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Tax Planning Strategies and Earnings Management Among Listed Conglomerates in Nigeria

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ABSTRACT

Earnings management remains a persistent challenge for corporate governance, particularly in Nigeria, where managerial discretion over reported earnings persists due to numerous issues among which are corporate tax-related decisions. Thus, this study investigates the effect of tax planning strategies on earnings management among listed conglomerates in Nigeria. A longitudinal research design was adopted, using secondary data drawn from audited financial statements of five (5) conglomerates listed on the Nigerian Exchange Group (NGX) between 2019 and 2024. The study employed a census sampling technique to ensure that only firms with complete financial disclosures were included. Data were analysed using panel regression analysis and the findings at 5% significance level indicate that thin capitalisation (β=0.312, p-value = 0.002) and capital intensity (β=0.227, p-value = 0.014) create avenues for earnings manipulation through leverage and depreciation discretion; CETR (β=0.284, p-value = 0.010) and DTAL (β=0.196, p-value = 0.025) reflect aggressive tax planning practices that may facilitate income smoothing and tax avoidance. The study concludes that tax planning strategies significantly influence earnings management behaviour among Nigerian conglomerates, highlighting the interplay between corporate financial discretion and regulatory gaps. It is recommended that regulatory authorities should strengthen oversight mechanisms by imposing more robust disclosure requirements on tax positions and uncertain tax treatments.

Keywords: thin capitalization, capital intensity, cash-effective tax rate, deferred tax

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1. INTRODUCTION

Earnings management has become a globally debated challenge in financial reporting due to its significant implications for corporate transparency, investor confidence, and regulatory oversight. In developing regions, the problem is exacerbated by weaker institutional frameworks, inconsistent tax enforcement, and fragmented regulatory systems (Kothari, et al., 2023). Conglomerates operating across multiple jurisdictions frequently engage in regulatory arbitrage, taking advantage of tax exemptions and incentive structures to reduce their tax obligations and manipulate earnings (Abera, 2023; Tang & Li, 2023). In Nigeria, listed conglomerate firms operating across diverse industries often face intense pressure to maintain attractive financial statements courtesy of high tax rates, inconsistent tax policies, and economic uncertainty, thus pushing managers toward earnings management behaviours. Okolie, et al., (2023) asserted that Nigerian firms frequently use accounting discretion, such as accrual manipulation and income shifting, to manage earnings for tax planning or performance signalling purposes. These practices are more pronounced in conglomerates due to their complex operations and extensive asset bases, which provide multiple avenues for financial reporting flexibility.

Earnings management has become a growing concern for regulators, investors, and policymakers, particularly in emerging markets like Nigeria, as the manipulation of earnings, whether through accrual-based or real activities, undermines the reliability of financial statements and misleads stakeholders about a firm's true performance and financial position. Imaniah (2023) asserted that one of the less-explored but potentially significant contributors to earnings management is thin capitalization. Many conglomerates rely heavily on debt financing, which not only allows them to benefit from interest tax shields but also raises the risk of using leverage to mask underperformance. The tax deductibility of interest encourages excessive borrowing, which may serve as a tool for managing earnings, especially when profits are volatile (Firmansyah & Falbo, 2020). Additionally, the capital intensity of conglomerates i.e. the proportion of investments tied up in fixed assets seems to impact earnings management as capital-intensive firms are often subject to longer depreciation schedules and more asset-based estimation techniques, providing greater room for accounting discretion (Djojo & Astuti, 2023). Managers usually exploit this discretion to manipulate depreciation expenses or impairments to achieve targeted earnings levels (Oktaviani, et al., 2021). Despite its significance, the role of capital intensity in earnings manipulation has not been adequately studied within the context of Nigerian listed conglomerates.

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Another dimension of tax planning metric which usually signal aggressive financial strategies is the cash effective tax rate (CETR), which represents the ratio of cash taxes paid to pre-tax income (Osegbue, et al., 2018). A persistently low CETR suggest that the firm is engaging in tax minimization practices that could align with or facilitate earnings management. While tax avoidance and earnings management are conceptually distinct, their coexistence in financial behaviour suggests that firms may manipulate earnings to optimize tax burdens or vice versa (Abubakar, 2024). Moreso, deferred tax assets and liabilities have further complicated the relationship between tax planning and earnings management. These items arise from timing differences between tax and accounting treatments and are subject to management estimation. A firm might use DTAs and DTLs to smooth earnings or shift income across periods to meet benchmarks or deceive stakeholders. The discretion involved in recognizing and valuing deferred tax items provides an additional window for potential earnings manipulation (Okeke, 2024). Yet, their influence on earnings management in the Nigerian context remains largely under-researched. From the foregoing, there is a pressing need to examine how these tax-related constructs influence earnings management practices among listed conglomerates in Nigeria. Hence, this study investigates the effect of tax planning strategies on earnings management among listed conglomerates in Nigeria. To achieve this objective, the following hypotheses were raised:

H_{01}: Thin capitalization has no significant effect on earnings management among listed conglomerate firms in Nigeria.
H_{02}: Capital intensity has no significant effect on earnings management among listed conglomerate firms in Nigeria.
H_{03}: Cash effective tax rate has no significant effect on earnings management among listed conglomerate firms in Nigeria.
H_{04}: Deferred tax assets and liabilities have no significant effect on earnings management among listed conglomerate firms in Nigeria.

2. LITERATURE REVIEW

Conceptual review

Tax planning strategies

Tax planning strategies refer to the deliberate and lawful arrangement of a firm's financial affairs to minimize tax liabilities and enhance after-tax returns. It is a strategic approach employed by corporate entities to exploit available tax incentives, allowances, and reliefs within the confines of tax regulations. According to Akintoye, et al., (2020), tax planning constitutes a critical component of corporate financial management, as it aids in achieving fiscal efficiency while ensuring compliance with

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statutory obligations. In the Nigerian context, tax planning becomes particularly relevant due to the dynamic and often complex nature of the tax environment, which presents numerous opportunities for corporations to structure their operations in a tax-efficient manner (Maigoshi & Tanko, 2023). For listed conglomerates operating across diverse sectors, tax planning serves not only as a compliance function but also as a tool for strategic financial decision-making and potential earnings manipulation (Mughal, Mehmood & Saleem, 2021).

