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CORPORATE TAX AVOIDANCE AND INVESTING CASH FLOWS PERFORMANCE: A STUDY OF QUOTED MANUFACTURING FIRMS IN NIGERIA

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Abstract

This study ascertains the effect of corporate tax avoidance on investing cash flows performance of quoted manufacturing firms in the Nigerian Stock Exchange. Specifically, the study determine the effect of effective tax rate and book tax difference on investing cash flows of quoted manufacturing firms. Ex-Post Facto research design was adopted for the study. Data for the study were extracted from annual reports and accounts of the sampled firms. The formulated hypotheses were tested using regression analysis with Stata version 15. The analysis shows that there 'is a statistically significant effect of effective tax rate on investing cash flows of quoted manufacturing firms, and also reported that book tax difference has a statistically significant effect on investing cash flows of quoted manufacturing firms. Based on the result, curtail earnings management acts by managers, shareholders need to ensure that tax savings are deployed for investment decisions in the firms, such as diversification objectives or new product developments, etc.

Key words*: Effective tax rate, book tax difference and investing cash flows*

Introduction

Corporate tax avoidance refers to managerial practice that aims to reduce taxable income through tax planning activities, whether these are legal, questionable, or even illegal (Chen, Chen, Cheng, & Shevlin, 2010). In Nigeria, the administration of CIT is complex and ambiguous; thus, creating possibilities for tax avoidance and non-compliance (Ezugwu & Akubo, 2014). Over the past few decades, corporate tax avoidance has grown steadily and formed a core issue globally (Hasan, Kim, Teng, & Wu, 2016).

This was mainly driven by public pressure and greater media attention (Dyreng, Hoopes, & Wilde, 2016; Majeed & Yan, 2019). In Nigeria, approximately 85 percent of corporate income tax generated accrues from less than 15 percent of the total companies listed on the Nigerian Stock Exchange (NSE) (Obinabo, 2016; Onyeka & Nwankwo, 2016). According to the OECD (Organization for Economic Co-operation and Development) (2013) report, corporate tax avoidance via its "base erosion constitutes a serious risk to tax revenues, tax sovereignty and tax fairness for OECD member countries and non-members alike" (OECD, 2013, p. 5). The OECD (2015) report estimated that global corporate income tax revenue losses due to tax avoidance - measured at 2014 levels - ranges from US$100 to US$240 billion annually.

Financial statements are the end products of the accounting process which provides information to a wide-range of users for making economic decisions. The objective is to provide information on the financial position, performance and changes in the financial position of an entity (International Accounting Standard Board [IASB], 2005). IFRS requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows. The statement of cash flows is an index of the actual money received or paid out by a firm for a particular time period (Albrecht, Albrecht, & Zimbelman, 2003). This index excludes non-cash accounting charges such as depreciation, etc. (Amuzu, 2010). The statement of cash flows "were adopted by accounting standards boards to help users better assess future corporate cash flows" (Al-Attar & Hussain, 2004).

The relatively lack of empiricism on the effect of corporate tax avoidance on cash flow performance of quoted manufacturing firms in Nigeria. The literature documents three streams of focus on corporate tax avoidance or cash flow information. The first focuses on the relationship between cash flow and financial performance (Amah, Michael, & Ihendinihu, 2016; Bingilar & Oyadenghan, 2014; Duru, Okpe, & Ifunanya, 2015; Nwaiwu & Oluka, 2017; Nwanyanwu, 2015). Alternatively, others such as Adelegan (2003) focused on cash flow information and dividend changes in Nigeria. The second mainly focuses on the determinants of corporate tax avoidance, such as corporate governance (Mohammed, 2017; Salawu & Adedeji, 2017; Salawu, Ogundipe, & Yeye, 2017; Sani & Madaki, 2016; Uchendu, Ironkwe, & Nwaiwu, 2016), competition (Ekoja & Jim-Suleiman, 2014). Lastly, others such as Ogundajo and Onakoya (2016) focus on tax planning and financial performance; while, Ibrahim and Saidu (2015) on tax planning and dividend policy. Their findings were not certain; hence there is no significant effect between the variables and full of diverse ideals. Based on the above backdrop, this study ascertains the effect of corporate tax avoidance on investing cash flows performance of quoted manufacturing firms in the Nigerian Stock Exchange. The specific objectives of the study are as follows:

1. To determine the effect of effective tax rate on investing cash flows of quoted manufacturing firms.
2. To ascertain the effect of book tax difference on investing cash flows of quoted manufacturing firms.

