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The Moderating Effect of Profitability on the Relationship Between Ownership Structure and Corporate Tax Avoidance in Nigeria Listed Consumers Goods Firms

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ABSTRACT

The study examined the moderating effect of profitability on the relationship between ownership structure and corporate tax avoidance of listed consumers' goods firms in Nigeria. Ownership structure was proxies by managerial ownership, institutional ownership and foreign ownership, tax avoidance was measured by GAAP effective tax rate while profitability was measured by return on assets (ROA). Secondary data was extracted from the sampled firm annual report and accounts. The data were analysed using Generalized Least Square (GLS). The study revealed a negative and insignificant relationship between institutional ownership and corporate tax avoidance. Similarly, the moderating effect of ROA on foreign ownership encourages tax avoidance. The study recommended that tax authorities should carry out stringent tax audit and investigate the activities of firms to ensure that tax avoidance of firms is within the armpit of tax law. If this is done, it will help to know if firms are paying the actual taxes they supposed to pay or not. The study also recommends that government should review the provisions for tax allowances and relief granted to corporate entities because most of the firms reported losses in some years in order to take advantage of loss relief while other purchase non-current to enjoy capital allowances. If this is done it will enhance government revenue generation through tax and increase GDP via tax-revenue. The study contributes to the existing knowledge in two ways. First, the practical contribution is that the major finding of the study implies that high profitability encourages foreign investors to invest in Nigeria firms. Second, the theoretical contribution is that the study adds to the existing literature on tax avoidance by considering the moderating effect of profitability because no study used profitability study moderating effect.

Keywords: Ownership Structure, Corporate Tax Avoidance, Moderating Effect of ROA, Consumers' Goods Firms, Nigeria.

1. INTRODUCTION

Tax is the major source of revenue to the government of every developing economy. Similarly, tax is also a major concern for companies because of its impact on companies' income. Indeed, it remains a misfortune and is considered as a significant cost for companies because it removes a part of the benefits without immediate compensation (Jihene and Moez, 2019). Tax is considered as compulsory levies on taxable individual and corporate bodies. The issues of tax avoidance have been a predicament that called the attention of researchers from the inception of tax legislations and are prevalent in every country where taxes are levied which Nigeria is not an exception (Andreoni, Erard and Feinstein, 1998; Uadiale, Fagbemi and Ogunleye, 2010; Annuar, Salisu and Sheikh-Obid, 2014). This problem is most common with corporate taxpayer than corporate entities.

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The objective of every organization is to maximize the wealth of the shareholders. Corporate owners such as managerial owners, institutional owners, foreign owners put in place every legal means to achieve this objective by engaging on tax avoidance to reduce their tax expenses. Tax, on the other hand, is an important source of revenue to the government for the development of a country. The government needs fund in order to carry out its constitutional objectives such as infrastructures provision and maintenance, resource redistribution, employment generation, and economic development. Despite the benefits provided by taxes to nations, tax non-compliance and loss of tax payment which tax avoidance is one of the manifestations, is an issue prevalent in every society and it is as old as the tax itself (Uadiale, Fagbemi and Ogunleye, 2010).

Recently on 08 September 2019, the British Broadcasting Corporation reported that Nigeria could be facing a fiscal crisis if it does not improve its ability to generate more revenue through the collection of taxes. They further provide that government expenditure has doubled and debt servicing increases but revenues have missed their target by at least not less than 45% since 2015. For instance, Federal Inland Revenue Service targeted revenue of eight (8) trillion naira in 2018 but only collected 5.32 trillion. Despite the facts that this is the highest revenue collection in Nigeria history, but they could not meet the targeted revenue. The breakdown by Chairman of FIRS Mr Tunde Fowler reported that 46.38% of 2018 revenue was generated from oil source of revenue while the remaining 53.62% were generated from a non-oil source of revenue. This poor revenue generation could be attributed to tax avoidance which most corporate owner employed in order to reduce tax expenses.

Ownership structure has been identified as one of the corporate governance mechanisms that influence corporate tax avoidance. Studies have revealed that corporate ownership has both positive and negative impact on corporate tax avoidance studies like Peter (2019), Mohammed (2017), Boussaidi and Hamed (2015), Annuar *et al*. (2014), and Zhou (2011). Zhou (2011) found that state ownership and lower proportion of controlling shares pursue low aggressive tax strategies and maintain higher ETRs. Some business' owners might intend to increase their income by exploiting the loophole in the tax law. The relative amount of stock owned by individual shareholders is often measured by ownership concentration. Very concentrated ownership can improve monitoring and reduce agency costs, but large shareholders can expropriate smaller investors or harm performance by monitoring managers in an excessive manner (Machek and Kubicek, 2018).

Ownership structure aspect deals with having an individual, institution, government, family or managers with a reasonable unit of shares in a company, the quantum of managerial shareholding, ownership of shares by other institution and foreign shareholders are regarded as key internal governance mechanisms that ought to provide effective monitoring measures over management (Mohammed, 2017). The level of share held by managers as well as foreign ownership will encourage managers to engage in tax avoidance in other to serve their interest not possible for other investors. This may collapse a firm and equally affect economic growth. The objective of this study is to investigate the moderating effect of profitability on the relationship between ownership structures and corporate tax avoidance.

2. LITERATURE REVIEW

This chapter presents the review of related literature on the concept of ownership structure, profitability and corporate tax avoidance, and theoretical framework. Related empirical studies were also reviewed in this chapter.

2.1 Concept of Ownership Structures

Ownership structures are the unit and value of shares held by directors/managers, other corporate bodies (institution), foreigners, government, and family. According to Peter (2019), ownership is the stockholding by shareholders and directors which include shares held by directors/managers, institutional shareholding, shares held by foreigners, concentrated shareholding, government shareholding, and family ownership. He further states that institutional ownership and foreign ownership are external corporate governance mechanism. Ownership structure can be considered as both internal and external corporate governance mechanism. Lietz (2013) asserts that ownership structure is also one of the mechanisms of corporate governance. Theoretical assertion provided that concentrated ownership is a direct way to align cash flow and control rights of outside investors (Shleifer and Vishny, 1997).

