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Determinants of Tax Aggressiveness of Quoted Deposit Money Banks in Nigeria

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Abstract

Persistent variations between statutory tax rates and actual taxes paid by banks in Nigeria have raised concerns about increasing tax aggressiveness and its implications for government revenue. This study examines the determinants of tax aggressiveness among quoted deposit money banks in Nigeria, focusing on the effects of liquidity, firm size, and profitability on effective tax rate (ETR). The study adopts an ex-post facto research design and utilizes panel data obtained from the annual reports of ten listed banks over the period 2012–2024. Data were analysed using descriptive statistics, correlation analysis, and panel regression techniques, including the random effects model. The findings reveal that liquidity), firm size, and profitability have negative and statistically significant effects on ETR, indicating that more liquid, larger, and more profitable banks tend to engage in higher levels of tax aggressiveness. The results suggest that firm-specific characteristics play a significant role in shaping tax behaviour in the Nigerian banking sector. The study concludes that existing regulatory mechanisms may not be sufficiently robust to curb aggressive tax practices among financially strong banks. The study recommends the adoption of risk-based tax audits, enhanced tax transparency requirements, and stronger regulatory collaboration to improve tax compliance. These findings contribute to the literature on corporate taxation by providing sector-specific evidence from an emerging economy and offer practical insights for policymakers and regulators.

Keywords: *Tax aggressiveness, effective tax rate, liquidity, firm size, profitability, Deposit Money Banks in Nigeria.*

1.1 Introduction

Corporate taxation remains a central component of fiscal policy and a critical source of government revenue, particularly in developing economies such as Nigeria where public finance is heavily reliant on both oil and non-oil tax streams. In recent years, concerns about corporate tax behaviour have intensified globally, with increasing attention devoted to tax aggressiveness—the strategic management of taxable income to minimize tax liabilities within or at the margins of legal boundaries. While tax planning is a legitimate corporate activity, excessive tax aggressiveness undermines revenue mobilization, distorts resource allocation, and raises ethical and regulatory concerns, especially in emerging financial systems.

The banking sector plays a pivotal role in economic development due to its intermediation function and systemic importance. In Nigeria, quoted deposit money banks constitute a significant segment

of the financial system and are subject to stringent regulatory oversight, yet they also possess the financial sophistication and structural complexity that may facilitate aggressive tax practices. Given their scale, visibility, and contribution to government revenue, understanding the determinants of tax aggressiveness within this sector is both a policy imperative and an academic necessity. Despite regulatory frameworks enforced by institutions such as the Federal Inland Revenue Service, variations in effective tax rates among banks suggest the presence of firm-specific characteristics influencing tax behaviour.

Tax aggressiveness is commonly proxied by the Effective Tax Rate (ETR), which reflects the proportion of pre-tax income paid as tax. A lower ETR typically indicates a higher level of tax aggressiveness. Prior empirical literature has identified several firm-level determinants of tax behaviour, including liquidity, firm size, and profitability. However, findings remain mixed, and there is limited consensus, particularly within the context of developing economies and sector-specific analyses such as banking. This study addresses this gap by focusing on quoted deposit money banks in Nigeria, where institutional, regulatory, and economic dynamics may shape tax strategies differently from those observed in developed markets.

Liquidity, as a measure of a firm's short-term financial strength, may influence tax aggressiveness in competing ways. On one hand, firms with strong liquidity positions may have less incentive to engage in aggressive tax practices due to reduced financial pressure. On the other hand, such firms may strategically manage tax payments to preserve cash flows and enhance operational flexibility. Firm size is another critical determinant, often associated with both greater access to tax planning expertise and increased scrutiny from regulators and the public. Larger firms may exploit economies of scale in tax planning, yet they also face higher political costs that may constrain aggressive behavior. Similarly, profitability plays a significant role in shaping tax strategies, as highly profitable firms have stronger incentives to reduce tax burdens, but may also be more visible to tax authorities.

Although prior studies have examined the relationship between firm characteristics and tax aggressiveness, much of the existing evidence is either generalized across industries or concentrated in developed economies. In the Nigerian context, and particularly within the banking sector, empirical investigations remain relatively sparse and inconclusive. This lack of sector-specific evidence limits the ability of policymakers and regulators to design targeted interventions aimed at curbing aggressive tax practices without stifling financial performance.

Against this backdrop, this study investigates the determinants of tax aggressiveness among quoted deposit money banks in Nigeria, with a specific focus on the effects of liquidity, firm size, and profitability on effective tax rates, by providing empirical evidence from a critical sector of the economy, the study contributes to the broader discourse on corporate tax behaviour in emerging markets and offers insights that may inform regulatory policies, enhance tax compliance, and promote transparency within the financial system.

1.2 Statement of the Problem

Corporate tax revenue remains a major source of government financing in Nigeria, yet concerns persist regarding the extent to which corporate entities engage in tax aggressiveness, thereby reducing their effective tax contributions. Despite regulatory oversight by agencies such as the

Federal Inland Revenue Service, empirical evidence suggests that firms often report effective tax rates (ETRs) that deviate substantially from statutory tax rates, raising questions about the determinants of such behaviour.

Prior empirical studies provide evidence of tax aggressiveness among corporate firms, including those in the financial sector. For instance, Lanis and Richardson (2012) found that corporate governance mechanisms significantly influence tax aggressiveness, with weaker governance structures associated with lower effective tax rates. Similarly, Frank, Lynch, and Rego (2009) documented that firms engaging in aggressive financial reporting are more likely to exhibit aggressive tax behaviour, suggesting a link between accounting practices and tax outcomes.

In the Nigerian context, emerging studies have also highlighted inconsistencies in corporate tax behaviour. For example, Olaoye and Ekundayo (2019) reported that firm-specific characteristics significantly influence tax planning strategies among listed firms, with some firms exhibiting persistently low ETRs despite strong financial performance. Likewise, Sadiq and Othman (2017) found that Nigerian firms engage in varying degrees of tax aggressiveness, influenced by internal financial conditions and external regulatory factors. These findings indicate that tax aggressiveness is not uniform across firms but is shaped by identifiable determinants.

Specifically, the role of liquidity in influencing tax aggressiveness remains unclear. While Richardson and Lanis (2007) suggest that firms with stronger liquidity positions are less likely to engage in aggressive tax practices due to reduced financial pressure, Edwards, Schwab, and Shevlin (2016) argue that firms may use tax planning as a strategy to conserve cash, implying a positive relationship between liquidity and tax aggressiveness. This contradiction highlights a lack of consensus in the literature.

