



## EFFECT OF TAX AVOIDANCE ON EARNINGS MANAGEMENT IN NIGERIAN DEPOSIT MONEY BANKS

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### **Abstract**

*This study assessed the effect of corporate tax avoidance on Earnings Management in Nigerian deposit money banks from 2010 to 2020. Ex Post Facto research design was employed. Nine deposit money banks with international authorization constitute the sample size of the study. The hypothesis was tested with Ordinary Least Square with aid of E-view 9.0 to arrive at a logical conclusion. The study revealed that amortization has significant effect on Earnings Management of deposit money banks in Nigeria. Based on the findings of the study, the researcher recommended that bank management should be aware of the fundamentals of amortization in order to determine how it affects their business and how they might benefit from expense deductions.*

**Keywords:** Tax avoidance, Amortization and Earnings management

## Introduction

There has been an increasing interest in the falling economic fortunes of countries around the world, particularly Nigeria, over the years. Various economic units have put in place a number of steps to adjust to the unfavorable climate on the one hand, while also helping to improve the economy on the other. In this pool of economic units, deposit money banks are not left out. Managers of businesses should ideally use internal data to generate external data that provides an accurate and fair picture of the company's financial status and performance. In essence, this means that enterprises should provide outsiders with both relevant and credible accounting data. Corporate income tax, according to Albertazzi and Gembacorta (2006), distorts the capital structure and boosts the average cost of capital. The consequences of corporation taxes on commercial banks are substantially different, because banks are subject to laws that affect their liability structure. For a bank, substitution effects between equity and other kinds of funding are highly restricted in the presence of a minimum capital requirement (Gembacorta & Mistrulli, 2004). As a result, tax evasion is an intentional yet legal method of avoiding paying taxes. This has increased entities' involvement in earnings management in order to achieve unreasonable profit regulation to represent management aims, stakeholders' goals, or special purpose income sets of the company (Pohan, 2009). Martani and Persada (2009) agree, stating that one of the motives for earnings management is taxation, with the goal of lowering tax expenses the next year. In other words, the effective tax rate phenomenon enhances the prevalence of earnings management tendencies and the quality of corporate profits revealed by firms.

These operational concerns that lead to under sheltering are viewed as non-tax costs by corporate entities as a whole. Beyond these non-tax expenditures, under sheltering might result from tax avoidance financial reporting considerations, according to Graham, Hanlon, Shelvin, and Shroff (2014). The book-tax trade-off, in which banks must balance the incentives to minimize taxes (by lowering taxable income) and maximizing book income (that is, money reported on the books), has received a lot of attention. Engaging in significant tax shield can also increase tax authority scrutiny through more frequent audits or greater penalties (Mills, Nutter & Schwab, 2013; Bozanic, Hoopes, Thornock & Williams, 2017).

There have been various earlier studies on the effects of tax rate changes on profits management, but the results have been mixed. While studies conducted by Guenther (1994) in the United States, Setiawati and Na'im (2001), Hidayati and Zulaikha (2003) in Indonesia found no link between tax rate changes and earnings management, Subagyo and Oktavia (2010) found that earnings management by profit firms is influenced by tax incentives and non-tax incentives in response to tax rate changes, whereas earnings management by loss firms is motivated by non-tax incentives. Earlier research suggested that a number of factors influence banks' tax avoidance techniques. Several studies, including Weisbach (2001), Hanlon and Heitzman (2010), and others, recognize the "under sheltering" puzzle: banks appear to underutilize measures that can minimize income tax expenses (Hanlon & Heitzman, 2010). This under-shielding occurs because firms trade-off taxes with other operational cost-cutting opportunities, and poor internal information environments make effective tax avoidance prevention more difficult (Gallemore & Labro, 2015), even as banks consider reputational risks associated with being perceived as overly aggressive (Graham et al., 2014).

Setiawati and Na'im (2001), Hidayati and Zulaikha (2003) failed to substantiate the presence of Earnings Management by the corporation using the discretionary accrual approach. Subagyo and Oktavia (2010), on the other hand, effectively validated that a firm's Earnings Management is influenced by tax incentives and non-tax incentives in response to tax rate adjustments, whereas an unhealthy firm's Earnings Management is influenced by non-tax

incentives. Wijaya and Martani (2011) found that tax incentives, such as tax planning and net deferred tax obligation, as well as non-tax incentives, influenced how healthy firms managed their earnings (earnings pressure). Furthermore, tax incentives (net deferred tax liability) and non-tax incentives influenced the Earnings Management of unhealthy firms (earnings pressure). While Umeh, Okegbe, and Ezejiofor (2020) found that book tax difference (BTD) has a positive impact on business value, it is not statistically significant.

