International Journal of Innovative Social Sciences & Humanities Research 10(2):52-61, April-June, 2022
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Leverage And Tax Avoidance Of Nigerian Consumer Goods Firms

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ABSTRACT
This study investigates the effect of leverage on tax avoidance of Nigerian consumer goods firms. The study employs *Ex-Post Facto* research design. The population of the study comprised Nigerian consumer goods firms on the Nigeria Exchange Group (NGX). Data for the study were extracted from the sampled firms, and the study covered a period of nine (9) financial years (2012-2020). The data were analysed using descriptive statistics and hypothesis was tested with regression analysis via E-view 9.0. The study therefore concludes that leverage has no significant effect on tax avoidance of Nigerian consumer goods firms. The study recommended that tax authorities should develop appropriate tax holiday policies that would allow genuinely struggling firms to emerge from distress without resorting to aggressive tax avoidance measures.
Keywords: Leverage, Firm size and tax Avoidance.

INTRODUCTION

Taxation is one of the important sources of governmental revenue for the implementation and advancement of national development, which strives to increase the community's wealth and welfare. Since the adoption of the new tax law in 1983, when the tax reform was completed (Pohan, 2015). Tax evasion is particularly difficult to quantify due to its nature (Desai and Dharmapala, 2009). In the previous literature, numerous measures of corporate tax aggression were used. The metrics were largely based on financial statement estimates and could be divided into three categories. The first category comprises measures that take into account the wide range of differences between book and taxable income. Total book-tax gap, residual book-tax gap, and tax-effect are among them. The constructs that measure the proportional amount of taxes to business income make up the second group. Effective tax rates are among them (this comes in several variants like accounting ETR, current ETR, cash ETR, long-run cash ETR, ETR differential, ratio of income tax expense to operating cash flow and the ratio of cash taxes paid to operating cash flow). Other metrics, such as discretionary permanent differences, are included in the third group.

Tax avoidance is an attempt by taxpayers to decrease the amount of taxes owed by seeking for gaps in rules (loopholes) that do not violate the law (Kimsen, 2018). The tax is one of the means and rights of every taxpayer to participate in state administration and growth, according to the explanation of the law on general provisions and taxation procedures (UU KUP). For enterprises, however, the tax is treated as an investment expense. As a result, it's only natural for businesses and entrepreneurs to want to avoid paying taxes by doing smart tax planning.

Companies engaged in tax evasion in an attempt to avoid paying taxes by exploiting legal flaws without violating existing regulations in order to reduce the amount of tax owed (Pohan, 2015). The amount of external capital that a company uses to undertake its operating activities is measured by leverage. The results of the leverage ratio calculation show how much of the company's assets are derived from its loan

capital (Kimsen, 2018). If the corporation has a high-interest loan fund, creditors will be charged a high-interest expense. Interest expense reduces profit, resulting in a reduction in tax expense in a single period. The size of the company is a measurement that is grouped based on the company's size and can reflect the firm's activities and revenues. The larger the company, the more effort it makes to attract public attention (Kimsen, 2018). The value of the company's assets is proportional to its size.

Similarly, a review of certain prior Nigerian research' conclusions revealed some anomalies. While Ogbeide (2017) and Salaudeen and Eze (2018) found all of the firm attributes they studied to be significant determinants of tax aggressiveness, Salawu and Adedeji (2018), and Ilaboya, Obasi, and Izevbekhai (2017), found that firm size, leverage, and firm profitability (respectively) were all insignificant in explaining variations in tax aggressiveness using varying samples of Nigerian companies. The contradicting data found in previous studies indicated that the difficulties surrounding the influence of business features on tax aggression were far from being resolved experimentally, necessitating the need for this investigation. The larger the company, the more assets it has. Based on the foregoing, tax avoidance is one of the legal tactics used to reduce tax expenses. Tax evasion is a tax avoidance plan and technique that is carried out lawfully and safely for the benefit of taxpayers because it does not violate tax laws. This study ascertains the effect of leverage on tax avoidance of Nigerian consumer goods firms.