Literature Review

Corporate Tax Avoidance

Tax avoidance is the process whereby an individual plans his or her finances so as to apply all exemptions and deductions provided by tax laws to reduce taxable income (Soyode, & Kajola, 2006). Tax avoidance refers to "the legal application of tax laws to one's own advantage, in order to reduce the amount of tax that is payable by means that are within the law" (Osuegbu, 2007). Tax avoidance refers to the use of legal methods and special activities to minimize tax liabilities among individuals or firms within the law (Pragua, 2010). Special activities involve the use and exploitation of "loopholes" such as tax deductions, tax havens and tax credits, which counter the objectives of taxation law (Pragua, 2010). Hanlon and Heitzman (2010) opined that tax avoidance refers to the "reduction of explicit taxes".

Corporate tax avoidance (CTA) refers to "the downward management of taxable income through tax planning activities" (Lanis & Richardson, 2012). CTA involves any activity that legally or illegally reduces the corporate tax burden relative to the statutory tax rate (Tang, 2019). It is the deliberate attempt to reduce tax liabilities either by legal or illegal means/strategies (Lee, Dobiyanski, & Minton, 2015).

According to Dyreng, Hanlon, and Maydew (2010) corporate tax avoidance refers to "anything that reduces the firm's taxes relative to its pretax accounting income". Tax avoidance is considered beneficial to a firm and the shareholders as long as it implies higher cash flows, net income and residual income for the shareholders (Blouin, 2014). CTA involves "taking advantage of legitimate concessions and exemptions foreseen in the tax law; and, involves the process of organizing business operations so that tax obligations are optimized at their minimum amount" (Martinez, 2017). In his opinion, Jones (2012) described tax avoidance as a legitimate means of reducing taxes. The figure below describes the obfuscation between legal tax avoidance and illegal tax avoidance:

Tax avoidance practices seek to accomplish one of three things: payment of "less tax than might be required by a reasonable interpretation of a country's law," payment of a tax on "profits declared in a country other than where they were really earned," or tax payment that occurs "somewhat later than the profits were earned" (Chavagneux, Palan, & Murphy, 2010).

The literature documents both benefits and costs of corporate tax avoidance; to the firm, an overly conservative tax avoidance results in loss of potential cash-savings (Cheng, Huang, Li, & Stanfield, 2012; Graham & Tucker, 2006); while, an overly aggressive tax avoidance facilitates managerial rent extraction (Kim, Li, & Zhang, 2011; Desai & Dharmapala, 2006), and may expose the firm to additional auditor fees, legal fines and reputational costs (Graham, Hanlon, Shevlin, & Shroff, 2014).

Lee, Dobiyanski, and Minton (2015) reported that a firm's tax strategy and practice are proprietary information as its tax return is not public information. Tax scholars have used several proxies to infer on a firm's tax policy. For example, Lisowsky, Robinson, and Schmidt (2013) illustrate five empirical proxies over the continuum of legal tax avoidance to illegal tax evasion, such as a Generally Accepted Accounting Principles (GAAP) effective tax rate, a cash effective tax rate, total book-tax differences, permanent book-tax differences, discretionary permanent book-tax differences, and reportable transactions.

Motives for Corporate Tax Avoidance

Three conditions are necessary before a tax payer can participate in tax avoidance; incentive, access and awareness (Alstadsæter & Jacob, 2013). Incentive implies that, for one to partake in tax avoidance, the benefit from tax avoidance must outweigh its costs. Access presupposes that the taxpayer needs to have actual access to tax-minimizing strategies. Finally, the taxpayer must have such awareness of the tax code that allows him to have knowledge of the opportunities available to him to avoid taxes. The study by Chen and Chu (2005) document that corporate tax avoidance occurs for two reasons: *Firstly*, managers must be reassured by ex-ante compensation for future ventures by reducing tax liabilities. *Secondly*, the manager's effort to reduce the corporate tax liability by neglecting internal controls system due to lack of optimal corporate governance.

The preparation of statement of cash flows is guided by International Accounting Standard (IAS) 7- Statement of Cash Flows. The standard requires an entity to present a statement of cash flows as an integral part of its primary financial statements. Cash flows are classified and presented into operating activities, investing activities or financing activities. The operating activities are the principal revenue-producing activities and other activities that do not include investing or financing activities. The investing activities are acquisition and disposal of long term assets and other investments not included as cash-equivalent investments. The financing activities are activities that change the size and composition of the equity capital and borrowings.