Jensen and Meckling (1976) viewed ownership structure from agency problem with regard to separation of the ownership and control over the business activities. Peter (2019) opined that ownership structure is not only concerned with agency cost, but also other vital factors that will influence the companies which may include votes, capital, and the identity of equity of ownership. Demsert and Lehn (1985) asserted that other factors may influence the ownership structure of companies which include the size of the company, control potential, regulating systems, potential comfort from corporate outcomes (Peter, 2019). Institutional ownership, foreign ownership, owner's concentration helps to monitor the activities of managers and reduced agency problem which in turn enhance shareholders' wealth.

Managerial ownership deals with a member of the board having shares in a company. Ownership by a member of the board creates means for the managers to protect their financial interest in the company (Boussaidi and Hamed, 2015). In order to reduce agency, cost and conflict of interest managers are allowed to hold some proportion of company shares. Managerial ownership in a company motivates managers to protect their interest which they may likely engage in tax avoidance. Zhou (2011) found that the higher the percentage of directors' interest, the lower the effective tax rate.

Institutional ownership is the shares held by other corporate bodies in another corporate entity. Institutional ownership can include shares held by mutual funds, pension companies, hedge funds, insurance companies, banks, among others. Institutional ownership can serve as means to monitored and control behaviour of managers which will make them maximize the wealth of the shareholders. This is achieved since owners such as institutional owners put in more trusteeship responsibility and motivation that will earn more to the firms and lead to maximization of shareholders' wealth. According to Boshe (2001), institutional ownership trusteeship responsibility gives room for additional incentives to make decisions that will lead to maximization of shareholders' wealth. Furthermore, foreign ownership as one of the ownerships structures implies the number and value of shares owned by foreigners that are non-citizen of where the company is domicile. Recently, it has been observed by Shamimul, Rashidah, and Zabid (2016) that companies that conduct operation locally and have foreign investors, such companies would over or understate their earnings in order to meet the demand of the foreign owners.

2.2 Concept of Profitability

Profit is one of the major objectives of every profit-making entity. According to Nasution (2020), without profit, the company cannot meet up with its other objectives such as ongoing concern, and corporate social responsibility, among others. He further opined that Profit which is the company's paramount aim can be achieved by selling goods or services to their customers. This indicates that when a firm successfully sold a high volume of goods and services, higher profit will be generated by the company. Firms that experience growth are characterized by high volume of sales increase, distinguished competencies, and diversified product lines (Wang, Akbar, and

Akbar, 2020). According to Nimalathasan (2009), profit is the core objective of any business entity, which is not only measured by a product success, but also of the improvement of the market. Furthermore, profitability is the ability of a business entity to generate profit through effectively used of available resources. Profitability is the stage at which business entity inflows of resources are more than outflows of resources. Similarly, Weidenfeld and Nicholson (1970) opined that profit is the reward to the owner of capital but with the return to capital as objectives to business entity activities (Nishantini and Nimalathasan, 2013).

The paramount aims of any business entity are to make profits in order to prevail in the transitional economic and market conditions. Pathirawasam and Wickremasinghe (2012) established that equity investors are the owners of the firm they are more concerned about the profitability of their firm in order to maximize wealth. Firms put in all strategies and designed in order to achieve high profitability. Furthermore, profitability is an indication of efficiency and it is used to measure the control and worth of investment to owners, the margin of safety to creditors, pools of benefits to employees, to the Government as a measure of taxable capacity and the basis to take legislative action, to the country revenue is the index of economic growth and development and rise in the standard of living of the citizens (Weston and Brigham, 1968). Contrary to Waston and Brigham view, Tulsian (2014) stated that using profit as business organization efficiency is irrelevant. He further said that high profitability does not always indicate sound organizational efficiency nor low profitability always indicates organizational poor performance.

2.3 Concept of Corporate Tax Avoidance

Tax avoidance does not have a universally accepted definition. However, Murphy (2003) defined tax avoidance as the process whereby taxpayer round tax law without breaking the tax law, however, his definition did not state the purpose of why taxpayers round the tax law without breaking the law. The purpose of the taxpayers rounding the tax law is to reduce tax expenses. Tax avoidance can be considered as a strategy employed by taxpayers to reduce tax expenses within the armpit of the law. Tax avoidance involves means of exploiting the loophole in the tax law to reduced tax expenses by companies. Tax avoidance is legal as long as is within the armpit of the law, however, it becomes illegal and will be penalized if such act was carryout outside the tax law. Act of avoiding paying tax is known as tax evasion. According to Salihu, Sheikh-Obid and Annuar (2013) and Salihu (2014), corporate tax avoidance is a decrease or absolute reduction in the explicit corporate tax liabilities. Management used tax avoidance to maximize shareholders' wealth or their interest.

There are several methods in which taxpayers take advantage of, by exploring the loophole in the tax law to reduce tax liability. These opportunities include the advantage of statutorily deductible allowances, applications for statutorily approved reliefs, use of tax favoured investments to various other ingenious schemes (Mohammed, 2017). Taxpayer also used either profit sharing/income shifting or changing the characteristics of their income to reduce the amount payable for tax purpose. Stiglitz (1985) established a theory of tax avoidance by providing three principles that taxpayer can apply in relation to avoidance of taxes, the ability to postpone taxes, tax arbitrage across taxpayer with different tax brackets or different marginal tax rate at different times and tax arbitrage across income streams facing different tax treatments. These principles are similar to income shifting, tax haven and transfer pricing.

Income shifting is the ability of taxpayers to move or shift income between different tax bases. This is a situation where the total amount of assets, income that can be taxed by the tax authority is shifted from high to low tax brackets individuals. It can be within a country or from one country to another. On the other hand, transfer pricing is a situation where intra-group prices for certain goods that are traded within the same group of companies at different location are manipulated to ensure maximum tax savings. It is more common with Multinational Corporations (MNCs) and group company structures, shift income to avoid being taxed at a higher statutory tax rate (Rego, 2003). Tax havens are mostly in countries that give foreign individuals or corporate entities a low rate of tax. Companies take advantage of the previously mentioned method of tax avoidance to reduce tax payable.