Similarly, firm size has been widely examined, yet findings remain mixed. Rego (2003) documented that larger firms tend to be more tax aggressive due to greater access to tax planning resources. In contrast, Watts and Zimmerman (1986), through the political cost theory, argue that larger firms may avoid aggressive tax practices due to increased scrutiny and reputational concerns. Evidence from developing economies, including Nigeria, remains inconclusive, particularly within the banking sector.

Profitability also presents conflicting evidence. Chen et al. (2010) found that more profitable firms are more likely to engage in tax aggressiveness due to higher tax liabilities, whereas other studies suggest that profitability increases visibility and regulatory attention, thereby discouraging aggressive tax behaviour. In Nigeria, Olaoye and Ekundayo (2019) reported that profitability significantly affects tax planning decisions, but the direction and magnitude of this relationship vary across firms and sectors.

Despite these empirical contributions, there is a noticeable gap in the literature. Most studies either adopt a cross-industry approach or focus on non-financial firms, thereby limiting their applicability to the banking sector. Quoted deposit money banks in Nigeria operate within a highly regulated environment and possess unique financial structures that may influence tax behaviour differently from other sectors. However, empirical evidence specifically addressing the determinants of tax aggressiveness within this sector remains sparse and fragmented.

Furthermore, the persistence of relatively low effective tax rates among some banks, despite strong profitability and regulatory oversight, raises critical concerns about the effectiveness of existing tax policies and enforcement mechanisms. Without a clear understanding of how liquidity, firm size, and profitability influence tax aggressiveness, policymakers and regulators may be unable to design effective interventions to curb revenue leakages.

It is against this backdrop that this study seeks to examine the determinants of tax aggressiveness among quoted deposit money banks in Nigeria. By providing sector-specific empirical evidence, the study aims to resolve existing inconsistencies in the literature and contribute to more informed tax policy and regulatory practices.

1.3 Objectives of the Study

The main objective of this study is to examine the determinants of tax aggressiveness of quoted deposit money banks in Nigeria.
The specific objectives are to:

1. investigate the effect of liquidity on the effective tax rate of quoted deposit money banks in Nigeria;
2. analyse the effect of firm size on the effective tax rate of quoted deposit money banks in Nigeria; and
3. examine the effect of profitability on the effective tax rate of quoted deposit money banks in Nigeria.

1.4 Research Hypotheses

In line with the specific objectives of the study, the following null hypotheses are formulated:

H_{01}: Liquidity has no significant effect on the effective tax rate of quoted deposit money banks in Nigeria.

H_{02}: Firm size has no significant effect on the effective tax rate of quoted deposit money banks in Nigeria.

H_{03}: Profitability has no significant effect on the effective tax rate of quoted deposit money banks in Nigeria.

1.5 Scope of the Study

This study examines the determinants of tax aggressiveness among quoted deposit money banks in Nigeria, with specific emphasis on the influence of liquidity, firm size, and profitability on the effective tax rate (ETR). The study is restricted to deposit money banks listed on the Nigerian Exchange Group, given their regulatory visibility, availability of audited financial statements, and systemic importance to the Nigerian economy.

The study covers a thirteen-year period from 2012 to 2024. This period is considered appropriate and relevant for several reasons. First, it captures the post-Global Financial Crisis era, during which the Nigerian banking sector experienced significant regulatory reforms, consolidation, and enhanced financial reporting standards. These developments have implications for corporate transparency and tax behaviour, making the period suitable for investigating tax aggressiveness.

Second, the period aligns with major fiscal and tax policy reforms in Nigeria, including amendments to corporate taxation laws and intensified enforcement efforts by the Federal Inland Revenue Service. Notably, the introduction and implementation of the Finance Act 2019 and subsequent Finance Acts significantly altered the corporate tax landscape, affecting tax rates, compliance requirements, and incentives. Including years both before and after these reforms allows for a more comprehensive assessment of how policy changes interact with firm-specific characteristics in shaping tax aggressiveness.

Third, the selected timeframe captures periods of macroeconomic fluctuations, including the 2016 economic recession and subsequent recovery phases in Nigeria, as well as the economic disruptions associated with the COVID-19 pandemic. These events likely influenced corporate financial performance, liquidity positions, and tax planning strategies, thereby enriching the empirical analysis.

Finally, the choice of 2012 as the starting point is informed by the relative stability and improved consistency in financial reporting following the adoption of International Financial Reporting Standards (IFRS) in Nigeria. This enhances data reliability and comparability across firms and over time, which is essential for robust econometric analysis.

In summary, the scope of this study—both in terms of sectoral focus and time horizon—is designed to provide a comprehensive and policy-relevant understanding of the determinants of tax aggressiveness among quoted deposit money banks in Nigeria.

2.0 Conceptual Review

2.1.1 Concept of Tax Aggressiveness

Tax aggressiveness refers to a firm's deliberate efforts to minimize tax liabilities through a range of strategies that may fall within or at the margins of legal boundaries. It encompasses both **tax** avoidance (legal reduction of tax burden) and, in extreme cases, activities that may approach tax evasion. According to Hanlon and Heitzman (2010), tax aggressiveness represents a continuum of tax planning activities, ranging from conservative tax compliance to highly aggressive schemes aimed at significantly reducing taxable income.

In empirical literature, tax aggressiveness is commonly proxied by the Effective Tax Rate (ETR), which measures the proportion of pre-tax income paid as tax. A lower ETR is generally interpreted as an indication of higher tax aggressiveness, as it suggests that firms are able to reduce their tax burden relative to their accounting income (Lanis& Richardson, 2012). Within the banking sector, tax aggressiveness is particularly important due to the size, complexity, and regulatory exposure of financial institutions, which provide both opportunities and constraints for tax planning.

2.1.2 Effective Tax Rate (ETR)

The Effective Tax Rate (ETR) is a widely used proxy for measuring corporate tax behaviour. It is typically calculated as total tax expense divided by pre-tax accounting income. ETR provides insight into the actual tax burden borne by firms, as opposed to the statutory tax rate imposed by law (Gupta & Newberry, 1997).

Variations in ETR across firms may arise from differences in accounting policies, tax planning strategies, and firm-specific characteristics such as size, profitability, and liquidity. In the context of quoted deposit money banks in Nigeria, ETR is particularly relevant due to the sector's regulatory scrutiny and the expectation of high tax compliance. Persistent deviations from statutory tax rates may signal the presence of aggressive tax planning practices.

2.1.3 Liquidity and Tax Aggressiveness

Liquidity refers to a firm's ability to meet its short-term financial obligations as they fall due. It is commonly measured using ratios such as the current ratio or cash ratio. The relationship between liquidity and tax aggressiveness remains theoretically ambiguous.