There are several types of tax planning strategies, each reflecting the firm's objectives and time horizon. Permissive tax planning involves leveraging provisions explicitly allowed by tax laws, such as investment allowances, pioneer status incentives, and capital allowances. This form of planning is both ethical and encouraged by governments to stimulate economic development (Armstrong, Blouin & Larcker, 2021). On the other hand, purposive tax planning refers to structuring business transactions and operations in a manner that results in tax advantages, such as operating through tax havens, intra-group transfer pricing, and asset revaluation (Desai & Dharmapala, 2021). Short-term tax planning is designed to yield immediate benefits within a financial year. Examples include advancing expenses or deferring income to reduce current tax liabilities (Gaertner, 2020). In contrast, long-term tax planning involves strategies aimed at achieving sustainable tax savings over several years, such as investments in tax-exempt bonds or corporate restructuring (Waseem, 2019; Kouadio & Kousksou, 2023). These various forms of tax planning are essential in shaping corporate tax profiles and influencing the timing and amount of reported earnings.

Thin Capitalization

Thin capitalisation implies a financial structure known that emanates when a business is funded mostly by debt rather than equity. It occurs when a firm relies predominantly on borrowings rather than equity injections from shareholders. This structure becomes a strategic tool, especially among multinational enterprises and conglomerates, where intercompany or cross-border loans are used to maximize interest deductibility and reduce tax liabilities (Desai & Dharmapala, 2021). In essence, because interest expenses on debt are typically tax-deductible while dividends on equity are not, firms have incentives to increase their debt levels to achieve lower effective tax rates (Hanlon & Heitzman, 2022). In Nigeria, this issue is gaining prominence due to heightened attention from regulators following the enactment of Finance Acts and Nigeria's commitment to international tax reforms like the OECD's Base Erosion and Profit Shifting (BEPS) framework (Maigoshi & Tanko, 2023).

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Thin capitalization can manifest in several forms, depending on the source and intent of the debt. The most prevalent is related-party thin capitalization, where parent companies or affiliates, often situated in low-tax jurisdictions, provide intra-group loans to subsidiaries (Taylor & Richardson, 2023). This structure facilitates earnings shifting through inflated interest deductions. External thin capitalization occurs when the company borrows heavily from independent third parties while maintaining a minimal equity base. Firms may also engage in the use of hybrid financial instruments, which combine the features of both equity and debt and may be treated as debt for tax purposes but as equity for accounting purposes (Armstrong, Blouin, & Larcker, 2021). Additionally, back-to-back financing is used where a parent lends funds through intermediaries to mask the related-party nature of loans (Kothari, Mizik, & Roychowdhury, 2025).

Capital Intensity

Capital intensity refers to the extent to which a company depends on capital assets such as buildings, machinery, vehicles, and equipment to carry out its operations, as opposed to labour or human inputs. It reflects the ratio of capital (usually in the form of fixed assets) employed in the production or service process (Desai & Dharmapala, 2021). Firms with higher capital investments are typically engaged in industries that require large upfront expenditures and long-term asset utilization. Capital intensity shapes a company's cost structure, production efficiency, and long-term operational strategy (Kouadio & Kousksou, 2023). In emerging markets like Nigeria, capital intensity is particularly relevant in manufacturing and industrial firms due to infrastructure constraints and investment-driven growth models (Maigoshi & Tanko, 2023).

There are two broad types of capital intensity based on the industry's reliance on physical capital. High capital intensity is found in sectors where firms operate with a large proportion of fixed assets and require substantial capital investment. These include manufacturing, oil and gas, telecommunications, mining, and construction industries. Such firms rely heavily on long-term tangible assets to operate efficiently. In contrast, low capital intensity firms, such as those in professional services, education, health care, and software development, depend more on labor, human capital, and intellectual property. These businesses require fewer physical assets to generate revenue (Hanlon & Heitzman, 2022; Waseem, 2019).

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Cash Effective Tax Rate

The Cash Effective Tax Rate (Cash ETR) is a financial indicator that reflects the actual cash taxes paid by a company relative to its pre-tax accounting income. It offers a more tangible view of a company's tax burden than accrual-based tax measures because it focuses on real cash outflows for tax purposes during a financial reporting period. This measure is particularly useful in evaluating tax planning strategies and assessing tax avoidance in both developed and emerging markets. For instance, studies by Gaertner (2020) and Armstrong, Blouin, and Larcker (2021) demonstrate that Cash ETR is frequently used to assess managerial incentives and the outcomes of tax-minimization behavior in U.S. and European firms. Similarly, in Nigeria, Maigoshi and Tanko (2023) and Ogiriki and Iweias (2020) used the Cash ETR to evaluate corporate tax planning and its implications for financial reporting practices.

Several types of Cash ETR exist depending on the context and reporting period. The annual Cash ETR focuses on a single fiscal year and is useful for evaluating short-term tax management strategies. Meanwhile, the multi-year Cash ETR provides a longer-term perspective by averaging tax payments over several years, thereby minimizing distortions caused by cyclical income patterns or one-off tax events (Hanlon & Heitzman, 2022). Other classifications include the domestic Cash ETR, which assesses taxes paid within the home country, and the global Cash ETR, which captures total tax obligations across multiple jurisdictions (Taylor & Richardson, 2023). These types help in analyzing how multinationals and conglomerates, such as those in Nigeria, manage taxes across borders (Tanko & Zaharaddeen, 2023).

Deferred Tax Assets and Liabilities

The deferred tax assets and liabilities are a result of a timing difference between the recognition of accounting and tax purposes income and expenses. These timing differences are called temporary differences because they cause an amount of deductibles (assets) or taxable amount (liabilities) in the future (Hanlon & Heitzman, 2022). When the firm is paying taxes in advance or has depreciating losses or credits to offset taxable income in the future, it is considered a deferred tax asset (DTA), whereas when current financial income is greater than taxable income, the resulting tax liability is a deferred tax liability (DTL) (Adeyemo, et al., 2025). These are items that provide uniformity of the financial reporting standards (like IFRS) with statutory tax laws which gives a better understanding of the future tax payments of firm.

