Abstract: The study tests the moderating effect of monitoring on the corporate tax avoidance-shareholders’ returns nexus in quoted Nigerian firms. Using an ex-post facto design, annual financial data were collected from 54 non-financial firms from various sectors of the Nigerian Stock Exchange (NSE). Analyses were carried out involving the Ordinary Least Square (OLS) regression within the framework of E-view 9.0. The study demonstrates that corporate tax avoidance positively impacts shareholders returns in quoted non-financial firms in Nigeria and the effect is improved with better monitoring mechanism in place. We also observe improvement in the liquidity, profitability, expected growth and tangibility of the sampled firms when tax avoidance behavior are well monitored. We recommend among other things that shareholders put in place a monitor mechanism to check management in the use of tax savings to ensure it is in shareholders’ interest.

Keywords: Tax Avoidance; Corporate Tax; Shareholders’ Returns; Moderation; Monitoring

Introduction

Tax avoidance practices among firms are carried out by corporate managers, who are agents of Shareholders, ought to act in the interest of the principals (Jensen & Mechling, 1976). For a company, the burden of tax payment is eventually borne by shareholders since it brings about a reduction in the profit which is the basis for dividend payment (Amiram, Bauer, & Frank, 2013). The aftermaths of management actions are usually reflected in the Stock returns which is the value gained or lost (whether realized or unrealized) on an investment in stock. The impulsive nature of stock returns in most sub-Saharan Africa countries calls for concerns and researches (Ogege, 2016).

With the separation of ownership from management, corporate tax avoidance actions could provide a platform for managers’ opportunistic behavior, thereby pursuing self-interests at the expense of the principal (Desai & Dharmapala 2006). Following Desai and
Dharmapala (2009) submission that the benefits accruing from tax avoidance activities in form of tax saving are possibly rendered non-beneficial to shareholders by the potential managerial rent extraction for firms having poor governance structure. Suggesting that firms having measures in place to mitigate agency cost would benefit more from the net effect of corporate tax avoidance. Corporate tax avoidance practices can afford management the tools, covers, platforms and rationalizations for unscrupulous managerial actions.

Because of the huge burden of tax in most entities, tax consequences has become a significant consideration in most corporate decisions today. Despite this obsession on the tax implication of firm decision and transactions, not much have been done on the corporate tax avoidance effect on the interest of shareholders. In Sub-Saharan Africa, studies like Onyeka and Nwankwo (2016); Obinabo, (2016); Dalu, Maposa, Pabwauingana, and Dalu, (2012); and Kiabel and Nwokah (2009) have shown a negative impact of tax avoidance on the economy as it limits government ability to carry out her constitutional functions, its effect on shareholders returns is yet unknown. In the developed economies, empirical evidences exist on the reaction of stock returns to annual changes in corporate tax avoidance, proxy by the Effective Tax Rate (Lev & Thiagarajan, 1993; Desai & Dharmapala, 2009).

The influence of corporate tax avoidance on shareholders’ returns have not been given adequate attention in Sub-Saharan Africa where the capital markets are less efficient. There is therefore need to provide more empirical evidences on the consequences of managers action (Corporate Tax Avoidance) on shareholders wellbeing, as reflected in stock returns (capital gain and dividend), using evidence from Nigerian quoted non-financial firms. Also, corporate tax avoidance could be detrimental to shareholders when the manager-shareholder goals are not aligned due to agency problem of lack of goal congruence (Desai & Dharmapala, 2006). Because agency cost is a reflection of corporate governance monitoring and effectiveness, it can be used as moderating variable on the corporate tax avoidance and shareholders’ returns nexus of non-financial quoted firms in Nigeria.

The study explores the impact of corporate tax avoidance on shareholders returns in quoted firms in Nigeria. Specifically, the study seeks to:

1. Ascertain the impacts of corporate tax avoidance on the shareholders returns returns of non-financial quoted firms in Nigeria.
2. Ascertain the extent to which Monitoring moderates the influence of corporate tax avoidance on shareholders returns in non-financial quoted firms in Nigeria.

