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Tax Audit and Tax Aggressiveness Among Listed Commercial Banks in Nigeria

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ABSTRACT: This study examined the effect of tax audits on tax aggressiveness among listed commercial banks in Nigeria over the period 2014–2024. An *ex-post facto* research design was adopted, while secondary data were obtained from the annual reports of sampled banks, Federal Inland Revenue Service (FIRS) publications, and other regulatory reports. Data were analyzed using descriptive statistics, correlation analysis, diagnostic tests, and logistic regression techniques. The findings revealed that cash tax paid has a significant negative effect on tax audit occurrence ($\beta = -0.6500$, $p = 0.022$), indicating that banks with lower tax remittances are more likely to be audited. Deferred tax assets were found to have a significant positive effect on tax audits ($\beta = 0.2140$, $p = 0.047$), suggesting that banks with larger deferred tax positions attract greater regulatory scrutiny. The results further showed that debt tax shields significantly increased the likelihood of tax audits ($\beta = 129.7142$, $p = 0.025$), whereas non-debt tax shields have no significant effect ($p = 0.470$). The study concludes that tax audits significantly influence cash tax paid, deferred tax assets, and debt-related tax planning among listed commercial banks in Nigeria. The study recommends improved tax compliance, transparent deferred tax reporting, and prudent management of debt-related tax deductions. The study contributed to knowledge by providing empirical evidence on how cash tax paid, deferred tax assets, and debt tax shields are associated with tax audit occurrence within the Nigerian banking sector, thereby extending existing knowledge on tax audit effectiveness in emerging economies.

KEYWORDS: Tax Audit, Tax Aggressiveness, Cash Tax Paid, Deferred Tax Assets, Tax Shield.

1. INTRODUCTION

Tax aggressiveness has become a major concern in Nigeria, particularly among listed commercial banks that play a significant role in the country's revenue generation. Tax aggressiveness refers to the deliberate use of legal and quasi-legal strategies to reduce tax liabilities by exploiting loopholes in tax laws (Frank, Lynch, & Rego, 2009). Although commercial banks are highly regulated institutions, evidence suggests that many still engage in sophisticated tax planning practices through creative accounting methods and the exploitation of available tax incentives (Eze & Okoye, 2020). Such practices reduce government tax revenue and pose challenges to corporate governance and economic development (Okoye, Akenbor, & Obara, 2022). As Nigeria seeks to strengthen non-oil revenue sources, concerns over aggressive tax practices have intensified, prompting greater scrutiny from tax authorities and policymakers.

Tax audits have emerged as an important enforcement mechanism designed to curb tax aggressiveness by examining taxpayers' financial records and ensuring compliance with tax regulations. Tax audits are expected to discourage aggressive tax behavior by increasing the likelihood of detection and penalties for non-compliance (Omodero, 2021). The Federal Inland Revenue Service (FIRS) has intensified audit activities to improve revenue collection and reduce tax evasion. However, the effectiveness of these audits remains uncertain due to institutional weaknesses, corruption, regulatory loopholes, and variations in firm characteristics such as size, profitability, and governance structure (Olayemi & Aladejebi, 2022). Since larger and more profitable banks often possess greater resources to exploit tax loopholes, the impact of tax audits may differ across institutions (Ugwunta, Ike, & Okoli, 2023). Consequently, this study investigated the extent to which tax audits reduces tax aggressiveness among listed commercial banks in Nigeria and provides evidence that can guide tax administration and regulatory policies.

1.1 Statement of the Problem

Tax aggressiveness among listed commercial banks in Nigeria has become a significant challenge to the effectiveness of the country's tax system. Due to their financial strength, profitability, and access to professional tax expertise, many banks engage in strategies aimed at minimizing tax liabilities, thereby reducing government revenue needed for national development (Okoye, Akenbor, & Obara, 2022). Although the Federal Inland Revenue Service (FIRS) employs tax audits as a major enforcement tool to discourage tax avoidance and enhance compliance, questions remain regarding the effectiveness of these audits. Institutional challenges such as weak enforcement, corruption, and administrative inefficiencies have raised concerns about whether tax audits can effectively deter aggressive tax behaviour in the banking sector (Olayemi & Aladejebi, 2022).