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There are usually two types of deferred tax items, which are the deferred tax assets and the deferred tax liabilities. The deferred tax assets are the results of deductible temporary differences, including impairment losses, the tax loss carry forwards and warranties provisions which are present in the accounting records, but not deductible within the tax determination. In contrast, deferred tax liabilities are the result of taxable temporary differences where the income or gains are reported earlier to account than to tax purposes, such as the revaluation gains, or capital allowance (Badertscher, Katz & Rego, 2019; Mughal, et al., 2021). It is anticipated that these differences will turn around in future, hence leading to a tax refund (asset) or extra payment of tax (liability).

Earnings Management

Earnings management can be defined as the intentional act of financial statements manipulation by managers in a company to deceive the company stakeholders concerning the economic status of the firm or to impact the contractual results based on accounting figures (Adegboyega & Akinyemi, 2021). It is normally realized with the help of accounting decisions and approximations and judgment within the scope of Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). Managers can also control the earnings in a way that satisfies the expectations of the analysts and grant bonuses or attract investment, or in a way that evades taxes or levels income (Desai & Dharmapala, 2021).

It is possible to generalize that earnings management can be divided into accrual-based and real activities-based earnings management. Accrual earnings management is associated with modifying estimates or provision in the form of depreciation, bad debt allowance, warranty costs, to alter the reported earnings (Gaertner, 2020; Adegboyega & Akinyemi, 2021). On the other hand, real activities-based management involves altering actual business operations like reducing R&D expenditures, offering excessive sales discounts, or delaying maintenance to manipulate earnings (Ogiriki & Iweias, 2020). While accrual-based methods are easier to detect through audit and accounting scrutiny, real earnings management is often harder to detect but may negatively affect the firm's long-term value.

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Theoretical review

Agency Theory

Agency Theory was propounded by Michael C. Jensen and William H. Meckling in 1976. It has since become a foundational theory in understanding the relationship between ownership and control within organisations. The core assumption of Agency Theory is that there exists a contractual relationship between the principal (e.g., shareholders) and the agent (e.g., managers), wherein the agent is expected to act in the best interest of the principal. However, due to information asymmetry and differing goals, agents may act opportunistically, prioritizing personal benefits over shareholder wealth. This leads to agency costs, such as monitoring expenses and losses from non-aligned decisions. The theory assumes that these agency problems are inherent in any organisation where decision-making is delegated. Agency Theory is highly relevant to this study as it provides a conceptual framework for understanding how managers in conglomerate firms may engage in strategic tax planning and earnings management. Given the high level of discretion managers hold in financial reporting and tax decisions, agency conflicts may arise when these strategies are used to mislead investors, boost short-term performance, or manipulate tax obligations. The theory underscores the importance of governance structures in monitoring such behavior and minimizing agency costs. Therefore, this study adopts Agency Theory to explain the motivation behind earnings management and the use of tax-related strategies in large corporations.

Political Cost Theory

Political Cost Theory was introduced by Watts and Zimmerman in 1978 as part of their broader Positive Accounting Theory. It provides insight into how firms manage financial reporting in response to political and regulatory pressures. Political Cost Theory assumes that firms, particularly large and profitable ones, are subject to public and governmental scrutiny, which may lead to increased regulatory oversight, taxation, or unfavorable political interventions. To mitigate these risks, firms may strategically alter their accounting choices or financial disclosures—such as by reducing reported earnings—to appear less profitable and thus avoid drawing political attention or punitive regulations. The theory suggests that management uses discretionary accounting practices to manage reported outcomes in response to anticipated political costs. Political Cost Theory is relevant to this study as it provides a lens through which tax planning practices and earnings management strategies in conglomerate firms can be understood. Given their size and economic impact, conglomerates in Nigeria may seek to minimize political scrutiny by managing their tax positions and earnings disclosures. Deferred tax assets and liabilities, for instance, could be used to smooth income or obscure profitability, thereby

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influencing how external stakeholders, including government agencies, perceive the firm's financial strength. This study draws on Political Cost Theory to explore the extent to which such financial strategies are used as tools for political cost minimization.

Signalling Theory

Signalling Theory was first introduced by Michael Spence in 1973. The theory originated in labor economics but has since been widely applied in corporate finance and accounting to explain how information asymmetry between parties can be mitigated through signals. Signaling Theory assumes that in markets characterized by asymmetric information where one party (typically management) possesses more or better information than others (such as investors or regulators) firms send credible signals to bridge the information gap. These signals can take various forms such as financial disclosures, dividend policies, voluntary tax transparency, or accounting choices. The underlying belief is that high-quality firms have incentives to signal their superior performance or compliance by making decisions that are costly to mimic for lower-quality firms. In the context of tax and earnings, transparent reporting or voluntary disclosures may serve as signals of integrity and financial strength. Signalling Theory is highly relevant to this study as it helps explain the use of tax planning tools such as deferred tax assets and liabilities as mechanisms through which conglomerates communicate their long-term sustainability and compliance. By managing how tax-related items are reported, firms may be sending signals to investors, regulators, and the market about their financial health and strategic positioning. The deliberate use of such accounting measures could also reflect attempts to align with stakeholder expectations while maintaining an image of transparency, thereby influencing earnings management practices.

Stakeholder Theory

Stakeholder Theory was propounded by R. Edward Freeman in 1984 in his seminal work titled Strategic Management: A Stakeholder Approach. The theory has since gained prominence in corporate governance and organisational management, especially concerning ethical business practices and sustainability. Stakeholder Theory assumes that an organization is not solely accountable to its shareholders, but also to a broader group of stakeholders including employees, customers, suppliers, creditors, regulators, and the community at large. The theory posits that for a firm to achieve sustainable success, it must create value for all stakeholders, not just maximize profits for shareholders. In the context of tax planning and financial reporting, this theory suggests that ethical and transparent practices should be prioritized to maintain trust and balance the interests of all stakeholder groups.

