Innovations

Tax Aggressiveness and Corporate Financial Distress Interaction Role of Ownership

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Abstract

Broadly, this study examines the interaction effect of ownership structure on the relationship between tax aggressiveness and financial distress using 822 firm year data of non-finance firms listed on the floor of the Nigerian Exchange Group over the period 2006 and 2019. Ex-post facto research design is employed on a panel data set of fifty-nine listed non-finance firms in Nigeria. Feasible Generalized Least Square Regression analyses technique was employed to test the hypothesis of the study. The result revealed that ownership structure; particularly managerial ownership negatively interacts the relationship as supported by the agency theory, which suggests that managers may act in their own self-interest rather than in the best interest of shareholders. This outcome underscores the importance of good corporate governance and a balanced approach to tax management in promoting long-term financial health and stability of listed non-finance firms in Nigeria. Consequent upon the established results, this study carefully recommends that policymakers may need to strengthen or enforce tax regulations to reduce the risk of tax aggressiveness. Further, listed non-finance firms whose ownership structure policies favours higher managerial ownership may need to adopt more effective risk management strategies to mitigate the impact of tax aggressiveness on financial distress.

Keywords*; Tax Aggressiveness, Financial Distress, Managerial Ownership Feasible Generalized Least Square*

1.0 Introduction

The role of corporate taxes in promoting economic development and fulfilling corporate social responsibility has been well established. However, despite its importance, some corporations engage in tax avoidance strategies to increase profits (Cucuzza et al., 2018; Hanlon & Slemrod, 2017). Corporate tax avoidance, also known as tax aggressiveness in this study, is a common practice among large corporations and is known to increase shareholder wealth (Dyreng et al., 2017; Gupta et al., 2016). Unfortunately, tax-reduction strategies in the form of tax aggressiveness reduce government revenue, making it difficult to administer social programs and maintain social and economic stability (Sikka, 2016). Governments are aware of the potential incentives for tax avoidance, but implementing policies to discourage this behaviour can be challenging (Dyreng et al., 2017; Sikka, 2016). Corporate tax aggressiveness not only

affects the target company but also has significant negative impacts on society. Tax aggressiveness has historically been viewed as a method for companies to transfer wealth from the government to corporations, which can increase the value of the firm (Chyz & Chou, 2017). The wealth effect suggests that tax aggressiveness can have a positive effect on firm performance. However, abusive tax aggressiveness can lead to implementation costs, reputational harm, and penalties from the government if discovered (Eichfelder & Schorn, 2016). Fatoki (2014) and Nwaobia & Jayeoba (2016) both argue that increasing the effective tax rate above the statutory tax rate can harm a firm's profitability and financial sustainability, leading to financial distress. As a developing country, Nigeria is particularly vulnerable to the negative effects of corporate tax aggressiveness, and as such requires in-depth study (Awogbenle & Iwuamadi, 2018). In Nigeria, corporate tax is so high that it represents one-third of pre-tax earnings less other tax levies, making tax obligation a crucial issue for firm managers (Owojori et al., 2017; Uwalomwa & Bazuaye, 2019). Double and multiple taxation in Nigeria, which exposes taxpayers to multiple taxes, has also led to an increased rate of tax avoidance (Agwu et al., 2017; Sanni & Adetiloye, 2018). Therefore, addressing the issue of corporate tax aggressiveness is essential for Nigeria's economic development and social welfare.

Over the last few decades, the manufacturing sector in Nigeria has experienced significant decline, resulting in the loss of approximately 8,708 jobs due to plant shutdowns and relocations (Babalola et al., 2017). Compared to other African countries, only 5% of Nigeria's GDP comes from manufacturing, which is much lower than the 20% seen in Mauritius and South Africa (Adereti & Olokundun, 2017). The oil and gas industry in Nigeria has also faced significant shocks and distress, as noted by Ogujiuba et al. (2016), while Okebalama and Uwaleke (2014) warns that the textile industry is on the brink of collapse, as surviving firms operate at less than 40% of their installed capacity. These challenges have been partly attributed to corporate governance failures, including poor tax management (Ezejiofor et al., 2015). Given these challenges, it is concerning that some companies choose to use tax aggressive techniques to increase shareholder benefits while avoiding tax obligations to the government. However, it is important to note that tax avoidance can have significant negative consequences, including reputational harm and penalties from the government if discovered (Gupta et al., 2016). Therefore, companies should prioritize responsible tax management as part of their corporate social responsibility to promote sustainable economic development.