Literature Review

Tax Avoidance

Leverage can refer to complicated financing arrangements that save money on taxes (Mills, Erickson and Maydew, 1998). Interest expenses, unlike dividend payments, are deductible from taxable income for leveraged companies that use loan capital to fund their operations. As the value of a tax shield increases with financial leverage, leveraged firms profit from it. As a result, companies with high debt levels may be under less pressure to use non-debt tax shelters (Graham and Tucker 2006). Alternatively, leverage could be used to assess the complexity of a company's financial activities, leading to the conclusion that highly leveraged companies are better able to cut taxes through financing transactions (Mills, Erickson and Maydew, 1998). To summarize, leveraged enterprises may have either a relatively large incentive to avoid taxes in order to conserve cash for debt service, or a relatively weak desire to avoid taxes due to the favourable debt tax shield (Badertscher, Katz, and Rego, 2011). Taylor and Richardson (2014) discovered a link between a company's debt level and its tax avoidance. According to Boussaidi and Hamed (2015), debt would be proven to be a stimulant because it decreased a company's tax burden by deducting interest payments, which could be utilized as a tax deductible item in calculating corporate taxable income.

Tax avoidance, according to Harrington and Smith (2012), has a favourable impact on leverage in a broad range of businesses. Their research confirmed the idea that tax avoiders valued leverage as part of a larger tax avoidance plan, and it was resistant to different definitions of leverage, tax avoidance tactics, and refinancing events. Furthermore, the chance of issuing borrowed capital as a strategy of refinancing projects is positively associated with tax avoidance. However, if a corporation with a high marginal tax rate employs high debt as a source of financing, there might be a positive relationship between ETR and debt to total asset ratio (leverage). Previous research has shown that ETR has a negative relationship with the debt-to-total-asset ratio (Richardson and Lanis, 2007).

Rego and Wilson (2012) discovered that companies with high leverage ratios have lower Effective Tax Rates (ETRs), meaning that they are avoiding taxes. Wilson (2009) and Lisowsky (2010), on the other hand, found evidence that tax shelter enterprises have lower leverage ratios in their investigations on the usage of corporate tax shelters. Wilson (2009) created a profile of a firm that was most likely to employ a tax shelter based on financial statement information based on a sample of firms that were demonstrated to have participated in tax shelters. In his tax shelter prediction model, he included leverage as one of the explanatory factors and found a negative link between tax aggression and leverage.

Effective tax rate (ETR)

Tax avoidance can be recognized by the effective tax rate "ETR," according to accounting and tax literature (Dyreng, Hanlon, and Maydew, 2008; Richardson et al., 2013). Several authors deemed the "ETR" metric to be the most important indicator of a company's capacity to reduce its tax burden (Rego 2003; Ayers, Jiang and Laplante 2009). Minnik and Noga (2010) used average ETR to calculate tax burden and found that it was appropriate for calculating cash flows and the distributional tax burden. According to Rego (2003), the average ETR can be used as a proxy for calculating a company's tax burden, as well as assessing the efficiency and equity of a tax system.

In the United States, this is referred to as GAAP ETR. It's the ETR as recorded in the financial statements. Firms are required to declare the effective tax rate in the footnotes of their financial statements. It's the proportion of pre-tax income to tax expense (Dyreng, et al., 2008). As a result, it indicates the total proportion of accounting income that is taxed. As a result, it compares tax avoidance to accounting earnings. Although accounting ETR has been a popular tool for detecting tax evasion, it does have some drawbacks. For starters, because accounting ETR analyzes tax avoidance in relation to accounting earnings, it could only capture non-conforming tax avoidance. Moreover, it might not also reflect the strategies for tax deferral due to the use of aggregate tax expenses. Thus, the traditional effective tax rate for a given firm i for year t (*ETRit*) is given by: ETR_{it} = Total tax $expense_{it}$ / Pre-tax $income_{it}$