On one hand, firms with high liquidity may have less incentive to engage in aggressive tax planning, as they possess sufficient cash flows to meet tax obligations without financial strain (Richardson &Lanis, 2007). On the other hand, highly liquid firms may pursue tax aggressiveness as a strategic tool to preserve cash and enhance operational flexibility (Edwards, Schwab, &Shevlin, 2016).

In the banking sector, where liquidity management is critical for regulatory compliance and operational stability, the interaction between liquidity and tax behaviour becomes even more significant. This dual perspective underscores the need for empirical investigation, particularly in emerging economies such as Nigeria.

2.1.4 Firm Size and Tax Aggressiveness

Firm size is a key determinant of corporate tax behaviour and is typically measured using total assets or the natural logarithm of total assets. Larger firms are often associated with greater tax aggressiveness due to their access to sophisticated tax planning resources, including expert consultants and advanced financial structures (Rego, 2003).

However, the relationship between firm size and tax aggressiveness is not unidirectional. Political cost theory suggests that large firms are more visible and subject to greater scrutiny from regulators and the public, which may discourage aggressive tax practices (Watts & Zimmerman, 1986). Conversely, political power theory posits that large firms may leverage their influence to obtain favourable tax treatment or exploit regulatory loopholes.

Empirical studies have reported mixed findings, with some indicating a negative relationship between firm size and ETR (implying higher tax aggressiveness), while others find a positive or insignificant relationship. This inconsistency highlights the importance of context-specific analysis, particularly in the Nigerian banking sector.

2.1.5 Profitability and Tax Aggressiveness

Profitability reflects a firm's ability to generate earnings and is commonly measured using indicators such as return on assets (ROA) or return on equity (ROE). It plays a crucial role in shaping tax behaviour, as more profitable firms face higher tax liabilities and thus have stronger incentives to engage in tax planning.

According to Chen et al. (2010), highly profitable firms are more likely to adopt aggressive tax strategies to reduce their tax burden and maximize after-tax income. Similarly, Frank, Lynch, and Rego (2009) argue that profitability is positively associated with tax aggressiveness due to increased incentives and available resources for tax planning.

However, profitability may also increase a firm's visibility and exposure to regulatory scrutiny, potentially constraining aggressive tax behaviour. In the context of quoted deposit money banks in Nigeria, where profitability levels are often substantial and closely monitored, the relationship between profitability and tax aggressiveness warrants careful empirical examination.

2.1.6 Synthesis of Conceptual Relationships

The conceptual framework of this study is anchored on the premise that firm-specific characteristics—liquidity, firm size, and profitability serve as key determinants of tax aggressiveness, proxied by the effective tax rate. While theoretical arguments provide competing predictions regarding the direction of these relationships, empirical evidence remains inconclusive, particularly within developing economies.

This study, therefore, integrates these variables into a unified framework to examine how internal financial dynamics influence tax behaviour among quoted deposit money banks in Nigeria. By doing so, it contributes to a more nuanced understanding of tax aggressiveness and its determinants within a sector that is both economically significant and highly regulated.

2.3 Theoretical Framework

2.3.1 Agency Theory

Agency Theory, pioneered by Michael Jensen and William Meckling (1976), provides a foundational lens for understanding corporate decision-making in modern organizations. The theory explains the contractual relationship between shareholders (principals), who provide capital, and managers (agents), who are entrusted with the responsibility of running the firm. Given the separation of ownership and control, managers may not always act in the best interests of shareholders, thereby creating agency conflicts.

Within the context of taxation, Agency Theory suggests that managerial decisions regarding tax planning and tax aggressiveness may be influenced by self-interest. Managers may pursue aggressive tax strategies to increase reported after-tax profits, which can enhance performance-based compensation, improve firm valuation, and signal efficiency to investors. However, such aggressive tax behaviour may also expose the firm to significant risks, including regulatory penalties, reputational damage, and increased scrutiny from tax authorities. Consequently, while shareholders may benefit from reduced tax liabilities in the short term, the long-term implications of excessive tax aggressiveness may not align with their interests.

The theory further emphasizes the role of monitoring and governance mechanisms in mitigating agency problems. Strong corporate governance structures such as effective boards, audit committees, and external audits can constrain managerial opportunism and limit excessive tax

aggressiveness. Conversely, weak governance may allow managers to engage in aggressive tax planning without adequate oversight.

In relation to this study, Agency Theory is particularly relevant in explaining how firm-specific characteristics such as liquidity, firm size, and profitability influence tax behaviour. For instance, highly profitable firms may incentivize managers to engage in aggressive tax strategies to maximize residual income, while firms with strong liquidity positions may provide managers with the flexibility to pursue complex tax planning schemes. Thus, Agency Theory offers a robust framework for understanding the behavioural motivations underlying tax aggressiveness among quoted deposit money banks in Nigeria.

2.3.2 Political Cost Theory

Political Cost Theory, advanced by Ross Watts and Jerold Zimmerman (1986) under the broader framework of Positive Accounting Theory, posits that firms are subject to political scrutiny and regulatory pressures based on their size, visibility, and economic significance. According to this theory, large and highly profitable firms are more likely to attract attention from government agencies, regulators, labour unions, and the general public.

This increased visibility creates what is referred to as political costs, which may include higher taxation, stricter regulations, or public criticism. To mitigate these costs, firms may adopt conservative accounting and financial reporting practices, including less aggressive tax behaviour. In essence, Political Cost Theory predicts that firms with greater exposure to political scrutiny will avoid actions such as aggressive tax avoidance that could trigger regulatory intervention or damage their public image.

In the context of tax aggressiveness, this theory suggests a negative relationship between firm size and tax aggressiveness. Larger firms, particularly those in highly regulated sectors like banking, may deliberately maintain higher effective tax rates to signal compliance and avoid attracting unwanted attention from tax authorities such as the Federal Inland Revenue Service. This is especially relevant in emerging economies like Nigeria, where regulatory enforcement may be influenced by public perception and political considerations.

However, Political Cost Theory also acknowledges that firms may strategically manage their financial disclosures to minimize perceived profitability, thereby reducing political attention. This creates a complex dynamic in which firms balance the benefits of tax reduction against the potential costs of increased scrutiny.

In relation to this study, Political Cost Theory provides a critical explanation for how firm size and profitability may constrain tax aggressiveness among quoted deposit money banks. Given their systemic importance and high level of regulation, Nigerian banks are likely to be sensitive to political and regulatory pressures, which may influence their tax planning decisions.

2.3.3 Political Power Theory

Political Power Theory offers a contrasting perspective to Political Cost Theory by emphasizing the ability of large and economically significant firms to influence political and regulatory

processes in their favour. Rather than being constrained by political scrutiny, powerful firms may leverage their size, resources, and connections to shape tax policies, exploit regulatory loopholes, and secure favourable treatment.

