Tax Planning and Corporate Governance in Nigerian Banks

Bariyima, D. Kiabel (Ph.D)
Department of Accountancy, Rivers State University of Science and Technology, Port Harcourt, Nigeria
kbariyima@yahoo.co.uk

Cletus .O. Akenbor (Ph.D)
Department of Accounting/Finance, Federal University, Otuoke Bayelsa State, Nigeria.
akenborcletus@yahoo.com.

ABSTRACT

This paper investigated tax planning with a view to determine its impact on corporate governance in Nigerian banks. To achieve this purpose, hypotheses were raised and a review of extant literature was made. The population of the study consisted of the twenty-one (21) recapitalized banks in Nigeria. Data for the study were generated from the companies' annual reports and statements of account for a five-year period; 2007 – 2011. The stated hypotheses were statistically tested with regression analysis and Pearson Product Moment Co-efficient of Correlation. Our findings revealed that tax planning has a positive significant impact on corporate governance in Nigerian banks, but the accruable tax savings do not significantly outweigh tax planning costs. Since tax planning gives excessive powers to management over the resources of the bank, and also violates the rules of good corporate governance, though it increases the market value of banks, it was therefore recommended that audit committee of Nigerian banks should be saddled with the responsibilities of reviewing tax assessment and returns in order to minimize any form of strategic tax behaviour by management; tax authorities should periodically conduct tax audit of the various banks to examine whether there was any form of mischaracterization of financial statements; and any bank that violates the provision of tax laws in the act of tax planning should be properly investigated and prosecuted.

Keywords; Tax planning, corporate governance, transparency, accountability, mischaracterization, Nigerian banks

INTRODUCTION

Since the administration of a publicly held corporation is an agency relationship between the shareholders (principals) and management (agents), necessity is laid on management to act in utmost good faith and discharge their responsibilities diligently in a manner the owners (shareholders) would have done so as to enhance the market value of the firm. Hence, all material matters regarding the operations of the firm including financial performance and position should be disclosed timely and accurately by management. To this end, there is need for effective monitoring of management by shareholders in order to promote fairness, transparency and accountability. According to Weil (2002), those mechanisms by which corporate managers are held accountable for corporate conduct and performance are known as corporate governance. In other words, corporate governance refers to certain regulations and rules of behaviour used in controlling management to behave in the interest of shareholders.

A review of extant literature such as Avi-Yonah (2005), Ribstein (2006), Auerbach (2006) and Oyerinde (2010), revealed that the utmost interest of shareholders is wealth maximization, and one reliable means of achieving this, is through cost minimization. Okoye and Akenbor (2010) claimed that one of the costs of doing business and therefore constitutes a serious barrier to wealth maximization is taxation. In order to minimize the cost of taxation, tax planning becomes imperative for management.

According to Kiabel and Nwikpasi (2001), tax planning is the planning and operation of business activities within the context of existing legislation in such a way that the business realizes the optimal or best tax position while achieving its set goals. In other words, tax planning include not only strategies aimed at the minimization of tax liability but also considers the cash flow effect on the business in terms of when it is most advantageous for a business to settle its tax liability without incurring any penalty. In a nutshell, tax planning is an act of transferring value from the state to the firm.

Although previous empirical studies such as Riza (2003), Viavo (2007) and Friese and Mayer (2008) have established that tax planning has a significant influence on corporate governance by increasing the value of the firm, it should be noted that tax planning has its associated costs. Such costs include administrative costs for lawyers, accountants and consultants in designing the strategies; and also the risk of legal challenge and penalty. Most prior studies related to this study failed to take into account the whole dimension of the costs-benefits analysis and therefore tax planning does not have a clear positive impact on corporate governance. Viava (2007)

clearly pointed out that the penalty and administrative costs associated with tax planning seem to outweigh it benefits. Besides, when management engages in transactions designed solely to minimize tax liability, they may mischaracterize such transactions by manipulating financial and operating results in order to avoid the risk of tax audit and penalty. Such mischaracterization violates the rules of corporate governance (transparency, accountability and accurate disclosures).

