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Tax Planning and Firm Value of Oil and Gas Companies in Nigeria

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Abstract

This study examined the effect of tax planning on the firm value of oil and gas companies listed in Nigeria between. Using an ex-post facto research design, data were collected from six companies selected based on availability (2019 to 2024), and both descriptive and inferential statistics were applied for analysis. The Lagrange Multiplier test was conducted to determine the appropriate panel regression model, which guided the testing of the hypotheses. The findings revealed that cash effective tax rate had a significant negative effect on firm value (with a coefficient of -0.125 and a p-value of 0.008), while book-tax difference exerted a significant positive influence (with a coefficient of 1.86 × 10^-9 and a p-value of 0.0097), indicating that strategic tax management played a crucial role in enhancing market valuation. The study concluded that effective tax planning is not only a fiscal management tool but also a strategic mechanism for improving firm performance and investor confidence. Based on these findings, the study recommended that companies should adopt efficient tax strategies, including optimizing cash tax payments and managing book-tax differences, to enhance firm value, and that policymakers and regulators should develop clear and supportive tax policies that encourage transparent and responsible tax planning.

KEYWORDS: Tax Planning, Cash Effective Tax Rate, Book-Tax Difference, Firm Value

1. INTRODUCTION

The influence of taxes on corporate fortunes has consistently stimulated intellectual inquiry and policy discussions globally. Taxes are a vital source of government income, but they also represent a significant cost for corporations. This duality has led business decision-makers to see taxes not just as a legal requirement but also as a strategic domain for meticulous planning and optimisation. Tax planning is not only a compliance tool; it is a strategic strategy aimed at reducing tax obligations by lawful methods, therefore enhancing financial performance and, consequently, corporate value (Sani et al., 2024; Ado et al., 2021). Tax planning has become a crucial element of contemporary company strategy. It entails the intentional organisation of transactions, investments, and activities to comply with current tax legislation while minimising tax liabilities (Omesi & Appah, 2021). In recent years, companies have increasingly acknowledged that the tax environment may profoundly affect their operational choices, capital structure, and market value

(Aondoakaa et al., 2021). In capital-intensive industries such as oil and gas, characterised by intricate and fluctuating fiscal regimes, tax planning may act as a safeguard against financial strain and a mechanism for augmenting competitive advantage (Akpokhio & Ekperiware, 2022).

The oil and gas business worldwide are marked by complex tax structures, including royalties, excise charges, corporate income taxes, and petroleum profit taxes. These financial instruments aim to derive equitable value from natural resources, although they also impose significant responsibilities on companies within the industry (Akam & Ikegwuru, 2023). The difficulty for management, therefore, is to balance compliance with the need of sustaining profitability and market appeal. This fragile equilibrium highlights the significance of tax planning as a fundamental concern for both academia and practitioners (Tanko, 2025). In Nigeria, the problem is more acute owing to the nation's reliance on oil income as its principal source of foreign cash profits. Frequent legislative changes, fluctuating tax rates, and the implementation of additional taxes have fostered a climate in which efficient tax planning is not only advantageous but crucial for company sustainability (Osamor, 2022). Companies consistently confront the challenge of managing intricate regulatory obligations while aiming to maintain profitability and shareholder value. The significance of tax planning in augmenting business value is paramount. Investors and analysts often see good tax methods as signs of management efficacy, since tax savings may be reinvested to stimulate development or allocated as dividends (Aondover, 2025). Nonetheless, these techniques include reputational costs, since assertive tax practices may be seen as immoral or unsustainable, particularly at a time when corporate openness and accountability are increasingly prioritised (Ikechukwu & Ogbodo, 2024). The distinction between effective tax planning and tax avoidance remains a contentious issue in academic and professional discussions (Olayiwola & Okoro, 2021).