We delimit this study to Non-financial firms quoted for the period 2010-2016 in the Nigerian Stock Exchange

**Literature Review**

**Shareholders’ Returns**

Usually, the wellbeing of equity holders in a company can be measured in terms of the fair value of stocks, which reflects their stake in that company (Ilaboya, Izevbechikai, & Ohiokha, 2016). Oftentimes, shareholders benefit from both dividend and an increase in share value. The predictions of market players on the future fortunes of shareholders is believed to be captured by the market Price of stocks (Beaver, Lambert & Morese, 1980).
In this study, stock returns is the Total Shareholders returns (TSR) of a particular company, not the stock market return. That is benefits accruable from investment in a company’s stock. According to Sharma (2013), it is a measure of the actual return achieved by shareholders, an indication of shareholders’ wellbeing. Dividend and expansion in market capitalization are two principal ways in which shareholders can be enriched. TSR takes into account the sum of these two factors. The increase in market capitalization is added the dividend paid out by the company during a financial year.

**Corporate Tax Avoidance**

Corporate tax avoidance entails a firm’s conscious actions directed at reducing its tax obligations by adopting approaches which could either be legal or illegal (Brian-Lee, Dobiyanski & Minton, 2015). The legality of a firm’s tax reduction decision or strategy is determined by the judicial interpretation of the relevant tax code as there is no clear cut distinction (Hanlon & Heitzman, 2010). In this study, we sees tax avoidance as the tax savings from paying lower Company Income Tax and exclude tax savings from other forms of taxes like the Personal Income Tax, Value added taxes, withholding taxes among others.

**Theoretical Literature**

**Agency Theory**

The literature on corporate tax avoidance and shareholders value, is of two strands. In the traditional perspective (Desai and Dharmapala 2009), tax avoidance ought to be equity holders’ concern, since a reduction in their taxes liabilities increase the cash flow offered for investment and distribution to shareholders, a desirable outcome for the firm. On the other hand, the agency view put forward the benefit of tax avoidance could be diminished by the agency problems arising from the separation of ownership and control in public limited firms. Slemrod (2004) asserts that the separation of ownership from control in atomistic ownership companies makes agency an issue, in addition to conventional factors (such as statutory rates, the chances and probable costs of discovery, and risk repugnance). However, managers many in some cases act in their own interests to the detriment of the principal on tax issues. The non-conformity between the desires of managers and that of owners makes it possible that tax avoidance practices could be value-enhancing to the manager, but detrimental to equity owners (Desai & Dharmapala, 2009). The agency theory therefore takes cognizance of the possibility that even if a firm utilises various strategies in reducing its tax burden, possibilities exist that savings may not be transformed into shareholders benefit due to agency problem.

**Managerial Opportunism Theory**

We use the Managerial Opportunism theory to analyse effect of the management and ownership separation found in limited liability companies, on corporate tax avoidance activities. The theory supported by Desai and Dharmapala (2006); Desai, Dyck and Zingales (2007), asserts that the obfuscatory tax planning activities can provide a safeguard for managerial opportunism and the diversion of rents. They posit that straightforward diversion and subtle forms of earnings manipulation can be facilitated when managers undertake tax avoidance activity. It is their view that tax planning has the tendency of increasing corporate performance and firm value where strong governance institutions exist. For firms having weak governance institutions there is a high chances of manipulation to the detriment of the owners.
A semantic representation of the conceptual framework of the study is given in the figure below.

Figure 1. **Conceptual framework of the Study**

![Conceptual Framework Diagram]

**Source:** Researchers’ Computation, 2018

**Some Prior Empirical Studies**

Amiram, Bauer and Frank (2013) made a comparison of differences in the effects of corporate tax avoidance on shareholders’ after-tax cash flows in imputation and classical countries. Using sensitivity analyses, a sample of 52,895 firm-year observations from 1994 through 2008 across 28 OECD countries, were selected the effect of countries’ shareholder dividend tax policies on corporate tax avoidance was examined. They conclude that if managers carry out in corporate tax aggressiveness principally for shareholders’ wellbeing, incidence of tax avoidance should be minimal in imputation countries.

Using 203 publicly-listed Australian firms over the years 2006 to 2009, Richardson, Taylor, and Lanis (2013) an analyses of the nexus between the oversight characteristics of board of directors and corporate tax aggressiveness was carried out. They pointed that with an effective internal control, risk management systems, engages a big four auditor, has an external auditor’s service that involves proportionally fewer non-audit services than audit services, and has a more independent internal audit committee, the likelihood of a firm becoming tax aggressive is minimal.