2.3.1 Nexus between Managerial Ownership and Tax Avoidance

In order to align the interests of the managers and those of the shareholders, the managerial ownership is used. The managerial ownership is used to help to remedy agency problems and conflict of interest between the managers and shareholders. If managers have a stake (holds shares) in the company, they will put more effort to reduced tax expenses in order to increase the company's earnings which will, in turn, favour them. When deciding for capital investment, managers would like to take the investment tax credit into account if the firm uses an after-tax bonus plan. Manager-controlled companies concern is in maximizing self-interest instead of maximizing shareholder wealth (Ariffin, 2007). He further opined that one of the direct hints to create a higher wealth transfer is the use of taxes. The lower the tax paid, the higher the wealth to managers as compensation on an after-tax basis. When managers paid less tax, they may be compensated by shareholders for such efforts.

According to Salaudeen and Ejeh (2018), managers may not like to lower effective tax rates in order to increase shareholders' wealth because this does not directly benefit them. If managers do not have any proportion of shares in a company, they may not have any interest in tax avoidance as it will not benefit them. On the other hand, if they have shares in a company, they may engage in tax avoidance to increase their wealth. Badertscher, Katz and Rago (2013) argued that managerial ownership firms do not have incentives to manage taxes by reducing taxes in the sense that managers are risk-averse in taking an investment decision.

Dyreng, Hanlon and Maydew (2010) observed that managers contribute significantly in influencing the tax planning activities of firms such as Chief Executive Officers (CEOs). Salaudeen and Ejeh (2018) established that activities that are capable of influence a firm's tax aggressiveness such as budgeting to hire tax experts to reduce tax expenses are handled by managers although they are not directly responsible for developing tax strategies. Desai and Dharmapala (2006) asserted that tax planning is the result of managers-shareholders' agency conflicts. For the purpose of achieving self-interest, managers' managerial ownership may affect tax avoidance either positively and negatively even though numerous arguments above show that the connection between managerial ownership and tax avoidance is still unclear.

2.3.2 Nexus between Institutional Ownership and Tax Avoidance

Institutional ownership is the proportion of shares held by institutional shareholders in a firm. For instance, insurance companies, pension funds, hedge funds among others (Peter, 2019). Shleifer and Vishney (1986) asserted that institutional investors would have a keen interest in the economics of companies because of their huge investment and voting power. By so doing they may like managers to also give more attention to economic performance which will benefit them and exploit all kinds of opportunities for self-interest by the managers. Khan, Suraj and Liang (2017) argued that institutional investors do not need explicitly and specifically promote tax avoidance for two reasons. First, their interest is in increasing shareholders' wealth that is earnings after-tax, this wealth maximization can be achieved by the combination of any available cost-reduction strategies to managers. This implies that if the right strategies for cost reduction are put in place by managers, shareholders' wealth would be increase without involving tax avoidance. They believed that managers are likely to heightened incentive in order to show better after-tax performance to justify their compensation to new institutional investors who, as new owners, who are more likely to assess the pay-performance relation. Second, tax avoidance is a politically charged issue that can attract unfavourable attention from media, government, and consumer and public interest groups toward both the firm and its large investors in a term referred to as tax-shaming (Barford and Holt 2013). Many institutional investors manage pension, premium and other funds for a large per cent of the general public, and tax shaming could result in adverse private consequences for managers of these funds and reduce the firm reputation (Khan, et al., 2017).

Institutional ownership may reduce agency problem because of their stringent monitoring of the activities of the firm carryout by managers. This will make managers to properly used funds realized from tax saving in order to increase firm financial performance. According to Khurana and Moser (2009), companies with higher levels of long-term institutional ownership are less tax aggressive because institutional owners are more concerned with long-term consequences of tax avoidance strategy. They further opined that in contrast, higher levels of short-term institutional ownership would lead to more tax reduction as institutional owners are more concerned with short-term profits making. Ying (2015) argued that institutional ownership has stringer incentives to monitor as well as influence managers for protecting the investment of the institutions.

2.3.3. Nexus between Foreign Ownership and Tax Avoidance

Foreign ownership may have nexus with tax avoidance. According to Grubert and Mutti (1991), Hines and Rice (1994), and Kinney and Lawrence (2000) found that developed countries multinational companies such as the U.S. paid low taxes in their host countries regardless of the level of profitability (Annuar, *et al.,* 2014). However, this has not been intensively examined in developing countries, especially in Nigeria. Foreign shareholders may force managers to strategies on how to reduce taxes because of the low level of tax payment in their countries in order to increase their earnings. According to Peter (2019), foreign ownership will increase the level of capital income taxation that may materialize where there is no international tax policy coordination. He further established that foreign ownership is affected if countries increase their welfare through coordination of tax policies and the tax coordination policy will either increase or decrease the capital income tax levels. A method by which firms with foreign operations reduce their tax expenses is by shifting income and expenses between high- and low-tax jurisdictions (Kartz, Khan, and Schmidt, 2013).

2.3.4. Moderating Effect of Profitability on Relationship between Ownership Structure and Tax Avoidance

Profitability is the measuring of firm financial performance. Profitability is used as a technique to ascertain the ability of a firm to generate profit in a particular accounting year or various accounting years. Higher profitability indicates the better financial performance of a firm. Yuniarwati, Dewi and Lin (2017) opined that if companies have a high profitability such company will not take tax avoidance strategy to reduce the tax burden. The profits earned by the company will determine the amount of income tax need to be paid by the company. Increased or decrease in earnings that affect the income tax may cause the company to make tax avoidance. Kurniasih and Sari (2013) asserted that the value of firm net profit will affect the amount of its profitability. High profitability can provide an opportunity for companies to conduct tax planning, which aims to reduce the amount of tax liabilities (Yuniarwati and Dewi and Lin, 2017).

Profitability as moderating variables can either increase or decrease firm tax avoidance. This study examined the level of company's tax avoidance whether higher or lower profitability was earned. High-level profitability should theoretically decrease firms tax avoidance. If a firm has more cash in its disposal, it is expected not to avoid tax.