Moreover, the global focus on fiscal transparency and accountability has subjected oil and gas companies to rigorous examination. International watchdogs, investors, and local communities increasingly need more transparent disclosures about the management of tax obligations by these businesses. Consequently, tax planning has progressively evolved from a solely financial concern into a matter of governance and ethics (Onukelobi et al., 2024). This transition prompts critical enquiries about the impact of tax management techniques on the market performance and value of enterprises listed on the Nigerian Exchange Group. Notwithstanding the strategic importance of tax planning, empirical evidence about its correlation with corporate value remains ambiguous. A number of studies indicate that tax-efficient enterprises have elevated market values owing to decreased capital outflows and enhanced profits stability (Sani et al., 2024). In contrast, other academics contend that an overemphasis on tax minimisation may skew investment choices, diminish transparency, and undermine long-term value (Ngozi, 2022; Lawal, 2021). These differing viewpoints underscore the need for ongoing empirical research, particularly in emerging countries where institutional frameworks are still evolving. These problems may affect how companies formulate their financial strategy and ascertain their capacity for optimum value development. However, the degree to which such planning effectively results in measurable enhancements in business value remains ambiguous. The sector's capital intensity and susceptibility to global price volatility exacerbate this uncertainty (Aneke & Inyiama, 2022). The ongoing volatility in global oil prices has forced companies to reevaluate their cost structures and seek novel methods to maintain profitability. In this context, tax planning serves as a possible stabilising mechanism that may mitigate the negative impacts of decreasing revenues (Ukoh et al., 2024). The characteristics of Nigeria's fiscal structure, characterised by frequent modifications and unclear interpretations, complicate this process significantly (Agama et al., 2024). Managers are thereby constrained by the need of legislative compliance while striving for financial optimisation.

Simultaneously, external demands from stakeholders such as investors, regulators, and the public have compelled enterprises to adopt a more cautious stance on tax-related choices (Omesi & Appah, 2021). The public's opinion of business tax practices may profoundly influence a company's reputation, therefore affecting its market value. The interplay of tax planning, governance, and corporate reputation is a complicated dynamic that warrants empirical investigation (Ado et al., 2021). The importance of tax planning as a factor influencing business financial results is well recognised; nevertheless, its direct impact on firm value in Nigeria's oil and gas sector is not well comprehended. Divergences in fiscal regimes, reporting standards, and management techniques indicate that the correlation between tax planning and corporate value may vary across different contexts (Akam & Ikegwuru, 2023). This uncertainty highlights the need of examining the problem within a sector that is both economically crucial and financially delicate. Ultimately, the inquiry is: to what degree does tax planning affect the company value of oil and gas companies in Nigeria?

2. LITERATURE REVIEW

Tax Planning

Tax planning has emerged as a crucial element of contemporary financial management, garnering considerable interest from academics and professionals because of its influence on corporate responses to tax liabilities. It generally denotes the method by which corporations organise their financial matters to reduce tax obligations while adhering to legal regulations. Ado et al. (2021) assert that tax planning encompasses strategic choices designed to optimise the timing, structure, and extent of transactions for the most effective tax results. This method requires a thorough comprehension of current tax laws, exemptions, deductions, and reliefs that may be lawfully used to diminish a company's overall tax liability. By means of excellent planning, companies may optimise resource management while adhering to applicable financial rules. Sani et al. (2024) consider tax planning an essential component of company strategy aimed at improving financial performance and sustaining competitive advantage. It beyond simple compliance and involves the intentional structuring of corporate activities to conform to advantageous tax frameworks. From this viewpoint, tax planning transforms into a proactive approach to taxes, enabling enterprises to foresee and organise their actions to capitalise on legitimate tax advantages. Omesi and Appah (2021) contend that tax planning acts as a conduit between financial reporting and fiscal management, functioning as a mechanism through which enterprises enhance cash flows and reinvest the conserved resources into productive endeavours that may augment profitability.

Nonetheless, the term is often misinterpreted or associated with tax evasion or avoidance. Ngozi (2022) elucidates that tax evasion entails unlawful alteration of data to diminish tax liabilities, while tax planning functions exclusively inside legal parameters. It depends on the meticulous selection of accounting procedures, investment alternatives, and organisational frameworks that provide the most advantageous tax consequences. Olayiwola and Okoro (2021) assert that this difference is crucial, since ethical tax planning fosters both firm sustainability and national economic growth by assuring adherence to legal frameworks while mitigating needless fiscal risk. In Nigeria, where tax legislation are sometimes complex and always changing, tax planning is an essential tool for firm financial stability. Akpokhio and Ekperiware (2022) observe that the plethora of taxes and frequent policy changes need that enterprises consistently evaluate their tax standings to maintain compliance while ensuring financial viability. Effective tax preparation in this context involves both financial acumen and strategic insight to anticipate prospective legislative changes. In highly regulated industries like oil and gas, planning choices are crucial owing to the extensive operations and substantial financial responsibilities involved (Tanko, 2025).