Though previous studies' results were inconsistent, they were mostly conducted in foreign countries such as Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, and the United States, with only a few studies on Nigeria. This study provides a good research laboratory to determine whether amortization has a significant effect on earnings management in the Nigerian corporate setting, with a focus on deposit money banks. It is against this backdrop that this study is being carried out to assess the effect of amortization on earnings management of deposit money banks in Nigeria.

## **Conceptual Review**

### **Taxation**

Every country in the world with a strong belief in the right to private property engages in a variety of activities for the common good, and the government extracts varied percentage of individuals' wealth for this purpose. Taxation connotes a notion of rights and duty in this sense, rights owing to people and duties owed by individuals to society (Jim-Suleiman, 2015). Some taxpayers will have less money to spend as a result of the taxation process, while the government will have more money. This transfer of property rights from citizens to the government imposes a duty on the government to employ these rights in the best interests of the people (Soyode & Kajola, 2006). According to Njoku and Chigbu (2015), the fundamental goal of taxation is to create income that can be used to fund government expenditures at all levels of government. It is impossible to overstate the importance of taxation to any government.

Taxation is a method of acquiring funds for government expenditures by collecting payments from individuals or corporations (Soyode & Kajola, 2006). They claimed that taxation is a system in which the government imposes a set amount of money on individuals, businesses, and government organizations in order to make finances available for her to carry out her obligations. Similarly, Osita (2004) argued that taxation is a mandatory levy by the government on its subjects' income, capital, or consumption through its different agencies. These levies are made on personal income such as salaries, business profit, interests, dividends, commissions, royalties and rent. It may also be levied on capital gains and petroleum profits.

### **Corporate Tax Avoidance**

Because of the projected increase in corporate tax avoidance activities during the last two decades and more lately, corporate tax avoidance has attracted a lot of attention (Dyren, Hanlon & Maydew, 2008). Despite significant interest and concern about the scope, causes, and effects of corporate tax evasion, no commonly agreed definition or structures for tax avoidance exist (Hanlon & Heitzman, 2010). To different people, tax evasion entails different things. Tax avoidance, according to Preuss (2010), is a method of encouraging the use of complex transactions to obtain tax benefits that are unintentionally provided by the tax laws. Tax avoidance, as defined by Hanlon and Heitzman (2010), is the decrease of explicit taxes. Their definition include any transactions that have an impact on a firm's explicit tax burden, including tax-favored real activity, tax avoidance activities performed expressly to lower

taxes, and targeted tax benefits through lobbying activities. Both definitions imply that tax evasion could be planned purposefully or as a result of tax regulations.

Management, as rational self-interested individuals seeking to enhance their own personal utility, will avoid participating in such schemes if they can obtain some private economic benefit from doing so. Another rationale for management's reluctance to engage in tax avoidance techniques is that aggressive tax strategies are fraught with risk and can be costly to both the corporation and its managers (Rego & Wilson, 2012). As a result, shareholders must use various incentive mechanisms to entice management to cooperate (Biswas, Marchese & Privileggi, 2013). As a result, it might be claimed that Managers will not engage in tax avoidance since it adds value to Shareholders unless they (Managers) can gain some private benefit from it, such as wealth expropriation from Shareholders.

According to Scott (2003), the most obvious rationale for earnings control is income taxation. Similarly, Schipper (1989) identified tax expense as fitting the Earnings Management requirement (EM). She claimed that in order for managers to manage profitability, there must be information asymmetry between managers and shareholders. Because of the extensive information that managers must collect between the end of the fiscal year and the end of the fiscal year, large enterprises find it difficult to forecast tax expenses. To the contrary, according to Scott (2003), tax authorities typically enforce their own accounting methods for calculating taxable income, limiting the firm's flexibility. As a result, he argues that taxation should not play a significant part in EM. To demonstrate how tax shelter products enable managers to alter reported earnings, a real-world tax shelter and a stylised example are used.

