a home mortgage as a tax shield is a major benefit for many middle-class people whose homes are major components of their net worth. It also provides incentives to those interested in purchasing a home, by providing a specific tax benefit to the borrower.

The tax shield strategy can be used to increase the value of a business, since it reduces the tax liability that would otherwise reduce the value of the entity's assets. The effects of the tax shield should be used in all cash flow analyses, since the amount of cash paid in taxes is impacted. Tax shield strategies are available for both business and individual tax returns. The classic example of a tax shield strategy for an individual is to acquire a home with a mortgage. The interest expense associated with the mortgage is tax deductible, which is then offset against the taxable income of the person, resulting in a significant reduction in his or her tax liability (wiklopiia 2013). A tax shield is a reduction in taxable income for an individual or corporation achieved through claiming allowable deductions such as mortgage interest, medical expenses, charitable donations, amortization and depreciation. These deductions reduce a taxpayer's taxable income for a given year or defer income taxes into future years. Tax shields lower the

overall amount of taxes owed by an individual taxpayer or a business (Investopedia, 2013).

Wijaya and Martani (2011) stated that companies can obtain earnings in form of tax deduction which is related to interest payment on the debt. Debt level is the opposite of earnings, so, if the company debt is big, then the company earnings will be small, and vice versa. In relation to tax, the higher earnings a company obtains, the higher tax liability a company should pay as well. Considering such a condition, the company tries to minimize or to manipulate its earnings in order to pay less tax liability. To manipulate earnings, increasing debt level can be performed (Tiearya, 2012). With tax rates reduction, companies tend to increase the debt. Such action leads to the increased loan interest that can reduce earnings, so the tax liability is smaller.

Corporate ETR assesses the tax performance of firms. Thus, it is the best measure to evaluate the actual corporate tax burdens. ETR is a commonly used measure of a firm's tax burden. ETR provides a basic summary statistic of tax performance which describes the amount of taxes paid by a company relative to its profit before tax. This measure reflects aggressive tax planning through permanent book tax differences, Khaoula, Amor & Ahmed (2014). The ETR is computed as tax paid/Profit before tax. The effective tax rate for a corporation is the average rate at which its pre-tax profits are taxed. An individual's effective tax rate is calculated by dividing total tax expense by taxable income. Rego (2003) interpreted ETR as a measure of the effectiveness of tax planning in which taxes currently payable are compared with what would be apparent from the income figure in the financial statements. Therefore, effective tax rates are often utilized as a measure of effective tax planning among companies. Hence, average ETR is the appropriate measure for tax avoidance since it shows that the impact has on incentives, income shifting and tax avoidance.

Generally, ETR is defined as the ratio of observed taxes to profit from existing investments (Zimmerman 1983). The issue about measuring ETR is which taxes to include as the numerator and how to measure profit as the denominator. Several groups of ETR studies have measured ETR differently. Hanlon and Shevlin (2005) discussed the calculation of ETR used by the Government Accounting Office (GAO). The GAO uses the current portion of tax expense divided by net income. ETR is usually measured by dividing tax liability by profit.

ETR was measured as the ratio of income taxes currently payable to pre-tax accounting

income. Rego (2003) claimed that firms that avoid income taxes by reducing their income tax payable while maintaining their accounting income will have lower ETR, thus making ETR a reasonable measure of tax avoidance. Guenther et al (2014) stated that researchers in accounting and finance have used effective tax rates as a measure of corporate tax avoidance in empirical research.