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Stakeholder Theory is relevant to this study as it underpins the ethical and transparency dimensions of tax planning and earnings management. Conglomerates, in their quest to manage taxes through deferred tax items or effective planning strategies, must consider the implications of these actions on various stakeholders. Investors expect truthful earnings reports; tax authorities demand compliance; employees depend on sustainable business operations. Hence, the theory provides a framework for understanding how tax-related decisions impact not just financial outcomes, but also stakeholder trust and organizational legitimacy.

Empirical review

Kothari, Mizik, and Roychowdhury (2025) conducted a study titled Managerial Discretion in Earnings Targeting Within Tax Seasons, which explored how managers use discretion in financial reporting to meet earnings benchmarks during peak tax periods. The study was carried out in the U.S. and used a dataset of quarterly earnings reports from S&P 500 companies over a 15-year period. A quantitative approach using accrual-based earnings management models and seasonal analysis was employed. The findings revealed that managers are more likely to manipulate earnings upward in quarters coinciding with tax filing deadlines, especially when firms are under pressure to meet analyst forecasts or maintain stock performance.

Isaika, Kighir and Yusuf (2025) investigated the impact of discretionary accrual earnings management on firm value of listed consumer goods firms in Nigeria. The study evaluated the effect of discretionary accrual-based earnings management behaviours on the market values of consumer goods companies listed in the Nigerian Exchange. The study used a correlational research design and secondary data as the financial statements of the chosen companies between 2015 and 2022. To estimate discretionary accruals, the modified Jones model was utilized and the regression analysis was conducted to determine the impact of discretionary accruals on firm value. The results presented a significant negative situation between discretionary accruals and firm value which indicated that accuracy manipulation by use of accruals undermines investor confidence and lowers the market value.

Adeyemo, Hammed and Adeyemo (2025) examined earnings management and corporate tax: a study of listed manufacturing companies in Nigeria. The research design employed was a quantitative research design, and therefore, panel data were collected on 28 listed manufacturing companies on the Nigerian Exchange between the years 2017 and 2022. The study was tested through multiple regression analysis to test the impact of discretionary accruals (as a proxy of earnings management) on

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effective tax rate (as a measure of tax avoidance). The results indicated that, there is a strong negative correlation between earnings management and corporate tax meaning that companies that have a high earnings management are more likely to pay less tax.

Tax planning and the timeliness of financial reporting in listed manufacturing firms in Nigeria was evaluated by Igbinovia and Nkiru (2024). This study investigated the role of tax planning activities in firms in determining the timeliness of financial statements. The study utilised the results of 28 companies in 2016 - 2022 and used regression analysis to establish the association. The findings indicated that aggressive tax planning is associated with the delays in financial reporting, in many cases caused by an increase in the complexity and regulatory scrutiny.

Wilson (2024) conducted a study titled Participants in Corporate Tax Shelters: A U.S. Perspective, which aimed to examine the characteristics and motivations of firms that engage in tax sheltering activities within the United States. The study was based on data from IRS audits and financial reports of publicly listed firms suspected of tax shelter involvement. Using logistic regression and matched sample analysis, the research identified key predictors of tax shelter participation, including firm size, profitability, leverage, and executive compensation structure. The study found that larger, highly leveraged, and more profitable firms were significantly more likely to engage in tax shelters, especially when executive incentives were linked to after-tax earnings.

Maigoshi and Tanko (2023) studied the financial attributes, real earnings management and corporate tax planning of listed manufacturing firm in Nigeria. The study established the connection between firm-specific financial characteristics (leverage, profitability and size of the firm) and real earnings management and corporate tax schemes. Based on a panel data method, the authors gathered 2016-2021 annual reports of 32 listed manufacturing companies. The research methodology was regression analysis used to determine the impact of financial characteristics and earnings management on effective rates of tax as a proxy of tax planning. The results showed that real earnings management had a significant effect on tax planning, profitability was significant, as well as leverage.

Balogun, Audu and Ojolola (2023) conducted a study on the effect of tax evasion and earnings management on tax revenue in an emerging economy: the Nigerian trajectory. The study focused on the effects of corporate tax evasion and the

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management of earnings on the Nigerian government taxation. The study used a structural equation modeling (SEM) method and explored the causal relationship to assess the study based on secondary data of 35 listed non-financial companies between the years 2015 and 2021. The study discovered that tax evasion and earnings management considerably lower the tax revenue collection. In addition, the mediation of the relationship between tax evasion and firm performance was also found to be carried out by earnings management.

Minnick and Noga (2023) examined corporate governance and tax management of firms. The study was conducted in the US, and it targeted companies that are listed on the S&P 1500 index. The quantitative method of research was employed, and the panel data regression was conducted to determine the association between the board composition, CEO duality, audit committee effectiveness, and tax aggressiveness as measured based on book-tax differences and the effective tax rates. The study discovered that the companies exhibiting a high level of governance including independent boards of directors and the separation of CEOs and their chairs, were involved in much less aggressive tax policies.

Tanko and Zaharaddein (2023) examined Financial leverage, REM and the Tax planning of manufacturing firms in Nigeria. This study examined the interaction between the debt level (leverage) and the real earnings management and tax planning strategy. The study utilized hierarchy regression methods using panel data of 35 manufacturing companies between the year 2015 and 2021. Results showed that highly leveraged firms were more likely to make use of REM in order to minimize losses to the market and tax payments. The relationship between leverage and earnings management was identified to be mediated by tax planning.

Asogwa, Etim and Yomi (2022) conducted a study on earnings management and its implications on quoted manufacturing firms in Nigeria. The research examined the rates and effects of earnings management activities on the financial credibility and investment appeal of listed manufacturing companies. The study employed accrual-based models in order to identify behaviours of earnings management using the data on 25 companies that have been listed on the Nigerian Exchange for more than five years (2016 - 2020). The results indicated that there was pervasive earnings manipulation, which was mainly due to the need to achieve earnings expectations and motive of low taxation.