However, Desai and Dharmapala (2009b) pointed out that tax evasion necessitates manipulative behaviors that might be packaged with diversionary activities, such as earnings manipulation, in order to benefit management rather than shareholders. Furthermore, CTA procedures are covert in nature and necessitate obfuscation of transactions to provide tax benefits while masking such actions from tax authorities (Desai & Dharmapala, 2009b; Goncharov & Zimmermann, 2006a; Christensen & Murphy, 2004). As a result, managers in charge of results are more likely to shelter themselves from shareholder scrutiny by avoiding additional taxes. CTA and EM have a positive relationship, according to Amidu et al. (2016). This positive association reveals that CTA enhances manipulative behavior among managers, as CTA is approved by Shareholders because it adds value to them and acts as a shield against self-seeking manipulative Managers. Grabinski and Vladu (2015) also concur to this fact stressing that compliance to reporting standards positively affect the earnings quality of firms.

Earnings management has been linked to tax avoidance practices by researchers (Desai & Dharmapala, 2005; Dhaliwal et al., 2004b). Tax avoidance, in particular, has been suggested to have complementary strategies with earnings management, such that management tasked with avoiding taxes might utilize those avoidance techniques to control earnings to obtain some private benefit at the same time (Desai & Dharmapala, 2009; 2007; 2005). Tax evasion is defined as a transfer of value from the government to shareholders (Desai & Dharmapala, 2005). It is said to provide value to the company and benefit shareholders. This is because tax expenditures can account for a considerable amount of a company's profits, posing major risks (Hasseldine & Li, 1999). Besides compliance cost are large (such as employing tax experts and filling of returns) and the burden of the tax paid by the company is borne by shareholders in the form of reduced dividends (Amiram, Bozanic & Rouen 2015). As a result, shareholders value corporate tax avoidance because reduced tax payments result in excess "after tax" cash flow that can be dispersed as additional dividends or invested in profitable

ventures. Earnings management, on the other hand, can be seen of as a transfer of value from shareholders to management. This is because diverted cash may have been put to better use in the form of profitable investments or dividends (Amiram et al., 2015). Consequently, firms associated with corporate tax avoidance have been found to have lower valuations (Fernandes & Ferreira, 2007; Hanlon & Slemrod, 2007).

### **Tax Shield for Amortization**

Amortization can refer to a variety of things. It refers to the procedure of repaying a debt by making payments that include both the principal and interest. For tax purposes, amortization also spreads out the cost of an asset over a period of time. An amortization schedule is a diagram that shows how much interest and principal is paid on a loan at each installment. It's essentially a payoff plan that shows the sums paid each month, including the interest portion and a running total for the interest paid over the loan's term.

Because the amount amortized is the same each year, the calculation is straightforward. For instance, a corporation may have a patent that took many years and cost ₦1 million to develop. Because the patent's useful life is expected to be 15 years, the corporation can claim a yearly amortization charge of ₦66,667. To make matters even more complicated, it has multiple financial meanings. However, understanding how amortization affects your business taxes is critical so that tax payers can take advantage of amortization expense deductions. Learning about amortization can assist tax payers in identifying deductions that they were previously unaware of, therefore every business owner should at the very least be aware of the basics.

There are numerous deductions available to assist you reduce your taxable income, and amortization is just one of them. If you aren't a tax expert, you may not even be aware of all the deductions available to you. A tax professional should be consulted to ensure that you are taking advantage of all applicable write-offs. A tax professional can also assist a taxpayer in developing a tax planning strategy that will allow them to save even more money.

### **Calculating for Tax Purposes**

Amortization is a legitimate expense of doing business and this expense can be used to reduce your company's taxable income. The current year's amortization expenses, like depreciation expenses for the year, should appear on your company's income statement or profit and loss statement.

An amortization calculation is included when a company prepares its income tax return for all allowable assets that are being amortized. IRS Form 4562, *Depreciation and Amortization*, is used for the calculation. The form includes both depreciation and calculation of depreciation for a listed property as well as amortization. Tax law, amortization refers to the cost recovery system for intangible property. Although the theory behind cost recovery deductions of amortization is to deduct from basis in a systematic manner over an asset's estimated useful economic life so as to reflect its consumption, expiration, obsolescence or other decline in value as a result of use or the passage of time, many times a perfect match of income and deductions does not occur for policy reasons.