The complexity of banking operations further complicates the audit process, as banks often engage in sophisticated tax planning techniques involving transfer pricing, intercompany transactions, and cross-border arrangements that may be difficult to detect through conventional audit procedures (Eze & Okoye, 2020). Existing empirical studies provide mixed findings regarding the relationship between tax audits and tax aggressiveness, with some reporting a negative association while others suggest limited effectiveness in weak institutional environments (Okoye, Akenbor, & Obara, 2022; Omodero, 2021). Moreover, few studies have specifically focused on Nigeria's commercial banking sector, creating a significant knowledge gap regarding the effectiveness of tax audits in reducing aggressive tax practices among banks. Therefore, this study seeks to empirically investigate the impact of tax audits on tax aggressiveness among listed commercial banks in Nigeria, with the aim of providing insights that can improve tax policy, audit effectiveness, and regulatory oversight.

Consequently, there is insufficient empirical evidence on whether tax audits significantly influence key indicators of tax aggressiveness among listed commercial banks in Nigeria. Specifically, it remains unclear whether tax audits significantly affect cash tax paid, deferred tax assets, and tax shield practices within the sector. These unresolved issues give rise to the following research questions: Does tax audit significantly affect cash tax paid among listed commercial banks in Nigeria? Does tax audit significantly affect deferred tax assets among listed commercial banks in Nigeria? Does tax audit significantly affect tax shield among listed commercial banks in Nigeria? Providing answers to these questions will contribute to the understanding of the effectiveness of tax audits as a regulatory mechanism for curbing tax aggressiveness and strengthening tax administration in Nigeria.

1.2 Research Hypotheses

The following null hypotheses were formulated and tested at 5 per cent (0.05) level of significance:

$H0_1$: Tax audit has no significant effect on cash tax paid among listed commercial banks in Nigeria.

$H0_2$: Tax audit has no significant effect on deferred tax assets among listed commercial banks in Nigeria;

$H0_3$: Tax audit has no significant effect on tax shield among listed commercial banks in Nigeria.

2. LITERATURE REVIEW

2.1 Tax Audit

Tax audit is a critical tax administration mechanism designed to ensure compliance with tax laws through the systematic examination of taxpayers' financial records, tax returns, and supporting documents. It serves as an enforcement tool used by tax authorities to verify the accuracy of tax declarations and detect instances of under reporting, tax avoidance, or tax evasion (Al-Asfour & Saleem, 2023). In Nigeria, tax audits have become increasingly important as the government seeks to strengthen non-oil revenue generation and improve tax compliance among corporate organizations. The Federal Inland Revenue Service (FIRS) utilizes tax audits to identify discrepancies in tax filings and recover unpaid taxes from corporate taxpayers, including commercial banks. Effective tax audits increase the probability of detecting aggressive tax practices, thereby discouraging firms from engaging in activities aimed at reducing their tax obligations through questionable tax planning schemes (Duy & Tran, 2020).

The effectiveness of tax audits depends on factors such as audit frequency, audit quality, transparency, and enforcement capacity. Firms that perceive a high likelihood of audit detection and substantial penalties are generally less inclined to pursue aggressive tax strategies (Ogunbela, Akinboboye & Ogunbiyi, 2021). In the banking sector, where transactions are highly complex and often involve sophisticated financial instruments, tax audits play an even more significant role in ensuring compliance. Modern tax administrations increasingly rely on technology-driven audit techniques, forensic accounting tools, and data analytics to detect aggressive tax behavior concealed within complex transactions (Rixen & Unger, 2021). Consequently, tax audits serve not only as a corrective mechanism but also as a deterrent against tax aggressiveness among listed commercial banks.

2.1.1Measures of Tax Aggressiveness

(a) Cash Tax Paid

Cash Tax Paid (CTP) represents the actual amount of tax remitted by a firm to tax authorities during a financial year and is widely used as a measure of tax aggressiveness. Unlike accrual-based tax measures, cash tax paid reflects the real tax burden borne by an organization and provides a clearer picture of tax compliance behavior (Nuryanah, Mahabbatussalma & Satrio, 2023). Firms that consistently report substantial profits while paying relatively low amounts of tax are often viewed as engaging in aggressive tax planning. In the Nigerian banking sector, cash tax paid is particularly relevant because banks are expected to contribute significantly to government revenue due to their profitability and strategic role in the economy.