Akmalia and Hafiza (2013) provide preliminary evidence on the link between governance, tax avoidance and firm value. They examine whether tax avoidance is associated with firm value, and if so, whether the strength of the relation depends on the quality of governance using the Effective Tax Rates (ETR) to measure tax avoidance and the Malaysia Corporate Governance (MCG) Index 2011 to rate firm-level governance. Findings were based on analysis using a small sample of firms from the top 100 publicly listed firms in the MCG Index. They find that tax avoidance is viewed as value-enhancing activities by investors, and that the value relevance of tax avoidance is greater for firms with higher quality governance as compared to their counterparts.
Ohnuma (2014) looks into corporate tax avoidance as a determinant of executive compensation based on equity risk incentives using correlation and a multivariate regression analyses. He finds a negative association between tax aggressiveness and the adoption of stock options. Also he reports a significant relationship existing between equity risk inducements and aggressive tax behavior.

Kawor and Kportorgbi (2014) look into the relationship between tax planning and firms’ market performance. Using a longitudinal correlative design, the study use 22 non-financial companies listed on the Ghana Stock Exchange for the period 2000-2012, their results reveal that a low statutory corporate income tax rates suppresses firms’ tendency to engage in intensive tax planning activities. Also, tax planning has a neutral influence on firms’ performance. This finding is a deviation from the general perception that every cedi of tax savings from tax avoidance benefits investors. They recommended that investors institute monitoring systems to ensure that the benefits from tax planning are channeled to investors’ pockets.

Mosota (2014) investigates the effect of tax avoidance on the financial performance of firms listed in the Nairobi Stock Exchange (NSE). Using a descriptive research design, data on size, institutional shareholding, government shareholding, age and intangible asset were collected for the sixty one (61) listed firms in the Nairobi Stock Exchange (NSE). His result reveals a significant positive impact of tax avoidance on the financial performance of the companies. Size, age and intangible assets were found to have a positive effect on financial performance, while leverage had a negative impact on the financial performance of sampled firms. He recommends that firms should be aggressive in tax avoidance in order to improve profitability.

Richardson, Wang and Zhang (2016) examine the influence exerted by ownership structure on corporate tax avoidance in selected listed Chinese private firms. Analyses reveals a significant non-linear relationship between ownership concentration and tax avoidance. At the base, increased ownership concentration was seen to exert a positive effect on tax planning as a result of entrenchment. Though voting right induced concentrated ownership beyond the minimum level needed for effective control exert negative influence on tax planning due to the alignment effect. Another notable findings was the significantly positive association observed between pyramidal ownership structure and tax planning as a result of the entrenchment effect.

Nwaobia, Kwarbai, and Ogundajo (2016) examine the consequences of tax planning on the value of firms, using 50 firm-year observations for the period 2010-2014. They sourced data from the financials of the sampled companies and analyses involved both descriptive and inferential statistics within a specified panel regression framework. A significant joint effect on the firm value was observed for all tax planning variables considered. A positive and significant effect was observed for Effective tax rate (ETR), Firm age (FAG) and Dividend (DIV) while capital intensity and leverage were seen to have significant negative effect of firm value. They recommend an all-inclusive approach to tax planning to improve on firm value.

Huesecken, Overesch and Tassius (2017) evaluate the capital market reaction to the news on corporate tax avoidance using the luxleak publication, where hundreds of tax documents were released. Using an event study methodology, they find significant positive Cumulated Abnormal Return (CAR) for the involved firms. Market participants reward tax avoidance disclosure and discourages the effects it has on corporate reputation.
Lanis, McClure and Zirnsak (2017) analyse the tax aggressiveness of major alcohol and bottling companies operating in Australia. Included in the analysis are both Australian and foreign owned businesses. In total 13 companies were analysed and sample was broken up between profit or loss firms in consistency with the academic literature. Five companies were classified as loss, seven as profit and one as neither. Effective tax rates and book tax gaps were analysed with respect to the sample. Using the Australian Taxation Office (ATO) tax data, six corporations paid tax at, or near, the statutory rate of 30 per cent in the financial years 2013-2014 and 2014-2015, two paid at a rate lower than 20 per cent (Asahi Holdings and Lion), and the other five paid nothing. Taken together, the large alcohol companies in Australia are paying much less tax than would be expected if the 30 per cent corporate income tax rate applied. The analysis found that the wine industry made only small tax contributions to the Australian community over the two years.