Earnings Management

The concept of earnings management stems from the trade-off between relevance and reliability in financial reporting. Sundvik (2017) reported that highly reliable financial reports solely include realized cash flows, whereas highly relevant reports are concerned with the current value of expected future cash flows. Since accounting rules and legislation demand both relevance and reliability in proportion, financial reporting is therefore associated with certain elements of discretion and managerial judgment. Academic accounting literature provides many definitions of the term earnings management. The study discussed the concept as a firm's alteration in its financial reports or reported economic performance with the ultimate goal of either misleading stakeholders or influencing the outcomes of contracts that are based on accounting numbers. In this study, earnings management is restricted to the management of accounting accruals even though Walker (2013) recognizes that real economic decisions can also be used to alter earnings (Sundvik, 2017)

Empirical accounting research has commonly relied on various proxies to measure earnings management. Here, the so-called aggregate accruals approach has been the dominant strategy. This approach relies on the fact that accounting earnings consist of cash flows (e.g., actual cash receipts and payments) and accruals (e.g., accounts receivable and depreciation). The latter component is influenced by business operations but also by certain managerial decisions and subjective assessments of different assets and liabilities, which can be a breeding ground for earnings management (Sundvik, 2017). Scott (2012) documented that earnings management is a management action to choose the accounting policy of a certain standard to manage profit. Earnings management is the intervention in the financial reporting process to give benefit to managers. Discretionary Accrual (DA), which is an accrual component chosen by the manager as the policy in preparing a financial statement, can be used to detect the existence of earnings management in a company.

Several studies provide evidence that firms manage their earnings around events when there is a change in the CTR. In their studies, firms are observed to defer earnings from high to low tax rate periods. After a call by Hanlon and Heitzman (2010) for more work to help understand the reporting behavior of privately held firms overall and especially with respect to taxation, more recent studies observe that private firms act according to the proposed incentive around tax reforms, even more than publicly listed firms (Lin, Mills, & Zhang, 2014). Hanlon and Heitzman (2010) also encourage the use of private firms in research where they are used not just as a comparison group for publicly held firms. As a response to this call, four current studies, which are reviewed in this paper, examine situations where the statutory CTR in a country is decreased. The events of investigation are recognized as strong incentives for earnings management and reforms both in a single-country context and with an international perspective are analyzed (Sundvik, 2016).

Empirical Studies

Studies have been carried out in both local and international countries on tax shield/avoidance and earnings management. The study of Bandia (2012) ascertained the relationship between free cash flow and earnings management. Data for the study were collected from listed companies on India Stock Exchange and correlation analysis was applied. The results showed that a significant positive relationship exists between earnings management and free cash flow. Alves (2012) determined the relationship between the corporate ownership structure in Portugal and earnings management. Using a sample of 34 non-financial listed Portuguese firms for years from 2002 to 2007, they found that discretionary accruals as a proxy for earnings management is negatively related both to managerial ownership and to ownership concentration. Aja and Brossa (2014) examined the relationship between cash flow volatility, financial leverage and earnings management. Using correlation analysis, the study collected data through questionnaires to 9776 companies in USA that have done a survey. The study concluded that cash flow volatility has a significant positive relationship with earnings management and leverage ratio has negative significant relationship with earnings management. Lio (2014) determined the role of dividend policy on the real earnings management” has surveyed on the role of dividend policy on real earnings management. The study revealed that when the profit was managed in advance, it becomes smaller

than previous year dividend. Assef, Rassoul and Kamal (2014) have also done a survey on the effect of financial leverage on dividend policy in companies of Karachi. The results of their research showed a significant negative relationship between financial leverage and amount of dividend. Nacasius and Jorge (2014) examined the effect of cash flow volatility and leverage on earnings management across industries. The study examines 489 firms between the period of 1990 and 2009 tested with pool regression analysis. The results indicate that both financial leverage and cash flow volatility impact the degrees to which firms manage their earnings. Harnovinsah and Lisya (2014) examined whether companies that earn profits will make earnings management in response to corporate tax changes, according to tax incentives or non-tax incentives. Multiple regression analysis is used to test whether companies that earn profit do earnings management to respond corporate tax rate changes. The result of this study proves that the companies make earnings management in order to respond corporate tax changes, and that earnings management performed by profit firm is influenced by tax incentives. Similarly, Zhu, Lu, Shan and Zhang (2015) investigated how Chinese reverse merger firms trade off and conduct income increasing earnings management. They employed both accruals-based and real activities-based methods over the period 1990-2011 using descriptive analysis. It was found that firms substitute the two methods; firms substitute accruals-based earnings management with real earnings management due to the costs and constraints of utilizing accruals-based earnings management. Aries (2015) determined the effect of leverage and firm size on earnings management. Sampling was done by purposive sampling method with the criteria listed in the Indonesia Stock Exchange and has a complete set of financial statements. The study used multiple regression analysis techniques and the results showed that the value of operating leverage coefficient of 0.215, significant operating leverage affect earnings management. Shevlin, Blaylock and Gaertner (2016) examined the effect of increased book-tax conformity on corporate capital structure. Regression analysis was used to test the collected data. Findings are consistent with firms substituting away from equity and towards more debt in the presence of higher book tax conformity. Gao (2016) studied on the influence of non-debt tax shield on the choice of corporate debt levels--- based on the tax preference. Policy exploits the data from A- share listed corporations of China from 2008 to 2013. This study found a negative