The relationship between tax audits and cash tax paid is grounded in the deterrence effect of audits. Effective tax audits increase the likelihood that under reported taxable income or inappropriate deductions will be detected, compelling firms to remit a greater proportion of their tax obligations (Widiana & Jusuf, 2024). Consequently, firms subjected to frequent and rigorous audits are more likely to exhibit higher levels of cash tax payments due to increased compliance. Tax authorities often use unusually low cash tax payments relative to accounting profits as indicators for selecting firms for audit examinations. Therefore, cash tax paid serves as an important measure for evaluating whether tax audits successfully reduce aggressive tax behavior among listed commercial banks in Nigeria.

(b) Deferred Tax Assets

Deferred Tax Assets (DTAs) arise from temporary differences between accounting income and taxable income that will result in future tax benefits. They commonly originate from deductible temporary differences, tax loss carry-forwards, and other tax-related adjustments recognized under accounting standards (Ndalu, Ibanichuka & Ofurum, 2021). Although deferred tax assets may result from legitimate accounting practices, unusually large or persistent balances can signal aggressive tax planning strategies aimed at reducing current tax liabilities while deferring tax obligations to future periods. In the banking sector, deferred tax assets often emerge from loan loss provisions, impairment charges, and other accounting estimates that provide management with opportunities to influence taxable income.

Tax audits play a vital role in examining the legitimacy and sustainability of deferred tax assets. Through detailed scrutiny of financial statements and tax computations, auditors can determine whether deferred tax balances are supported by reasonable expectations of future taxable profits or whether they are being used to facilitate aggressive tax behavior (Dyreng et al., 2019). Effective audits help prevent the manipulation of deferred tax accounts and ensure that banks do not exploit temporary differences solely for tax reduction purposes. Consequently, deferred tax assets provide an important indicator for assessing the effectiveness of tax audits in curbing tax aggressiveness among listed commercial banks in Nigeria.

(c) Tax Shield

Tax shield refers to the reduction in taxable income achieved through allowable deductions such as interest expenses, depreciation, amortization, and other deductible expenditures. It is a commonly utilized mechanism through which firms legally minimize their tax liabilities while remaining compliant with tax regulations (Osinubi, 2020). Tax shields are generally categorized into debt tax shields and non-debt tax shields. Debt tax shields arise from interest payments on borrowed funds, while non-debt tax shields originate from deductions such as depreciation and amortization. For commercial banks, both forms of tax shields can significantly influence tax obligations due to their extensive use of financial leverage and large asset bases.

Although tax shields are legitimate tax planning tools, excessive reliance on them may indicate aggressive tax behavior, particularly when firms structure transactions primarily to maximize tax deductions rather than achieve genuine economic objectives (Renouard & Ezvan, 2018). Tax audits serve as an important mechanism for evaluating whether tax shield utilization reflects legitimate business activities or aggressive tax avoidance practices. Through comprehensive examination of financing structures and deductible expenses, tax authorities can identify instances where tax shields are being exploited to reduce taxable income excessively (Salihu & Kawi, 2021). Consequently, tax shield serves as a useful proxy for assessing tax aggressiveness and determining the extent to which tax audits influence tax compliance among listed commercial banks in Nigeria.