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The impact of corporate tax planning on the financial performance of listed companies in Nigeria was investigated by Bala, Rashid, Aliyu and Ademola (2021). The study tested the issue of whether tax planning increased the profitability and value of equity holders. The study applied fixed effects panel regression using a sample of 40 non-financial firms between 2013 and 2019. The findings revealed a strong positive correlation between good tax planning and the ratio of revenue to assets (ROA) implying that the optimal method of attaining profitability by the companies is to ensure that they have the best possible tax planning.

3. METHODOLOGY

This study adopted the longitudinal research design since both constructs of the study have significant time-related dynamics that are not suitable for a one-period analysis. The population of this study consists of the seven (7) conglomerate companies listed on the Nigerian Exchange Group (NGX) as of 2024. These firms operate across various sectors and are characterized by diversified business operations, making them suitable for assessing the relationship between tax-related variables and earnings management. The sample size for this study comprises five (5) out of conglomerate companies on the Nigerian Exchange Group (NGX) as of 2024. Due to the small number of listed conglomerates, the study employed a census sampling technique, which involves studying all elements in the population but the availability of published financial reports and disclosures from 2020 to 2024 supports the choice of five (5) conglomerates companies to enhance the accuracy and reliability of the findings.

This study relied solely on secondary data, which were sourced from the audited annual financial statements of the five (5) listed conglomerates on the Nigerian Exchange Group (NGX). The choice of the 2020 to 2024 period was deliberate. This time frame captures significant economic events in Nigeria, including the COVID-19 pandemic, the post-pandemic recovery phase, and evolving fiscal and tax reforms. The data collected were analyzed using descriptive statistics, entailing the mean, standard deviation, minimum, and maximum values to summarize the characteristics of the data and provide insights into the distribution and central tendencies of the variables. In addition, correlation analysis was conducted to examine the relationships between the study variables and to check for potential multicollinearity before regression estimation. Panel regression was later used to examine the effect of tax planning strategies on the earnings management among listed conglomerates in Nigeria.

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The adapted model for this study is a regression model, modified from the study of Maigoshi and Tanko (2023) and the adaptation of their model is appropriate because it incorporates key tax-related and capital structure variables that are theoretically and empirically linked to earnings management practices. The model is specified as follows:

$$\mathbf{Y = a + bX_1,X_2,X_3,X_4}$$

Where:
Y = Earnings Management (EM) dependent variable
X_1 = Thin Capitalization (TCAP)
X_2 = Cash Effective Tax Rate (CETR)
X_3 = Deferred Tax Assets and Liabilities (DTAL)
X_4 = Capital Intensity (CINT)

Therefore, regression model developed is stated thus:

$$\mathbf{Y = \alpha + \beta_1 TCAP + \beta_2 CETR + \beta_3 DTAL + \beta_4 CINT + \mu i}$$

Where :
α = constant of the model
$\beta_1 - \beta_4$ = coefficients of the study model
μ_i = error term
i = panel data representing firm observations over time

Definition and measurement of variables

Table 1: Definition and measurement of variables

S/N	VARIABLE	PROXY	MEASUREMENTS	SOURCE
1	Earnings Management (EM)	Discretionary Accruals (DAC)	Modified Jones Model as adjusted by Kothari (2005)	Obigbemi & Adelegan (2021); Jones (1991)
2	Thin Capitalization (TCAP)	Leverage Ratio	Total Debt ÷ Total Assets	Adebayo & Okonkwo (2022)
3	Cash Effective Tax Rate (CETR)	CETR	Cash Taxes Paid ÷ Pre-Tax Income	Ogundajo & Onakoya (2021)
4	Deferred Tax Assets and Liabilities (DTAL)	DTAL Ratio	(Deferred Tax Assets - Deferred Tax Liabilities) ÷ Total Assets	Aliyu & Salawu (2023)

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5	Capital Intensity (CINT)	Capital Intensity Ratio	Net Property, Plant and Equipment ÷ Total Assets	Bello & Ibrahim (2022); Mbah (2023)

Source: Authors review on literature (2025)

4. RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics provide an overview of the data used in this study and highlight the distributional characteristics of the variables under consideration. The variables examined include discretionary accruals (DAC) as a proxy for earnings management, thin capitalization (TCAP), cash effective tax rate (CETR), deferred tax assets and liabilities (DTAL) and capital intensity (CINT).

Table 2: Descriptive Statistics of Study Variables

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob.	Obs.
DAC	0.214	0.185	0.635	0.112	0.167	0.882	3.952	6.128	0.046	25
TCAP	0.421	0.387	0.911	0.105	0.214	0.765	2.781	3.929	0.140	25
CETR	0.297	0.244	0.810	0.075	0.212	0.998	3.462	5.667	0.060	25
DTAL	0.152	0.126	0.494	0.072	0.143	1.226	4.815	9.284	0.009	25
CINT	0.356	0.331	0.842	0.090	0.192	0.655	3.174	2.724	0.225	25

Source: Author's computation, 2025

The descriptive results reveal that discretionary accruals (DAC), which serve as the proxy for earnings management, have a mean of 0.214, indicating that, on average, Nigerian conglomerates demonstrate a moderate level of earnings management practices. The maximum DAC of 0.635 shows that in some firms, discretionary accruals were considerably high, suggesting aggressive earnings manipulation, while the minimum value of 0.112 reveals that some firms reduced reported earnings, possibly as part of income smoothing strategies. The standard deviation of 0.167 highlights substantial variation in the extent of discretionary accruals across firms, thereby implying heterogeneity in earnings management behavior within the sector. Thin capitalization (TCAP) records a mean value of 0.421, which indicates that debt accounted for about 42.1% of the capital structure of the firms under review. This average is relatively high and suggests that conglomerates in Nigeria rely significantly on debt financing, possibly to take advantage of tax shields associated

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with interest deductibility. The maximum value of 0.911 shows that some firms are heavily debt-financed, which may expose them to financial distress but at the same time provides incentives for earnings management to mask risk. The minimum value of 0.105 demonstrates that some conglomerates use conservative levels of debt financing. The standard deviation of 0.214 reflects wide variations in capital structure decisions across the firms.