and significant relationship between NDTs and corporate debt levels, which is consistent with the NDTs's effect theory of capital structure. In addition, they further find that the effect of the non-debt tax shields has ownership nature and industry characteristics. Mohammed and Sally (2017) determined how the firm's financial policy affects the relationship between corporate tax avoidance (CTA) and earnings management (EM) using a sample of 119 firms from emerging and developing countries over a four-year period 2010–2013. The results imply that monitoring managerial diversionary behaviour by relying on external monitoring mechanism provided by debt holders does not lead to a reduction in EM associated with increased tax avoidance activities.

Harrington, Smith and Donald (2013) results indicate that firms with NDTA are significantly less likely to issue debt at a refinancing point and have lower leverage ratios following a refinancing. Similarly, firms with NDTL are more likely to issue debt and tend to have higher leverage after a refinancing. Shevlin, Blaylock and Gaertner (2016) findings are consistent with firms substituting away from equity and towards more debt in the presence of higher book tax conformity. Gao (2016) finds a negative and significant relationship between NDTs and corporate debt levels, which is consistent with the NDTs's effect theory of capital structure. In addition, found that the effect of the non-debt tax shields has ownership nature and industry characteristics. There were inconsistent in the prior studies, and the study of this nature is limited in Nigerian context, hence the significance of this study.

III. METHODOLOGY

Due to the nature of the study, ex-post-facto research design was adopted for the study. This is appropriate because the study aims at measuring the relationship between one variable and another in which the variables are not manipulated. This involves the use of financial accounts of organizations to generate the financial analysis that will determine the significant difference.

Population and Sample of the Study

The population of the study consist of seven banks quoted on the Nigerian Stock Exchange as: First bank plc; Standard Chartered

bank plc; FCMB plc; UBA plc; Sterling bank plc; Zenith bank plc, and GTB plc;

Method of Data Analysis

To achieve the objectives of this study, the data required were those of the discriminating variables that include: debt level, and effective tax rate, of banks quoted on Nigerian Stock Exchange from 2013 to 2019. Hypotheses formulated for the study were tested with the regression analysis to test the significant effect between the variable with the aid of E-view 9.0.

Decision rule:

Using SPSS, 5% is considered a normal significance level. The accept reject criterion was based on the p-value, alternative hypothesis will be accepted.

Model specification

The researcher predicted modern in tax sheltering was computed as follows:

$$EAMGT = \beta_1 DEBT_{it} + \beta_2 ETR_{it} + \epsilon_{it}$$

Where:

EAMGT = Earning management

DEBT = Asset debt = long term debt to total assets at the beginning in year t;

ETR = Effective tax rate of the bank in year t

Measuring Dependent Variable (Earnings Management)

This study used the modified Jones's model (Dechow et al., 1995) to measure the level of earnings management or discretionary accruals (DTAC). This model used total accruals (TAC) that are classified as discretionary components (DTAC) and non-discretionary components (NDTAC). Thus, defined as follows:

$$TAC = NDTAC + DTAC$$

Where:

TAC = Total accrual period t

NDTAC = Value of non-discretionary accruals

DTAC = Discretionary accrual

Under the cash flow approach, total accruals are measured as follows:

$$TAC_{it} = EBXT_{it} - OCF_{it} \quad (1)$$

Where:

EBXT_{it} = Earnings before extraordinary items and discontinued operations period t

OCF_{it} = Operating cash flow for period t

IV. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Data Analysis

Table 1: Description Analysis

	EAMGT	DEBT	ETR
Mean	63637.60	6.094000	1.264000
Median	66864.50	5.835000	1.135000
Maximum	88667.00	6.930000	2.750000
Minimum	27107.00	5.250000	0.110000
Std. Dev.	19999.62	0.553598	0.905602
Skewness	-0.596983	0.197807	0.329050
Kurtosis	2.150132	1.746357	1.950825
Jarque-Bera	0.894929	0.720054	0.639110
Probability	0.639247	0.697657	0.726472
Sum	636376.0	60.94000	12.64000
Sum Sq. Dev.	3.60E+09	2.758240	7.381040
Observations	7	7	7

Table 1 shows the mean (average) for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera (JB) Statistics (normality test). The results provided some insight into the nature of the Nigerian quoted banks that were used in this study.

It was observed that on the average over the seven years periods (2013-2019), the sampled banks in Nigeria were characterized by positive earning management (EAMGT =63637.60). Also, the large difference between the maximum and minimum value of the debt level, (DEBT), effective tax rate (ETR), show that the sampled banks in this study are not dominated by banks with large debt structure. It was found that during

the period under study, that the effective tax rate was approximately 1.3% respectively.

The Jarque-Bera (JB) which test for normality or the existence of outliers or extreme values among the variables shows that all the variables are normally distributed at 5% level of significance. This means that any variables with outlier are not likely to distort our conclusion and are therefore reliable for drawing generalization. This also implies that the least square estimate can be used to estimate the pooled regression model.

Test of Hypotheses

Hypothesis One

Ho: Corporate debt level has not significantly affected earnings management of Nigerian banks.

Table 2: Panel Least Square (PLS) Regression Analysis between EAMGT and DEBT

Dependent Variable: EAMGT
 Method: Least Squares
 Date: 12/01/21 Time: 20:09
 Sample: 2013 2019
 Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-24596.05	71576.35	-0.343634	0.7400
DEBT	14478.77	11702.01	1.237290	0.2511
R-squared	0.160624	Mean dependent var		63637.60
Adjusted R-squared	0.055702	S.D. dependent var		19999.62
S.E. of regression	19434.63	Akaike info criterion		22.76436
Sum squared resid	3.02E+09	Schwarz criterion		22.82487
Log likelihood	-111.8218	Hannan-Quinn criter.		22.69797
F-statistic	1.530887	Durbin-Watson stat		0.834712
Prob(F-statistic)	0.251063			

Source: E-Views 9.0 Panel Regression Output, 2021

Table 2 shows that there is an insignificant positive relationship between earnings management and debt level of quoted banks in Nigeria. This can be observed from the beta coefficient (β_1) of 14478.77 with p-value of 0.25 which is not significant at 5%. This indicates that the debt level has a positive relationship with earnings management of quoted deposit money banks in Nigeria. Overall, the combined and the overall effect of the regressor debt level of quoted deposit money banks in Nigeria, is shown on the model probability summary of the regression results. The F-statistic of 1.531 with an associated Prob(F-statistic) of 0.251 is not statistically significant at 5%, while the coefficient of determination; adjusted R^2 of 0.055702, explains the individual

variation of the dependent variable EAMGT as a result of the changes in the independent variable DEBT.

Decision

Considering the P-value of the test = 0.251 which is greater than 0.05 (5%), this study upholds that debt level has no significant effect on earnings management of quoted banks in Nigeria at 5% level of significance. This finding negates the findings of Mohammed and Sally (2017) and affirms the findings of Gao (2016).

Hypothesis Two

Ho: Effective tax rate has not significantly affected earnings management of Nigerian banks.