Fig 2.1 Conceptual Model

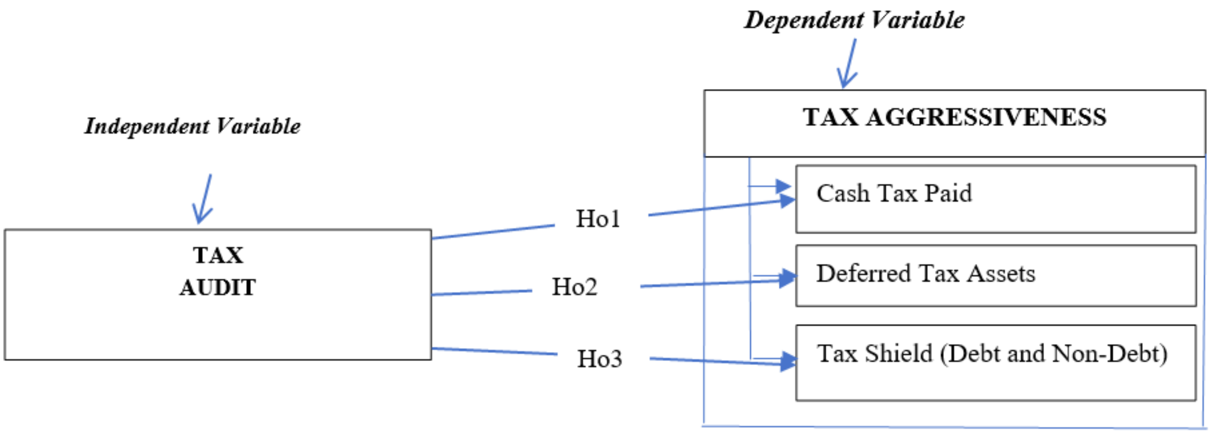

Figure 2.1: Source: Researcher's Compilation 2026

Source: Researcher's Compilation 2026

2.2 THEORETICAL REVIEW

The Policeman Theory, propounded by Awe (2008), serves as the theoretical foundation for this study by emphasizing the role of monitoring and enforcement in ensuring compliance with laws and regulations. The theory views tax authorities as watchdogs whose primary responsibility is to detect, prevent, and deter non-compliance through tax audits. In the context of listed commercial banks in Nigeria, tax audits function as enforcement mechanisms that increase the likelihood of detecting aggressive tax practices, thereby discouraging firms from engaging in tax avoidance strategies such as excessive use of deferred tax assets and tax shields.

The theory posits that the probability of audit detection and associated penalties compels firms to comply with tax regulations and accurately report taxable income (Ibrahim, Musah & Abdul-Hanan, 2015). Despite concerns that sophisticated tax planning techniques may sometimes evade traditional audit procedures, the Policeman Theory remains relevant because it highlights the deterrent effect of effective and consistent tax audits in promoting tax compliance and reducing tax aggressiveness among commercial banks (Ogundana, Olayinka & Omodero, 2020). Consequently, the theory provides a suitable framework for explaining how tax audits influence cash tax paid, deferred tax assets, and tax shield practices among listed commercial banks in Nigeria.

2.2.2 Empirical Review

Chatzi, Dedoulis, and Leventis (2026) investigated the effectiveness of privatized tax audits in reducing corporate tax avoidance using 9,935 firm-year observations from Greece. The study employed archival data and multiple estimation techniques, including instrumental variable analysis and entropy balancing. The findings revealed that higher tax audit fees were significantly associated with lower levels of non-conforming tax avoidance, indicating that greater audit effort enhances tax compliance. However, firms responded by shifting towards conforming tax avoidance to reduce the likelihood of subsequent tax audits. The study concluded that tax audits play a significant role in influencing corporate tax behaviour and improving audit quality, while highlighting the importance of incentive-compatible tax audit systems.

Gyimah, Owusu-Afriyie, and Appiah (2026) examined the determinants of tax audit effectiveness within Ghana's Domestic Tax Revenue Division. Using a cross-sectional survey of 183 tax auditors and multiple regression analysis, the study found that auditor capability, taxpayer cooperation, and regulatory clarity had significant positive effects on tax audit effectiveness, while organisational factors were not statistically significant. The study concluded that enhancing auditor competence, fostering taxpayer cooperation, and strengthening regulatory frameworks are critical to improving the effectiveness of tax audits in emerging market tax administrations.

Odumade and Okolie (2025) investigated the impact of corporate tax strategies on the financial performance of 18 listed consumer goods firms in Nigeria over the period 2012–2023. Using an ex post facto research design and quantile regression analysis, the study found that capital intensity negatively affected profitability at lower performance levels, while thin capitalization had a significant positive effect among highly profitable firms. However, effective tax rate, non-debt tax-saving strategies, and debt tax-saving strategies had no significant effect on financial performance across most quantiles. The study concluded that the effectiveness of corporate tax strategies depends on firms' performance levels and recommended the adoption of performance-responsive tax strategies alongside stronger regulatory oversight of debt financing.

Mahouat et al. (2025) examined the influence of corporate governance mechanisms on tax aggressiveness among firms listed on the Casablanca Stock Exchange, with audit quality serving as a moderating variable. Using Ordinary Least Squares (OLS) regression with firm and year fixed effects, the study found that CEO-chairman role separation and larger board size significantly reduced tax aggressiveness, while ownership concentration increased aggressive tax behaviour. Audit quality further strengthened the negative relationship between board size and tax aggressiveness, whereas board independence had no significant effect. The study concluded that effective corporate governance structures and high-quality audits play a significant role in curbing tax aggressiveness among listed firms.

Uwejiyan, Okolie, and Ebiaghan (2025) examined the effect of tax compliance cost and tax-based broadening on tax revenue in Nigeria over the period 1995–2024. Using secondary data and Ordinary Least Squares (OLS) regression analysis, the study found that tax compliance cost and tax-based broadening had positive but insignificant effects on tax revenue. The study concluded that improving tax administration, strengthening enforcement mechanisms, expanding the tax base, and adopting digital tax systems are essential for enhancing tax compliance and increasing tax revenue in Nigeria.