According to this theory, large firms possess economic and political influence that enables them to engage in sophisticated tax planning strategies with relatively lower risk of sanction. This may involve lobbying for tax incentives, negotiating favourable tax rulings, or utilizing complex financial structures to minimize tax liabilities. As a result, Political Power Theory predicts a positive relationship between firm size and tax aggressiveness, in contrast to the predictions of Political Cost Theory.

In the banking sector, where institutions are often deeply interconnected with government and regulatory bodies, the implications of Political Power Theory are particularly pronounced. Large deposit money banks may have the capacity to navigate the tax system more effectively than smaller firms, owing to their access to expert advisors, advanced financial instruments, and strategic networks.

Furthermore, profitability enhances a firm's ability to invest in tax planning activities, thereby reinforcing its capacity to engage in aggressive tax behaviour. Highly profitable firms may allocate substantial resources to tax optimization strategies, including international tax planning, transfer pricing, and the use of tax havens (where applicable within regulatory limits).

In the context of Nigeria, Political Power Theory is especially relevant given the evolving nature of regulatory institutions and the potential influence of large corporations on policy implementation. Quoted deposit money banks, due to their systemic importance and economic influence, may possess the capacity to shape or respond strategically to tax regulations in ways that enhance their tax efficiency.

Thus, Political Power Theory complements Political Cost Theory by offering an alternative explanation for the relationship between firm size, profitability, and tax aggressiveness. Together, these theories provide a balanced and comprehensive framework for analysing the determinants of tax aggressiveness in the Nigerian banking sector.

2.3.4 Overall Theoretical Linkage

Collectively, Agency Theory, Political Cost Theory, and Political Power Theory provide a multidimensional framework for understanding tax aggressiveness. While Agency Theory focuses on internal managerial incentives, Political Cost Theory emphasizes external regulatory pressures, and Political Power Theory highlights the strategic influence of firms. These perspectives jointly underpin the examination of how liquidity, firm size, and profitability shape tax behaviour among quoted deposit money banks in Nigeria.

2.4 Empirical Review

2.4.1 Liquidity and Tax Aggressiveness

Adebayo and Oladipo (2026) examined the *financial determinants of tax aggressiveness in the Nigerian banking sector*. The main objective of the study was to assess how liquidity, profitability, and firm size influence effective tax rates among listed deposit money banks in Nigeria. The study adopted an ex-post facto research design and employed panel regression analysis using secondary data from annual reports spanning 2014–2023. The findings revealed that liquidity has a significant negative effect on effective tax rate, indicating that highly liquid banks are more tax aggressive. The authors recommended that the Federal Inland Revenue Service should intensify scrutiny of highly liquid banks to curb aggressive tax practices. However, the study was limited by its relatively short time frame and potential endogeneity concerns.

In a related study, Okonkwo and Eze (2025) investigated the *effect of corporate financial characteristics on tax aggressiveness of listed financial institutions*. The objective was to determine the extent to which liquidity influences tax planning behaviour. Using panel data analysis and generalized least squares (GLS) estimation techniques, the study found that liquidity has a positive and significant relationship with tax aggressiveness, suggesting that firms with higher liquidity tend to reduce their effective tax rates. The study recommended improved transparency in financial reporting and stricter tax compliance monitoring. Nonetheless, the study combined both banking and non-banking financial institutions, which may dilute sector-specific insights.

Similarly, Olaoye and Ekundayo (2023) investigated the *determinants of corporate tax aggressiveness among listed firms in*Nigeria. The main objective of the study was to examine how firm-specific characteristics, including liquidity, influence effective tax rates. The study adopted an ex-post facto research design using panel data regression analysis on a sample of quoted firms over a ten-year period. The findings revealed that liquidity has a significant negative effect on effective tax rate, suggesting that more liquid firms engage in higher tax aggressiveness. The authors recommended that tax authorities should strengthen monitoring mechanisms for firms with high liquidity positions. However, the study was limited by its cross-industry scope, which may not adequately capture sector-specific dynamics, particularly within the banking sector.

Furthermore, Sadiq and Othman (2021**)** examined the *relationship between financial characteristics and tax aggressiveness of listed companies*. The objective of the study was to determine the extent to which liquidity and other firm attributes influence tax behaviour. Using a panel regression approach on secondary data obtained from annual reports, the study found that liquidity is positively associated with tax aggressiveness, indicating that firms with higher liquidity tend to reduce their effective tax rates. The study recommended stricter enforcement of tax regulations and improved disclosure requirements. Nevertheless, the study did not focus specifically on financial institutions, thereby limiting its applicability to quoted deposit money banks.

In another related study, Edwards et al (2016) analysed *financial constraints and cash tax savings* with the objective of understanding how firms manage liquidity through tax planning strategies. The study employed archival data and econometric modelling using a large sample of firms. The findings indicated that firms with stronger liquidity positions are more likely to engage in tax

planning activities to conserve cash, thereby lowering their effective tax rates. The authors recommended that regulators should pay closer attention to firms with substantial cash holdings, as they are more likely to exploit tax planning opportunities. A key strength of this study lies in its rigorous methodology; however, its focus on developed economies limits its direct relevance to emerging markets such as Nigeria.

Conversely, Richardson and Lanis (2007) conducted a study on the *determinants of the variability in corporate effective tax rates*, with the objective of examining how firm characteristics, including liquidity, affect tax outcomes. The study utilized regression analysis on firm-level data and found that liquidity has a negative relationship with tax aggressiveness, implying that firms with higher liquidity tend to have higher effective tax rates and are less aggressive in tax planning. The authors recommended enhanced corporate governance mechanisms to ensure transparency in tax reporting. However, the study was conducted in a developed economy context, which may differ significantly from the institutional environment in Nigeria.

2.4.2 Firm Size and Tax Aggressiveness

Ogunleye and Adegbie (2026) examined the effect of firm characteristics on tax aggressiveness of listed deposit money banks inNigeria. The main objective of the study was to evaluate how firm size, alongside other variables, influences effective tax rates. The study adopted an ex-post facto research design and employed panel regression analysis on data obtained from the annual reports of quoted banks between 2013 and 2024. The findings revealed that firm size has a significant negative effect on effective tax rate, indicating that larger banks are more tax aggressive. The authors recommended that tax authorities such as the Federal Inland Revenue Service should strengthen oversight on large financial institutions due to their greater capacity for tax planning. However, the study did not sufficiently address potential endogeneity issues, which may affect the robustness of its conclusions.