Empirical studies

Rui (2019) conducted a study titled 'Effect of corporate tax avoidance on the investment-cash flow sensitivity'. The final sample comprised of 5056 firm year observations from enterprises listed on shanghai and shenzen stock exchanges (a-share enterprises) from 2009 to 2015. The data were analysed using the regression technique analysis. The results confirm that firms with higher levels of tax avoidance have higher investment-cash flow sensitivity. Stom and Wepukhulu (2019) conducted a study titled 'Effect of cash flow management on financial performance of listed companies at Nairobi Securities Exchange; Kenya'. The study adopts the casual and correlational research designs. The study relied on secondary data obtained from the financial statements of the companies from 2013 to 2017. The data were analyzed using multiple linear regression technique. The results showed a negative significant relationship between cash flow from investing activities and financial performance. Bizņa, Jurušs, Laizāns, and Šnikvalds (2018) undertook a study titled 'Assessment of impact of corporate income tax suspension on financial performance of businesses'. The study used the difference in

differences (DiD) analysis method. The sample comprised of firms in Latvia following the tax reform of 2018. The study is based on secondary data retrieved from Amadeus database. The results showed that corporate income tax reform changes the capital structure of a business and improves business sustainability. Erhirhie, Oraka and Ezejiofor (2018) determined the effect of corporate tax on financing decisions of manufacturing firms on manufacturing firms in Nigerian. The study adopted Ex post facto research design. The formulated hypotheses were tested using the linear regression analysis. The results of our findings showed that there is no significant relationship between corporate tax and dividend paid by Nigerian Breweries Plc, Dangote Cement Plc and PZ Cussons Plc and issuance of new ordinary shares, retained earnings and long term debt. Oyieko, Nyang'au, and Chesoli (2018) conducted a study titled 'An evaluation of effects of cash flow management activities on the financial performance of manufacturing firms listed at Nairobi Securities Exchange'. The study adopted the descriptive research design. The sample comprised of 7 manufacturing firms listed on the Nairobi Securities Exchange. The study relied on secondary data obtained from published financial statements for the period 2007 to 2016. The data were analyzed with correlation and regression technique. The results showed a positive relationship between investing cash flows and financial performance proxied via return on asset. Oraka, Ogbodo and Ezejiofor (2017) ascertained the effect of Tertiary Education Tax Fund (TETFUND) on management in Nigerian tertiary education. Survey research design was adopted. Data were obtained from National Bureau of Statistics by use of financial ratios and tested using regression analysis with aid of SPSS statistical package version 20.0. The study found that ETF fund allocations to Nigerian Tertiary Institutions have no correlation the enrollment ratio of Nigerian Tertiary Institutions. Alslehat and Al-Nimer (2017) conducted a study titled 'Empirical study of the relationship between cash flow management and financial performance of the Jordanian insurance companies'. The study adopts the descriptive analytic approach. The study relied on secondary data obtained from annual reports and accounts from 2009 to 2013. The data were analysed using multiple regression technique. The results showed that net cash flows from investing activities have a significant negative effect on ROA. Ogbeide and Akanji (2017) conducted a study on 'Relationship between cash-flow and financial performance of insurance companies: Evidence from a developing economy'. The sample comprised of 27 listed insurance firms. The study used secondary data; specifically time series data for the period 2009-2014 obtained from annual reports and accounts. The researchers employed the panel estimates generalized least squares (EGLS) technique to analyse the data. The results showed a positive significant effect of investing cash flow on financial performance proxied as ROTE. Nwaiwu and Oluka (2017) conducted a study titled 'IFRS: Cash flow accounting and financial performance of quoted companies in Nigeria'. The sample comprised of 24 non-financial firms listed on the Nigerian Stock Exchange (NSE). The study relied on secondary data; obtained from annual reports and accounts from 2004 to 2008. The data were analysed using multiple linear regression. The results showed a negative significant effect of investing cash flow on operating profit and profit before tax. Goldman (2016) evaluated the effect of tax aggressiveness on investment efficiency'. The final sample comprised of a total of 12,876 firm-year observations. The study relied on secondary data obtained from Compustat and Execucomp with fiscal year ends between 1992 and 2014. The data were analysed using multiple regression technique. The results revealed that tax aggressiveness is associated with more investment for firms with access to investable funds. Amah, Micheal, and Ihendinihu (2016) undertook a study titled 'Relationship of cash flow and financial performance of listed Banks in Nigeria'. The study adopted the ex post facto research design. The sample comprised of four banks listed in the Nigerian Stock Exchange (NSE) for the period of 9 years (2005 - 2013). The study utilised secondary data obtained from annual reports and accounts. The data were analysed using correlation. The results revealed a negative relationship between investing cash flow and the performance of the sampled banks. Santa and Rezende (2016) evaluated 'Corporate tax avoidance and firm value: From Brazil'. The sample comprised of 323 publicly traded firms (i.e., 1,704 firm-year observations) listed on the BM & FB ovespa. The study relied on secondary financial statements data; obtained from CVM (Brazilian regulatory agency), and Economatica from the period 2006 to 2012. The data were analysed using multiple regression technique. The results showed a negative significant effect of tax avoidance proxied as BTD on Tobin's q; however, the variable of net income scaled by total assets had a positive significant effect. Ezejiofor, Adigwe and Nwolisa (2015) assess whether tax as a fiscal policy tool affect the performance of the selected manufacturing companies in Nigeria. To achieve the aims of the study, descriptive method was adopted and data were collected through the use of six years financial accounts of the selected companies. The hypothesis formulated for the study was tested with the ANOVA, using the Statistical Package for Social Sciences (SPSS) version 20.0 software package. The study found that Taxation as a fiscal policy instrument has a significant effect on the performance of Nigerian manufacturing companies. The implication of the finding is that the amount of tax to be paid depends on the companies' performances. Duru, Okpe, and Ifunanya (2015) evaluated the 'Effect of cash flow statement on company's performance of food and beverages companies in Nigeria'. The study adopts the ex post facto research design. The sample comprised of 6 food and beverages companies quoted in the Nigerian Stock Exchange. The study relied on secondary data obtained from annual reports and accounts from 2007 to 2011. The data were analyzed using multiple regression technique. The results revealed that investing cash flow had a significant negative relationship with corporate performance.