Sarra and Lathiifa (2025) examined the influence of liquidity, leverage, and capital intensity on tax aggressiveness, with profitability serving as a moderating variable. Using financial statement data from 26 Indonesian firms between 2020 and 2023, the study employed Moderated Regression Analysis (MRA) through E-Views 12. The findings revealed that leverage and capital intensity significantly influenced tax aggressiveness, while liquidity had no significant effect. Furthermore, profitability moderated the relationship between capital intensity and tax aggressiveness but did not moderate the relationships involving liquidity and leverage. The study concluded that firm-specific financial characteristics significantly shape tax planning behavior and recommended greater regulatory monitoring of aggressive tax planning activities.

Jayanto (2025) investigated the effect of firm size, firm risk, capital intensity, and inventory intensity on tax aggressiveness among property and real estate firms listed on the Indonesian Stock Exchange between 2020 and 2023. Using a sample of 16 firms and applying moderated regression analysis, the study found that firm size negatively affected tax aggressiveness, while firm risk and inventory intensity exerted positive and significant effects. Capital intensity was found to be insignificant. The study also established that sales growth significantly moderated the relationships between firm size, firm risk, and tax aggressiveness. The findings suggest that organizational characteristics significantly influence corporate tax behavior and aggressive tax planning decisions.

Arum, Wijaya and Wahyudi (2025) examined the moderating role of profitability in the relationship between financial ratios, monitoring mechanisms, and tax aggressiveness among energy companies in Indonesia and Malaysia. Using 292 firm-year observations from 2020 to 2022, the study applied regression analysis to assess the interaction effects. The results revealed that inventory intensity, capital intensity, sales growth, and audit committee characteristics did not directly affect tax aggressiveness. However, profitability significantly moderated the relationships between these variables and tax aggressiveness. The study concluded that corporate profitability plays a critical role in shaping the effectiveness of governance and financial characteristics in influencing tax planning behavior.

Sanni and Ripiye (2024) investigated the impact of board attributes on tax avoidance among listed manufacturing companies in Nigeria from 2018 to 2022. Employing a correlational research design, the study found that board size and board independence had significant positive effects on tax avoidance, while board gender diversity exerted a negative but insignificant effect. The findings suggest that stronger board structures may encourage more sophisticated tax planning activities. The study recommended that firms seeking to optimize tax outcomes should maintain larger and more independent boards capable of providing strategic oversight of tax-related decisions.

Ugwu, Akubo, Salifu, Ngwoke and Audu (2024) examined the effect of board characteristics on tax aggressiveness among listed deposit money banks in Nigeria between 2012 and 2022. Using a robust random-effect regression model, the study found that board independence and board size had no significant effect on the cash effective tax rate, while board gender diversity had a significant positive effect. The findings imply that gender-diverse boards are associated with lower levels of tax aggressiveness among Nigerian banks. The study recommended maintaining relatively smaller boards with members possessing substantial tax expertise to improve governance and reduce aggressive tax practices.

3. METHODOLOGY

This study adopted an ex-post facto research design, which is appropriate for examining relationships among variables using historical data without manipulating the study variables. The design enables the investigation of the effect of tax audit on tax aggressiveness among listed commercial banks in Nigeria over the period 2014–2024. The study employed a quantitative research approach using secondary data obtained from audited annual financial statements, tax disclosures, and regulatory reports. The population comprised all 22 licensed commercial banks operating in Nigeria as reported by the Central Bank of Nigeria (CBN, 2025).

Using a stratified random sampling technique, 12 banks were selected to ensure adequate representation based on ownership structure, size, and market capitalization. Data were sourced from annual reports of the sampled banks, publications of the Federal Inland Revenue Service (FIRS), Central Bank of Nigeria (CBN), and other relevant regulatory agencies. The study utilized panel data regression analysis to examine the effect of tax audit on tax aggressiveness. Descriptive statistics, correlation analysis, and diagnostic tests including Variance Inflation Factor (VIF) and Breusch-Pagan tests were employed to ensure data validity and reliability. Tax aggressiveness was measured using Cash Tax Paid (CTP), Deferred Tax Assets (DTA), and Tax Shield (TS), while tax audit was measured through audit frequency, audit presence, and audit intensity.