This research defines tax planning as a strategic and legal financial approach wherein corporations regulate their tax liabilities by optimising cash flows and reconciling reported earnings with taxable income. It entails the strategic use of metrics such as the cash effective tax rate and book–tax difference to reduce tax liabilities, augment liquidity, and elevate business value. This notion emphasises tax planning as a strategic tool that goes beyond simple regulatory compliance, functioning as a means to attain sustainable financial performance within the confines of legal and ethical norms.

Firm Value

Firm value has historically been considered a crucial metric of business performance, signifying a company's efficacy in managing resources to provide returns for shareholders. It functions as an all-encompassing metric that reflects investors' views on a company's present performance and its prospects for future expansion. Omesi and Appah (2021) assert that firm value is often seen as the market's evaluation of a company's capacity to generate wealth, maintain profitability, and effectively manage risks. This value is often affected by internal aspects like profitability, asset utilisation, and tax strategies, alongside external considerations such as market circumstances, government regulations, and investor confidence. Aondoakaa et al. (2021) elucidate that firm value signifies the economic worth of a corporation as assessed by the market and financial players. It encapsulates the aggregate effect of administrative actions, financial regulations, and investment methods on shareholder wealth. In this context, company value transcends just accounting data, including the wider view of a business's stability, governance quality, and development potential. Investors depend significantly on this metric when formulating investment choices, since it encapsulates both concrete and intangible elements of organisational success. Thus, preserving or enhancing corporate value has emerged as a fundamental goal of contemporary company administration. Researchers like Sani et al. (2024) assert that business value is often assessed using market-based metrics such as Tobin's Q ratio, price-to-book ratio, or stock price performance, which together represent the market's evaluation of a company's efficiency and competitiveness. These indicators assess the efficacy of management in using the firm's resources to provide returns that surpass the cost of capital. Akpokhio and Ekperiware (2022) contend that firm value reflects investor trust in the company's future profits potential, signifying market participants' perceptions of its overall financial health and strategic trajectory.

In Nigeria, a firm's value is especially influenced by the institutional framework, fiscal policies, and macroeconomic stability. Onoh et al. (2022) observe that variations in regulatory frameworks, tax structures, and governance quality may profoundly affect investor perceptions of firm value. In oil and gas companies, characterised by high capital intensity and regulatory vulnerability, sustaining company value requires smart financial management and judicious planning. Consequently, firm value serves as both an indicator of financial performance and a reflection of a company's adaptability to changing economic conditions (Ukoh et al., 2024). In this study, firm value is defined as the comprehensive market-based and financial worth of a company, reflecting investors' confidence in its ability to produce sustainable returns through optimal resource allocation, prudent management decisions, and effective tax strategies.

Theoretical Foundation

The Agency Theory serves as the underlying framework for this research, elucidating the link between corporate manager and shareholders. The theory was developed by Jensen and Meckling in 1976, who positioned it within the context of contemporary corporate governance. Previous research in economics and organisational behaviour shown that the delegation of power and control inside enterprises generates conflicts of interest between owners (principals) and managers (agents). Jensen and Meckling (1976) asserted that managers, as agents, are granted decision-making authority on behalf of shareholders, but may pursue personal goals that conflict with the maximisation of business value. This theoretical framework has now been extensively used to elucidate management conduct, corporate funding, and decision-making processes. Agency theory posits that while shareholders want to maximise corporate value, managers often possess personal incentives—such as compensation, career progression, or prestige—that may diverge from the long-term objectives of shareholders (Olayiwola & Okoro, 2021). This imbalance results in the "agency problem," whereby managers make choices that prioritise their personal wellbeing above that of the owners. Sani et al. (2024) observe that conflicts often emerge in corporate taxation and financial planning, as managers may distort accounting data or pursue aggressive tax strategies to boost short-term profits, despite the potential reputational or regulatory risks involved. The approach emphasises the need of monitoring systems, including audits, corporate governance frameworks, and performance-based incentives, to align the interests of both sides.