The effects of corporate tax avoidance on shareholders’ returns have not been given adequate attention in sub-Sahara Africa where the capital markets are less efficient as paucity of such studies exist. There is therefore need to provide more empirical evidences on the consequences of managers’ action (Corporate Tax Avoidance) on shareholders wellbeing, as captured by capital gain and dividend using evidence from Nigerian quoted non-financial firms. The study formulates the following hypotheses:

H₁: Corporate tax avoidance has no significant impact on the shareholders returns of non-financial quoted firms in Nigeria.

H₂: Monitoring does not significantly moderates the influence of corporate tax avoidance on shareholders returns in non-financial quoted firms in Nigeria.

**Methods**

The study adopts an ex post facto research design within a panel data framework. The population consist of all listed non-financial firms in the Nigerian stock exchanges during the period 2010 to 2016. The fifty four (54) non-financial firms are selected from the Nigerian stock exchange, to form the sample of the study. The study employs the convenience sampling technique in selecting its sample based on availability and completeness of required data for the period 2010-2016. The study focuses on non-financial firms to ensure uniformity and avoid the risk of having our result influenced by different level of regulations associated with different sectors of the stock exchange, since they have relatively lesser level of regulations and governance as well as relatively higher tax avoidance practices.

In testing for the impact of corporate tax avoidance on stock returns and in testing for the moderating effect of agency cost mitigating variables on the nexus, we adapt a firm-value model of Abdul Wahab and Holland (2012). Their model centered on Tax Planning, Corporate Governance and Equity Value is given as:

\[
MVEit+3 = \beta_0 + \beta_1BVEit + \beta_2PBTit + \beta_3TPit + \beta_4NEDit + \beta_5OWNit + \beta_6TPit*NEDit + \beta_7PBTit*OWNit + \beta_8CGCit + \beta_9EMit + \beta_10CAPINTit + \beta_11LEVit + \beta_12DIVit + \beta_13FSit + \beta_14INDDUMit + \beta_1\epsilon_{it} 
\]  

…………………………………………………………………… (1)
Where:

MVE is market value of equity; BE is book value of equity; PBT is profit before tax; TP is Tax planning; NED is non-executive directors; IOWN is institutional ownership; CC is capital contribution; EM is Earnings Management; CAPINT is capital intensity; LEV is leverage; DIV is dividend; FS is foreign sales; INDDUM is Industry type; E is error term.

Our study modifies the above model to reveal moderating effects of agency cost mitigating variables (large shareholders monitoring) on the corporate tax avoidance and stock returns nexus based on the agency theory, shareholders’ theory and the Jensen’s free cash flow hypothesis. It is believed that stock returns and all other variables will respond to corporate tax avoidance after a given period. Hence we lag corporate tax avoidance in the model.

\[ STRt = \beta 0 + \beta 1CTA_{t-1} + \beta 2CGMit + \beta 3GCON_{it} + \beta 4NED_{it-1} + \beta 5PFT_{it} + \beta 6CAPINT_{it} + \beta 7LEV_{it} + \beta 8EXG_{it} + \beta 9CTA_{it} * AGC_{it} + \epsilon_{it} \] ……………. (2) ……………. (2)