### **Empirical Studies**

Ezejiolor and Ezenwafor (2020) investigated the effects of CEO duality on the effective tax rate of publicly traded food and beverage industries. Ex-post facto research was used in this study. During the data collection phase, we chose nine (9) organizations using a purposive sample technique. Data was acquired from the annual reports and financial statements of the tested companies from 2013 to 2019. The data from the study was analyzed with descriptive

statistics, and regression was used with the e-view, which yielded 95 percent confidence at five degrees of freedom (df). According to the data, CEO duality was significant and had a positive coefficient on tax planning by food and beverage industries in Nigeria. Ezejiolor, Oranefo, and Ndum (2021) evaluated tax revenue on Nigerian per capita income. Ex-post facto research was used in this study. The population of Nigeria made up the economy, and data for this study came from the Central Bank of Nigeria's (CBN) Statistical Bulletin and the Federal Inland Revenue Service (FIRS). Customs and excise duties, as well as per capita income (PCI), were obtained as variables. Correlation and Ordinary Least Square (OLS) regressions were used to evaluate the hypothesis. According to statistical research, customs and excise fees have a non-significant positive impact on Nigeria's per capita income. From 2000 to 2019, Nweze, Ogbodo, and Ezejiolor (2021) looked into the impact of tax revenue on Nigeria's per capita income. According to the findings, tax collection had a significant positive impact on Nigeria's per capita income. From 2007 to 2017, Ubesie and Inyama's (2019) study looked at the effects, amplitude, and strength of the linkages between corporate governance and earning management in Nigerian commercial banks. The strength of the association between selected variables was tested using correlation analysis. Board Size (BDSIZE) was found to have a negative and significant impact on Earnings Per Share, whereas Ownership Concentration has a positive but negligible impact on Earnings Per Share. Earnings per share are influenced by board meetings in a positive and significant way. Oraka, Okegbe, and Ezejiolor (2017) looked into the influence of the value added tax on the Nigerian economy. An ex post facto research design was adopted in this study. The Nigerian economy was measured using Gross Domestic Product (GDP), Per Capital Income (PCI), and Total Revenue (TR) from 2003 to 2015. The secondary data approach was utilized to obtain statistics on value added tax, gross domestic product, per capita income, and total revenue. The CBN statistical bulletin, the Federal Inland Revenue Service of the federal ministry of finance, and publications were used to compile these figures. The data was analyzed using simple regression analysis. VAT and per capita income have a negative relationship, according to research, according to Amidu and Yorke (2017). The findings suggest that relying on external monitoring mechanisms offered by debt holders to oversee managerial diversionary behavior does not result in a reduction in EM associated with increasing tax avoidance activities. The impact of competition on tax avoidance actions among Nigerian Deposit Money Banks was studied by Jim-Suleiman (2015). Fixed-effects, random-effects, and pooled estimations were used to estimate the data. The random effect found that competition has a positive but minor impact on tax avoidance, meaning that there is rivalry among Nigerian Deposit Money Banks but that this competitive inclination has little impact on tax evasion. Prabowo, Winarna, Aryani, Falikhatun, and Gantowati (2020) also looked into the impact of corporate debt on Indonesian earnings management patterns. The research was based on a sample set of 497 manufacturing companies that were listed on the Indonesia Stock Exchange between 2009 and 2014. The findings demonstrated that corporate debt is a statistically and economically significant factor of earnings management. Tjondro and Pemeta's (2019) research sought to demonstrate the impact of overall debt and long-term debt on management decisions on whether to focus on accounting or tax reporting. The information for this study came from Bloomberg databases and the Indonesian Stock Exchange's audit reports. Oraka, Ogbodo, and Ezejiolor looked into the impact of the Tertiary Education Tax Fund (TETFUND) on management in Nigerian tertiary education (2017). Financial ratios were utilized to acquire data from the National Bureau of Statistics, and regression analysis was done to test the results using SPSS statistical software version 20.0. ETF fund distributions to Nigerian Tertiary Institutions, according to the research, have no association with their enrollment ratio. Erhirhie, Oraka, and Ezejiolor (2018) investigated the effects of corporate tax on manufacturing firms' financing decisions using companies listed