In the context of tax planning, agency theory elucidates how management's latitude in financial reporting and fiscal policy may affect corporate value. Omesi and Appah (2021) contend that managers may use specific tax planning tactics to either augment reported profits and enhance their remuneration or to reduce business taxes in a manner that boosts short-term returns. Nonetheless, these techniques may sometimes jeopardise long-term shareholder value by incurring regulatory fines or eroding investor trust. Aondoakaa et al. (2021) assert that robust governance frameworks, including clear tax policies and board supervision, are essential in reducing agency costs by aligning tax planning choices with the firm's long-term goals. This research use agency theory to elucidate the link between tax planning and business value, emphasising how management actions about tax responsibilities may either coincide with or conflict with shareholders' wealth-maximization goals.

Empirical Foundation

Sani et al. (2024) examined listed oil and gas firms in Nigeria and reported that the cash effective tax rate had a significant negative effect on firm value, implying that firms with lower tax cash outflows tend to perform better in the market. Their study highlighted that reducing the cash tax burden enhances operational efficiency and investor confidence. In a related study, Omesi and Appah (2021) observed that companies that strategically manage their tax cash flows experience improved profitability and higher valuation, as retained earnings could be reinvested in productive assets. Conversely, Ado et al. (2021) cautioned that excessive reduction of cash tax payments may be perceived as overly aggressive and could attract regulatory sanctions that harm a firm's reputation. Similarly, Akpokhio and Ekperiware (2022) noted that unstable tax regulations in Nigeria complicate the relationship between cash tax payments and firm value, suggesting that fiscal unpredictability often limits the benefits of tax efficiency. Further evidence from other scholars also supports the argument that cash tax management plays a role in determining firm value. Aondover (2025) found that an efficient cash tax rate enhances profitability and, in turn, strengthens firm value among oil and gas companies in Nigeria. However, Ngozi (2022) argued that while minimizing cash tax obligations could yield immediate financial benefits, it might not guarantee long-term sustainability if undertaken aggressively or without transparency. Tanko (2025) added that firms with consistently low cash effective tax rates are often perceived by investors as being well managed in terms of cost control and fiscal prudence. Yet, the author emphasized that when tax reduction strategies cross ethical boundaries, they can negatively affect the firm's public image and investor trust. These diverse findings indicate that the relationship between cash effective tax rate and firm value is context-specific and influenced by managerial intent, regulatory climate, and investor perception. Hence, the study proposes the following hypothesis:

Ho1. *Cash effective tax rate does not significantly affect firm value of oil and gas companies in Nigeria.*

Onukelobi et al. (2024) found that firms exhibiting large book–tax differences tend to engage in aggressive tax planning that temporarily enhances firm value through lower reported tax expenses. However, the authors cautioned that persistent disparities between accounting profit and taxable income might raise doubts about earnings quality, thereby undermining investor confidence. Aondoakaa et al. (2021) supported this view, noting that when book–tax gaps are managed responsibly, they may signal efficient financial management, but when exaggerated, they can indicate opportunistic reporting. Olayiwola and Okoro (2021) further revealed that moderate book–tax differences reflect genuine timing variations and sound tax planning, while extreme differences may expose firms to regulatory risk and market distrust. Empirical studies across developing economies have also confirmed that book–tax differences influence how investors perceive firm credibility and value. Sani et al. (2024) discovered that book–tax differences had a significant positive impact on firm value among Nigerian oil and gas firms, suggesting that firms capable of maintaining an optimal balance between taxable and accounting income tend to attract higher market valuation. In contrast, Ngozi (2022) found that excessively large differences may signal income smoothing or earnings manipulation, which could distort firm valuation and reduce investor confidence. These findings collectively suggest that the book–tax difference serves as an important indicator of tax planning efficiency and managerial transparency. Based on this understanding, the following hypothesis is advanced:

Ho2. *Book tax difference does not significantly affect firm value of oil and gas firms in Nigeria.*

3. METHODOLOGY

The study adopted an ex-post facto research design since it relied on existing data to examine the effect of tax planning on the firm value of oil and gas companies in Nigeria. The population comprised seven (7) oil and gas firms listed on the Nigerian Exchange Group (NGX), out of which six (6) were selected based on data availability within the study period (2019 to 2024. Both descriptive and inferential statistical techniques were employed for analysis. Descriptive statistics summarized the characteristics of the variables, while inferential tests, including the Lagrange Multiplier (Breusch-Pagan) test, were conducted to determine the appropriate model for the panel data analysis. The result of the test provided the basis for applying panel regression analysis, which was used to test the formulated hypotheses and draw conclusions.