2.4 Empirical Studies

Peter (2019) investigated the impact governance mechanisms on tax planning in listed Nigerian non-financial service from 2008 to 2017. The study used secondary data obtained from the sampled firms annual reports and accounts. The study employed descriptive statistics, Pearson correlation and Generalized Least Square (GLS) to test the formulated hypotheses. The study finds that managerial ownership and institutional ownership has a positive and insignificant relationship with Effective Tax Rate (ETR) while foreign ownership has a negative and insignificant effect on ETR. The study uses leverage and ROA as control and it revealed a positive and significant relationship between leverage, ROA and ETR. Salaudeen and Ejeh (2018) ascertained the effect of equity ownership structure and corporate tax aggressiveness in Nigeria non-financial service companies. The data were extracted from the annual reports of 40 non-financial firms that made up the sample of the study from 2010 to 2014. The study reveals that ownership concentration has a positive but insignificant effect on ETR while the effect of managerial ownership on ETR was found to be significantly negative. Furthermore, the results show that leverage is significantly and negatively related to tax aggressiveness while return on assets is positively related to tax aggressiveness. Firm size has no significant relation with tax aggressiveness. While Machek and Kubicek (2018) investigated the relationship between ownership concentration and performance in the Czech Republic. The study employed secondary data extracted from Czech listed firms from 2007 to 2015. The study used Ordinary Least Square (OLS) to analyse the data. The study found that ownership concentration has a negative and significant relationship with ROA and a positive and significant relationship with Return on Equity (ROE).

Mohammed (2017) assessed the impact of corporate governance on tax avoidance in Nigeria deposits money banks. The study used 14 out of the 15 listed DMBs on the Nigeria stock exchange (NSE). Data for the study were sourced from secondary sources from the annual financial statements of the studied DMBs for the period 2006 to 2014. The study employed the Arellano-Bond Generalized Method of Moments (GMM) estimation technique to analyse the data. The study finds that ownership concentration has a negative and significant impact of ETR, it also documented positive and insignificant relationship between board shares (managerial ownership) and ETR while the moderating effect of board independence on the relationship between ownership concentration and ETR has a positive and insignificant impact on ETR similarly, the moderating effect of board size on the relationship between ownership concentration and ETR is positive and insignificant. The study used ROA, firm size, and leverage as control variables. However, it revealed that ROA and firm size have a negative and significant effect on ETR while leverage has a positive and insignificant relationship with ETR. Khan et al. (2017) examined the effect of institutional ownership on corporate tax avoidance in China. The use of secondary data was obtained from Chinese listed firms. The study used multiple regression. It was found that institutional ownership has a positive and significant influence on ETR. However, Yuniarwati et al. (2017) studied the factors that influence tax avoidance in Indonesia Stock Exchange from 2013 to 2015. They employed multiple regression to analyse the secondary data. This study used a sample of one hundred and fifty-three samples. The study revealed that profitability influences tax avoidance while the proportion of independent commissioners, audit committee, audit quality, and firm size do not influence tax avoidance.

Salawu and Adedeji (2017) assessed the impact of corporate governance on tax planning in Nigeria listed non-financial service companies. The study used 50 companies as sampled size. The data used in the study were collected from the audited financial statement of the selected non-financial listed companies in Nigeria. The study used generalizes method of moments (GMM) to analyse the data. The result showed that there is a positive and significant relationship between ownership concentration, managerial ownership and ETR. Similarly, firm value (TobinQ) and firm size have a positive and significant relationship with Effective Tax Rates (ETR). In the same vein, Boussaidi and Hamed (2015) examined the impact of governance mechanisms on tax aggressiveness, empirical evidence from Tunisian. The study is based on the analysis of a sample of Tunisian listed firms over the 2006-2012 periods. The study employed multiple regressions to analyse the data extracted from the firm's annual reports and accounts. The study revealed that managerial ownership has positive and significant effects on firms` tax aggressiveness activities. Yetty, Eka and Eneng (2016) examined if institutional ownership, board independence, board composition, and leverage affect tax planning. The study used 99 listed manufacturing firms on Indonesian stock exchange for the period of 2010-2014. The study employed Non-parametric statistics to analyse the data. The results revealed institutional ownership has a significant effect on tax planning. Andrew and Stephen (2015) ascertained whether institutional ownership affects tax planning using changes in Russell 1000/2000 index membership over the U.S. They find that institutional ownership significantly decreases ETR and prioritization of cash over book tax savings of the selected firms. Hairu *et al.* (2014) investigate the effect on ownership structure and tax avoidance of listed firms in Malaysia. They used panel data from the annual report and accounts of the sampled firms. The study revealed that foreign and family ownership is associated with tax avoidance.

3. METHODOLOGY

The research design used in this study is the quantitative research design which is line with the positivism lens or worldviews (Creswell, 2014). The positivism views reality as one as they believed that truth is one and researchers have not influenced on what is being studied. The design is believed to be adequate and appropriate for the measurement of the moderating effect of profitability on the relationship between ownership structure and corporate tax avoidance because the data used are numerically extracted from the annual reports and accounts of the sampled companies. The quantitative design enables the study to confirm and test the applicable theories, data collected, techniques of analysis and validate the formulated hypotheses. According to Creswell (2012), quantitative designs are divided into three; experimental, survey and correlational designs. This study employed correlational research. This design is suitable for this study because it can predict the effects of one variable(s) on other variables as well as the relationship between two or more variables.

In order to arrive at the sample size for the study two-point filters was used. The criteria are the firm must be listed before the year 2009 and may have not been delisted during the period of the study (2008 to 2018) and the firm must have required data for the study. As a result of the above criteria, 13 firms meet the requirement to form the sample size of the study.
Data used in this study were obtained from a secondary source. The secondary source is the annual report and account of the selected consumers' goods firms listed on the Nigeria Stock Exchange (NSE). The data obtained from these sources were on managerial structures, institutional ownership structures and foreign ownership structures which are the independent variables, ETR is the dependent variable and firms' size, firms' age and leverage are the control variables.

The independent variables are ownership structure, institutional ownership, and foreign ownership. The moderating variables are the interaction effect of ownership structure, institutional ownership, and foreign ownership. The dependent variable is corporate tax avoidance measured by GAAP Effective Tax Rate (ETR), while the control variables are firms' size, firms' age, and leverage.