The analyses were conducted using Stata statistical software, and findings were interpreted based on coefficient estimates, p-values, and the explanatory power of the regression models. Following these studies, this research specifies separate regression models for each proxy of tax aggressiveness, with tax audit serving as the main explanatory variable.

Model I

$TAUDIT_{it} = a_0 + a_1 CTP_{it} + a_2 LEV_{it} + \mu_t$ - - - eq.3.1

Model II

$TAUDIT_{it} = a_0 + a_1 DTA_{it} + a_2 LEV_{it} + \mu_t$ - - - eq.3.2

Model III

$TAUDIT_{it} = a_0 + a_1 TSHIELD_{it} + a_2 LEV_{it} + \mu_t$ - - eq.3.3

Table 1.1: Measurement of Variables

Variables	**Variable Code**	**Measurement**	**Sources**	**A-*priori* Expectation**
(DEPENDENT) Tax Audit	TAUDIT	Measured using binary: 1 where presence or amount of tax-related fines, penalties otherwise 0	Olayemi & Amusat (2023); Akinyemi & Ogunleye (2021)	
(INDEPENDENT) TAX AGGRESSIVENESS	**TAGG**	Composite index of ETR, BTD, CTP, TSS, DTA, DTS, NDTS		
Cash Tax Paid (Independent)	CTP	Cash Taxes Paid / Pre-tax Accounting Income	Chukwuma & Okonkwo (2023); Oboh & Isaac (2021)	+ve
Deferred Tax Assets (Independent)	DTA	Logarithm or ratio of Deferred Tax Assets to Total Assets	Yusuf & Bello (2022)	+ve
Tax Shield (Debt Tax Shield and Non Debt Tax Shield) (Independent)	TS	Debt tax shield: Interest Expense / Earnings Before Interest and Tax (EBIT). Non Debt Tax Shield: Depreciation & Amortization / Total Assets	Onuoha & Ezeani (2023); Nwude & Egbunike (2020)	+ve
Leverage (Control)	LEV	Total Debt / Total Assets	Modigliani & Miller (1963); Frank & Goyal (2009)	+ve

Source: Researcher's Computation, 2026

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The results of the descriptive statistics of the variables are presented in Table 4.1 below:

Summary of Descriptive Statistics of the Variables of the Study

Variable	***Mean***	***Std.***	***Min***	***Max***	***Obs***
TAUDIT	.7651515	.425519	0	1	132
CTP	9.596189	1.199278	0	11.5073	132
DTA	9.297222	2.712673	0	11.5564	132
DTS	.0108636	.0071182	.0026	.068	132
NDTS	.0037106	0035072	0	.0336	132
LEV	.976822	.4716297	.4471	4.3776	132

Table 4.1 presents the descriptive statistics of the study variables. The results show that tax audit (TAUDIT) has a mean value of 0.7652, indicating that most of the sampled banks were subjected to tax audits during the study period. Cash Tax Paid (CTP) and Deferred Tax Assets (DTA) recorded average values of 9.5962 and 9.2972 respectively, suggesting notable tax-related activities among the banks.

Similarly, Debt Tax Shield (DTS) and Non-Debt Tax Shield (NDTS) have relatively low mean values of 0.0109 and 0.0037, indicating limited use of tax shields. The leverage ratio (LEV) has an average value of 0.9768, reflecting the reliance of banks on debt financing. Overall, the standard deviation values indicate reasonable variation among the variables, making them suitable for further analysis.

4.2 Correlation Analysis

4.2.1 Result of Correlation Analysis

Variable	*TAUDIT*	*CTP*	*DTA*	*DTS*	*NDTS*	*LEV*
TAUDIT	1.0000					
CTP	-0.2054	1.0000				
DTA	0.0616	0.2611	1.0000			
DTS	0.1849	-0.4363	-0.2020	1.0000		
NDTS	-0.0014	-0.1898	-0.0035	0.2128	1.0000	
LEV	0.1164	-0.2006	-0.2807	0.4868	0.2963	1.0000

Source: Researcher's Computation, 2026.