The model specification for the study is expressed as follows:

$$FV = \beta_0 + \beta_1 CETR + \beta_2 BTD + \mu$$

Where:

FV = Firm Value of company (measured using Tobin's Q)

CETR = Cash Effective Tax Rate of company
BTD = Book Tax Difference of company
$\beta 0$ = Constant term
$\beta 1$-$\beta 2$ = Coefficients of the independent variables
μ = Error term

4. RESULT, CONCLUSION AND RECOMMENDATIONS

Descriptive Result

	TOBINQ	CASHETR	BTD
Mean	0.607408	-0.357380	25645244
Median	0.661504	-0.023130	2413937.
Maximum	0.952217	0.216812	3.23E+08
Minimum	0.205738	-6.559126	-3129316.
Std. Dev.	0.191263	1.198339	67577967
Skewness	-0.521774	-4.845262	3.567729
Kurtosis	2.660022	25.59885	14.99999
Jarque-Bera	1.505724	755.7678	243.6431
Probability	0.471017	0.000000	0.000000
Sum	18.22224	-10.72140	7.69E+08
Sum Sq. Dev.	1.060863	41.64448	1.32E+17
Observations	**60**	**60**	**60**

The descriptive statistics reveal important characteristics of the study variables. TOBINQ, representing firm value, has an average of 0.607 and a median of 0.661, indicating that most firms are valued slightly above half of their replacement cost, with a slight left skew (-0.522) and moderate kurtosis (2.66), suggesting a fairly normal distribution. In contrast, CASHETR, the cash effective tax rate, has a mean of -0.357 and a median near zero, reflecting that firms often reduce tax payments through planning, but its extreme negative skew (-4.845) and high kurtosis (25.60) indicate the presence of significant outliers, confirmed by the Jarque-Bera test ($p = 0.000$). Similarly, BTD, the book-tax difference, shows wide variation with a mean of 25,645,244 and extreme positive skew (3.568) and kurtosis (15.0), highlighting large differences between accounting profit and taxable income for some firms.

Multiplier Test Result

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided
(all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	48.52227 (0.0000)	2.317205 (0.1279)	50.83948 (0.0000)
Honda	6.965793 (0.0000)	-1.522237 --	3.849176 (0.0001)
King-Wu	6.965793 (0.0000)	-1.522237 --	5.651713 (0.0000)
Standardized Honda	9.112655 (0.0000)	-1.397412 --	1.758016 (0.0394)
Standardized King-Wu	9.112655 (0.0000)	-1.397412 --	4.875035 (0.0000)
Gourieroux, et al.*	--	--	48.52227 (< 0.01)

*Mixed chi-square asymptotic critical values:

1%	7.289
5%	4.321
10%	2.952

The Lagrange Multiplier (LM) test results indicate the presence of significant cross-sectional effects in the panel data. Across all variations of the test including Breusch-Pagan, Honda, King-Wu, Standardized Honda, and Standardized King-Wu the p-values for cross-section effects are consistently 0.000. Conversely, the time-series effects show non-significant results, with p-values above conventional thresholds (0.1279 for Breusch-Pagan), suggesting that time-specific effects are not a major concern in this dataset. The joint test (both cross-section and time) also produces significant statistics, confirming that the panel structure is primarily influenced by differences across companies rather than over time.