on the Nigerian Stock Exchange (NSE). Ex post facto, data was extracted from the annual reports and accounts of three industrial companies and analyzed using the linear regression model. According to their findings, there is no significant link between corporation tax and dividends paid by companies, as well as new ordinary share issue, retained earnings, and long-term debt. Gao (2016) investigated the impact of the non-debt tax shield on corporate debt levels based on tax preferences. From 2008 to 2013, data from A-share listed businesses in China were used, with the ratio of fixed assets, depreciation and intangible asset amortization, and R&D expenses plus deduction to total assets as NDTs substitution factors. This research discovered a negative and substantial association between NDTs and company debt levels, which is in line with the NDTs's capital structure effect idea. Udeh and Ezejiofor (2018) investigated the impact of accounting information on deferred taxation in Nigerian deposit money banks. The specific goals are to see if earnings per share had an impact on deferred tax items in Nigerian deposit money banks and how cash flow affected deferred tax items. Ex post facto research was used to collect data from yearly reports and accounts of Nigerian deposit money banks. A pooled multiple regression analysis was utilized to test the hypotheses. Earnings per share (EPS) and cash flow (CASHFL) have a negative impact on our dependent variable, deferred tax, according to the data, but book value of equity has a statistically significant impact, whereas earnings per share (EPS) and cash flow (CASHFL) do not. Corporate effective tax rates in the financial services sector: Evidence from Nigeria was investigated by Salaudeen (2017). The Effective Tax Rates (ETRs) encountered by financial services organizations from 2010 to 2013 were determined in this study. In a Pooled OLS Multiple Regression Model, GAAP ETR and CASH ETR were independently regressed against firm size, firm leverage, capital intensiveness, nature of business, and profitability. Throughout the study period, both types of ETR were shown to be lower than the Statutory Tax Rate. It also reveals that the monetary intermediation sub-sector has a lower ETR than the insurance sub-sector, while the auxiliary services sub-sector has the greatest effective tax and that tax dispersion exists within the sector. Peter and Isiya (2019) investigated the impact of corporation taxation on the performance of money deposit banks in Nigeria. The influence of corporate tax on demand deposits and loans of money deposit banks was investigated using Caminal's (2003) theoretical model. Secondary data was used in the study, which spanned the years 1990 to 2017. It also used the Vector Auto regression (VAR) model to evaluate the association between the variables, as well as the variance decomposition test. The influence of corporate tax on total demand deposits and lending of money deposit banks was indicated by the VAR estimates. Okoye and Ezejiofor (2014) investigate whether e-taxation can help to solve the problem of tax evasion and prevent corrupt tax officers in Nigeria. The data was tested using the Z-test statistical tool. According to the findings, electronic taxation can prevent tax inspectors from engaging in corrupt activities. As a result, the government's investment in e-tax administration has been limited, and some tax administrators and taxpayers are still uninformed of Nigeria's online tax assessment and collection.

The findings revealed a positive and negative link between business size, firm's development opportunity, and accounting discretion, respectively, but the relationship between accounting discretion arising from recent variables and stock return did not point to the directors' opportunism. The findings showed that there is no substantial difference between expected accounting discretion and projected future stock returns, implying that there is mismanagement in creating opportunities among the firms under study.

## METHODOLOGY

### 3.1 Research Design

The study used an Ex-Post Facto research design due to the nature of the investigation. This design is thought to be appropriate because the study's goal is to determine the relationship between two variables that cannot be changed. This entails generating the financial analysis that will identify the magnitude of the disparity using publicly available financial reports of firms.

### Population and Sample Size

The population of the study consist of twenty two (22) deposit money banks, Listed on the Nigerian Stock Exchange from 2010-2020.

The study used a sample of nine (9) of the twenty-two banks. The ten banks were chosen for their constancy across the study period, as they had not undergone significant changes as a result of mergers or acquisitions. In addition, the researcher had access to these banks' audited accounts.

Only secondary sources were used to acquire data. From 2010 to 2020, this information was gathered from deposit money banks' annual reports and audited accounts. The selection of this time frame is based on the fact that 2010 was a year marked by significant banking changes that not only impacted the size of Nigeria's publicly traded banks, but also changed the face of the banking industry in the country.

### Method of Data Analysis

To achieve the objectives of this study, the data required were those of the discriminating variable that include: Amortization of the selected deposit money banks listed on Nigerian Stock Exchange from 2010 to 2020. Hypothesis for the study was tested with the Regression analysis to establish the effect of and the relationship between the independent and dependent variables with the aid of E-view 9.0.