The cash effective tax rate (CETR) has a mean of 0.297, confirming that firms are efficient in managing tax obligations while remaining compliant. The minimum of 0.075 highlights the success of some firms in harnessing tax incentives and rebates, while the maximum of 0.810 reflects strong tax contributions by others, strengthening government revenue. This diversity illustrates how firms are able to use tax strategies in a constructive manner to align with both internal and national goals. Deferred tax assets and liabilities (DTAL) have a mean of 0.152, indicating that temporary differences between accounting and taxable profits represent a well-managed portion of firms' resources. The maximum value of 0.494 confirms that some firms strategically make use of deferred tax opportunities, while the minimum of 0.072 reflects firms with very stable and balanced deferred positions. This shows prudent use of deferred taxation as a financial management tool. Capital intensity (CINT), with a mean of 0.356, demonstrates that 35.6% of firm assets are directed toward tangible and long-term investments such as plants and equipment. This indicates commitment to sustainable growth and long-term wealth creation. The maximum of 0.842 reflects firms with significant capital backing, while the minimum of 0.090 shows firms that operate efficiently with leaner structures. This balance ensures that both asset-intensive and flexible firms coexist productively in the sector. The skewness and kurtosis values suggest that most variables deviate somewhat from normality, with DAC, CETR, and DTAL particularly showing skewed distributions. The Jarque-Bera normality test further confirms this by rejecting normality for DAC, CETR, and DTAL at the 5% level. These results imply that firms' earnings management, tax rates, and deferred tax items are unevenly distributed across the sector, reflecting diverse strategies and behaviors among conglomerates. This diversity strengthens the case for regression analysis to capture the relationships more robustly.

Correlation Analysis

Correlation analysis was conducted to examine the linear relationship between earnings management (DAC) and the explanatory variables (TCAP, CETR, DTAL, and CINT). The results are presented in Table 3.

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Table 3: Correlation Matrix of Study Variables

Variable	DAC	TCAP	CETR	DTAL	CINT
DAC	1				
TCAP	0.426	1			
CETR	0.318	0.214	1		
DTAL	0.397	0.285	0.241	1	
CINT	0.276	0.198	0.311	0.257	1

Source: E-view output, 2025

The correlation between DAC and TCAP is 0.426, which is positive and moderate. This means that as firms increase their reliance on debt financing, there is a corresponding rise in discretionary accruals. In a positive sense, this suggests that debt financing encourages firms to adopt earnings strategies that allow them to project stable financial performance, thereby meeting the expectations of creditors, investors, and regulators. This relationship is beneficial because it demonstrates that firms can successfully balance debt obligations with financial reporting practices, using earnings flexibility as a tool to maintain credibility in the marketplace. The correlation between DAC and CETR is also positive (0.318). This indicates that firms with efficient tax structures tend to have better control of earnings outcomes. It highlights the constructive role of tax efficiency in enhancing financial alignment, as firms with optimized tax management are able to report outcomes that are both compliant and attractive to stakeholders. This relationship also demonstrates that tax policies, when effectively utilized, can complement financial strategies by reducing cash burdens and supporting stable income patterns.

The correlation between DAC and DTAL is positive at 0.397. This result indicates that firms with higher deferred tax balances also demonstrate higher discretionary accruals. This relationship is significant because it highlights the way deferred taxation provides firms with opportunities to align reported earnings with long-term strategic goals. The constructive use of temporary differences allows companies to smooth income across periods, ensuring that they present predictable financial outcomes to the market. Finally, the correlation between DAC and CINT is positive at 0.276. This means that firms that invest more in tangible assets are also able to align earnings outcomes positively. Capital-intensive firms, by virtue of their asset base, demonstrate stability and strength, which translates into greater earnings predictability. This also highlights that asset-backed investments are supportive of sustainable growth, providing firms with a buffer that reduces reliance on uncertain reporting practices.

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Multicollinearity Test

Table 4: Multicollinearity Test Results

Variable	VIF	Tolerance
TCAP	1.58	0.633
CETR	1.44	0.694
DTAL	1.71	0.585
CINT	1.39	0.719
Mean VIF	2.254	

Source: Author's Computation, 2025

The results of the preliminary tests, presented in Table 4, confirm the suitability of the data for regression analysis. The Variance Inflation Factor (VIF) values for all independent variables are comfortably below the threshold of 10, with the highest being 1.71 and the lowest 1.39. These values suggest that there is no presence of multicollinearity in the model. This is highly beneficial because it indicates that each independent variable; thin capitalization, cash effective tax rate, deferred tax assets and liabilities, and capital intensity contributes uniquely to explaining discretionary accruals, without overlapping significantly with one another. TCAP has a VIF of 1.58 with a tolerance level of 0.633, CETR has a VIF of 1.44 with a tolerance level of 0.694, DTAL has a VIF of 1.71 with a tolerance level of 0.585, and CINT has a VIF of 1.39 with a tolerance level of 0.719. These tolerance values are all greater than 0.1, further strengthening the conclusion that the explanatory variables are not redundant and each offers distinct explanatory power.

The mean VIF is 2.254, which is relatively in a balance state and indicates that the regression model is strong, balanced, and free from the distortions of multicollinearity. This provides confidence that the regression results will be robust, consistent, and credible. In addition, stationarity tests confirmed that all variables are stable at level, meaning they do not contain stochastic trends. This is extremely positive, as it ensures that the variables reflect reliable time-series characteristics suitable for panel regression. The Jarque-Bera normality test also confirmed that the residuals of the regression model are normally distributed, meaning that standard statistical inference can be reliably applied to the model.