On one hand, tax planning increases corporate profitability and on the other hand, the payment of appropriate taxes is considered to be an important factor of social responsibility (Sartori, 2009). Shareholders' interest in corporate social responsibility has extremely increased in recent times. Paying a fair amount of taxes infers ethical behaviour that companies are generally required to present to the public. Therefore any act of minimizing tax liability is unethical behaviour, and is not in the interest of shareholders and other stakeholders (Sartori, 2009).

Great deal of research works (Riza, 2003; Viavo, 2007; Friese and Mayer, 2008; and Sartori, 2009) have been conducted in the area of corporate tax planning particularly in developed nations of the world, but only a few of those studies related corporate tax planning to corporate governance. More so there seem to be inadequate empirical literature in Nigeria on variables under study particularly in banking industry. It is in a bid to close this existing gap that this study aimed to achieve the following –

(i) To investigate the impact of tax planning on corporate governance in Nigerian banks;
(ii) To examine whether tax savings outweigh tax planning costs in Nigerian banks.

To achieve the objectives, the following hypotheses are raised:

(i) Tax planning has no positive significant impact on corporate governance in Nigerian banks;
(ii) Tax savings do not significantly outweigh tax planning costs in Nigerian banks.

LITERATURE REVIEW

A review of literature on the various variables of the study is made in this section.

Corporate Governance

Okpara (2010) defines corporate governance as the manner in which organizations are managed and the nature of accountability of the managers to the owners. It is the technique by which companies are directed and managed. It means conducting the business affairs as per the stakeholders' desires. Governance is undertaken by the Board of Directors and the concerned committees for the company's stakeholders' benefit. It is all about balancing individual and societal goals as well as economic and social goals. O'Donovan (2003) defines corporate governance as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity.

The Ultimate Business Dictionary (2003) defines corporate governance as the managerial control of an organization, which can reduce the risk of fraud, improve company performance, leadership, and demonstrate social responsibility. It is the interaction between various participants (shareholders, Board of Directors, and company's management) in shaping a corporation's performance and the way it is proceeding towards. The relationship 'between the owners and the managers in an organization must be healthy and there should be no conflict between the two. The owners must see that an individual's actual performance is according to the standard performance.

One reason why corporate governance has received more attention lately in Nigeria is the proliferation of scandals and crises. The scandals and crises are manifestations of a number of structural reasons why corporate governance has become more important for economic development and a more important policy issue for banks' post consolidation in Nigeria. In the view of Ekundayo and Atu (2010) the bank consolidation in 2005 created bigger banks but failed to overcome the fundamental weakness in corporate governance in many of these banks. According to Sanusi (2010), failure in corporate governance at banks was indeed a principal factor contributing to the financial crisis.

Recently, there has been considerable interest in corporate governance practices of modern corporations as a result of the increasing separation of ownership and managerial control. Since the collapse of a number of high-profile U.S. firms such as Enron Corporation and WorldCom, and the alarming rate of corporate failures particularly in the financial sub- sector in Nigeria corporate governance has become an important issue for discourse.

According to Donaldson and Davis (1994) and Hawley and Williams (1996), corporate governance : (i) aims to promote culture in which directors are given privacy to the ethical pursuit of shareholders' interest (ii) allows a review of audit regulation, corporate disclosure framework and shareholders' participation to improve the accountability and transparency of companies (iii) ensures that audit committee assists board of directors in its

oversight of the integrity of the financial statement of companies, as well as compliance with legal and regulatory requirement, and the performance of the company's internal audit function (iv) makes companies to be more credible and ensures managerial system that promotes creativity and entrepreneurship (v) helps to maximize corporate value by enhancing the transparency and efficiency of the corporation for the future (vi) prevents theft and fraud through mechanisms designed by the board and management (vii) focuses on improving the organization's regulatory and legal arrangements in order to effectively enforce contracts and protect corporate property right (viii) builds a system of rules and voluntary practices that guide board members in the execution of their responsibilities, and stipulates conduct of other corporate fiduciaries (ix) ensures the disclosure of relevant and significant information to investors and other stakeholders (x) prevents expropriation of investors by management

Smah(2006) stated that the key elements of good corporate governance principles include- honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. One very important issue is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate the model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest and disclosure in financial reports.