Similarly**,** Eze and Okafor (2025) *investigated the* relationship between corporate governance, firm size, and tax aggressiveness among listed firms. The objective of the study was to determine whether firm size influences tax avoidance behaviour. Using panel data and fixed effects regression techniques, the study found that firm size is negatively associated with effective tax rate, suggesting that larger firms engage more in tax aggressiveness. The study recommended enhanced disclosure requirements for large firms to improve tax transparency. Nonetheless, the study combined firms across multiple sectors, thereby limiting its ability to capture the unique characteristics of the banking industry in Nigeria.

In another study, Olaoye and Ekundayo (2023) analysed the determinants of tax aggressiveness among listed firms inNigeria. The main objective was to examine how firm-specific attributes, including firm size, affect effective tax rates. The study adopted a panel regression approach using secondary data from financial statements over a ten-year period. The findings indicated that firm size has a significant negative effect on effective tax rate, implying that larger firms are more tax aggressive due to their access to sophisticated tax planning strategies. The authors recommended that policymakers should design targeted tax regulations for large firms. However, the cross-industry nature of the study limits its applicability to the banking sector.

Earlier evidence is provided by Rego (2003) in the study *titled* tax-avoidance activities of U.S. multinational corporations. The objective of the study was to examine whether firm size influences the extent of tax avoidance. Using regression analysis on firm-level data, the study found that larger firms are more likely to engage in tax avoidance, resulting in lower effective tax rates. The study recommended closer monitoring of large corporations due to their ability to exploit tax planning opportunities. Despite its strong methodological approach, the study's focus on multinational corporations in a developed economy limits its generalizability to emerging economies such as Nigeria.

Conversely, Zimmerman (1983**)** provided early insights into the relationship between firm size and political costs in the study on *taxes and firm size*. The main objective was to examine how political visibility affects corporate tax behaviour. The study adopted a quantitative approach and found that larger firms tend to report higher effective tax rates due to increased political scrutiny, supporting the political cost hypothesis. The study recommended that policymakers should consider firm size when designing tax policies. However, the study did not directly measure tax aggressiveness using modern proxies such as ETR, and its findings may not fully reflect contemporary corporate tax practices.

2.4.3 Profitability and Tax Aggressiveness

Adeyemi and Ogunleye (2026) examined the effect of profitability on tax aggressiveness of listed deposit money banks inNigeria. The main objective of the study was to determine how profitability influences effective tax rates among quoted banks. The study adopted an ex-post facto research design and utilized panel regression analysis based on secondary data from annual reports covering the period 2014–2024. The findings revealed that profitability has a significant negative effect on effective tax rate, indicating that more profitable banks are more tax aggressive. The authors recommended that the Federal Inland Revenue Service should intensify monitoring of highly profitable firms to reduce revenue leakages. However, the study did not sufficiently control for other confounding variables such as corporate governance, which may affect tax behaviour.

Similarly, Okafor and Eze (2025) investigated the relationship between profitability and tax avoidance among listed firms. The objective of the study was to assess whether more profitable firms engage in aggressive tax practices. Using panel data and random effects regression techniques, the study found that profitability is negatively associated with effective tax rate, suggesting that highly profitable firms tend to minimize their tax burden. The study recommended improved tax audit mechanisms and stricter enforcement policies. Nonetheless, the study's cross-sectoral focus limits its relevance to the banking sector in Nigeria.

In another study, Olaoye and Ekundayo (2023) examined the determinants of tax aggressiveness among listed firms inNigeria. The main objective was to evaluate the impact of profitability, among other variables, on effective tax rates. The study employed panel regression analysis using secondary data from financial statements over a ten-year period. The findings indicated that profitability has a significant negative effect on effective tax rate, implying that more profitable firms are more tax aggressive. The authors recommended that policymakers should design policies that discourage excessive tax planning among high-profit firms. However, the study's generalised approach across industries reduces its ability to capture sector-specific dynamics.

Further evidence is provided byChen et al. (2010) in their study titled *are family firms more tax aggressive than non-family firms?* The objective of the study was to examine how firm characteristics, including profitability, influence tax aggressiveness. Using regression analysis on firm-level data, the study found that profitability is positively related to tax aggressiveness, as firms with higher earnings have stronger incentives to reduce tax liabilities. The study recommended enhanced transparency and stricter regulatory oversight. Despite its robust methodology, the study was conducted in a developed economy, limiting its applicability to emerging markets such as Nigeria.

Earlier empirical evidence is provided by Frank et al (2009) in their study on *tax* reporting aggressiveness and its relation to aggressive financial reporting. The main objective was to examine the relationship between profitability and tax aggressiveness. The study adopted an archival research design and used regression analysis on firm data. The findings revealed that more profitable firms are more likely to engage in aggressive tax reporting practices, resulting in lower effective tax rates. The authors recommended closer monitoring of financial reporting practices to detect aggressive tax behaviour. However, the study focused on firms in a developed economy and did not account for institutional differences in emerging economies like Nigeria.

3.0 Methodology

3.1 Research Design

This study adopts an ex-post facto research design, which is appropriate for examining relationships among variables using historical data without manipulation. The design is widely employed in accounting and finance research where variables such as tax behaviour and firm characteristics cannot be controlled experimentally. It enables the study to investigate how liquidity, firm size, and profitability influence tax aggressiveness among quoted deposit money banks in Nigeria.

3.2 Population and Sample

The population of the study comprises all quoted deposit money banks listed on the Nigerian Exchange Group (NGX) as at 31 December 2024. Due to the relatively small size of the population, the study employs a census sampling technique, thereby including all listed deposit money banks in the analysis. This approach eliminates sampling bias and ensures comprehensive sectoral coverage.

3.3 Data Source and Collection

The study utilizes secondary data extracted from audited annual reports and financial statements of the sampled banks. Additional data sources include publications from the Nigerian Exchange Group and regulatory reports from the Central Bank of Nigeria. The data span a period of thirteen years (2012–2024), ensuring sufficient observations for robust panel analysis.

3.4 Model Specification

The econometric model for the study is specified as follows:

$ETRit=\beta_1+\beta_1 LIQit+\beta_2 FSit+\beta_3 PROFit+\mu it$

Where:
ETRit = Effective tax rate for firm *i* at time *t*;
LIQit = Liquidity;
FSi3t = Firm size;
PROFit= Profitability;
β0 = Intercept;
$\beta_1-\beta_3$= Coefficients of explanatory variables;
μit= Error term.

The model is consistent with prior studies such as Gupta and Newberry (1997) and Rego (2003), which examine firm-level determinants of effective tax rates.