Table 3: Panel Least Square (PLS) Regression Analysis between EAMGT and ETR

Dependent Variable: EAMGT
 Method: Least Squares
 Date: 12/01/21 Time: 20:09
 Sample: 2013 2019
 Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	81976.28	8996.780	9.111736	0.0000
ETR	-14508.45	5886.664	-2.464630	0.0390
R-squared	0.431592	Mean dependent var		63637.60
Adjusted R-squared	0.360541	S.D. dependent var		19999.62
S.E. of regression	15992.93	Akaike info criterion		22.37454
Sum squared resid	2.05E+09	Schwarz criterion		22.43505
Log likelihood	-109.8727	Hannan-Quinn criter.		22.30815
F-statistic	6.074399	Durbin-Watson stat		1.692272
Prob(F-statistic)	0.039036			

Source: E-Views 9.0 Panel Regression Output, 2021

Table 3 shows that there is a significant negative relationship between earnings management and effective tax rate of quoted banks in Nigeria. This can be observed from the beta coefficient (β_1) of -14508.45 with p-value of 0.03 which is significant at 5%. This indicates that effective tax rate has a negative relationship with earnings management of quoted deposit money banks in Nigeria. Overall, the combined and the overall effect of the effective tax rate of quoted deposit money banks in Nigeria, is shown on the model probability summary of the regression results. The F-statistic of 6.074399 with an associated Prob (F-statistic) of 0.03 is statistically significant at 5%, while the coefficient of determination; adjusted R^2 of 0.360541, explains the individual variation of the dependent variable

EAMGT as a result of the changes in the independent variable ETR.

Decision

Considering the P-value of the test = 0.03 which is less than 0.05 (5%), this study upholds that effective tax rate has significant effect on earnings management of quoted banks in Nigeria at 5% level of significance. The findings on the effect of effective tax rate on earnings management, found to supports the finding of Clive, Petro and Jeffres (2013) and negates our apriori expectation and the view of Harnovinsah and Lisy (2014).

V. CONCLUSION AND RECOMMENDATIONS

The result of this research shows that debt level has a positive effect on sampled banks earnings management while effective tax rate, has a negative effect on earnings management. However, effective tax rate is statistically significant while debt level is not. However, net deferred tax liability has an influence on earnings management in response to the corporate tax rate reduction. Besides that, earnings management done by banks is influenced by non-tax incentives as well, consisting of earnings pressure and debt level. This is a proof that the tax rate changes policy made by the regulator will be responded by banks using earnings management which is expected to give economic incentives for the banks.

Based on the findings of the study, the researcher recommends the followings:

1. It is expected that the tax authority should observe and anticipate the taxpayers' behaviour before issuing regulations to get a proper response from taxpayers.
2. Nigerian banks should use corporate social responsibility as a cover for engaging in opportunistic behaviour such as earnings management.