Table 1 Measurement of Variables

Variable	Variable Type	Measurement
Effective Tax Rate	Dependent	Tax expenses divided by pre-tax income (Salaudeed and Ejeh, 2018; Soyono, 2018; Boussaidi and Hamed, 2015)
Managerial Ownership	Independent	Percentage of shares held by directors/managers (Salaudeen and Ejeh, 2018; Boussaidi and Hamed, 2015).
Institutional Ownership	Independent	The proportion of shares owned by institutions such as pension companies, insurance companies etc. (Khan, et al., n.d.)
Foreign Ownership	Independent	The proportion of shares owned by foreign investors (Annuar, et al., 2014).
ROA	Moderating	Profit after tax and interest divide by total assets (Siyanbola, 2018; Salawu and Adedeji, 2017).
MO*ROA	Moderating	Interaction between the proportion of managerial ownership and Return on Assets.
IO*ROA	Moderating	Interaction between the proportion of institutional ownership and Return on Assets.
FO*ROA	Moderating	Interaction between the proportion for foreign ownership and Return on Assets.
Firm size	Control	Natural Log of Total assets (Salaudeen and Ejeh, 2018; Usman, 2015; Annuar, et al., 2014; Hadeel and Asmaa, 2013.).
Firm age	Control	Natural Log. of firm age, age is the age of firm from date of listing (Ozgur, Mehmet and Cihan, 2010)
Leverage	Control	Total liabilities divided by Total assets (Peter, 2019; Suyono, 2018; Annuar, et al., 2014)

Source: Author's Computation (2019).

3.1 Techniques of Data Analysis

The study employed three techniques to analyse the extracted data. These techniques are descriptive statistics, correlation, and multiple regressions.
Description statistics was used to ascertain the nature of the data generated. It was also used to measure of central tendency and dispersion for the study. These descriptive statistics include mean, standard deviation, minimum and maximum values of the variables.
The correlation was used to ascertain the relationship between the dependent variable and the explanatory variables. In order to achieve this, Pearson product-moment was employed (Siyanbola, 2018).

The multiple regression was used to examine the impact of the explanatory variables on the dependent variables (Peter, 2019). Multiple regression is suitable for this study because of the nature of the data considering combines of time series and cross-sectional data and it can explain any variation in the dependent variables resulted from the change in explanatory variables.

A multiple regression equation was set up to investigate the hypothesized relationships between the dependent variable and the explanatory variables in this study. The regression model was used because it assumed linearity and normality and it ascertains the impact of the explanatory variables on the dependent variable. The regression models used are given as:

$$\text{ETR} = \beta_{0it} + \beta_1 MO_{it} + \beta_2 IO_{it} + \beta_3 FO_{it} + \beta_4 FS_{it} + \beta_5 FA_{it} + \beta_{06} Lev_{it} + e_{it} \quad (1)$$

$$\text{ETR} = \beta_{0it} + \beta_1 MO_{it} + \beta_2 IO_{it} + \beta_3 FO_{it} + \beta_4 MO_{it} * ROA_{it} + \beta_5 IO_{it} * ROA_{it} + \beta_{06} FO_{it} * ROA_{it} + \beta_7 FS_{it} + \beta_8 FA_{it} + \beta_9 Lev_{it} + e_{it} \quad (2)$$

Where,

ETR	=	Effective Tax Rate
β_0	=	intercepts autonomous variable
β_1 - β_9	=	the regression coefficients in the explanatory variables
it	=	time for intercepts
MO	=	Managerial Ownership
IO	=	Institutional Ownership
FO	=	Foreign Ownership
ROA	=	Return on Assets
FS	=	Firm size
FA	=	Firms age
Lev	=	Leverage
*	=	Interaction
ϵ	=	Random error Term

Model 1 was used to test hypothesis 1, 2 and 3, while Model 2 was used to test hypothesis 4, 5 and 6. The hypotheses were tested at 0.1 level of significance and 90% confidence level. The decision rule is that when the p-value is greater than 0.1, the null hypothesis will not be rejected, whereas if the p-value is less than or equal to 0.1, the null hypothesis will be rejected.

4. RESULTS AND DISCUSSION

Robustness test is a test which is done to ensure the validity of all statistical inferences for the study in order to assess the impact of distribution problems and outliers before deciding on the appropriate statistical method for the study such as parametric statistics. These tests include multicollinearity, heteroscedasticity, normality of residuals and Hausman test. The tests are discussed as follows.

4.1.1 Multicollinearity Test

Multicollinearity test is used to check for the presence of multicollinearity between independent variables, correlation coefficients and variance inflation factors (VIF) with tolerant values. This study employed VIF to check whether the explanatory variables of the model suffer from multicollinearity. The VIF over 10 should be taken as an indication of harmful multicollinearity (Neter, Wasserman and Kutner, 1989; Gujarati, 2008), and the result of the test shows that the maximum VIF is 4.35 and the minimum VIF is 1.39 and these are less than 10 which indicate the absence of multicollinearity.

4.1.2 Heteroskedasticity Test

The result of Breusch-pagan/Cook-weisberg test and Cameron and Trivedi's decomposition of imtest was employed for heteroskedasticity test. The test reveals that the data are free from heteroskedasticity at 0.0811 and 0.0475 for Model 1 and Model 2, respectively.

4.1.3 Normality Test

Normality implies that errors (residuals) should be normally distributed. The Shapiro-Wilk test shows that the data are normally distributed. The Shapiro-Wilk test for normal data is less than 5.

4.1.4 Hausman Test

The Hausman test is performed to decide between the random effect and fixed effect model estimation. The fixed effect estimator assumed that the intercept does not vary over time. This implies that the intercept is time-invariant and correlate with the explanatory variables. While the random effect states that intercept differs over time and does not correlate with the explanatory variables. The decision rule is that if the Hausman test probability chi-square is equal to or less than 0.05 the fixed effect should be used and if the probability chi-square is greater than 0.05 the random effect should be used. The results of the test for the two models are greater than 0.05 level of significance which implied that the random effect estimation was used.

4.2. Discussion of Results

This section shows the results of the analysis conducted on the data collected from the annual reports and accounts of the sampled consumers' goods firms for the period of the study. It includes descriptive statistics, correlation, and regression results.

4.2.1. Descriptive Statistics

Table 2 Descriptive Statistics

Variables	Obs.	Mean	Std. Dev.	Min	Max
ETR	143	0.2551	0.030	0.0021	0.5197
MO	143	0.0220	0.0464	0.00001	0.1812
IO	143	0.3349	0.2257	0.00006	0.8333
FO	143	0.2876	0.2804	0.0000	0.7601
MO*ROA	143	0.0028	0.0067	0.00011	0.0397
IO*ROA	143	0.0429	0.0566	0.00005	0.3268
FO*ROA	143	0.0336	0.0478	0.0000	0.2097
FS	143	10.6152	0.6478	8.9237	12.083
FA	143	1.4087	0.2246	0.0000	1.7243
Lev.	143	0.3848	0.2627	0.0016	1.4347

Source: STATA 14 Output from data Extracted from Annual Report and Accounts.