Bingilar and Oyadenghan (2014) explored 'Cash flow and corporate performance: A study of selected food and beverage companies in Nigeria'. The sample comprised of 6 food and beverage companies quoted in the Nigerian Stock Exchange. The data were analysed using multiple regression technique. The results showed that investing cash flow have a significant negative relationship with corporate performance. Sayari and Mugan (2013) evaluated 'Cash flow statement as an evidence for financial distress'. The sample comprised of 124 companies listed on the Istanbul Stock Exchange (ISE). The study relied on secondary data obtained from annual reports and accounts from 2005 to 2009. The data were analysed using multiple regression technique. The results showed that investing cash flow had a positive significant relationship with financial distress.

Methodology

Research Design

The research design is methodological connection between the philosophies and subsequent selection of data collection methods (Denzin & Lincoln, 2011). E*x-post facto* research design was adopted. The choice of *ex-post facto* research design is based on the fact that the study relies on historical accounting data obtained from annual reports and accounts.

Population of the Study

The population of the study comprises of quoted manufacturing firms on the Nigerian Stock Exchange (NSE) as at end of 2019 financial year. The number of firms included in the various sectors that constitute the population of the study is shown in the table below:

Sample Size of the Study

The study was limited to sixty-two (62) companies selected using purposive sampling technique; the decision was premised on the classification of the firms as manufacturing (based on the nature and description of activities) as shown on the Nigerian Stock Exchange (NSE) website.

The exclusion of the sectors was consistent with prior studies; firms from the financial sector are mainly excluded because of different regulatory environment (Tsipouridou & Spathis, 2012). In addition, during the data analysis any company whose required data are incomplete or unavailable will be eliminated from the sample. The final sample percentage with respect to the population is approximately 38% of the entire quoted companies on the Nigerian Stock Exchange.

Sources of Data

Data collection is a crucial stage of dissertation that entails gathering all the necessary and required information from essential sources to be used for the analysis (Kumar, 2011, p. 24). The data for this study will be obtained from secondary sources. Secondary data is information or data that has previously been collected and recorded for other purposes (Blumberg, Cooper, & Schindler, 2008). One major advantage of secondary data is that analysis time can be saved (Blumberg, Cooper, & Schindler, 2008). The data will be extracted from the annual reports and accounts of the selected companies. Specifically, the Statement of Financial Position and Statement of Profit or Loss and Comprehensive Income will provide data in computing the selected ratios; and, the Statement of Cash Flows.