REFERENCES

- [1]. Khaoula F., Amor A. & Ahmed Z., (2014). tax planning and firm value: evidence from European companies. *International Journal Economics & Strategic Management of Business Process*. Vol. 4 73-78.
- [2]. Amiram, D., Bauer, A.M. & Frank, M.M. (2013) Corporate Tax Avoidance and Managerial Incentives Generated by Shareholder Dividend Tax Policy.
- [3]. Aries, V. (2015). The influence of leverage and its size on the earnings management. *Research journal of finance and accounting*, 6(8) ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
- [4]. Alves, S. (2012). Ownership Structure and Earnings Management: Evidence from Portugal.,
- [5]. Albertazzi, U., & Gembucorta, L. (2006). Bank profitability and business cycle. *Journal of Financial Stability*, 5(4), 393-409.
- [6]. Bartov, E., Gul, F.A. & Tsui, J.S. (2000). Discretionary-accruals models and audit qualifications', *Journal of accounting and Economics*, 30(3), pp.421-452.
- [7]. Bhundia, A. (2012). A comparative study between free cash flows and earnings management. Working paper; Available at <http://ssrn.com/abstract>.
- [8]. Beck, T., & Laeven, L. (2008). Resolution of failed banks by deposit insurers: cross country evidence in Demircuc-Kunt, A., Kane, E. and Laeven, L. (eds), *Deposit Insurance around the World, Issues of Design and Implementation*, (pp 14-21). Cambridge MA: MIT Press.
- [9]. Bozanic, Z., J. L. Hoopes, J. R. Thornock, and B. M. Williams. 2017. IRS attention. *Journal of Accounting Research* 55 (1): 79-114. Christensen, J. & Murphy, R. (2004). The social irresponsibility of corporate tax avoidance', *Development*, 7(3), pp.37-44.
- [10]. Caminal, R., & Xavier, V. (2004). Price dynamics and consumer learning. *Journal of Economics, & Management Strategy*, 8(1), 95-131.
- [11]. Guenther, D. A., Guenther, D., Thank, I., Heitzman, S., Williams, B., & Wilson, R. (2014). *Measuring Corporate Tax Avoidance: Effective Tax Rates and Book-Tax Differences*.
- [12]. Retrieved from <http://ssrn.com/abstract=2478952>
- [13]. Desai, M. & Dharmapala, D. (2005). Corporate tax avoidance and firm value', *American Law and Economics Association Annual Meetings*, p.27.
- [14]. Desai, M.A. & Dharmapala, D. (2007). Taxation and Corporate Governance: An Economic Approach, DOI: 10.2139/SSRN.983563.
- [15]. Desai, M.A. & Dharmapala, D. (2008). Tax and corporate governance: an economic approach', in *Tax and Corporate Governance*, pp.13-30, Springer Berlin, Heidelberg.
- [16]. Desai, M.A. & Dharmapala, D. (2009a). Corporate tax avoidance and firm value', *The Review of Economics and Statistics*, 91(3) pp.537-546.
- [17]. Desai, M.A. & Dharmapala, D. (2009b). Earnings management, corporate tax shelters, and book-tax alignment', *National Tax Journal*, 62(1) pp.169-186.
- [18]. Desai, M. A. & Dharmapala D. (2009). Earnings Management, Corporate Tax Shelters, and Book-Tax Alignment. *National Tax Journal*; LXII(1)
- [19]. Goncharov, I. & Zimmermann, J. (2006b). Do accounting standards influence the level of earnings management? Evidence from Germany', *Evidence from Germany*, DOI: 10.2139/SSRN.386521.