Table 4.1 shows that the dependent variable, ETR has a minimum value of 0.021 and a maximum value of 0.5197. This shows the minimum and maximum rate of tax paid by the sampled firms. Mean of ETR for the period of the study was 25.51% with a standard deviation of 0.093. The standard deviation is lower than the mean this indicates that there is no significant variation between the ETR of the selected firms within the period of the study. The mean of the ETR is below the statutory corporate income tax rate of 30% in Nigeria implies the selected firms engage in stringent tax planning to avoid high tax expenses.

The independence variables are managerial ownership, institution ownership and foreign ownership. The mean for managerial ownership 0.0220. This indicates that within the period of the study managers owned average shares proportion of 2.20% of the sampled companies while the remaining 97.80% shares are owned by shareholders who are not a director in the sampled firms. The standard deviation of the managerial ownership is 0.0464. This indicates there is a wide variation of shareholding of managers among the selected within the period of the study as confirmed by the maximum of 18% and a minimum of 0.0011%. The Table also revealed that institutional ownership of the sampled consumers' good firms has a mean of 33.49%. This provides that about 35% average proportion of the selected firm shares are owned by institutional investors while the remaining 65% is owned by other investors other than institutions. The standard deviation is 0.2257 this means that institutions shareholding among the sampled firms is widely varied. The range is from a minimum of 0.06% to a maximum of 83%

indicative of wide variation in institution ownership during the period of study. Foreign shareholding for the period ranged from a minimum of 0.000% to a maximum of 76%. This suggests a wide variation in foreign ownership in the sampled consumers' goods firms. Mean for foreign ownership for the period under study was 28.76%. This implies that the average shares owned by foreign is about 28.76%, while the remaining 62.24% shares of the selected consumers' firms are owned by Nigerian. The standard deviation of foreign is 0.2804 indicating that there is no difference between shares owned by foreign investors among the sample firms. It also means that foreign investment in Nigeria consumers goods firms is low.

The mean value for the interaction between managerial ownership and return on assets is at the average of 0.0028. with a standard deviation of 0.0067. This implies there is no significant difference between the interaction of ROA on managerial ownership in the selected firms as the standard deviation is less than the mean. The range is within a maximum of 0.03297 and minimum of 0.000011. The mean of the moderating effect of ROA on the relationship between institutional ownership and ETR has the mean of 0.0429. This indicates the average effect of ROA on institutional ownership. The moderation effect is 4% and the standard deviation is 6% this implies that the interaction is widely dispersed among the selected firms as supported by the maximum of 32.68% and minimum of 0%, while mean interaction between ROA and foreign ownership was 0.0336 with a standard deviation of 0.0478. This indicates that ROA moderate foreign ownership at an average of 3% and the variation is 0.0478 implies insignificant variation among the selected firms.

The control variables of the study are firm size (Ln Total Assets), firm age (Ln of the age of listing) and leverage. The firm size for the period of the study ranged from a minimum of 8.9237 to a maximum of 12.083. The mean of 10.6152 with a standard deviation of 0.6478. This indicates that there is a significant difference between the size of the selected firm. The size of some firms is larger than others. The mean for firm age is 1.4087 and standard deviation of 0.2246 indicative of wide difference among the selected firms in respect to their year of listing on Nigeria Stock Exchange (NSE). The minimum value is 0 and the maximum value is 1.7245. The mean value of leverage was 38.80% with a standard deviation of 0.2627. The mean is 38.48% and is highly dispersed from the standard deviation of 26.27% as such suggests that mean leverage among the sampled firms is not the same and are widely spread among the sampled firms. Moreover, the leverage for the sampled consumer goods firms within the period of the ranged from a minimum of 0.0016% to maximum of 104%, indicating that some firm's debt is higher than total assets. This also implies the high variation of debts among the selected consumer goods firms and high debt capacity that can be used for tax avoidance.

4.2.2. Correlation Matrix

Table 4.2 shows the correlation coefficients on the relationship between the dependents and the explanatory variables. The values of the correlation range from -1 to +1. The symbol of the correlation coefficient indicates if the relationships between the variables are positive or negative. The absolute value of the correlation coefficient and larger indicates the strength of the relationships. The correlation coefficients on the main diagonal are 1.000 for all the variables, which indicate a perfect and positive linear relationship that each variable has with itself.

Table 3 Correlation Matrix

Var.	ETR	MO	IO	FO	MO*ROA	IO*ROA	FO*ROA	FS	FA	Lev
ETR	1									
MO	0.06	1								
IO	0.02	-0.12	1							
FO	0.18	-0.25	0.32	1						

MO*ROA	0.18	0.73	-0.12	-0.24	1					
IO*ROA	0.13	0.09	0.59	0.10	0.08	1				
FO*ROA	0.15	-0.20	0.22	0.60	-0.14	0.50	1			
FS	-0.00	-0.48	0.06	-0.01	-0.33	0.20	0.25	1		
FA	0.14	-0.04	0.36	0.41	-0.09	0.11	0.31	-0.06	1	
Lev.	-0.02	-0.13	0.06	0.20	-0.19	-0.29	-0.17	-0.26	0.03	1

Source: STATA 14 Output from data Extracted from Annual Report and Accounts.

From table 4.2 the correlation between ETR and managerial ownership is a positive coefficient of 0.0636. This indicates a weak relationship. The positive coefficient implies that managerial ownership and tax avoidance are moving in the same directions. This suggests that if managerial ownership increase ETR will equally increase. Similarly, institutional ownership has a positive relationship with ETR that is R of 0.020. The sign of the coefficient suggests that that institutional ownership and ETR are moving in the same direction that is as institutional ownership increases ETR also increases. In respect to the strength of association, the association between institutional ownership and ETR appears weak. Foreign ownership and ETR possesses a positive but weak relationship at the coefficient correlation of 0.1796. The sign of the association means that as foreign ownership increases, ETR increases as well. It also means foreign ownership and ETR are moving in the same direction. It also implies that ownership structure does not encourage tax avoidance in the sampled firms.