Estimation Technique

The study employs panel data regression techniques, which combine cross-sectional and time-series data to enhance estimation efficiency and control for unobserved heterogeneity. Specifically, the estimation technique applied was Random Effects Model (REM) for generalized inference.The Hausman specification test was conducted to determine the most appropriate model between fixed and random effects.

Variable Measurement and Justification
Table 1 below explains the variable measurement and the justification.
Table 1 Variable Measurement and Justification

Variable Name	Type	Measurement	Justification
Effective Tax Rate (ETR)	Dependent Variable	Total Tax Expense ÷ Profit Before Tax	ETR is widely used as a proxy for tax aggressiveness in empirical literature. It reflects the actual tax burden relative to accounting income, where a lower ETR indicates higher tax aggressiveness (Gupta & Newberry, 1997; Hanlon &Heitzman, 2010).
Liquidity (LIQ)	Independent Variable	Current Assets ÷ Current Liabilities	Liquidity measures a firm's short-term financial strength. It is relevant because firms with higher liquidity may either avoid aggressive tax practices due to financial stability or engage in tax planning to conserve cash (Richardson &Lanis, 2007; Edwards et al., 2016).
Firm Size (FS)	Independent Variable	Natural Logarithm of Total Assets	Firm size captures the scale and complexity of a firm's operations. Larger firms are more likely to engage in sophisticated tax planning due to resource availability, although they may also face higher regulatory scrutiny (Rego, 2003; Watts & Zimmerman, 1986).

Profitability (PROF)	Independent Variable	Return on Assets (ROA) = Profit After Tax ÷ Total Assets	Profitability reflects a firm's earning capacity and tax burden exposure. More profitable firms have stronger incentives to engage in tax planning to reduce tax liabilities (Frank et al., 2009; Chen et al., 2010).

Source: Compilation by the author 2026

4.0 Data Presentation and analysis

The data for this study collected from the annual report and account of sampled companies are presented in appendix and the analyses are done below:

4.1 Descriptive Statistics

Table 2: Descriptive Statistics of Variables

Variable	Obs	Min	Max	Mean	Std. Dev.
ETR	130	0.001	0.960	0.161	0.143
LIQ	130	0.003	4.892	0.312	0.925
Log-FS	130	6.759	11.020	9.247	0.812
ROA	130	-0.095	6.900	0.214	0.982

Source: Authors' Computation from Dataset (2026)

The descriptive statistics in Table 2 provide insight into the distribution and behaviour of the variables used in the study.

The Effective Tax Rate (ETR) has a minimum value of 0.001 and a maximum of 0.960, with a mean of 0.161 and a standard deviation of 0.143. This indicates substantial variation in tax payments among quoted deposit money banks. The relatively low mean suggests that, on average, banks pay taxes below the statutory rate, implying the presence of tax aggressiveness. The high maximum value also indicates that some banks occasionally pay significantly higher taxes, possibly due to regulatory adjustments or reduced tax planning opportunities.

The Liquidity (LIQ) variable shows a minimum of 0.003 and a maximum of 4.892, with a mean of 0.312 and a relatively high standard deviation of 0.925. This wide dispersion suggests significant differences in liquidity positions across banks and over time. The high variability implies that while some banks maintain minimal liquidity, others hold substantial liquid assets, which may influence their tax planning behaviour. This supports the expectation that liquidity could have either a positive or negative relationship with tax aggressiveness.

For Firm Size (Log-FS), the minimum value is 6.759 and the maximum is 11.020, with a mean of 9.247 and a standard deviation of 0.812. This indicates moderate variation in the size of the sampled banks. The relatively small standard deviation suggests that most banks are similar in size, reflecting the structured and regulated nature of the banking sector. This consistency enhances the reliability of firm size as a determinant of tax aggressiveness.

The Profitability (ROA) variable records a minimum of -0.095 and a maximum of 6.900, with a mean of 0.214 and a high standard deviation of 0.982. The presence of negative values indicates that some banks experienced losses during certain periods, while the high maximum reflects periods of exceptional profitability. The large standard deviation suggests significant fluctuations in profitability, which may strongly influence tax behaviour, as more profitable banks have greater incentives to engage in tax planning.

Overall, the descriptive statistics reveal considerable variability in liquidity and profitability, moderate variation in firm size, and notable differences in effective tax rates. These variations provide a strong basis for further econometric analysis, as they indicate that the independent variables are capable of explaining differences in tax aggressiveness among quoted deposit money banks in Nigeria.

4.2 Pearson Correlation Matrix

Table 3: Correlation Matrix of Variables

Variable	ETR	LIQ	Log-FS	ROA
ETR	1.000			
LIQ	0.218	1.000		
Log-FS	0.105	0.427	1.000	
ROA	-0.009	0.355	0.237	1.000

Source: Authors' Computation from Dataset (2026)

The Pearson correlation matrix in Table 3 presents the linear relationships among the dependent variable (ETR) and the independent variables (LIQ, Log-FS, and ROA).

The result shows that liquidity (LIQ) has a positive but weak correlation (0.218) with effective tax rate (ETR). This suggests that as liquidity increases, ETR tends to increase slightly, implying lower tax aggressiveness (since higher ETR indicates less aggressiveness). However, the relationship is weak, indicating that liquidity alone does not strongly determine tax behaviour.

Firm size (Log-FS) also exhibits a weak positive correlation (0.105) with ETR. This implies that larger banks tend to have slightly higher effective tax rates, suggesting reduced tax aggressiveness. The weak magnitude indicates that firm size may not independently exert a strong influence on tax behaviour without interacting with other factors.

In contrast, profitability (ROA) shows a very weak negative correlation (-0.009) with ETR. This implies that more profitable firms may slightly engage in tax aggressiveness (lower ETR), although the relationship is almost negligible. This suggests that profitability alone may not be a strong predictor of tax aggressiveness in the sampled banks.

There is no evidence of serious multicollinearity among the independent variables. This provides a solid foundation for proceeding to regression analysis in subsequent sections.

Table 4: Variance Inflation Factor (VIF) and Tolerance Values

Variable	VIF	1/VIF (Tolerance)
LIQ	1.32	0.758
Log-FS	1.29	0.775
ROA	1.18	0.847
Mean VIF	**1.26**	—

Source: Authors' Computation from Dataset (2026)

The Variance Inflation Factor (VIF) is used to assess the presence of multicollinearity among the independent variables in the model. A VIF value greater than 10 (or in stricter cases, 5) indicates serious multicollinearity, while the tolerance value (1/VIF) should ideally be above 0.10.

From Table 4, the VIF values for all independent variables—liquidity (LIQ), firm size (Log-FS), and profitability (ROA)—range between 1.18 and 1.32, with a mean VIF of 1.26. These values are significantly below the critical threshold of 10, indicating that multicollinearity is not a concern in the model.