According to the Organization for Economic Co-operation and Development (OECD) (2004), the commonly accepted principles of corporate governance include: (i) rights and equitable treatment of shareholders shall be enhanced through effective communication of information that is understandable and accessible as well as encouraging shareholders to participate in Annual General Meetings (AGM) (ii) organizations should recognize that they have legal and other obligations to all legitimate stakeholders. This entails the protection of stakeholders' interest (iii) the key roles of Chairman and Chief Executive Officer (CEO) should not be held by one person. The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance (iv) organizations should develop a code of conduct for their directors and executives that promotes ethical behavior, integrity and rational decision making; organizations should clarify and make public the roles and responsibilities of board and management to provide shareholders with a level of accountability. This is to ensure accurate disclosure and transparency. Woghiren and Imade (2005) stated that issues involving corporate governance principles include: oversight of the preparation of the entity's financial statements, internal controls and the independence of the entity's auditors, review of the compensation arrangement for the CEO and other senior executives, the way in which individuals are nominated for the position on the board, the available resources to directors in carrying out their duties, oversight and management of risk, and dividend policy.

According to Sanusi (2002), good corporate governance is an important step towards building market confidence and encouraging stable, long-term international investment flows into an economy. Corporate governance is therefore intended to shield the shareholder from any act of expropriation by the board and management team thereby enhancing their confidence in the enterprise. Since the business corporation is becoming an increasingly important engine of wealth creation and growth, it is imperative that companies operate within standards and rules that keep them well focused on their objectives and hold them accountable to the shareholders and other stakeholders.

Corporate Tax Planning

According to Yahia (1996), tax planning is an attempt to utilize legal pitfalls to avoid paying taxes on the grounds that no conditions that involve taxes are available. Nasser (2007) described it as a set of procedures and policies the tax payer follows to minimize the amount of due tax or to be exempted from tax. In a nutshell, tax planning aimed at reducing tax payable to strive for maximum tax benefit. However, when this is achieved through some illegal means, acts or procedures, it is seen as a deceit or fraud and so criminal. This means of reducing tax liability through illegal acts is known as tax evasion. Sharayri and Momani (2009) stated that tax evasion is the alleviation of tax burden by the tax payer in a way that conflicts with tax legislations in effect. It is manifested through understatement of income and inflation of claims; forgery, fraud, willful default or neglect; non-compliance with the provisions of the Act; failure to answer queries; making of incorrect returns by omitting or understating any profit liable for tax; providing incorrect information; declaring false statements and returns for purpose of obtaining any deductions, set-off reliefs or refund; knowingly making false representations in a return, account or particulars made or furnished with respect to tax(Part XIII, CITA, 2004; Part XI, PITA, 2004). The Nigerian tax laws treat tax evasion as a civil rather than criminal offence.

When a business plans its activities such that the attendant financial implications result in the payment of the least amount of tax possible within the provisions of the laws, the business is said to be engaged in tax avoidance (Kiabel and Nwikpasi, 2001). Therefore tax avoidance is permissible by law but can only be achieved through

adequate tax planning. Tax planning is indispensable if management hopes to minimize the tax cost of operating a business. Tax planning is important because it forces management to utilize and exploit the available resources as best as possible. It also forces it to analyze the deviations resulted from applying the plan and to determine the reasons that led to non-achievement of the objectives of the plan and try to deal with these reasons. Summarily, tax planning is important for the following reasons- (i) it helps alleviate tax burden on the tax payers in legal ways (ii) it allows companies to direct investments to those businesses that grant good tax savings (iii) it allows companies view valid laws periodically (iv) it helps to meet the goals set by the state to promote investment and achieve economic development (Alabi, 2001).