Table 1. Measurement of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Abbreviation</th>
<th>Proxy</th>
<th>Nature</th>
<th>Apriori Sign</th>
<th>Source/justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Tax Avoidance</td>
<td>CTA</td>
<td>Cash Tax savings</td>
<td>Independent</td>
<td>+</td>
<td>Adapts Kawor and Kportorgbi (2014)</td>
</tr>
<tr>
<td>Profitability</td>
<td>PFT</td>
<td>Return on Asset</td>
<td>Control</td>
<td>+</td>
<td>(Olowoniyi &amp; Ojenike, 2012)</td>
</tr>
<tr>
<td>Capital Intensity (Tangibility)</td>
<td>CAPINT</td>
<td>Non-current assets divided by total assets (NCA/TA)</td>
<td>Control</td>
<td>+</td>
<td>Ilaboya, Izevbekhai, &amp; Ohiohka, (2016).</td>
</tr>
<tr>
<td>Leverage</td>
<td>LEV</td>
<td>Ratio of debt to equity</td>
<td>Control</td>
<td>+</td>
<td>Jensen et al. (1992)</td>
</tr>
<tr>
<td>Expected Growth</td>
<td>EXG</td>
<td>Revenue growth</td>
<td>Control</td>
<td>+</td>
<td>Machame, 2017</td>
</tr>
<tr>
<td>Corporate governance monitoring</td>
<td>AGC</td>
<td>Large shareholder monitoring</td>
<td>Moderating</td>
<td>+</td>
<td>Grinstein &amp; Michaely, (2005)</td>
</tr>
</tbody>
</table>

Source: Researchers Computation, 2018

**Definition of Variables**

**Stock Returns**

That is Current Market Value per share – Previous Market Value per share. That is an addition of change in market price of stock and the dividend received by a company shareholders during a financial year. It is computed as: Annual Total Shareholders returns = (Current Shares Prices - previous shares prices) + current dividend paid.

**Corporate tax avoidance**

Cash Tax Savings: is computed by multiplying profit before tax with the difference between effective tax rate and statutory tax rate (Kavor & Kportorgbi, 2014). Effective Tax Rate is the proportion of the profit before tax paid as tax. It is the tax paid divided by
profit before tax. Statutory Tax Rate is the official corporate tax rate of any country. In Nigeria, it is 30% of assessable profit. The statutory tax rate minus the effective tax rate is the tax savings. When multiplied by the profit before tax, we get the cash tax savings from corporate tax avoidance.

**Profitability**

Return on Asset: computed as earnings before interest and tax, divide by total asset (Olowoniyi & Ojenike, 2012).

**Expected growth**

Non-current Asset Growth: is computed as \([(\text{Present non-current assets} - \text{Previous non-currents asset})/\text{Previous non-current assets}] \times 100. It reveals an increase in the firms productive capabilities which determines its future profitability and overall growth (Makamhe, 2017).

**Leverage**

Leverage is the Ratio of debt to equity. It reveals management decision on an optimum mix of financing options.

**Capital intensity (Tangibility)**

Non-current assets divide by total assets. In the words of Shahean and Malik (2012), it is the extent of investment businesses make on non-current assets.

**Corporate Governance Monitoring**

We captured this by the block shareholders share of the firm’s equity. Firms with higher percentage of large shareholdings (block holder of share/institutional investors) do suffer less agency problem than that of a dispersed ownership (Shleifer & Vishny, 1986). This position could be attributed to the institutional shareholders capacity to assert monitoring prowess over her agents (management) unlike a company with fragmented shareholders. Large shareholders could be instrumental in monitoring the actions of managers and insider shareholders, thus minimizing the free-rider problem often found when atomistic shareholdings exist (Grinstein & Michaely, 2005). They explained that the cost of monitoring can best be borne by large shareholders, who possess more motivation and capacity than small shareholders. This monitoring helps in mitigating non-value creating or sub-optimal behavior of managers.

**Findings**

**Descriptive Statistics**

The number of firms included in the analysis is 54 firms over a 7 year period (2010-2016). The descriptive statistics for the study sample are shown in Table 2. The average value of STR was 3.64, which show a positive increase in dividend and in current market value per share over the previous market values. The average CTA was 756113.2, AGC 43.39 which show that less than 50% of equity of the study sample is held by block shareholders (institutional investors). PFT was 4.33, the average CAPINT was 43.87 which show the proportion of non-current assets in the total assets of the study sample. LEV 61.66, a clear indication of debt exceeding equity among the study sample, EXG is 7.96, thus firms in the study sample were increased in their productive capabilities below 10% in the study period.
Table 2. **Descriptive statistics**