Table 4.2 presents the correlation matrix showing the strength and direction of relationships among the study variables. The results indicate that tax audit (TAUDIT) has a weak negative relationship with cash tax paid (CTP) (-0.2054), a weak positive relationship with deferred tax assets (DTA) (0.0616) and debt tax shield (DTS) (0.1849), while its relationship with non-debt tax shield (NDTS) is almost negligible (-0.0014). Tax audit also shows a weak positive association with leverage (LEV) (0.1164). Furthermore, cash tax paid is negatively related to debt tax shield (-0.4363), non-debt tax shield (-0.1898), and leverage (-0.2006), but positively related to deferred tax assets (0.2611). The highest correlation coefficient is 0.4868 between debt tax shield and leverage, which is below the 0.80 threshold, indicating the absence of serious multicollinearity among the explanatory variables. Overall, the correlation results suggest weak to moderate relationships among the variables and support their suitability for regression analysis.

4.2.2 Other Diagnostic Test

Result of Variance Inflation Factor (VIF) Test

Variable	*VIF*	*1/VIF*
LEV	3.20	0.312903
CTP	1.61	0.620278
NDTS	1.43	0.697275
DTS	1.26	0.795041
Mean VIF	1.88	

Source: Researcher's Computation, 2026.

The VIF results indicate that all the explanatory variables have VIF values well below the threshold of 10.00, while the mean VIF of 1.88 is also considerably low. This suggests that there is no serious multicollinearity problem among the independent variables included in the model. Therefore, the variables are sufficiently independent of one another, and the regression estimates can be considered reliable for further analysis.

4.3.1 Hypothesis One

H$_{O1}$: Tax audit has no significant effect on cash tax paid among listed commercial banks in Nigeria.

Results of Model I and Test of Hypothesis I

Dependent Variable: Tax Audit (TAUDIT)					
Variable	**Symbols**	**Coefficient**	**Std. Err.**	**t-stat.**	**p-value**
Cash Tax Paid	CTP	-.6500444	.2830237	-2.30	0.022
Leverage	LEV	.8906159	1.253748	0.71	0.477
Constant	_cons	6.73119	3.256002	2.07	0.039
Prob > chi2					0.0091
LR chi2					9.40
Number of Obs.					132
Pseudo R2					0.0653

Source: Researcher's Computation via STATA 13.0

The result shows that the overall model is statistically significant (Prob > chi2 = 0.0091), indicating that cash tax paid and leverage jointly explain variations in tax audit occurrence among listed commercial banks in Nigeria. Cash tax paid (CTP) has a negative and significant coefficient (β = -0.6500, p = 0.022), implying that higher cash tax payments are associated with a lower likelihood of tax audit. Leverage (LEV), however, has a positive but insignificant effect (β = 0.8906, p = 0.477). Therefore, the null hypothesis (H01) is rejected, and it is concluded that tax audit has a significant effect on cash tax paid among listed commercial banks in Nigeria.

4.3.2 Hypothesis Two

H$_{O2}$: Tax audit has no significant effect on deferred tax assets among listed commercial banks in Nigeria.

Results of Model II and Test of Hypothesis II

Dependent Variable: Tax Audit (TAUDIT)

Variable	**Symbols**	**Coefficient**	**Std. Err.**	**t-stat.**	**p-value**
Deferred Tax	DTA	.2139788	.1076785	1.99	0.047
Leverage	LEV	3.549705	1.684463	2.11	0.035
Constant	_cons	-4.032091	2.273488	-1.77	0.076
Prob > chi2					0.0245
LR chi2					7.42
Number of Obs.					132
Pseudo R2					0.0516

Source: Researcher's Computation via STATA 13.0

Hypothesis two reveals that the model is statistically significant (Prob > chi2 = 0.0245), indicating that deferred tax assets and leverage significantly explain tax audit occurrence. Deferred tax assets (DTA) exhibit a positive and significant effect on tax audit (β = 0.2140, p = 0.047), suggesting that banks with larger deferred tax positions are more likely to attract audit attention. Leverage also shows a positive and significant relationship (β = 3.5497, p = 0.035). Consequently, the null hypothesis (H02) is rejected, indicating that tax audit has a significant effect on deferred tax assets among listed commercial banks in Nigeria.

4.3.3 Hypothesis Three

H$_{O3}$: Tax audit has no significant effect on tax shield among listed commercial banks in Nigeria.