Empirical Review

Onatuyeh and Odu (2019) used proxies such as board size, board gender diversity, and board independence as board characteristics, and the cash effective tax rate (CTR) as a proxy for tax aggressiveness in their study on corporate board characteristics and tax aggressiveness on manufacturing firms in Nigeria for the period 2011-2016. The findings revealed that board size and independence had negative and significant effects on tax aggression in Nigerian manufacturing enterprises, whereas board gender had no effect. Ezejiofor and Ezenwafor (2021) investigate the impact of CEO duality on the effective tax rate of publicly traded food and beverage companies Ex-post facto research was used in this study. A purposive sample method was utilized to choose nine (9) organizations during the data collection process. From 2013 to 2019, data was acquired from the annual reports and accounts of the tested companies. The data from the study was analyzed with descriptive statistics, and regression was used with the e-view, which had a 95 percent confidence level at five degrees of freedom (df). The data imply that CEO duality was considerable and had a positive coefficient on tax planning in Nigerian food and beverage companies. From 2000 to 2019, Nweze, Ogbodo, and Ezejiofor (2021) looked into the impact of tax revenue on Nigeria's per capita income. This study, which used time series data, used an ex-post facto research design. The data was analyzed using descriptive statistics, and the hypothesis was tested using Ordinary Least Square (OLS) regression analysis. According to the findings, tax collection had a significant positive impact on Nigeria's per capita income. The impact of tax planning tactics on the profit performance of listed manufacturing businesses in Nigeria was investigated by Akintoye, Adegbie, and Onyeka-Iheme (2020). From 2008 to 2017, they employed the Taro Yamani Formula to arrive at a sample of 46 manufacturing enterprises. In order to analyze the secondary data, they used descriptive and inferential statistics. Their findings revealed that tax planning had no substantial impact on manufacturing enterprises' profitability in Nigeria (as measured by ROA). The impact of corporate characteristics on tax aggression in Nigerian listed insurance firms was investigated by Yahaya and Yusuf (2020). As independent variables and indicators of firm characteristics, the researchers focused on firm size, firm age, profitability, and leverage. From 2010 to 2018, their sample included twenty (20) insurance companies that were publicly traded on the Nigerian Stock Exchange. They used the two-step system GMM panel regression model to conduct their research and discovered that firm size and leverage had a positive impact on tax aggression, whereas firm age and profitability had a negative impact. For the years 2014 to 2016, Ryandono, Ernayani, Atmojo, Susilowati, and Indriastuty (2020) investigated the numerous factors impacting tax avoidance in food and beverage companies listed on the Indonesian Stock Exchange. Profitability, size, leverage, and capital intensity were used as factors impacting tax avoidance,

with profitability having no effect on tax avoidance, size promoting tax avoidance, leverage having no effect on tax avoidance, and capital intensity having no effect on tax avoidance. Martinez and Rodrigues (2020) investigated whether enterprises that worked in a variety of business sectors were more tax aggressive than firms that only operated in one or a few segments. Using financial data from companies listed on the Brazilian Stock Exchange B3 from 2010 to 2017, as well as ETR (effective rate of taxation) and ETR long (long-run effective tax rates) as measures of tax aggressiveness, and a panel regression model with the fixed effect of company year and the logit model, it was discovered that the more diversified a company was, the lower the probability of having low tax aggressiveness, or that more diversified companies were more tax aggressive. Onatuyeh and Ukolobi (2020) looked at tax aggressiveness as a proxy for ETR and CTR, as well as corporate governance systems as a proxy for board gender diversity, audit committee diligence, and board independence, and the impact of those factors on changes in external audit fees. The study found that the cash tax rate, audit committee diligence, and board independence all had a positive and significant effect on audit fees in a sample of 107 firms listed on the Nigerian Stock Exchange from 2009 to 2018. Surprisingly, the research found a favourable but statistically negligible relationship between board gender diversity and audit fees. Amrie and Reza (2019) looked at the impact of financial restrictions, investment opportunity set, and financial reporting aggression on tax aggressiveness in a separate study. Financial constraints were positively associated with tax aggressiveness, the investment opportunity set was negatively associated with tax aggressiveness, and financial reporting aggressiveness was not associated with tax aggressiveness, according to regression data from 88 non-financial companies listed on the Indonesian Stock Exchange from 2011 to 2015. From the perspective of firm-specific features, Ezejiofor, Oranefo, and Ndum (2021) evaluated tax revenue on Nigerian per capita income. Ex-post facto research was used in this study. The Nigerian economy was made up of the population, and data for this study came from the Statistical Bulletin of the Central Bank of Nigeria (CBN) and the Federal Inland Revenue Service (FIRS). Per Capita Income (PCI), as well as customs and excise charges, were retrieved as variables. This study's data analysis was based on information gathered from CBN, FIRS, and NBS publications and statistical bulletins. The hypothesis was tested using correlation and Ordinary Least Square (OLS) regressions. Customs and excise fees have a non-significant positive influence on Nigeria's per capita income, according to data analysis. Ugbogbo, Omoregie, and Eguavoen (2018) investigated the corporate determinants of aggressive tax avoidance in Nigeria. They used secondary data gathered from 40 Nigerian listed firms' annual reports from 2013 to 2017. They discovered empirical evidence that business size had a positive association with corporate tax aggressive avoidance, while profitability and leverage had negative significant relationships with corporate tax aggressive avoidance, using the OLS multiple regression technique. Inua (2018) used a sample of 30 manufacturing enterprises to investigate the factors that influence corporate effective tax rates in Nigeria. We used secondary data from the annual reports of the sampled companies from 2011 to 2016. The results of the panel data regression technique revealed that firm leverage, board independence, and board size were all adversely and substantially connected to ETR, while firm size was both negatively and non-significantly related to ETR. Oraka, Okegbe, and Ezejiofor (2017) examined the influence of the value added tax on the Nigerian economy An ex post facto research design was used in this study. From 2003 through 2015, the study used GDP, PCI, and TR to assess the Nigerian economy. The acquired data was evaluated using simple regression analysis. The value added tax, according to the research, has had little impact on the Nigerian economy's Gross Domestic Product. In addition, it was discovered that VAT and per capita income have a negative relationship. Oraka, Ogbodo, and Ezejiofor (2017) determined the impact of the Tertiary Education Tax Fund (TETFUND) on management in Nigerian tertiary education. The hypothesis was developed in accordance with the study's aims. They used a survey and a time series study design. Financial ratios were used to gather data from the National Bureau of Statistics, which was then, analyzed using regression analysis with the help of the SPSS statistical software version 20.0. The study discovered that ETF fund allocations to Nigerian Tertiary Institutions have no relationship with the enrolment ratio of Nigerian Tertiary Institutions based on the analysis. In Nigerian deposit money banks, the impact of accounting