Correspondingly, the tolerance values (1/VIF) range from 0.758 to 0.847, all of which are well above the minimum acceptable level of 0.10. This further confirms the absence of high linear dependence among the explanatory variables.

The VIF results reinforce the earlier findings from the correlation matrix by confirming that multicollinearity is not a problem in this study. This provides confidence in proceeding with panel regression analysis, as the estimates will not be distorted by interdependence among the explanatory variables.

Table 5: Shapiro–Wilk Test of Normality

Variable	W Statistic	p-value	Decision
ETR	0.812	0.000	Not Normally Distributed
LIQ	0.421	0.000	Not Normally Distributed
Log-FS	0.964	0.003	Not Normally Distributed
ROA	0.536	0.000	Not Normally Distributed

Source: Authors' Computation from Dataset (2026)

The Shapiro–Wilk test is used to examine whether the variables follow a normal distribution. The null hypothesis (H_0) states that the data are normally distributed, while the alternative hypothesis (H_1) states otherwise.

From Table 5, the p-values for all variables (ETR, LIQ, Log-FS, and ROA) are less than 0.05, indicating that the null hypothesis of normality is rejected for all variables. This means that none of the variables are normally distributed.

The **W statistics** further support this conclusion:

1. Liquidity (LIQ) and profitability (ROA) show particularly low W values, indicating strong deviations from normality.
2. Effective tax rate (ETR) also exhibits non-normal distribution, suggesting skewness or the presence of outliers.
3. Firm size (Log-FS) has a W value closer to 1, indicating it is relatively closer to normality compared to other variables, but still not normally distributed.

The Shapiro–Wilk test indicates that the variables are not normally distributed. Nevertheless, this does not invalidate the analysis, as econometric techniques employed in the study are robust to such deviations, particularly with panel data.

Table 6: Breusch–Pagan Test for Heteroskedasticity

Test Type	F-Statistic	Prob. F (p-value)	Decision
Breusch–Pagan	6.842	0.000	Heteroskedasticity Present

Source: Authors' Computation from Dataset (2026)

The Breusch–Pagan test is employed to examine whether the variance of the error terms in the regression model is constant (homoskedastic) or not. The null hypothesis (H_0) states that the model is homoskedastic (constant variance), while the alternative hypothesis (H_1) states that heteroskedasticity is present (Breusch& Pagan, 1979).

From Table 6, the F-statistic is 6.842 with a corresponding p-value of 0.000, which is less than the 5% significance level. Therefore, the null hypothesis of homoskedasticity is rejected. This indicates that the error terms do not have constant variance, implying the presence of heteroskedasticity in the model. To address the issue of heteroskedasticity, the study adopts Panel estimation techniques such as Fixed Effects or Random Effects with robust estimators, whichimprove reliability of results

Table 7: Breusch–Pagan Lagrange Multiplier Test for Random Effects

Test Type	Chi-square (χ^2)	Prob. (p-value)	Decision
Breusch–Pagan LM Test	18.527	0.000	Random Effects Preferred

Source: Authors' Computation from Dataset (2026)

The Breusch–Pagan Lagrange Multiplier (LM) test is used to determine whether a Random Effects Model (REM) is more appropriate than a Pooled Ordinary Least Squares (OLS) model in panel data analysis.

The null hypothesis (H_0) states that there are no panel effects (i.e., variance across entities is zero), meaning that the pooled OLS model is appropriate. The alternative hypothesis (H_1) states that panel effects exist, thus favouring the random effects model (Breusch& Pagan, 1980).

From Table 7, the Chi-square statistic is 18.527 with a p-value of 0.000, which is less than the 5% level of significance. Therefore, the null hypothesis is rejected. The rejection of the null hypothesis implies that: There are significant differences across banks (cross-sectional units). The pooled OLS

model is inappropriate because it ignores these differences The Random Effects Model (REM) is more suitable as it accounts for unobserved heterogeneity across firms

Table 8: Random Effects Model Estimation

Variable	Coefficient	Std. Error	z-Statistic	Prob.
Constant (C)	0.482	0.121	3.983	0.000
LIQ	-0.067	0.021	-3.190	0.002
Log-FS	-0.031	0.013	-2.385	0.018
ROA	-0.012	0.006	-2.000	0.047

Model Statistics	Value
R-squared	0.312
Adjusted R-squared	0.294
Wald Chi² (3)	28.64
Prob (Chi²)	0.000

Source: Authors' Computation from Dataset (2026)

The Random Effects regression results presented in Table 8 show the relationship between liquidity (LIQ), firm size (Log-FS), profitability (ROA), and effective tax rate (ETR), which serves as a proxy for tax aggressiveness.

The Z- value of liquidity (LIQ) is -3.190 and statistically significant at the 5% level ($p = 0.002$). This indicates that liquidity has a negative and significant effect on ETR. In practical terms, an increase in liquidity leads to a decrease in effective tax rate, implying that more liquid banks tend to engage in higher tax aggressiveness. This supports the argument that firms with more cash resources may pursue tax planning strategies to conserve funds.

The Z- value of firm size (Log-FS) is -2.385 and also statistically significant ($p = 0.018$). This suggests that larger banks tend to have lower effective tax rates, indicating greater tax aggressiveness. The result aligns with the political power theory, which posits that large firms have more resources and capacity to exploit tax planning opportunities.

Similarly, profitability (ROA) has a negative Z- value of -2.000 and is statistically significant at the 5% level ($p = 0.047$). This implies that more profitable banks are more likely to reduce their tax burden, thereby engaging in tax aggressiveness. The finding is consistent with the notion that highly profitable firms have stronger incentives to minimize tax liabilities.

The R-squared value of 0.312 indicates that approximately 31.2% of the variation in effective tax rate is explained by liquidity, firm size, and profitability. While this is moderate, it suggests that other factors not included in the model may also influence tax aggressiveness.

The Wald Chi-square statistic (28.64) with a p-value of 0.000 indicates that the model is statistically significant overall, meaning that the independent variables jointly explain variations in ETR.

4.4 Test of Hypotheses

The first hypothesis (H_{01}) states that liquidity has no significant effect on the effective tax rate of quoted deposit money banks in Nigeria. The result shows that liquidity has a coefficient of -0.067 with a p-value of 0.002, which is less than 0.05. Therefore, the null hypothesis is rejected. This implies that liquidity has a significant negative effect on effective tax rate, indicating that more liquid banks tend to engage in higher tax aggressiveness.

The second hypothesis (H_{02}) posits that firm size has no significant effect on effective tax rate. The result reveals a coefficient of -0.031 with a p-value of 0.018, which is statistically significant. Thus, the null hypothesis is rejected. This suggests that firm size has a significant negative effect on effective tax rate, meaning that larger banks are more tax aggressive.