This study of tax aggressiveness as it relates to firm financial distress is timely for several reasons; First, Nigeria is a resource-rich country with significant tax revenues that can be used to finance public goods and services, such as infrastructure, education, and healthcare. However, the level of tax compliance in Nigeria is relatively low, and tax evasion and avoidance are widespread, which can negatively impact government revenue and public service delivery. (Ewetan & Aliu, 2017; Oyedokun, Akintoye & Salawu, 2018). Second, Nigeria's economy is heavily dependent on the oil and gas sector, which is subject to fluctuations in global oil prices and production levels. This dependency has made the economy vulnerable to external shocks and contributed to a high level of economic volatility. Therefore, understanding the factors that contribute to financial distress in Nigerian firms, including tax aggressiveness, can help policymakers and stakeholders develop strategies to mitigate these risks and promote financial stability. Third, Nigeria has a complex tax system with multiple tax authorities and regulations, which can create opportunities for tax avoidance and evasion. Therefore, studying tax aggressiveness and its relationship to financial distress among Nigerian firms can help identify areas where tax regulations may need to be strengthened or enforced to prevent abuse and promote tax compliance.

Further, there has been limited studies on the relationship between tax aggressiveness and financial distress within the Nigerian space, especially in relation to the moderating effect of board ownership. Although some studies suggest that well-governed firms should benefit more from tax sheltering, conflicting outcomes have been reported (Chyz & Chou, 2017; Gupta et al., 2016; Mănescu & Mănescu,

2017). As a result, this study seeks to investigate the link between tax aggressiveness and financial distress in Nigeria while introducing ownership structure as a moderator in the relationship. Therefore, noting that abusive tax aggressive practices can intensify agency conflicts and earnings manipulation, which have far-reaching negative consequences (Gupta & Newberry, 2017; Nguyen & Van Dijk, 2012; Sikka, 2016). This study serves importantly for promoting good corporate governance, improving government revenue collection, and ensuring the long-term financial health and stability of Nigerian firms and the economy as a whole.

To achieve the objective of this study, section two will provide the literature review and hypothesis development which will be followed by a presentation of the theoretical framework and a review of empirical literature. The third section will outline the methodology employed in this study, while the fourth and fifth sections will focus on the discussion of findings and conclude with recommendations for policymakers.

Literature Review

Financial Distress

The categorization of financial administration stages can be divided into two groups: static and dynamic states. Static state refers to the legal criteria, as defined by Altman (1968) who suggests that financial distress is determined by legal bankruptcy, or Zmilewski (1984) who defines it by law criteria (such as Chapter-X/XI), a definition supported by other scholars including Zavgren (1985) and Daniel (1998). In contrast, dynamic state defines financial distress based on various degrees of a company's financial struggles. For instance, Beaver (1966) describes financial distress as the occurrence of events such as bankruptcy, bond defaults, overdrawn bank accounts, or the failure to pay a preferred stock dividend. Foster (1978) defines financial distress stages as declining power of major products, debt payments being delayed, missed priority stock dividend payments, bond defaults, and bankruptcy. In contrast, Lau (1987) classifies firms into five financial states: State 0 (financial stability), State 1 (omitting or reducing dividend payments more than 40% below the previous year), State 2 (technical default and default on loan payments), State 3 (protection under the Bankruptcy Act), and State 4 (bankruptcy and liquidation). Other scholars, including Deakin (1972), Blum (1974), Scott (1981), and Laitinen (1991), also adopt the dynamic state approach to define financial distress.

Tax Aggressiveness

Tax aggressiveness have been defined in various ways by several scholars. For instance, Desai and Dharmapala (2006) define tax aggressiveness as the extent to which a company utilizes the flexibility in tax rules to minimize its tax obligations. Chyz (2013) describes tax aggressiveness as the intentional reduction of tax liability through questionable and/or controversial means that go beyond what is required by the letter of the tax law. Dyreng, Hanlon, and Maydew (2008) view tax aggressiveness as a set of aggressive tax planning practices that exploit ambiguities in tax law or push the boundaries of tax law to achieve tax savings. Guenther and Sansing (2006) define tax aggressiveness as the degree to which a company engages in aggressive tax planning and structuring activities with the goal of minimizing its tax liability while Nguyen, Shackelford, and Wong (2015) state that tax aggressiveness involves a firm's willingness to engage in tax planning strategies that are perceived as highly aggressive, with the aim of minimizing its tax obligations.

Managerial Ownership

ownership refers to the proportion of shares or other equity owned by a company's top executives or managers (Li & Zhao 2018). Jensen and Meckling (1976) define managerial ownership as the fraction of a firm's common stock owned by its top executives. Agrawal and Knoeber (1996) describe it as the

percentage of equity owned by the CEO. Blair and Rosenstein (1990) note that it is the extent to which a corporation's top executives have a personal stake in the company's performance through stock ownership or other forms of equity participation. According to Agyei-Boapeah and Isa (2017); Hermalin and Weisbach (2003) and Bøhren and Josefsen (2012), managerial ownership is the fraction of the company's equity owned by the top executive team, including the CEO. Le Breton-Miller and Miller (2006) describe it as the proportion of the firm's equity held by the CEO, other top executives, and directors of the firm. These definitions all emphasize that managerial ownership involves the ownership of equity by a firm's top executives or managers. Although, while the specific details of which executives are included in the definition may vary, the overall concept is consistent.