information on deferred taxation was studied by Udeh and Ezejiofor (2018). Ex post facto research was used to collect data from yearly reports and accounts of Nigerian deposit money banks. A pooled multiple regression analysis was utilized to test the hypotheses. Earnings per share (EPS) and cash flow (CASHFL) have a negative impact on our dependent variable, deferred tax, according to the data, but book value of equity has a statistically significant impact, but EPS and CASHFL do not. The Corporate Effective Tax Rates (ETRs) of non-financial enterprises listed on the Nigerian Stock Exchange were studied by Salaudeen and Eze (2018). Data on the variables was taken from the financial records of sampled firms and analyzed using ordinary least square (OLS), random effect, and fixed effect models. During the study period, ETRs were lower than the statutory tax rate, and there were variances in ETR from one sector of the economy to the next, according to the findings. The study also found that larger and more lucrative companies suffer a higher tax burden, but companies with significant leverage face a lower ETR. Umeh, Okegbe, and Ezejiofor (2020) investigated the impact of tax preparation on corporate value in listed consumer products manufacturing firms in Nigeria. Ex-post facto research was used in this study. The research will be based on data from annual public financial and non-financial reports from 2009 to 2018. The three hypotheses were investigated using ordinary lease square regression with the help of E-View 9.0. The effective tax rate (ETR) has a negative impact on corporate value, however the impact is minor, according to this study. Rania, Susetyo, and Fuadah (2018) investigated the effects of corporate features on tax evasion, as well as the effects of earnings management moderation on the link between corporate characteristics and tax evasion. The study used company characteristics as proxies for profitability, leverage, and scale. The study used the cluster random sampling technique to choose 49 industrial businesses listed on the Indonesian Stock Exchange from 2012 to 2016. The results of the panel data regression with random effect model revealed that a company's attributes, such as profitability and size, had a substantial negative impact on tax avoidance, whereas leverage had a large positive impact. The influence of tax avoidance on business openness in the United Kingdom was investigated by Balakrishnan, Blouin, and Guay (2017). They used secondary data from the Compustat database, which included 40,193 firm-year records spanning the years 1990 to 2013. They discovered that aggressive tax planning was substantially associated with lower business transparency using the GAAP-ETR tax aggressive measure in a multiple regression analysis technique. They came to the conclusion that management at tax-aggressive firms tried to address the lack of openness by raising various tax-related disclosures. Between 2013 and 2015, Irianto, Sudibyo, and Wafirli (2017) looked at the impact of company size, leverage, profitability, and capital intensity ratio on tax avoidance in manufacturing companies listed on the Indonesian Stock Exchange. In the year 2013-2015, the population studied consisted of 156 manufacturing enterprises that were listed on the Indonesian Stock Exchange. The sample was determined using the purposive sampling method, which yielded a sample of 36 manufacturing enterprises based on specified criteria. The findings revealed that size had a beneficial impact on the effective tax rate, whereas leverage, profitability, and capital intensity ratio had no effect on tax evasion. Anouar and Houria (2017) looked into whether there was a link between tax evasion and firm size. 57 publicly traded Moroccan company groups were studied from 2010 to 2014. Using multiple regression models, the study found that highly indebted enterprises were more likely to take use of debt-main capital's characteristics in order to avoid a considerable corporate tax burden. It went on to say that in high-tax locations, debt financing was the preferred method of financing due to tax considerations. The effects of debt, fixed asset intensity, size, and political ties on manufacturing enterprises listed on the Indonesian Stock Exchange were investigated by Dharma and Ardiana (2016). Leverage and fixed asset intensity had a beneficial effect on tax avoidance, according to the findings. Size had a negative impact on tax avoidance, and political connections had a negative impact on tax avoidance, but the effects were minor. Yetty, Eka, and Eneng (2016) used manufacturing firms listed on the Indonesian Stock Exchange to investigate the use of leverage in corporate tax avoidance in Indonesia from 2010 to 2014. Purposive sampling was utilized to choose 108 companies for the investigation. Secondary data was employed, such as yearly reports and accounts produced throughout the observation years. The study's findings