Results of Model III and Test of Hypothesis III

Dependent Variable: Tax Audit (TAUDIT)

Variable	**Symbols**	**Coefficient**	**Std. Err.**	**t-stat.**	**p-value**
Debt Tax Shield	DTS	129.7142	57.98757	2.24	0.025
Non-Debt Tax Shield	NDTS	-41.15351	56.90287	-0.72	0.470
Leverage	LEV	.8278327	1.132628	0.73	0.465
Constant	_cons	-.6779968	1.068985	-0.63	0.526
Prob > chi2					0.0310
LR chi2					8.87
Number of Obs.					132
Pseudo R2					0.0617

Source: Researcher's Computation via STATA 13.0

The results in indicate that the model is statistically significant (Prob > chi2 = 0.0310), showing that tax shield variables influence tax audit occurrence. Debt tax shield (DTS) has a positive and significant effect on tax audit (β = 129.7142, p = 0.025), while non-debt tax shield (NDTS) has a negative but insignificant effect (β = -41.1535, p = 0.470). Leverage also remains insignificant (p = 0.465). Based on these findings, the null hypothesis (H03) is partially rejected, as tax audit significantly affects debt tax shields but has no significant effect on non-debt tax shields among listed commercial banks in Nigeria.

5. DISCUSSION OF RESULTS

The findings revealed that cash tax paid has a significant negative effect on tax audit occurrence, indicating that commercial banks with lower cash tax remittances are more likely to be subjected to tax audits. This suggests that tax authorities regard low cash tax payments as a potential indicator of aggressive tax planning and consequently prioritize such firms for audit. This finding is consistent with the study of Akinyemi and Ogunleye (2021), who reported that tax audits serve as an effective mechanism for identifying firms engaging in aggressive tax practices by focusing on unusual tax payment patterns. Similarly, Olayemi and Amusat (2023) found that tax audits significantly enhance tax compliance by increasing the likelihood of detecting underreported tax liabilities.

The study further found that deferred tax assets have a significant positive effect on tax audit occurrence, implying that banks with relatively higher deferred tax asset balances are more likely to attract regulatory scrutiny. This result suggests that tax authorities pay close attention to deferred tax accounts because they may provide opportunities for aggressive tax planning if not properly justified. This finding supports the study of Ndalu, Ibanichuka and Ofurum (2021), who argued that deferred tax assets are important indicators of tax planning behaviour and therefore attract closer examination during tax audits. The result also aligns with Dyreng et al. (2019), who maintained that tax authorities often scrutinize deferred tax positions to ensure they reflect legitimate temporary differences rather than aggressive tax strategies.

The results also showed that debt tax shields have a significant positive effect on tax audit occurrence, whereas non-debt tax shields have no significant effect. This indicates that banks making greater use of interest-related tax deductions are more likely to be selected for tax audits, while deductions arising from non-debt tax shields do not significantly influence audit decisions. The finding is consistent with Salihu and Kawi (2021), who reported that tax authorities closely monitor firms with substantial debt-related tax deductions because of their potential for aggressive tax planning. However, the insignificant effect of non-debt tax shields suggests that depreciation- and amortization-related deductions are generally regarded as legitimate tax relief mechanisms and therefore receive less regulatory attention.

5.1 SUMMARY OF FINDINGS

This study examined the effect of tax audits on tax aggressiveness among listed commercial banks in Nigeria using cash tax paid, deferred tax assets, and tax shields as measures of tax aggressiveness. The findings revealed that

i. cash tax paid has a significant negative effect on tax audit occurrence,
ii. while deferred tax assets and debt tax shields have significant positive effects.
iii. However, non-debt tax shields were found to be insignificant.

5.2 CONCLUSION

The study concludes that tax audits significantly influence cash tax paid, deferred tax assets, and debt-related tax planning among listed commercial banks in Nigeria. The findings suggest that tax authorities focus more on banks with lower tax remittances and higher deferred tax and debt-related tax positions when selecting firms for audits.

5.3 RECOMMENDATIONS

i. Commercial banks should ensure timely and adequate payment of taxes to reduce audit exposure.
ii. Banks should maintain proper documentation and transparent disclosure of deferred tax assets.
iv. Banks should carefully manage debt-related tax deductions and ensure compliance with tax regulations to minimize audit risks.

5.4 CONTRIBUTION TO KNOWLEDGE

i. This study contributes to knowledge by establishing that cash tax paid has a significant negative effect on tax audit occurrence among listed commercial banks in Nigeria.
ii. The study also contributes to the literature by providing evidence that deferred tax assets significantly increase the likelihood of tax audits within the Nigerian banking sector.
iii. Furthermore, the study advances knowledge by showing that debt tax shields significantly influence tax audit occurrence, whereas non-debt tax shields do not have a significant effect.

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