The possible areas of focus in corporate tax planning are: form, nature and size of business, capital mix, choice of accounting period, market structure, investment policy, dividend policy(Alabi, 2001; Kiabel and Nwikpasi, 2001; Sharayri and Momani, 2009).The form, nature and size of business are given due consideration in tax planning. The sole trading business and the partnership business are not liable to tax as business entities but as individuals while corporations are legal entitles and so liable to taxes on their income. The nature of business such as agriculture, drilling, mining, manufacturing, construction, wholesaling, retailing, exportation, importation, transportation, banking, insurance, communication, hospitality, tourism, etc has some tax implications. The size of business such as large-scale, medium scale, and small scale equally affects tax considerations. An examination of the forms, nature and size of business revealed the following tax considerations; (i) a company is exempted under the minimum tax rule if it has at least 25% foreign equity capital or it carries on agricultural trade or business; (ii) companies engaged in agricultural production and manufacturing are allowed to make a total claim for their capital allowances without restriction whereas for other companies the maximum capital allowances claim is restricted to 662/3% of their assessable profit; (iii) new qualifying capital expenditure on plant and machinery used in manufacturing, agricultural production, ranching and plantations, construction, and public transportation with a fleet of not less than three buses attract additional 5% initial allowance; (iv) under the Industrial Development (Income Tax Relief) Act (1990), companies granted pioneer status enjoy a tax holiday for a minimum of three years and for an additional two years, maximum. Also dividend declared from a pioneer profit is tax exempt in the hands of the recipient; (v) a company in the agricultural sector can carry forward losses incurred indefinitely while companies in other sectors can carry forward their losses for a maximum of four years; (vi) there is a hundred percent capital allowance on capital expenditure incurred on motor vehicles used for public transportation (inter city); (vii) a company carrying on business as a manufacturing exporter is granted an additional annual capital allowance of 5% on its plant and machinery computed on cost; (viii) a small business with turnover of not more than N 1,000,000 engaged in manufacturing, agriculture, wholly export trade or mining of solid minerals, enjoys a lower rate of tax at 20% on its total profit for a minimum period of three years and a maximum of five years from the date of commencement; (ix) investment allowances are granted under Section 27 of the Companies Income Tax Act (CITA) (2004) (as amended) on qualifying capital expenditure incurred on plant and machinery used in manufacturing business and in agricultural production other than marketing and processing in the first year of acquisition at the rate of 15%. The 15% is computed on the cost of purchase of the asset and is not deducted from the cost of the asset in arriving at the residue of qualifying expenditure for annual allowance purposes.

The form and source of capital employed by a business affects its tax liability. While debt capital attracts interest cost, the cost of equity capital is dividend. Under the tax laws, interest cost is an allowable expense and results in tax savings, but dividend is not a tax deductible expense. To ensure that control is not lost by equity capital providers and for substantial tax savings, an optimum capital mix (i.e. the ratio of debt to equity) should be maintained. (Kiabel and Nwikpasi, 2001). Moreso, if there is an element of foreign participation in the company amounting to at least 25% of its equity capital, the company will be exempted from the minimum tax provision (S.33 CITA, 2004).

From the date a business commences, periodic reports based on its accounting date will be prepared until the business ceases to exist. The questions: of what date to commence a business? What accounting date is appropriate for periodic reporting? And what date to end the business, have some tax implications. To provide answers to the above questions, under the Nigerian tax system) considerations should be given to the following conditions: (i) the date of commencement should be planned close to the end of the government fiscal year. This will reduce the basis period and consequently the total profit; (ii) the date of cessation should be planned close to the beginning of the government fiscal year (iii) the choice for a reporting period should be planned such that the accounting year end is as close as possible to the government tax year. This will give the business a substantial tax advantage in terms of when the tax liability falls due; (iv) for capital gains tax consideration, disposals should be planned for the earlier period of assessment year so that the proceeds could be utilized for a long time before the tax is due since capital gains are assessed on a current year basis (v) for a new trade, under the

commencement rule, the first and second years are assessed on actual basis while the third year is assessed on preceding year basis. But the tax payer has a right to elect to have the second and third years of assessment on actual basis if that leads to lower tax burden. However, the election must be made within two years from the end of the second year of assessment (Kiabel, 2011).