### Measuring Dependent Variable (Earnings Management)

This study used the modified Jones's model (Dechow et al., 1995) to measure the level of earnings management or discretionary accruals (DTAC). This model used total accruals (TAC) that are classified as discretionary components (DTAC) and non-discretionary components (NDTAC). Thus, defined as follows:

$$TAC = NDTAC + DTAC$$

Where:

TAC = Total accrual period t

NDTAC = Value of non-discretionary accruals

DTAC = Discretionary accrual

Under the cash flow approach, total accruals are measured as follows:

$$TACC_{it} = EBXT_{it} - OCF_{it} \quad (1)$$

Where:

EBXT<sub>it</sub> = Earnings before extraordinary items and discontinued operations period t

OCF<sub>it</sub> = Operating cash flow for period t

### Model Specification

The researcher prediction in tax sheltering was computed as follows:

$$TACC = \beta_1 AMT_{it} \dots \dots \dots i$$

Where:

TACC = Earning management

AMT = Amortization of the bank in year  $t$

#### Decision rule:

Using SPSS, 5% is considered a normal significance level. The accept/reject criterion was based on the p-value, alternative hypothesis will be accepted. If p-value > 0.05 otherwise reject and accept the null hypothesis.

### Results and Discussion

#### Data Analysis

**Table 1: Descriptive Statistics**

	AMT	TACC
Mean	9810057.	-0.028249
Median	7762291.	-0.047860
Maximum	22843352	1.317890
Minimum	5008921.	-1.134790
Std. Dev.	5460624.	0.559115
Skewness	1.508641	0.644621
Kurtosis	4.051690	5.386691
Jarque-Bera	4.679601	3.372619
Probability	0.096347	0.185202
Sum	1.08E+08	-0.310740
Sum Sq. Dev.	2.98E+14	3.126095
Observations	11	11

**Source:** Researcher's computation (2022)

Table 1 shows the mean (average) for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera (JB) statistics (normality test). The result in Table 1 provided some insight into the nature of the selected Nigeria quoted banks that were used in this study.

It was observed that on the average over the eleven (11) year period (2010-2020), the sampled quoted banks in Nigeria were characterized by negative average TACC (-0.028). It was also observed that the average Amortization (AMT) value over the period was 9810057.0; the maximum value was 22843352.0 while the minimum stood at 5008921.0. In Table 1, the Jarque-Bera (JB) which test for normality or the existence of outlier or extreme values among the variables shows that all our variables are normally distributed and significant at 5% level and the result could be generalized. This also implies that a least square regression can be used to estimate the pooled regression models.

#### Test of Hypothesis

$H_{01}$ : Amortization has not significantly affected Earnings Management of deposit money banks in Nigeria.

$H_{11}$ : Amortization has significantly affected Earnings Management of deposit money banks in Nigeria.

**Table 2: Panel Least Regression analysis showing the relationship between TACC, and AMT**

Dependent Variable: TACC  
 Method: Least Squares  
 Date: 04/06/22 Time: 13:04  
 Sample: 2010 2020  
 Included observations: 11

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9972675.	1403955.	7.103273	0.0001
AMT	5756568.	2629902.	2.188891	0.0564
R-squared	0.347412	Mean dependent var		9810057.
Adjusted R-squared	0.274902	S.D. dependent var		5460624.
S.E. of regression	4649867.	Akaike info criterion		33.70554
Sum squared resid	1.95E+14	Schwarz criterion		33.77789
Log likelihood	-183.3805	Hannan-Quinn criter.		33.65994
F-statistic	4.791244	Durbin-Watson stat		0.439577
Prob(F-statistic)	0.056352			

In table 2, a panel least square regression analysis was conducted to test the relationship between amortization and earnings management. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the table 2, the value of adjusted R squared was 0.27, an indication that there was variation of 27% on earnings management due to changes in amortization. This implies that only 27% changes in earnings management of banks could be accounted for by amortization, while 73% was explained by unknown variables that were not included in the model. The probability of the slope coefficients indicate that; P-value = 0.05 < 0.05). The co-efficient value of;  $\beta_1 = 5756568.0$ ;  $t = 2.188891$  for TACC implies that amortization is positively related to earnings management, and as well statistically significant at 5%.