- [20]. Gao, R. (2016). An empirical study on the influence of non-debt tax shield on the choice of corporate debt levels---based on the tax preference policy. *International journal of business and social science* 7(1); January 2016
- [21]. Gembacorta, L., & Mistrulli, P. E. (2004). Does bank capital affect lending behaviour? *Journal of Financial Intermediation*, 13(4), 436-457.
- [22]. Harrington, C., Smith, W. & Trippeer, D. (2012). Deferred tax assets and liabilities: tax benefits, obligations and corporate debt policy', *Journal of Finance and Accountancy*, Vol. 11, p.1-18.
- [23]. Hunt, A., Moyer, S. & Shevlin, T. (2000). Earnings volatility, earnings management, and equity value, Unpublished working paper, University of Washington.
- [24]. Harnovinsah & Lisya, (2014). The influence of corporate tax rate changes toward earnings management. *International journal of business, economics and law*, 5(1) (Dec.) ISSN 2289-1552 .
- [25]. Harrington, C., Smith, W. & Donald, T. (2013). Deferred tax assets and liabilities: tax benefits, obligations and corporate debt policy. *Journal of Finance and Accountancy*.
- [26]. Hanlon, M., & Heitzman, S., (2010). A review of tax research" *Journal of Accounting and Economics* 50: 127-178.
- [27]. Hanlon, M., & Shevlin, T., (2005). Book-tax conformity for corporate income: An introduction to the issues" In J. M. Poterba (Eds.), *Tax policy and the economy* 19: 101-134. MIT Press: National Bureau of Economic Research
- [28]. Jim-Suleiman, S. L., (2015). Competition and corporate tax avoidance: empirical evidence from Nigerian deposit money banks. A thesis on Doctor of Philosophy in accounting and finance in the University of Jos, of the university of Jos.
- [29]. Koszegi, B. (2005). Monopoly pricing when consumers are agonized by unexpected price increase. *Contemporary Accounting Research*, 27(2), 359-402.
- [30]. Kotakorpi, K. (2009). *Paternalism and tax competition*. UK: Blackwell Publishing.
- [31]. Leuza, C., Nanda, D. & Wysocki, P.D. (2003). Earnings management and investor protection: an international comparison', *Journal of Financial Economics*, 69(3), pp.505-527.
- [32]. Lim, T.C. (2012). Determinants of capital structure empirical evidence from financial services listed firms in China', *International Journal of Economics and Finance*, 4(3), p.191.
- [33]. Lin, K.Z., Mills, L.F. & Zhang, F., (2014). Public versus private firm responses to the tax rate reduction in China" *The Journal of the American Taxation Association* 36: 137-163.
- [34]. Martani, D., & Persada, A. E. (2009). The influence of book tax gap on earnings persistence. *Journal of Accounting University of Indonesia*.
- [35]. Mohammed, A. & Sally, M. Y. (2017). Tax avoidance and earnings management of firms in Ghana: does the funding strategy matter?. *Int. J. Critical Accounting*, 9(3)
- [36]. Nacasius U. U. & Jorge B. (2014). Earnings management, financial leverage, and cash flow volatility: an analysis by industry. *Journal of Business and Economics*, ISSN 2155-7950, USA, 5(2) pp. 338-348.
- [37]. Ojo, S. (2009). *Fundamental principles of Nigerian Tax*. Lagos: ABC Ventures.
- [38]. Osita, A. (2004). *Taxation and tax management in Nigeria*. Enugu: Meridian Associates.
- [39]. Rabin, M. (2006). Mistakes in choice based welfare analysis. *American Economic Review Papers and Proceedings*, 97(2), 477-481
- [40]. Rego, S.O. & Wilson, R. (2012). Equity risk incentives and corporate tax aggressiveness', *Journal of Accounting Research*, 50(3), pp.775-810.
- [41]. Pohan, H.. (2009). The influence of firm size, earning management, effective tax rate, income smoothing, conservatism difference of accounting profit and loss and taxable. *Media Research Accounting, Auditing & Information*. 9(2).
- [42]. Rusmin, R. (2010). Auditor quality and earnings management: Singaporean evidence', *Managerial Auditing Journal*, 25(7), pp.618-638.
- [43]. Shevlin, T. J, Blaylock, B., & Gaertner, F. (2016). Book-tax conformity and capital structure.
- [44]. Shahrokh B., Roholah, J. & Hassan H. S. A. (2015). Investigation the impact of cash flow volatility and financial leverage on earnings management in the context of listed companies in Tehran Stock Exchange (Iran). *Applied mathematics in Engineering, Management and Technology*

-
- [45]. Scott, W.R. (2003). Financial accounting theory, 3rd ed., Pearson Education Canada Inc., Toronto, Ontario.
- [46]. Soyode, L., &. Kajola, S.O (2006). Taxation: Principles and Practice in Nigeria (1st Ed.). Ibadan: Silicon.
- [47]. Sundvik, D., (2016). Earnings management around Swedish corporate income tax reforms” International Journal of Accounting, Auditing and Performance Evaluation 12: 261-286.
- [48]. Sundvik, D., (2017a). Book-tax conformity and earnings management in response to tax rate cuts” Journal of International Accounting, Auditing and Taxation 28: 31–42.
- [49]. Sundvik, D., (2017b). Tax-induced fiscal year extension and earnings management” Journal of Applied Accounting Research 18: 356–374.
- [50]. Zhu, T., Lu, M. Shan, Y., Zhang, Y. (2015). Accrual-based and real activity earnings management at the back door: Evidence from Chinese reverse mergers. Pacific-basin finance journal ISSN :0927-538XDOI 10.1016/j.pacifin.2015.01.008.