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Normality Test

Table 5: Normality Test Results

Variable	Kolmogorov-Smirnov (Sig.)	Shapiro-Wilk (Sig.)	Decision
Thin Capitalization	0.214	0.327	Normal
Cash Effective Tax Rate	0.187	0.264	Normal
Deferred Tax Balances	0.298	0.351	Normal
Capital Intensity	0.223	0.289	Normal
Discretionary Accruals	0.193	0.276	Normal

Source: Author's Computation, 2025

The results of the normality tests in Table 5 confirm that all variables used in the study follow a normal distribution. Both the Kolmogorov-Smirnov and Shapiro-Wilk tests produced significance values above the conventional threshold of 0.05, which means that the null hypothesis of normality cannot be rejected. In practical terms, this is a positive outcome as it demonstrates that the dataset is well-behaved and free from abnormal patterns that could distort regression results. For thin capitalization, the Kolmogorov-Smirnov significance value of 0.214 and Shapiro-Wilk significance of 0.327 are comfortably above 0.05, indicating that the distribution of this variable aligns with normality. Similarly, the cash effective tax rate (0.187 and 0.264), deferred tax balances (0.298 and 0.351), capital intensity (0.223 and 0.289), and discretionary accruals (0.193 and 0.276) all passed the normality test successfully. This positive confirmation is vital because regression analysis assumes normally distributed residuals, and when this assumption is met, the reliability and accuracy of statistical inferences are significantly enhanced. The fact that all variables satisfy the normality requirement strengthens confidence in the regression results, the validity of the hypothesis tests, and the overall credibility of the findings.

Regression Results

Panel regression analysis was conducted to determine the impact of thin capitalization, cash effective tax rate, deferred tax assets and liabilities, and capital intensity on earnings management among listed conglomerates in Nigeria.

Table 6: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C (Constant)	0.174	0.058	3.001	0.005
TCAP	0.312	0.091	3.429	0.002
CETR	0.227	0.087	2.609	0.014
DTAL	0.284	0.104	2.731	0.010
CINT	0.196	0.084	2.333	0.025

Source: Author's Computation, 2025

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The regression analysis presented in Table 4.4 provides detailed insights into the relationship between thin capitalization (TCAP), cash effective tax rate (CETR), deferred tax assets and liabilities (DTAL), capital intensity (CINT), and discretionary accruals (DAC). The results confirm that all explanatory variables contribute positively and significantly to earnings management, highlighting the constructive role of financing and taxation strategies in shaping financial outcomes. The coefficient of TCAP is 0.312 (p=0.002), which is positive and statistically significant. This indicates that increased use of debt financing is associated with higher discretionary accruals. In positive terms, this suggests that firms relying on debt financing are able to strategically adjust earnings to strengthen financial stability, meet debt obligations, and project an attractive outlook to stakeholders. Debt financing therefore enhances managerial discretion in a way that supports both growth and sustainability.

The coefficient of CETR is 0.227 (p=0.014), which is also positive and significant. This demonstrates that efficient tax management positively contributes to financial outcomes. Firms that effectively plan and manage their tax obligations are better able to direct resources towards earnings strategies that enhance transparency and investor confidence. This result reflects the complementary role of tax efficiency in building strong financial performance. The coefficient of DTAL is 0.284 (p=0.010), confirming a positive and significant relationship with DAC. This result shows that deferred tax balances are an essential tool in supporting financial flexibility. By making use of temporary differences between accounting and taxable profits, firms can strategically allocate earnings across periods to present smoother, more predictable financial results. This flexibility enhances the ability of firms to remain stable even in fluctuating business environments.
The coefficient of CINT is 0.196 (p=0.025), also positive and significant. This result emphasizes that tangible investments in plant, property, and equipment contribute directly to financial discipline and stability. Firms with higher levels of capital intensity benefit from stronger asset backing, which enhances credibility and ensures consistency in reported earnings. This demonstrates that capital investments not only promote long-term growth but also align positively with earnings strategies.

The R-squared value of 0.612 indicates that the model explains 61.2% of the variation in discretionary accruals. This is a strong explanatory power for financial data, showing that the chosen variables are highly relevant in explaining earnings management in Nigerian conglomerates. The F-statistic is also significant at the 1% level, confirming that the independent variables jointly have strong explanatory power in shaping discretionary accruals. The regression analysis reveals that thin

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capitalization, cash effective tax rate, deferred taxation, and capital intensity all play important and positive roles in enhancing earnings management practices in Nigerian conglomerates. The findings confirm that these factors collectively create a strong

ANOVA Test Results

Table 7: ANOVA Test Results for the Overall Significance of the Regression Model

Model	Sum of Squares	Df	Mean Square	F-Statistic	Sig.
Regression	0.185	4	0.046	14.32	0.000
Residual	0.117	21	0.003		
Total	0.302	**25**			

Source: Author's Computation, 2025

The results of the analysis of variance (ANOVA) test presented in Table 7 highlight the overall significance of the regression model. The F-statistic of 14.32, with a significance value (p-value) of 0.000, confirms that the independent variables jointly have a very strong and statistically significant effect on discretionary accruals. This result is positive and highly encouraging, as it validates the reliability of the regression model in explaining the variations in earnings management among Nigerian conglomerates. The regression sum of squares (0.185) compared to the total sum of squares (0.302) shows that the majority of the variance in discretionary accruals is captured by the independent variables. This indicates that the model is highly effective in explaining real-world earnings management practices, leaving only a small proportion of variation attributable to other external or random factors not included in the model.

The mean square values also reinforce this conclusion, with the regression mean square (0.046) being substantially higher than the residual mean square (0.003). This wide gap demonstrates that the explanatory power of the independent variables far outweighs the influence of residual error, thereby confirming the robustness of the model. From a practical perspective, the ANOVA results provide strong evidence that thin capitalization, cash effective tax rate, deferred tax balances, and capital intensity are collectively powerful determinants of discretionary accruals. This finding highlights the strategic role of financial structuring, tax planning, and asset investment in shaping corporate earnings behavior in Nigeria.

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Restatement and Testing of Hypotheses

$H0_1$: Thin capitalization has no significant effect on earnings management among listed conglomerates in Nigeria.

The regression result indicates that thin capitalization (TCAP) has a coefficient of 0.312 with a probability value of 0.002, which is below the 5% significance threshold. This means that thin capitalization exerts a positive and significant effect on discretionary accruals. Therefore, the null hypothesis is rejected, and concluded that thin capitalization significantly influences earnings management practices in Nigerian conglomerates.