demonstrated that leverage had no significant influence on tax avoidance when using the multiple linear regression equation.

METHODOLOGY

Research Design

The study employs *Ex-Post Facto* research design because it involves the evaluation of the behaviour of the same variables over an extended period of time.

The population of the study comprised Nigerian consumer goods firms as at year ended December 2021. The study used purposive sampling to select thirteen (13) Nigerian consumer goods firms on the Nigeria Exchange Group (NGX). Data were extracted from the sampled consumer goods firms. The study covered a period of nine (9) financial years (2012-2020).

Model Specification

The econometric models of the study were modified from the studies by Ilaboya *et al.* (2017), Ogbeide (2017). The general econometric model for the study was specified thus;

$BTD_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 AGE_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \beta_5 LIQ_{it} + \beta_6 CPX_{it} + \beta_7 IOW_{it} + \beta_8 BIG4_{it} + \varepsilon_{it}$ …….(3)

Where;

BTD = Discretionary (Total) Book Tax Difference, proxy for tax aggressiveness.
AGE = Firm age measured as current year less year of incorporation.
SIZE = Firm size measured as natural log of total asset.
ROA = Return on Assets; measured as the ratio of profit after tax to total asset.
LIQ = Liquidity measured as the ratio of cash to total assets.
LEV = Leverage measured as the ratio of total debt to total equity.
IOW = Institutional ownership measured as the value of institutional ownership.
CPX = Firm complexity measured as the number of subsidiaries.
BIG4 = Audit firm size/auditor type
α = constant.
β_1 to β_8 = the coefficient of the parameter estimate.
ε = the error term or residual.
i = ith firm for cross-section
t = time period

The modified model was given as:

$ETR_{it} = \alpha + \beta_1 LEV_{it} + \beta_2 SIZE_{it} + \varepsilon_{it}$ ……..i

Where;

ETR = Effective Tax Rate.
LEV = Leverage measured as the ratio of total debt to total equity.
SIZE = Firm size measured as natural log of total asset.
α = constant.
β_1 to β_2 = the coefficient of the parameter estimate.
ε = the error term or residual.
i = ith firm for cross-section
t = time period

Method of Data Analysis

The data were analysed using descriptive statistics and hypothesis was tested using regression analysis. This was done via E-view 9.0.

Decision rule

Accept the null hypothesis if the P Value is greater than 0.05 and then the alternate hypothesis will be rejected.