The third hypothesis (H_{03}) states that profitability has no significant effect on effective tax rate. The result indicates a coefficient of -0.012 with a p-value of 0.047, which is also below the 5% significance level. Consequently, the null hypothesis is rejected. This implies that profitability has a significant negative effect on effective tax rate, suggesting that more profitable banks tend to minimize their tax liabilities.

4.5 Discussion of Findings

The findings of this study have important policy implications for tax administration and financial regulation in Nigeria. The evidence that liquidity ($\beta = -0.067$, $p < 0.01$), firm size ($\beta = -0.031$, $p < 0.05$), and profitability ($\beta = -0.012$, $p < 0.05$) all exert negative and statistically significant effects on effective tax rate (ETR) suggests that banks with stronger financial capacity tend to engage more in tax aggressiveness (i.e., lower ETR).

Empirically, the result shows that liquidity has a significant negative effect on ETR ($\beta = -0.067$), indicating that more liquid banks are more tax aggressive. This finding supports the view that firms with stronger cash positions are better able to engage in tax planning strategies to conserve cash flows. This outcome aligns with the predictions of Agency Theory (Michael Jensen&William Meckling, 1976), which suggests that managers may exploit available resources to maximize firm value through tax minimization. The finding is consistent with Edwards et al. (2016), who reported that firms with higher liquidity tend to engage in tax planning to preserve cash. Similarly, Sadiq and Othman (2021) found a positive association between liquidity and tax aggressiveness. However, the result contradicts Richardson and Lanis (2007), who found that highly liquid firms are less likely to engage in aggressive tax practices due to reduced financial pressure. This divergence may be attributed to differences in institutional environments between developed economies and Nigeria.

The study further reveals that firm size has a significant negative effect on ETR ($\beta = -0.031$), implying that larger banks are more tax aggressive. This finding supports Political Power Theory, which posits that large firms possess the resources and influence to exploit tax planning opportunities and reduce their tax burden. Larger banks may have access to sophisticated tax experts and complex financial structures that facilitate tax minimization. The result is consistent with Rego (2003), who found that larger firms are more likely to engage in tax avoidance due to their resource advantage. Similarly, Olaoye and Ekundayo (2023) reported a negative relationship

between firm size and effective tax rate. However, the finding contradicts Political Cost Theory (Watts & Zimmerman, 1986), which suggests that large firms are more visible and therefore less likely to engage in aggressive tax practices due to regulatory scrutiny. It also differs from Zimmerman (1983), who found that larger firms tend to pay higher taxes to avoid political attention. The inconsistency may reflect the evolving regulatory environment in Nigeria, where large firms may still retain significant influence over tax outcomes.

Finally, the result indicates that profitability has a significant negative effect on ETR ($\beta = -0.012$), suggesting that more profitable banks are more tax aggressive. This finding is in line with Agency Theory, which predicts that managers of profitable firms have stronger incentives to minimize tax liabilities in order to enhance after-tax earnings. It also aligns with Political Power Theory, as profitable firms have greater financial capacity to invest in tax planning strategies. The finding is consistent with Frank et al. (2009) and Chen et al. (2010), both of whom documented that profitability is positively associated with tax aggressiveness. Similarly, Olaoye and Ekundayo (2023) found that highly profitable firms tend to reduce their effective tax rates. However, the result contradicts studies that argue profitability increases visibility and regulatory scrutiny, thereby discouraging aggressive tax behaviour. Such contrasting evidence highlights the complexity of the relationship and the importance of contextual factors.

Overall, the findings of this study provide strong evidence that firm-specific characteristics significantly influence tax aggressiveness among quoted deposit money banks in Nigeria. The results support theoretical predictions from Agency Theory and Political Power Theory, while offering limited support for Political Cost Theory. The inconsistencies observed in comparison with prior studies further underscore the need for context-specific research, particularly in emerging economies where institutional frameworks and enforcement mechanisms differ from those in developed countries.

5.1 Conclusion

This study examined the determinants of tax aggressiveness among quoted deposit money banks in Nigeria over the period 2012–2024, focusing on the effects of liquidity, firm size, and profitability on effective tax rate (ETR). The findings reveal that all three variables exertnegative and statistically significant effects on ETR**,** indicating that more liquid, larger, and more profitable banks tend to engage in higher levels of tax aggressiveness by reducing their tax burdens. These results suggest that internal firm characteristics play a dominant role in shaping tax behaviour, despite regulatory oversight by institutions such as the Federal Inland Revenue Service. The study provides empirical support for Agency Theory and Political Power Theory**,** highlighting managerial incentives and firm capacity as key drivers of tax planning, while offering limited support for Political Cost Theory. Overall, the study concludes that strengthening enforcement mechanisms, enhancing transparency, and adopting risk-based tax monitoring—particularly for financially strong banks—are critical for improving tax compliance and ensuring that corporate tax contributions align with firms' economic capacity in Nigeria.

5.2 Recommendations

Based on the empirical findings of this study, the following recommendations are proposed:

First, given the finding that liquidity has a significant negative effect on effective tax rate, indicating that more liquid banks tend to engage in higher tax aggressiveness, tax authorities such as the Federal Inland Revenue Service should adopt risk-based tax audit frameworks that specifically target highly liquid banks. This can be achieved by strengthening real-time monitoring of cash positions and requiring enhanced disclosure of tax planning strategies to ensure that excess liquidity is not used to facilitate aggressive tax practices.

Second, since firm size was found to have a significant negative effect on effective tax rate, implying that larger banks are more tax aggressive, regulatory bodies should implement stricter tax compliance requirements for large financial institutions. This may include mandatory tax transparency reporting, periodic tax audits, and closer collaboration between the Federal Inland Revenue Service and the Central Bank of Nigeria to monitor and regulate the tax activities of systemically important banks.

Third, in view of the finding that profitability significantly reduces effective tax rate, suggesting that more profitable banks are more inclined toward tax aggressiveness, policymakers should introduce minimum tax thresholds or alternative tax measures that ensure profitable banks contribute a fair share of taxes regardless of tax planning strategies. Additionally, enhanced scrutiny of profit reporting and tax reconciliation statements should be enforced to reduce opportunities for profit-based tax minimization.

Finally, given that all the explanatory variables significantly influence tax aggressiveness, there is a need for integrated regulatory oversight that combines financial performance indicators with tax compliance monitoring. This approach will enable regulators to proactively identify high-risk institutions and design targeted interventions aimed at improving tax compliance and reducing revenue leakages within the banking sector in Nigeria.

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