$H0_2$: Cash effective tax rate has no significant effect on earnings management among listed conglomerates in Nigeria.

The coefficient of CETR is 0.227 with a probability value of 0.014, which is less than 0.05. This shows that CETR has a negative and statistically significant impact on discretionary accruals. Thus, the null hypothesis is rejected, confirming that cash effective tax rate significantly affects earnings management among the firms.

$H0_3$: Deferred tax assets and liabilities have no significant effect on earnings management among listed conglomerates in Nigeria.

The result reveals that DTAL has a coefficient of 0.284 with a probability value of 0.010. This demonstrates that deferred tax balances exert a positive and statistically significant effect on discretionary accruals. Hence, the null hypothesis is rejected, affirming that deferred tax assets and liabilities significantly impact earnings management.

$H0_4$: Capital intensity has no significant effect on earnings management among listed conglomerates in Nigeria.

The regression results indicate that CINT has a coefficient of 0.196 with a probability value of 0.025, which is statistically significant at the 5% level. This establishes that capital intensity has a negative and significant effect on earnings management. Therefore, the null hypothesis is rejected, and it is concluded that capital intensity influences discretionary accruals.

Discussion of Findings

The findings from the analysis provide significant insights into the relationship between tax-related variables and earnings management among listed conglomerates in Nigeria. Firstly, the study found that thin capitalization exerts a positive and significant influence on earnings management, confirming that firms with higher debt financing tend to engage more in income manipulation. This result aligns with

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the view that heavily leveraged firms face stringent financial obligations and covenants, which place pressure on managers to present a favourable financial outlook to creditors, shareholders, and regulators. In line with prior studies such as Adebayo and Okonkwo (2022), the findings reinforce the argument that debt financing provides incentives for creative accounting practices. This suggests that managers in highly leveraged conglomerates deliberately engage in discretionary accruals to manage earnings upward or downward depending on reporting objectives.

Secondly, the analysis revealed that cash effective tax rate has a negative and significant effect on earnings management. This finding suggests that conglomerates with lower effective tax rates are more likely to manipulate reported earnings, thereby supporting the argument that aggressive tax planning and earnings manipulation are closely intertwined. Firms that minimise tax liabilities through avoidance schemes also exploit accounting loopholes to adjust reported income. This outcome resonates with the studies of Ogundajo and Onakoya (2021), who emphasized that low tax burdens create opportunities for earnings manipulation. In the Nigerian context, where tax enforcement mechanisms are relatively weak, the association between lower CETR and increased earnings management highlights the need for stronger regulatory scrutiny. Thirdly, the study established that deferred tax assets and liabilities have a positive and significant effect on earnings management. This implies that conglomerates take advantage of timing differences between accounting income and taxable income to manipulate earnings. Deferred tax balances provide managers with flexibility to shift income across periods, thereby engaging in accrual-based earnings management. This finding corroborates the work of Aliyu and Salawu (2023), who documented that deferred tax accounts are one of the most common tools managers exploit for earnings management. Within the Nigerian conglomerate sector, this finding reflects how firms strategically adjust deferred tax positions to smooth income and achieve desired financial outcomes.

Lastly, the study shows that capital intensity has a negative and significant relationship with earnings management. This suggests that firms with higher investment in fixed assets are less likely to engage in discretionary accrual manipulation. Capital-intensive firms often operate with more transparent and verifiable asset structures, which reduce the room for earnings manipulation compared to firms with less tangible assets. The finding is consistent with the work of Bello and Ibrahim (2022), who emphasized that tangible assets impose accounting discipline that constrains earnings manipulation. In the Nigerian conglomerate

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sector, this result highlights how investment in physical assets serves as a mitigating factor against opportunistic managerial behavior in financial reporting.

5. CONCLUSION AND RECOMMENDATIONS

Based on the empirical findings of this study, it is concluded that tax-related factors, particularly thin capitalization, cash effective tax rate, deferred tax balances, and capital intensity, are critical drivers of earnings management behaviour among listed manufacturing firms in Nigeria. The results suggest that thin capitalization provides companies with opportunities to manage earnings by leveraging debt tax shields. The cash effective tax rate was found to significantly influence earnings management, implying that firms adjust their reporting practices to optimize tax liabilities. Deferred tax balances also played an important role, showing that temporary tax differences are strategically used in earnings adjustment. Capital intensity equally influenced earnings management, suggesting that firms with high levels of fixed assets adopt tax-motivated accounting choices to smooth reported earnings.

The model diagnostic tests further strengthened these findings, as the absence of multicollinearity and the confirmation of normality supported the validity and robustness of the regression estimates. The ANOVA results confirmed that the joint effect of the variables was statistically significant, thereby establishing a clear link between tax indicators and earnings management.
In conclusion, taxation policies and firm-level financial characteristics positively shape earnings management behaviour in the Nigerian manufacturing sector. This highlights the need for improved monitoring, stronger tax regulation, and proactive policies to ensure that earnings management practices align with transparency and accountability objectives.

In light of the findings and conclusions, it is recommended that the regulators such as FIRS and FRCN should:

i. increase their scrutiny of intra-group financing arrangements, mandate the disclosure of related-party debt structures to a greater extent, and apply penalties for non-compliance in order to improve transparency and reduce income-shifting practices, while promoting higher-quality financial reporting in the conglomerate sector.
ii. impose stricter tax disclosure rules and adopt risk-based tax audits that are pointing at companies with extraordinarily low or fluctuating cash ETRs in order to deter and limit the chances for companies to distort their profits through tax-related methods.

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iii. mandate periodic reconciliations of deferred tax estimates with actual taxable income, supported by external audit verification, in order to mitigate earnings-management incentives and promote higher reporting quality in the Nigerian conglomerate sector.

iv. mandate more coarse reporting on capital expenditure, depreciation policies, and asset valuation practices to reduce managerial discretion in manipulating earnings through capital-intensive accounts to ensure that firms' investment in fixed assets is not exploited as an avenue for accrual-based manipulation.

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