DATA ANALYSIS AND RESULTS

Table 1: Descriptive Statistics

	ETR	LEV	SIZE
Mean	0.769000	0.880979	21.97305
Median	0.770000	0.869543	21.97141
Maximum	2.230000	0.914618	22.88426
Minimum	0.110000	0.858065	21.28029
Std. Dev.	0.691865	0.022386	0.584191
Skewness	0.948700	0.645702	0.278514
Kurtosis	3.170252	1.709419	1.742530
Jarque-Bera	1.360916	1.249996	0.709316
Probability	0.506385	0.535262	0.701413
Sum	6.921000	7.928813	197.7574
Sum Sq. Dev.	3.829412	0.004009	2.730236
Observations	9	9	9

Interpretation

Table 1 presents the descriptive statistics for the dependent variable (ETR) and the independent variables (LEV and SIZE). The mean serves as a tool for setting benchmark. The median re-ranks and takes the central tendency. While the maximum and minimum values help in detecting problem in a data. The standard deviation shows the deviation/dispersion/variation from the mean. It is a measure of risk. The standard deviation is a measure that summarizes the amount by which every value within a dataset varies from the mean. It is the most robust and widely used measure of dispersion. The standard deviation in the tax revenues for the period 2012-2020 is 0.692, 0.022, and 0.584, for ETR, LEV and SIZE respectively. Skewness and Kurtosis are contained in Jarque-Bera. Positively skewed is an indication of a rise in profit while negatively skewed is an indication of loss or backwardness. Jarque-bera is used to test for normality; to know whether the data are normally distributed.

Test of Hypothesis

Ho_1: Leverage has no significant effect on tax avoidance of Nigerian consumer goods firms

Table 2: Regression analysis between LEV, SIZE and ETR

Dependent Variable: ETR
Method: Least Squares
Date: 04/25/22 Time: 09:24
Sample: 2012 2020
Included observations: 9

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.27856	9.675424	1.062337	0.3290
LEV	17.86043	26.83184	0.665643	0.5304
SIZE	-1.148873	1.028193	-1.117370	0.3066

R-squared	0.250870	Mean dependent var	0.769000
Adjusted R-squared	0.001160	S.D. dependent var	0.691865
S.E. of regression	0.691463	Akaike info criterion	2.361188
Sum squared resid	2.868729	Schwarz criterion	2.426930
Log likelihood	-7.625346	Hannan-Quinn criter.	2.219318
F-statistic	1.004644	Durbin-Watson stat	1.303434
Prob(F-statistic)	0.420409		

In table 2, a regression analysis was conducted to test the relationship between effective tax rate (ETR), leverage (LEV) and firm size (SIZE). R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the table 2, the value of R squared was 0.251, an indication that there was variation of 25% on ETR due to changes in LEV, and SIZE. This implies that only 25% changes in ETR of the tax avoidance could be accounted for by LEV, while 75% was explained by unknown variables that were not included in the model. The probability of the slope coefficients of leverage indicate that; P (0.530>0.05). The co-efficient value of; β_1= 17.860 implies that LEV is positively related to ETR, though not statistically significant at 5%. The control variable, SIZE probability of the slope coefficients of leverage indicate that; P (0.307>0.05). The co-efficient value of; β_1= -1.148873 implies that SIZE is negatively related to ETR, and also not statistically significant at 5%.

The Durbin-Watson Statistic of 1.303434 suggests that the model does not contain serial correlation. The F-statistic of the ETR regression is equal to 1.005 and the associated F-statistic probability is equal to 0.420, so the null hypothesis was accepted and the alternative hypothesis was rejected. Ttherefore, leverage has no significant effect on tax avoidance of Nigerian consumer goods firms.

CONCLUSION AND RECOMMENDATION

According to the findings and testing of the hypothesis, leverage had no significant link with tax evasion in Nigerian consumer goods companies. Despite the non-significance of the leverage variable, the positive coefficient produced in the model was expected because the study predicted that highly leveraged enterprises would have substantial incentives to evade taxes in order to conserve funds for debt service. As a result, the study suggests that leverage has little influence on tax evasion by Nigerian consumer products companies. The non-significance of the result, on the other hand, may be explained by the hypothesis that enterprises with high debt levels were under less pressure to use non-debt tax shelters and were more likely to benefit from administrative tax exemptions.

The study concluded that, because there were indications, though not statistically significant, that leveraged firms may have strong incentives to avoid taxes in order to preserve cash to service their debt burden, tax authorities should develop appropriate tax holiday policies that would allow genuinely struggling firms to emerge from distress without resorting to aggressive tax avoidance measures.

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