Methods of Data Analysis

The study employs both *descriptive* and *inferential* statistical techniques to analyse the data. The following descriptive statistics will be computed such as the mean, median, standard deviation, minimum, maximum values, and Skewness-Kurtosis statistics, etc.

The correlation matrix will be constructed to identify the correlation between the dependent and independent variables. Lastly, multiple regression will be used to validate the hypotheses. According to Hair, Black, Babin, Anderson, and Tatham (2006) multiple regression is a 'statistical technique which analyses the relationship between a dependent variable and multiple independent variables by estimating coefficients for the equation on a straight line'. The strength of 'multiple regression models' is its ability to analyze several variables simultaneously (Mussalo, 2015). The goodness of fit of the model will be tested using the Coefficient of Determination (R-squared). The analysis will be done via E-Views statistical software. In view of the

dependent, independent and control variables of the study, the following model will be used to examine the relationship between corporate tax avoidance and cash flow performance of quoted manufacturing firms:

ICF = f (etr, fsize, flev, sgrow, roa, fira) …… ……. .i

ICF = f (btd, fsize, flev, sgrow, roa, fira)…… ……. ii

Equations 1-6 can be written econometrically as presented in equations 7-12 as follows:

$ICF_{it} = \eta_0 + \eta_1 etr_{it} + \eta_2 fsize_{it} + \eta_3 flev_{it} + \eta_4 sgrow_{it} + \eta_5 roa_{it} + \eta_6 fira_{it} + \sum_{t.....}$ iii

$ICF_{it} = \eta_0 + \eta_1 btd_{it} + \eta_2 fsize_{it} + \eta_3 flev_{it} + \eta_4 sgrow_{it} + \eta_5 roa_{it} + \eta_6 fira_{it} + \sum_{t.....}$ iv

Where:

ICF	=	Investing cash flow
etr	=	Effective tax rate
btd	=	Book tax differences
fsize	=	Firm size
flev	=	Firm leverage
sgrow	=	Sales growth
roa	=	Return on assets
fira	=	Firm Age
t	=	Time dimension of the variables
η_0	=	Constant or Intercept.
η_{1-5}	=	Coefficients to be estimated or the Coefficients of slope parameters.

The expected signs of the coefficients (a priori expectations) are such that η_2 η_4 and $\eta_5 > 0$; while, η_1 and $\eta_5 < 0$

Test of Hypotheses

Hypothesis One

H_{01}: There is no statistically significant effect of effective tax rate on investing cash flows of quoted manufacturing firms.

Table 1: Random-effects GLS regression output for hypothesis one

```
Random-effects GLS regression                   Number of obs     =       733
Group variable: Panel_ID                        Number of groups  =        75

R-sq:                                           Obs per group:
     within  = 0.1778                                         min =         7
     between = 0.0092                                         avg =       9.8
     overall = 0.0980                                         max =        10

                                                Wald chi2(6)      =    115.02
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =    0.0000
```

CFIA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
EFFT	.0000592	.0000189	3.14	0.002	.0000223	.0000962
FSIZ	-.0211826	.0079072	-2.68	0.007	-.0366804	-.0056848
DETA	.0007124	.0001703	4.18	0.000	.0003787	.0010461
REVG	-.0001052	.0000597	-1.76	0.078	-.0002223	.0000119
RETA	.0027654	.0002919	9.47	0.000	.0021933	.0033374
FIRA	.0016891	.0004778	3.54	0.000	.0007527	.0026256
_cons	.0033401	.056766	0.06	0.953	-.1079193	.1145994
sigma_u	.04205164					
sigma_e	.10172962					
rho	.14593574	(fraction of variance due to u_i)				

Source: Stata ver. 15

The regression model shown above with one IV and five CVs, as follows: log of total asset, debt to asset ratio, revenue growth, return on asset, and firm listing age. In model validation, the following are considered: Wald chi2 (6) which is equivalent to the F-statistics in Fixed and Pooled OLS, and the overall R^2 are used. The overall R-squared is 0.0980 and the between R-squared 0.0092. The *p*-value of the Wald chi2 statistic is less than .05 (i.e., margin of error), which confirms the statistical significance of the model.

Decision rule:

The *coefficient* of the variable of interest: EFFT was (0.0000592) and *z-statistic* (3.14) positive and statistically significant (*p*-value <.05). Therefore, the alternate hypothesis is accepted and null rejected; there 'is a statistically significant effect of effective tax rate on investing cash flows of quoted manufacturing firms'.

Hypothesis two

H_{01}: Book tax difference has no statistically significant effect on investing cash flows of quoted manufacturing firms.