<table>
<thead>
<tr>
<th></th>
<th>STR</th>
<th>CTA</th>
<th>AGC</th>
<th>PFT</th>
<th>CAPINT</th>
<th>LEV</th>
<th>EXG</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>3.649169</td>
<td>756113.2</td>
<td>43.38874</td>
<td>4.329491</td>
<td>43.87343</td>
<td>61.66174</td>
<td>7.961340</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>-0.090000</td>
<td>21665.10</td>
<td>50.00000</td>
<td>4.010000</td>
<td>44.21000</td>
<td>61.80000</td>
<td>5.150000</td>
</tr>
<tr>
<td><strong>Maximum</strong></td>
<td>520.4300</td>
<td>62724201</td>
<td>91.00000</td>
<td>53.96000</td>
<td>114.9300</td>
<td>168.2000</td>
<td>558.5800</td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
<td>-243.3400</td>
<td>0.000000</td>
<td>0.000000</td>
<td>-70.3400</td>
<td>1.650000</td>
<td>13.87000</td>
<td>-85.78000</td>
</tr>
<tr>
<td><strong>Std. Dev.</strong></td>
<td>41.39176</td>
<td>3666807.</td>
<td>22.64705</td>
<td>10.91302</td>
<td>22.18549</td>
<td>21.49683</td>
<td>39.80810</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td>1361.140</td>
<td>2.82E+08</td>
<td>16184.00</td>
<td>1614.900</td>
<td>16364.79</td>
<td>22999.83</td>
<td>2969.580</td>
</tr>
<tr>
<td><strong>Sum Sq. Dev.</strong></td>
<td>637339.2</td>
<td>5.00E+15</td>
<td>190794.6</td>
<td>44302.97</td>
<td>183096.9</td>
<td>171906.3</td>
<td>589502.7</td>
</tr>
</tbody>
</table>

Source: E-VIEWS 9 output, 2018

Table 3. **Pooled OLS Result**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-13.66930</td>
<td>10.99170</td>
<td>-1.243602</td>
<td>0.2146</td>
</tr>
<tr>
<td>CTA(-1)</td>
<td>2.352706</td>
<td>0.983406</td>
<td>4.263173</td>
<td>0.0024</td>
</tr>
<tr>
<td>AGC</td>
<td>0.055124</td>
<td>0.114392</td>
<td>0.481886</td>
<td>0.6302</td>
</tr>
<tr>
<td>PFT</td>
<td>0.686739</td>
<td>0.258039</td>
<td>3.661374</td>
<td>0.0082</td>
</tr>
<tr>
<td>CAPINT</td>
<td>1.908416</td>
<td>0.113330</td>
<td>13.87000</td>
<td>0.0003</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.409685</td>
<td>0.125380</td>
<td>-3.177823</td>
<td>0.0323</td>
</tr>
<tr>
<td>EXG</td>
<td>2.018714</td>
<td>0.058218</td>
<td>3.321447</td>
<td>0.0021</td>
</tr>
<tr>
<td>CTA(-1)*AGC</td>
<td>3.569108</td>
<td>0.285508</td>
<td>4.379019</td>
<td>0.0049</td>
</tr>
</tbody>
</table>

Source: E-VIEWS 9 output, 2018

In line with the objectives of the study, the following research questions are analyzed.

1. What is the impact of corporate tax avoidance on stock returns of non-financial quoted firms in Nigeria?

   The coefficient (β_i) of lagged corporate tax avoidance [CTA(-1)] was positive and statistically significant (Coeff. 2.3527, p< .05), which implies that CTA(-1) has an impact on STR (See Table 4).

2. To what extent does Monitoring (AGC) moderate the influence of corporate tax avoidance on stock returns of non-financial quoted firms in Nigeria?

   The coefficient (β_i) of the moderated variable (CTA (-1)*AGC) is positive and statistically significant (Coeff. 3.569108, p< .05), which implies that monitoring significantly moderates the nexus between corporate tax avoidance and stock returns (See Table 4).
Table 4. Pooled OLS model summary

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R-square</td>
<td>0.878816</td>
</tr>
<tr>
<td>Adjusted R-square</td>
<td>0.794018</td>
</tr>
<tr>
<td>F</td>
<td>6.413213</td>
</tr>
<tr>
<td>Probability</td>
<td>.000036***</td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>2.509578</td>
</tr>
<tr>
<td>Mean-Predicted Value</td>
<td>37080.62</td>
</tr>
</tbody>
</table>


The pooled OLS result summarized in Table 4 showed an R-square value of 0.88, Adjusted R-square 0.79, which indicates that the independent variables could explain 79% of changes in the dependent variable. The F statistic was statistically significant ($F = 6.41; p value < 0.05$).