All the interaction effect of ROA on managerial ownership, institutional ownership and foreign ownership has a positive relationship with ETR having a correlation coefficient of 0.1823, 0.1281 and 0.1537, respectively. However, the relationships are weak. The positive relationship suggests that as the moderating effect of ROA on the managerial ownership, institutional ownership and foreign ownership increase ETR also increase. All the interactions are moving in the same direction with ETR. However, the strength of association between the dependent variable and the independent variables is small with that of the interaction terms appearing to be strongest. However, as Cohen (1992) cautions small effect sizes, of which the correlation coefficient measures, need not necessarily be trivialized in forming a basis for estimating the extent of the relationship between variables (as cited in Mohamed 2017).

In term of control variables, the correlation matrix reveals that firm size is negatively correlated with ETR at a correlation coefficient of -0.004 this implies that as firm size increases, ETR decreases in the sample firm. Firm age is positively correlated with ETR at a correlation coefficient of 0.1410. The sign of the coefficient means that as firm age increase ETR is increasing as well in the same proportion. Leverage is negatively correlated with ETR that is R of -0.0163 meaning that ETR is decreasing as leverage for the selected consumers' goods firms is increasing. Finally, none of the independent variables nor controls appear highly correlated with each other. Since there are no correlations that exceed or is equal to 0.8, this indicates the absence of harmful multi-collinearity among the explanatory variables.

4.2.3 Regression Result

The study used generalised least square to analyse the data for the study.

Table 4. Regression Results (Random Effect)

	Model 1			Model 2		
Variables	**Coefficients**	**t-value**	**P>/t/**	**Coefficients**	**t-value**	**P>/t/**
Constant	0.7743	0.25	0.072	0.0440	0.20	0.845
MO	0.3795	1.43	0.154	-0.2441	-0.62	0.526
IO	-0.0171	-0.52	0.604	-0.0576	-1.12	0.262
FO	0.0469	1.17	0.242	0.0426	0.80	0.424
FS	0.0121	0.56	0.555	0.0126	2.21	0.545
FA	0.0225	0.51	0.609	0.0460	1.04	0.383
Lev.	0.0048	0.16	0.879	0.0231	-0.5	0.473
MO*ROA				4.5231	0.60	0.027**
IO*ROA				0.2574	0.87	0.3000
FO*ROA				-0.0132	0.72	0.962
R^2			0.3573			0.4229
Adj. R^2			0.3157			0.373
F-Ratio			34.38			35.25
Prob. F			0.0000			0.0000
R^2:						
Within			0.3235			0.3884
Between			0.4500			0.5422
Overall			0.3573			0.4229
Prob.>F			0.0000			0.0000

Source: STATA 14 Output from data Extracted from Annual Report and Accounts.
** Denotes significance at 5%

Table 4 shows that Model 1 has an R^2 of 35.73%, while Model 2 has an R^2 of 42.29%. The higher R^2 of Model 2 indicates that the inclusion of the three-interaction effect has increased model explanatory power by 6.56%. While the F-Ratio also increase from 34.38 to 35.25 with probability value of 0.000 and 0.000, respectively. This implies that the models are fit. In the Model 1 indicates that the R^2 is about 35.73% which gives the proportion or percentage of the total variation in the dependent variable explained by the ownership structure of the sampled consumer goods firms (managerial ownership, institutional ownership and foreign ownership) variables jointly. It signifies that 35.73% of the total variation in ETR of sampled companies is caused by their managerial ownership, institutional ownership and foreign ownership while the remaining 64.27% of the total variation in ETR was caused by factors not explained by the Model 1. Similarly, the Model 2 indicate that the R^2 is about 0.4229 which gives the proportion of the total variation in the dependent variable explained by the ownership structure with their moderator of the sampled consumer goods firms (managerial ownership, institutional ownership foreign ownership and moderating effect of return on assets) variables jointly. It signifies that 42.29% of the total variation in ETR of sampled companies is caused by their managerial ownership, institutional ownership and foreign ownership and interaction effect of return on assets while the remaining 57.71% of the total variation in ETR was caused by factors not explained by the Model 2.

The result of the random effect Generalised Least Square regression in Model 1 revealed a positive and insignificant relationship between managerial ownership and tax avoidance of sampled consumers' goods firm at coefficient value of 0.3795 and P-value of 0.154, respectively. However, it indicates that institutional ownership has negative and insignificant relationship with ETR at coefficient value of 0.0171 and p-value of 0.604. The result revealed that foreign ownership has positive and insignificant influence on ETR with coefficient of 0.0469 and 0.0048 and probability of 0.242 and 0.879 respectively of the selected consumers' goods firm listed in Nigeria. The result also shows that the control variables such as firm size and leverage has positive relationship with ETR at coefficient of 0.0121 and it statistically insignificant relationship with tax avoidance at probability value of 0.555. The results also indicate that firm age has positive relationship with ETR at coefficient of 0.0048 but it is insignificant at 0.879 p-value. Furthermore, the result shows on Table 4 - Model 2 revealed that moderating effect for ROA on managerial ownership has positive and significant impact on ETR at coefficient value of 4.5231 and statistically significant at 0.027. In contrast, the coefficient of the moderating effect of ROA on the relationship between institutional ownership and tax avoidance indicate a positive and insignificant relationship at coefficient of 0.2574 and probability value of 0.300. The results also revealed that the moderating effect of ROA on foreign ownership has a negative and statistically insignificant at coefficient of -0.0132.

4.3. Discussions

The result of the random effect Generalised Least Square regression in Model 1 revealed a positive relationship between managerial ownership and tax avoidance of sampled consumers' goods firm at coefficient value of 0.3795 and P-value of 0.154, respectively. The positive effect implies 1% increase of managerial ownership will lead to 37.95% increase of ETR. This suggest that managerial ownership do not encourage for tax avoidance. This is line with agency theory. It indicates that the management are aligning their interest with that of the shareholders. However, this result is expected because the number of shares owned by managers in some of the consumers' goods firms is low. This will not serve as an incentive to motivate managers to engage in tax avoidance strategy in order to reduce tax expenses because it will not directly benefit them much, as the quantum of their shares is small. This result is in line with findings of Peter (2019), Salawu and Adedeji (2017), and Boussaidi and Hamed (2014) found positive relationship between managerial ownership and tax avoidance the result disagreed with the findings of Salaudeen and Ejeh (2018), and Mohammed (2017) who documented negative and significant relationship between managerial ownership and tax avoidance.