Table 2: Random-effects GLS regression output for hypothesis two

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Random-effects GLS regression                   Number of obs     =       733
Group variable: Panel_ID                        Number of groups  =        75

R-sq:                                           Obs per group:
     within  = 0.1845                                         min =         7
     between = 0.0072                                         avg =       9.8
     overall = 0.0991                                         max =        10

                                                Wald chi2(6)      =    118.76
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =    0.0000
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CFIA	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
DTAX	.004592	.0012799	3.59	0.000	.0020833	.0071006
FSIZ	-.0234216	.0079398	-2.95	0.003	-.0389833	-.00786
DETA	.0004857	.0001808	2.69	0.007	.0001313	.0008401
REVG	-.0000981	.0000596	-1.65	0.100	-.0002149	.0000187
RETA	.0030436	.0003017	10.09	0.000	.0024523	.0036349
FIRA	.0016268	.0004788	3.40	0.001	.0006883	.0025653
_cons	.0184903	.0569811	0.32	0.746	-.0931906	.1301713
sigma_u	.04237523					
sigma_e	.1016979					
rho	.14793557	(fraction of variance due to u_i)				

Source: Stata ver. 15

The regression model shown above with one IV and five CVs, as follows: log of total asset, debt to asset ratio, revenue growth, return on asset, and firm listing age. In model validation, the following are considered: Wald chi2 (6) which is equivalent to the F-statistics in Fixed and Pooled OLS, and the overall R^2 are used. The overall R-squared is 0.0991 and the between R-squared 0.0072. The *p*-value of the Wald chi2 statistic is less than .05 (i.e., margin of error), which confirms the statistical significance of the model.

Decision rule:

The *coefficient* of the variable of interest: DTAX was (.004592) and *z-statistic* (3.59) is positive and statistically significant (*p*-value <.05). Therefore, the alternate hypothesis is accepted and null rejected; thus, 'book tax difference has a statistically significant effect on investing cash flows of quoted manufacturing firms'.

Discussion of Result and Recommendation

The outcome of the analysis showed a significant positive effect of effective tax rate on investing cash flows of quoted manufacturing firms. The results are consistent with the study by Rui (2019) using a sample of firms listed on Shanghai and Shenzen Stock Exchanges and multiple regression found that firms with higher levels of tax avoidance have higher investment-cash flow sensitivity. Goldman (2016) found evidence to support that tax aggressiveness is associated with more investment for firms with access to investable funds. The control variables showed that firm size had a negative significant effect, debt to total assets had a positive significant effect, revenue growth had a negative significant effect @ 10%, return on total assets had a positive significant

effect and firm age had a significant positive effect. Also, Oyieko, Nyang'au, and Chesoli (2018) using a sample of manufacturing firms found a positive relationship between investing cash flows and financial performance proxied via return on asset.

Secondly, there is a significant positive effect of book tax difference on investing cash flows of quoted manufacturing firms. This is consistent with the study by Rui (2019) on a sample of firms listed on Shanghai and Shenzen stock exchanges confirmed that firms with higher levels of tax avoidance have higher investment-cash flow sensitivity. And, Goldman (2016) revealed that tax aggressiveness is associated with more investment for firms with access to investable funds. The control variables showed that firm size had a significant negative effect, debt to total assets and return on total assets had significant positive effects, revenue growth had a non-significant negative effect; while, firm age had a significant positive effect. Similarly, the study by Oyieko, Nyang'au, and Chesoli (2018) in Kenya found a positive relationship between investing cash flows and financial performance proxied via return on asset.

And from a different perspective, contrary results were reported in Santa and Rezende (2016) using empirical data from Brazil found a negative significant effect of tax avoidance proxied as BTD on Tobin's q. Stom and Wepukhulu (2019) in Kenya also found a negative significant relationship between investing cash flow and financial performance. And, Alslehat and Al-Nimer (2017) using a sample of Jordanian insurance companies found that net cash flows from investing activities have a significant negative effect on ROA.

The study makes the following recommendations for policymakers, business managers, and shareholders:

1. In order to curtail earnings management acts by managers, shareholders need to ensure that tax savings are deployed for investment decisions in the firms, such as diversification objectives or new product developments, etc.
2. Policy regulators and industry analysts should develop models that link tax payments with the cash flow statement for its potency as a source of information to investors (existing or new). As the statement of cash flows quantifies the cash inflows and outflows in methods different from that of the income statement and statement of financial position.

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