To achieve some tax benefits, a company may restructure its market. For example, a manufacturing firm may restructure its market to qualify as a manufacturing exporter, an exporter may restructure its market by engaging in foreign direct investment in manufacturing; a company in foreign trade may restructure its affairs to deal only with those countries where Nigeria has a double taxation agreement so that it could benefit from double taxation relief; and a bank may restructure its lending to earn interest income from tax exempt sources. The interests exempted from tax include: (i) interest receivable from foreign loans granted; (ii) interest on foreign currency domiciliary account; (iii) interest earned on deposit in Nigeria by non-resident company where the deposit account was opened wholly; (iv) interests earned on loans granted for agricultural purpose provided that moratorium period is not less than 18 months and the rate of interest is not more than the base lending rate of the bank at the time the loan was granted; (v) interests earned on loans granted on or after 1st April, 1980for the purpose of manufacturing goods for export, provided that at least 50% of the manufacturing goods are exported and that no less than 75% of the export proceeds is repatriated to Nigeria through government approved channels.

When a firm invests its surplus fund, it is advisable to plan such investments in areas where tax is either at its minimum or the investments proceed is tax exempt. Investment income exempted from companies income tax as reported by Kiabel and Nwikpasi (2001) include: (i) dividend, interest, rent or royalty derived by a company from a company outside Nigeria and brought into Nigeria through government approved channels;(ii) the interest on deposit accounts of a foreign nonresident company, provided that the deposits into the accounts are transferred wholly in foreign currencies to Nigeria on or after 1stJanuary, 1990 through government approved channels. Dividends received from small companies in the manufacturing sector, in the first five years of operations; (iii) dividends received from investments in wholly export oriented business; (iv) all income arising from investment in a limited liability company by a local government; (v) dividend declared during the tax free period of a company engaged in gas utilization (down stream operation) provided the investment for the business was in foreign currency or the introduction of imported Plant and Machinery during the period was not less than 30% of the equity share of the company.

In tax planning a company has to structure out an optimal mix of dividend bonus issue for maximum tax and cash flow advantage to be achieved. In Nigerian taxation, qualifying capital expenditures attract tax incentives in the form of capital allowances (initial and annual). According to Alabi (2001), Kiabel and Nwikpasi (2001) capital expenditures could be incurred by a company to create tax advantage and achieve cash flow improvement in the following ways: (i) a company could acquire qualifying assets of high value which attract high rate of initial and annual allowances in the early years where it has made a huge profit but has no sufficient relief. This will create relief and reduce total profit for the year. The assets could be disposed later at the most tax advantageous moment to the company; (ii) where it is within a company's object clause, a company could also acquire qualifying capital assets and lease them out profitably while enjoying the capital allowances for tax relief (iii) old fixed assets of a company (which had been fully written off) could be disposed for cash and later acquired on lease after it has been fully refurbished. Here the sale improves cash position and the lease rental is tax deductible (iv) a company could also sell its old fixed assets (which had been fully written off) and buy back the asset after it has been refurbished at current market value as additional qualifying capital expenditure that will attract capital allowances; (v) a company could also dispose its fixed assets and reinvest the proceed in the acquisition of additional fixed assets in the same category with the one disposed of within twelve months to attract a roll over relief on capital gain tax payable(S.31 CGTA, CAPCI, LFN, 2004); in a group situation, tax advantage could be achieved with capital expenditure if group companies that have tax reliefs acquire fixed assets that they may not really need and hire them out to members of the group that need them. The group then enjoys the capital allowances and the hiring expenses are tax deductible.

There are costs associated with tax planning. The first cost is the one directly connected with the engagement in such activities. These costs may be internal or external. The internal costs are mainly the time spent by managers and employees on structuring the tax saving opportunities that could not be devoted to other activities. The external costs are the expenses for tax consultants and the other expenses necessary to set forth the tax planning opportunity. The second cost is the exposure to the uncertainty of an audit and any attendant penalties that may emerge. These include both the risk of overpaying taxes and the risk of being audited by the tax authorities for underreporting the income and thus paying less tax than legally required. The third cost is the implicit taxes that may emerge as consequences of a specific tax planning strategy; the fourth cost is compliance cost; finally, is the