The result on Table 4 also indicate that institutional ownership has negative and insignificant relationship with ETR this suggest that as institutional ownership increasing, ETR will decrease. This means institutional ownership encourage tax avoidance in the selected consumers' firms within the period of the study. However, this result is expected because some of some institutional investors have their representative on the board of the sampled firms and some of the institutions have concentrated ownership in some of the selected consumers' goods firm. In this regard their representative would like to encourage firms to carryout tax avoidance actions in order to increase their return on investment. This finding disagreed with the findings of Peter (2019) and Khan *et al* (2017) revealed a positive and insignificant relationship between institutional ownership and tax avoidance and agreed with the findings of Yetty *et al.* (2016) and Andrew and Stephen (2015) who found negative relationship between institutional ownership and tax avoidance.

The result on Table 4 revealed that foreign ownership has positive and insignificant influence on ETR of the selected consumers' goods firm listed in Nigeria. This assert that as other factors remain constant one-unit increase of foreign ownership will lead to increase of ETR. This result is not a surprise because the numbers of shares owned by foreign investors is low. This also implies that foreign ownership does not influence tax avoidance in sampled consumers' goods firms in Nigeria. This finding is consonance with the findings of Yetty *et al.* (2016) and Hairul *et al.* (2014) who documented positive and insignificant relationship between foreign ownership and tax avoidance and inconsistent with Peter 2019) who found negative and insignificant relationship between foreign ownership and tax avoidance.

The result also shows that the control variables such as firm size has positive and insignificant relationship with tax avoidance this implies that 1% increase in firms' assets will lead to increase of ETR by 0.0469. Finding is consistent with Salaudeen and Ejeh (2018) and Yuniarwati (2017) but disagree with the findings by Mohammed (2017) and Salawu and Adedeji (2017). The results also indicate that firm age has positive and insignificant relationship with ETR. This means 1% increase of firm age with lead to 0.00225 increase of ETR. The result also provides that that the relationship between leverage and ETR is positive and insignificant at beta coefficient of 0.0048 and p-value of 0.879. It indicates that increase of leverage will increase ETR by 0.0048. This finding supported the findings of Mohammed (2017) and the findings is inconsonance with the findings of Peter (2019) and Salaudeen and Ejeh (2018).

Furthermore, the result shows on Table 4 - Model 2 revealed that moderating effect for return on assets on managerial ownership has positive and significant impact on ETR at coefficient value of 4.5231 and statistically significant at 0.027. The positive coefficient of the moderator suggests that all things being equal in consumers' goods firms listed in Nigeria, one-unit increase of ROA will increase ETR by 4.5331% if managerial ownership is increase by 2.21%. This implies that if consumers' goods firms in Nigeria generate high profitability managers who owned shares in the company will not encourage for tax avoidance. The findings are not consistent with the Jensen and Meckling (1976) agency theory argument that increased manager ownership in firm should serve as alignment between principal interests and that of the agent. Similarly, the coefficient of the moderating effect for ROA on the relationship between institutional ownership and tax avoidance indicate a positive and insignificant relationship at coefficient of 0.2574 and probability value of 0.300. This suggest that 1% increase of ROA will increase ETR by 25.74%, if institutional ownership is increase by 87% or above. This implies that if consumers' goods firm have a high return on assets institutional investors will not require them to conduct tax avoidance in order to reduce tax expenses and increase their earnings after tax because there is enough cash at their disposal. The results also revealed that the moderating effect of ROA on foreign ownership has a negative and statistically insignificant at coefficient of -0.0132. The coefficient of the moderator suggests that ceteris paribus in listed consumers' goods in Nigeria, a 1% increase on moderating effect of foreign ownership will decrease ETR by 1.32% if foreign ownership is increase by 27.6% or above. This implies that foreign ownership encourages tax avoidance when there is efficient and high return on assets and most listed firms in developed countries mostly benefit low taxes in their countries this encourage foreign investors to take tax avoidance action in order to reduce tax expenses and increase earnings after tax.

5. CONCLUSIONS

This study examined the moderating effect of profitability on the relationship between tax avoidance in listed Nigeria consumers' goods firms. This based on fact the study on ownership structure and tax avoidance with moderating effect of profitability in developing countries have not been explored. From the findings of the study, it is concluded that managers do not play significant role in tax avoidance in the selected consumers goods firms this because most of the listed firms managers have low unit of shareholding. This will not motivate them to engage in tax avoidance strategy because tax avoidance strategies will not benefit them. It is also concluded that making managers as part of a company shareholder will served as a motivation to align their interest with the interest of the shareholders especially if the company is making high earnings after tax. This is because it was found that managers play a significant role in facilitating increased tax avoidance among the consumers' firms when there is profit. This implies that if company make profit, managers would like to increase their earnings on the little shares they owned in the companies. It is also concluded that institutional ownership also helps in increasing tax avoidance in the selected consumers' goods in Nigeria. This is because some of the institutions have their representative in most of the firms in this regard, they will like the share who protect their interest.

Since higher moderating of return on assets on managerial ownership has significant relationship with tax avoidance among consumers' goods firms, firms should increase shareholding of managers to align their interest with the interest of owners to prevent agency problems by making co-owners in the firm. Tax authorities should carry out stringent tax audit and investigate the activities firms to ensure that tax avoidance of firms is within the armpit of tax law. If this is done, it will help to know if firms are paying the actual taxes they support to paid or not. In addition, since the study documented findings that support shareholder increase of wealth such as institutional ownership, foreign ownership is against enhancing revenue generation to government. It is recommended that government should review the provisions for tax allowances and relief granting to corporate entity because most of the firms' report loss in some years in order take advantage of loss relief while other purchase non-current for the purpose of enjoying capital allowances. If this is done, it will enhance government revenue generation through tax and increase GDP via tax-revenue.

The limitation of this study is based on the limited number of literatures on moderating effect of profitability and lack of sufficient data for some firms. Future research suggested that there should be increase in number of studies to improve literatures on moderating variables when studying tax avoidance by developing countries. Further studies should as well examine how firm characteristics influence tax avoidance in non-financial industries. In addition, further research should consider the moderating effect of board financial literacy on the relationship between capital structure and tax avoidance.

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