Table 5. Pooled OLS Result

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</tbody>
</table>


Corporate tax avoidance has a significant impact on the stock returns of non-financial quoted firms in Nigeria. The t statistic of CTA (-1) is 4.2631 ($p < .05$), this establishes the influence corporate tax avoidance exert on stock returns. The null hypothesis is rejected and the alternate accepted.

Agency Cost significantly moderate the relationship between corporate tax avoidance and stock returns of non-financial quoted firms in Nigeria. The t statistic of the moderator variable CTA (-1)*AGC is 4.379 ($p < .05$), this establishes the effect of the moderator variable on the relationship between two variables. The null hypothesis is therefore rejected and the alternate accepted.
Discussion of Findings

Corporate tax avoidance has a significant positive impact on the stock returns of non-financial quoted firms. By this, corporate tax avoidance is beneficial to investors. In tandem with other studies, a positive link flowing from corporate tax avoidance activities to shareholders’ returns is observed in agreement with Frischmann, Shevlin and Wilson (2008); Hill, Kubick, Lockhart and Wan (2013) who found corporate tax avoidance to be a value enhancer. This negates the findings of Abdul-Wahab (2010); Oyeyemi and Babatunde (2016).

Agency Cost (AGC) significantly moderates the influence of corporate tax avoidance on shareholders’ returns in sampled Nigerian firms. The impact of corporate tax avoidance on selected firm specifics improved with the presence of large shareholders’ monitoring. Shareholders may not effectively monitor and control a firms’ tax avoidance decision, but must ensure that the cash tax savings from tax avoidance practices is channeled appropriately for shareholder interest.

Our findings negates Abdul-Wahab & Holland (2012) position on governance monitoring insignificant effect on the corporate tax avoidance equity nexus in the UK. Our result is in tandem with some existing studies conducted in developed economies (Desai and Dharmapala, 2009); Wilson (2009); Hanlon and Slemrod (2009)), where corporate governance monitoring mechanisms significantly moderate the impact of corporate tax avoidance on shareholders’ wellbeing. The essence of such monitoring is to ensure managers effectively utilize the cash tax savings from corporate tax avoidance practices in value enhancing activities. The findings unambiguously align with the agency cost theory of corporate tax avoidance which asserts that without adequate monitoring, managers could be involved in sub-optimal decisions.

The study makes the following empirical findings, which are summarized below:

1. Corporate tax avoidance has a significant impact on the stock returns of non-financial quoted firms (p<.05);
2. Agency Cost (AGC) significantly moderates the impact of corporate tax avoidance on stock returns in sampled Nigerian quoted firms (p<.05).

Conclusion

We study the moderating influence of large shareholders’ monitoring on the corporate tax avoidance, shareholders returns nexus using 51 non-financial quoted firms for the period 2010-2016. Using E-view 9.0, panel data analyses involving descriptive statistics and the ordinary least square regression were conducted. We recommend effective monitoring of managers activities using institutional shareholding, practiced within a framework of sound corporate governance policy in the country. The findings of the study prompts us to make the following recommendations.

Although a value enhancing practice we suggest that corporate tax avoidance be done with caution to make it unaggressive. Although cash savings is usually made from such practices, improving the liquidity, profitability, expected growth and tangibility of the firm, caution must be taken to ensure it does not get out of proportion. Institutional shareholders have the capacity to assert monitoring powers over her agents (management) unlike a company with atomistic shareholdings. However, institutional shareholding should be practiced within a framework of sound corporate governance policy in the country. Such monitoring
should ensure managers channel tax savings to value enhancing areas. Therefore, shareholders must monitor and ensure that managers channel tax savings to value enhancing activities. They should also discourage management from actions that are tax aggressive as it may not benefit them or improve their value if litigation issues arises. Tax aggressive practices may necessitate litigation costs which further depletes shareholders’ returns.

References