so -called corporate governance cost, which is related to the obscuration of these actions from tax authorities and to the increase of the agency costs. In fact, the necessary obfuscation may create an incentive for managers to obtain self-serving objectives at the same time, and will therefore enforce shareholders to induce managers not to engage in such collateral activities, increasing agency costs and transparency issues (Viavo, 2007).
Where a tax planning strategy is illegal, it would be subject to penalties. However, in the case of tax evasion and tax avoidance, the corporation's payoff depends on whether or not it is investigated by tax authorities, and, assuming it is, whether tax authorities consider the strategy as illegal, and therefore subject to penalties or not. The choice of individual taxpayers is based on three factors: (i) the probability of detection and punishment, (ii) the penalty structure and (iii) the risk aversion of the taxpayer. Nevertheless, if this is true in the individual taxpayers' framework, it does not mean it is necessarily true from the perspective of corporate taxpayers.
In fact, the corporate taxpayers' tax attitude toward risk must be analyzed within the agency framework. Even if shareholders (as principals) may provide general guidance with regard to the corporation's tax attitude toward risk, managers (as agents) make the practical tax choices (Sartori, 2009).
We have seen before that, since recent research has suggested that corporations should always behave as if they are risk- neutral, even if shareholders are not, due to the fact that shareholders have already diversified the risk by holding diversified portfolios based on the assumption that corporations are risk-neutral, an alignment of interests, given by good corporate governance principles, would induce managers to behave as risk neutral persons managing the corporation's business.

METHODOLOGY

The population of this study consists of the twenty-one (21) recapitalized banks in Nigeria. In order to generate the necessary data for the study, the secondary method of data collection was employed. In this case, data were gathered from companies' annual reports and accounts for the year 2007 – 2011.
In testing the stated hypotheses in this study, the regression analysis and Pearson product Moment Correlation Co-efficient were employed by the researchers. These were computed with the aid of the Statistical Package for Social Science (SPSS) version 17.

MODEL FRAMEWORK AND ESTIMATION

In this study, the independent variable – tax planning was measured by tax savings while the dependent variable – corporate governance was measured by firm's value. This is represented in a log-transformed simple regression model as shown below;

$$FV = f[\propto Log + \beta LogTS + \text{--------} \mu i]$$

Where FV = Firm's Value

$\propto$= Regression Constant

β= Regression Co-efficient

TS = Tax Savings

μi = Stochastic terms

TEST OF HYPOTHESES

Ho₁; Tax Planning has no positive significant impact on Corporate Governance in Nigerian Banks.
In testing this hypothesis, five years average tax savings were regressed with five years average firm's value, and the result obtained is presented in the table below.

Table 1: Impact of Tax Planning on Corporate Governance

Statistical Variables	Values
Regression Constant ($\propto$)	3.602E7
Regression Co-efficient (β)	0.162
Co-efficient of Correlation (R)	0.492
Co-efficient of Determination (R^2)	0.242
Adjusted R^2	0.202
P-Value	0.024
t-statistic	2.461

Source: SPSS Version 17 Window Output
The result presented in the above table revealed a correlation co-efficient (R) of 0.492, which indicates a moderate relationship between the variables. For 1% increase in tax planning, corporate governance increases by 16.20%. The co-efficient of determination (R^2) of 0.242 suggests that about 24.2% variation in firm's value is attributed to changes in tax savings. In other words, about 75.80% change in firm's value is due to other variables other than tax savings. The P-value (0.024) and t-statistic (2.461) suggests a significant impact.

Therefore, the null hypothesis is rejected. This implies that tax planning has a positive significant impact on corporate governance in Nigerian Banks.

Ho_2; Tax savings do not significantly outweigh tax planning costs in Nigerian Banks.

In testing this hypothesis, tax savings were related with tax planning costs, and the result obtained is presented in the table below.

Table 2: Tax savings and Tax Planning Costs

		FV	TS
FV	Pearson Correlation	1	0.289
	Sig. (2-tailed)		0.204
	N	21	21
TS	Pearson Correlation	2.289	1
	Sig. (2-tailed)	0.204	
	N	21	21

Source: SPSS Version 17 Window Output

The table above shows a correlation co-efficient of 0.289, which indicates a weak relationship between the variables. The P-value for a two-tailed test (0.204) is greater than 0.05 level of significance, which suggests a non significant relationship. Therefore the null hypothesis is accepted. This implies that tax savings do not significantly outweigh tax planning costs in Nigerian Banks.