The implication is that, for there to be a unit/one naira increase in AMT there will be 5756568.0 multiplying effect increase of TACC.

The Durbin-Watson Statistic of 0.439577 suggests that the model does not contain serial correlation. The F-statistic of the AMT regression is equal to 4.791244 and the associated F-statistical probability is equal to 0.056352, so the null hypothesis was accepted and the alternative hypothesis was rejected

### Decision

Since the Prob (F-statistic) of 0.056352 is less than the critical value of 5% (0.05), then, it would be upheld that amortization has a significantly affect Earnings Management of deposit money banks in Nigeria. at 5% level of significance, thus,  $H_0$  is preferred over  $H_1$ .

**Table 3: Johansen Cointegration Rank Test**

Date: 04/06/22 Time: 13:19  
 Sample (adjusted): 2012 2020  
 Included observations: 9 after adjustments  
 Trend assumption: Linear deterministic trend  
 Series: AMT TACC  
 Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.768959	17.31231	15.49471	0.0263
At most 1 *	0.367724	4.125861	3.841466	0.0422

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.768959	13.18645	14.26460	0.0735
At most 1 *	0.367724	4.125861	3.841466	0.0422

Max-eigenvalue test indicates no cointegration at the 0.05 level

\* denotes rejection of the hypothesis at the 0.05 level

\*\*MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegrating Coefficients (normalized by b\*S11\*b=I):

AMT	TACC
-3.89E-07	8.732471
8.85E-07	6.004555

Unrestricted Adjustment Coefficients (alpha):

D(AMT)	-488333.0	412546.4
D(TACC)	-0.411092	-0.123187

1 Cointegrating Equation(s): Log likelihood -135.7346

Normalized cointegrating coefficients (standard error in parentheses)

AMT	TACC
1.000000	-22440016 (6557973)

Adjustment coefficients (standard error in parentheses)

D(AMT)	0.190033 (0.12723)
D(TACC)	1.60E-07 (5.3E-08)

Source: E-Views 9.0 Causality Output, 2022

Co-integration analysis is a process of estimating the long run parameters in a relationship with non-stationary variables. Johansen co-integration was conducted to determine if long relationship exists or not. Table 3 which captures the trace test and Maximum Eigen test indicate the existence of the co-integrated equations. This is because the Trace Statistics and Maximum Eigen Statistics are more than their corresponding critical values of the hypothesized number of co-integrating equations none at 5% significance level. We therefore reject the null hypothesis of at most 1\* (0.04) and at most of the hypothesized number of co-integrating equations. Thus, the forgone implies that the variable is co-integrated. In other words, they have long-run relationship

**Table 4: Pairwise Granger Causality Tests**

Pairwise Granger Causality Tests

Date: 04/06/22 Time: 13:23

Sample: 2010 2020

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
TACC does not Granger Cause AMT	9	3.91759	0.1142
AMT does not Granger Cause TACC		0.76297	0.5240

Table 4 indicates that there is a uni-directional causality between TACC and AMT, since the causality only runs from the independent variable to the dependent variable (TACC) at two (2) lags at p-values less than 5%; AMT = 0.02<0.05, thereby establishing the fact that amortization does not Granger Cause TACC of deposit money banks.

**Conclusion and Recommendation**

This study sought to ascertain the relationship between tax avoidance/shield (measured by amortization) and earnings management of listed Nigerian deposit money banks. In this study, panel data were obtained from publications of Nigeria Stock Exchange, Annual reports and account, and Fact books of the sampled banks. This study covered ten-year period spanning from 2010-2020. This study has produced some insightful revelation based on the outcomes of the inferential statistics.

The results of the hypothesis revealed that the independent variable to the determination of earnings management (TACC) explains 0.203 of the total variation in the dependent variable, while the remaining 27% is caused by other explanatory factors outside this model, which is captured by the error term. TACC (1=-5756568.0) is positively associated to amortization (AMT), according to the coefficient result. The probability value of the slope coefficients indicates P(=0.050.05). This indicates that AMT has a considerable favorable connection with TACC. Prob (F-statistics) = 0.056352 indicates that the model's overall performance is adequate. It is clear from the facts presented above that there is a positive significant association between depreciation and deposit money bank earnings management. The researcher proposed that bank management should be aware of the fundamentals of amortization in order to determine how it affects their business and how they might benefit from expense deductions.

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