Regression Result

Dependent Variable: TOBINQ
Method: Panel Least Squares
Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CASHETR	-0.125431	0.045762	-2.741000	0.0081
BTD	1.86E-09	6.94E-10	2.681511	0.0097
C	0.523670	0.037954	13.79612	0.0000

R-squared	0.384548	Mean dependent var	0.607408
Adjusted R-squared	0.359504	S.D. dependent var	0.191263
S.E. of regression	0.152304	Akaike info criterion	-0.305887
Sum squared resid	0.927115	Schwarz criterion	-0.165767
Log likelihood	7.588300	Hannan-Quinn criter.	-0.261061
F-statistic	15.32581	Durbin-Watson stat	1.926128
Prob(F-statistic)	0.000083		

The regression findings elucidate the correlation between tax planning and firm value of Nigerian oil and gas firms. The model indicates that CASHETR (cash effective tax rate) exerts a negative and statistically significant influence on firm value (coefficient = -0.125, p = 0.008), signifying that elevated cash tax rates correlate with diminished Tobin's Q. Conversely, BTD (book-tax difference) demonstrates a positive and significant effect (coefficient = 1.86 × 10^-9, p = 0.0097), implying that firms with greater discrepancies between accounting profit and taxable income are likely to attain higher market valuations. The intercept (C = 0.524, p = 0.000) indicates the baseline firm value when tax planning factors are absent. Collectively, these data validate that tax planning tactics may significantly impact investor views and the total worth of a corporation. The model has modest explanatory power, shown by an R-squared of 0.385 and an adjusted R-squared of 0.360, suggesting that around 36–38% of the variance in Tobin's Q is elucidated by CASHETR and BTD. The F-statistic (15.33, p = 0.000083) confirms that the model is statistically significant as a whole, while the Durbin-Watson statistic of 1.926 suggests minimal autocorrelation in the residuals.

The results of this study strongly correspond with previous studies on tax planning and corporate value, offering both theoretical and practical insights for the oil and gas sector in Nigeria. In alignment with Sani et al. (2024), this research demonstrates that proficient tax management, via strategies such as cash effective tax rate reduction and optimisation of book-tax discrepancies, substantially increases business value, hence affirming the significance of tax planning as a strategic financial instrument. Likewise, Ngozi (2022) underscored that firm-specific attributes, such as size, impact the relationship between tax aggression and sustainability, reinforcing the notion that customised tax tactics are crucial for optimising market valuation. The findings align with those of Akpokhio and Ekperiware (2022) and Aondover (2025), who determined that corporate income tax and petroleum profit tax directly affect profitability and investor views in the Nigerian oil and gas sector. The research substantiates agency and signalling theories, indicating that successful tax planning conveys cautious management and financial efficiency to investors, as noted by Aondoakaa et al. (2021) and Omesi and Appah (2021). The findings suggest that oil and gas corporations may increase firm value via strategic tax management, while governments could contemplate revising tax regulations to promote transparent and efficient corporate tax planning. Moreover, the research enhances the findings of Onoh, Biradawa, and Ndubuisi (2022) by emphasising that tax planning, in conjunction with sustainability practices, influences market value, so underscoring the synergistic importance of fiscal and non-fiscal initiatives in corporate performance.

Ho1: ***Cash effective tax rate does not significantly affect firm value of oil and gas companies in Nigeria*.**

The regression results show that CASHETR has a coefficient of -0.125 with a p-value of 0.008, which is less than the 5% significance level. This indicates that CASHETR has a statistically significant negative effect on firm value. Therefore, Ho1 is rejected, and it is concluded that cash effective tax rate significantly influences the firm value of oil and gas companies in Nigeria.

Ho2: ***Book tax difference does not significantly affect firm value of oil and gas firms in Nigeria.***

The regression results indicate that BTD has a coefficient of 1.86 × 10^-9 with a p-value of 0.0097, which is also below the 5% threshold. This shows that BTD has a statistically significant positive effect on firm value. Hence, Ho2 is rejected, and it is concluded that book tax difference significantly affects the firm value of oil and gas companies in Nigeria.

Conclusion and Recommendations

The study establishes that tax planning significantly influences the firm value of oil and gas companies in Nigeria. Specifically, a higher cash effective tax rate negatively affects firm value, while a larger book-tax difference positively enhances it, demonstrating that strategic management of tax obligations can create measurable value for firms. These findings confirm that tax planning is not merely a compliance activity but a critical financial strategy that impacts investor perceptions and market valuation.

The study made the following recommendations;

1. Companies should actively engage in strategic tax planning by optimizing cash tax payments and managing book-tax differences to enhance firm value.
2. Government and tax authorities should develop clear, consistent, and supportive tax policies that encourage transparent and responsible tax planning.

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