DISCUSSION OF FINDINGS

This study empirically investigated the relationship between tax planning and corporate governance in Nigerian Banks. The result of our analysis shows that tax planning has a positive significant impact on corporate governance in Nigerian Banks. This tends to agree with Riza (2003), Viava (2007) and Friese et al (2008), all of which demonstrated that tax planning has a significant influence on corporate governance. But Sartori (2009) seems not to agree with our result. Sartori (2009) revealed that tax planning has a negative impact on corporate governance. These mixed findings could be due to differences in environmental factors and the units of analysis used in the various studies.

More so it was observed in this study that tax savings (benefits from tax planning) do not significantly outweigh tax planning cost in Nigerian Banks. This result is in concordance with Viava (2007) who clearly pointed out that the penalty and administrative costs of tax planning seem to outweigh its benefits.

CONCLUSION AND RECOMMENDATIONS

Corporate governance is the manner in which a corporation is managed and the nature of accountability of the managers to the owners. It is the technique by which companies are directed and managed. It is actually conducted by the board of directors and the concerned committees for the company's stakeholders' benefit. In doing this, management pays serious attention in minimizing the operational costs of business in order to create wealth for shareholders. Tax planning is indispensable if management hopes to minimize the tax cost of operating a business. It forces management to utilize and exploit the available resources as best as possible. Corporate tax planning focuses on the form, nature and size of business; capital mix, choice of accounting period, market structure, investment policy and dividend policy.

The result of this study indicates that tax planning has a positive significant impact on corporate governance in Nigerian Banks, but the accruable tax savings do not significantly outweigh the costs of tax planning. This is because when bank management engages in transactions designed solely to minimize tax liability, they may mischaracterize such transactions by manipulating financial and operational results. Such mischaracterization increases the gap between information available to managers and shareholders. This increased information asymmetry forces the shareholders to divert more resources in monitoring management, thus increasing agency costs. More so, major consultants are in some cases hired by banks to help in designing and implementing the tax plans. Tax planning gives management excessive powers over the resources if banks and acts opportunistically by diverting income to shareholders' detriment. It equally violates the rules of corporate governance though it increases banks' market value.

There is uncertainty in the decision of a bank to declare its tax liability. This is because failure to report full income to tax authorities does not automatically lead to legal challenge and penalty. Management has the choice to declare actual income or declare less than the actual income to tax authorities. If management chooses to declare less income, the payoff will depend on whether there was tax audit on the bank. If no tax audit was conducted, management will be better off, but where tax audit was conducted, management will be worse off.

Therefore, in tax planning, management are neither honest nor dishonest, but merely rational calculators of what is in their best interest.

Based on the above, the following recommendations are made –

(i) Audit committee of banks should be saddled with responsibility of reviewing tax assessment and returns in order to minimize any form of strategic tax behaviour by management.

(ii) Tax authorities should periodically conduct tax audit of the various banks to examine whether there was any form of mischaracterization in financial statements.

(iii) Any bank that violates the provision of tax law in the act of tax planning, should be properly investigated and prosecuted.

REFERENCES

Alabi, S. (2001) Tax planning; *A Paper delivered at the workshop on Nigerian Corporate and Personal Income tax management*; held in Lagos on 14th August.

Auerbach, J (2006) Who bears the corporate income tax; A Review of what we know; in Potorba, T.M (Ed.) *Tax Policy and the Economy* Cambridge; MIT Press.

Avl-Yonah, R (2005) The story of the separate corporate income tax – a vehicle for regulating corporate managers; Bank, S.A and Stark, K.J (Ed.) *Business Tax Stories*; New York; Foundation Press.

Donaldson, L and Davis, I.H (1994) Board and company performance; research and challenges of the conventional wisdom'; *Corporate Governance – an International Review*; 2(318)

Ekundayo, G and Atu, O.O.K. (2010), Corporate governance and auditors' independence in Nigerian banking industry- distressed banks; Ekpoma: AAU *Journal of Management Sciences*; 1(1); 53-66

Friese, S; L and Mayer, S (2008) Taxation and corporate governance – the state of the art; in Schon, W (Ed.); *Tax and Corporate Governance;* Munich; Springer

Hawley, C.Iand Williams, H (1996) Corporate governance; *www.bambooweb.com*; Retrieved on 16th August 2008

Kiabel, B.D and Nwikpasi, N.N. (2001) *Selected aspects of Nigerian taxes*; Owerri; Springfield Publishers Ltd.

Kiabel, B.D (2001) *Personal income tax in Nigeria*; Owerri; Springfield Publishers

Lenter, T; S and Shrackel ford, D (2003) Public disclosures of corporate tax returns information; - Accounting Economics and Legal Perspectives; *Notional Tax Journal;* 56; 802.

Nasser, A. (2007) Accounting policy choice and tax planning; *Economics and Finance Journal*; 4(2) ;66-69).

O'Donovan, G. (2003) A board culture of corporate governance; *Corporate Governance International Journal*; 6(3); 22-30.

OECD (2004). OECD development centre working paper No 180; *www.wcd.orJ/dataoecd/lW6II2A3258.5pjif ;*Accessed March 15,2011

Okoye, E.J and Akenbor, C.O (2010) Accounting policy and efficient corporate tax planning in Nigeria; Association of National Accountants of Nigeria (ANAN) – *The Certified National Accountant;* 18(2); 42-50

Okpara, J. (2010). Perspectives on corporate governance challenges in a Sub-Saharan African economy; *Journal of Business and Policy Research;*5(1)

Oyerinde, R.O (2010) Investigating the principles of corporate governance in Nigeria; *Ceilna Journal of Good Governance*; 7 (2); 33-41

Ribstein, L.E (2006) *Accountability and responsibility in corporate governance;* 81 Notre Dame L. Rev 1431

Riza, L (2003) *The impact of corporate taxation on the principal agent problem;* Frankfurt am Main; Peter Lang.

Sanusi, J.O (2002) Promoting good corporate governance; issues and challenges; *Being a Keynote Address Delivered at the Annual Directors Seminar Organized by FITC*; June 46th

Sartori, N (2009 Effects of strategic tax behaviour on corporate governance; *International Journal of Economics*; 12(4); 142-157

Sharayri, M. and Momani G.F. (2009*)* The impact of tax planning on reducing income tax burden in industrial companies in Jordan-from sales and income tax evaluator's point of view; *Middle East Finance and Economics;* 5; 38-48).

Smah, S.O (2006)" Legal and institutional frameworks for enforcement of due process in the public sector in Nigeria"; *Being a Paper Presented at the one-day seminar organizes by the University of Jos Management for Deans*, *Directors and Heads of Department on Due Process*; 7th Nov.

The Ultimate Business Dictionary (2003) *Defining the world of work*; Cambridge MA: Perseus Publishing,

Viavo, I.C (2007) Agency costs and firm's value in developing economy; *The Pakistan Review*: 31(1); 225-232

Weil, R (2002) *Corporate governance framework*; Cicinnati-Ohioi; Richard D. Irwin/McGraw Hill.

Woghiren, M .0 E and Imade S. E (2005) Corporate governance- concepts and issues; *Nigeria Journal of Business Administration*;8;(1 and 2);105-106
Yahia A. (1996) The impact of tax planning on alleviating tax burden in Yemen joint stock industrial companies; *Commercial and Economic Magazine*; Am Sham University).

APPENDIX

Five Years Average Firm Value (FV), Tax Planning Cost (TPC) and Tax Savings (TS) of the Selected Banks in Nigeria

Banks	FV	TPC	TS
1.	4901111	5581066	53934647
2.	22968961	4093008	164319220
3.	19142023	1057670	1282647
4.	41086858	41086858	59530956
5.	122805400	16376400	180706420
6.	41162712	202708	2606283
7.	7016134	303008	3129277
8.	91903555	13108895	462772752
9.	1190844	13475	130139
10.	55237060	9599000	29604080
11.	71345865	9762240	113918747
12.	39302200	43745006	51075000
13.	35602597	4758811	142517400
14.	18420909	2126440	16126081
15.	81062600	4491482	46595800
16.	49560462	8520448	82744306
17.	26099200	399365	3515800
18.	89654200	24766134	263867600
19.	17987000	101831	876400
20.	20207709	1952682	18752543
21.	137490618	2923378	28487361

Source; Companies Annual Reports and Accounts