Tax Aggressiveness and Financial Distress

When a firm experiences financial distress, management will explore various ways to keep the business running, including taking on debt. Debt financing is attractive to managers because it provides tax benefits, since the interest costs associated with debt financing lower taxable income. However, higher debt burdens the business. This relationship can be explained through agency theory, which suggests that managers may prioritize their personal wealth over the financial health of the firm (Hanlon & Heitzman, 2010). Managers may engage in tax aggressiveness to boost cash flow and personal wealth, but this can harm the long-term financial health of the firm, as measured by profitability, cash flow, and credit rating (Khodadadi, Safari, and Tajeddini, 2019; Tanyeri, Tasoluk, and Durak, 2020; Chen, Chen, and Cheng, 2017; Ali, Liu, and Ma, 2019). Additionally, tax aggressiveness may also harm a firm's financial health by increasing reputational and legal risks (Guay, Li, and Xue, 2018). ***Based on the aforementioned, it can be hypothesized that higher tax aggressiveness has a positive significant effect on financial distress***.

Tax Aggressiveness and Financial Distress Moderated by Managerial Ownership

Managers with higher levels of ownership have a greater stake in the company's performance and are more likely to act in the interests of all shareholders. As a result, higher levels of managerial ownership can help align the interests of managers and shareholders, reducing the likelihood of tax aggressiveness that may harm the company in the long run. Moreover, managers with higher levels of ownership have a better understanding of the company's financial position and are more likely to take a long-term view of the business. This may make them less likely to engage in tax avoidance practices that could damage the company's reputation and financial stability. In addition, higher levels of managerial ownership can also increase the level of monitoring and accountability within the company. Managers with a significant ownership stake have a greater incentive to monitor the company's financial activities and ensure that tax avoidance practices are not being used. This can be particularly important in times of financial distress, when the temptation to engage in tax avoidance may be higher. On the flip side higher levels of managerial ownership may actually increase the likelihood of tax aggressiveness. This could be due to several factors, such as managers using their ownership stake to entrench themselves in their positions or to benefit themselves at the expense of other shareholders. Further, the negative moderation effect could occur because higher levels of managerial ownership may lead to conflict of interest between managers and other shareholders (Jensen & Meckling, 1976). For instance, managers may use their ownership stake to exert greater control over the company's operations and decision-making processes, leading to decisions that prioritize their own interests over those of other shareholders. In such a scenario, managers may be more likely to engage in sharp tax practices to increase their own compensation or to maintain their positions of power.

Theoretical Framework

According to the agency theory, conflicts of interest may arise between principals and agents due to differing goals and incentives, and these conflicts can lead to agency costs, such as the cost of monitoring and controlling the agents, and can result in suboptimal decision-making (Jensen & Meckling, 1976). In the context of this study, managerial ownership is a key component of the agency relationship between managers and shareholders. Managerial ownership can influence the relationship between tax aggressiveness and financial distress in several ways. For example, high levels of managerial ownership can align the interests of managers with those of shareholders, which may reduce the incentive for managers to engage in tax aggressiveness that could lead to financial distress (Chen et al., 2017). Conversely, low levels of managerial ownership may increase the incentive for managers to engage in tax aggressiveness to improve their personal financial situation, which may increase the risk of financial distress (Li et al., 2019). In addition, the level of managerial ownership may also affect the ability of shareholders to monitor and control managers, which can impact the degree of financial distress that a company may experience (Fama & Jensen, 1983). For example, higher levels of managerial ownership may reduce the ability of shareholders to effectively monitor and control managers, which may increase the risk of financial distress. Therefore, agency theory becomes a relevant theory that helps explore the moderating effect of managerial ownership on the relationship between tax aggressiveness and financial distress, as it can help explain the underlying incentives and goals of managers, and how these may impact the agency relationship with shareholders.

Empirical Review

In their study, Hu, Li, and Sun (2021) investigated how managerial ownership affects the nexus between tax aggressiveness and financial distress. They gathered data from Chinese listed firms spanning from 2010 to 2016 and analysed it using hierarchical regression analysis. The findings indicate that while tax aggressiveness is linked to financial distress, the positive significant relationship's is moderated by managerial ownership. When managerial ownership is low, the positive relationship between tax aggressiveness and financial distress is more robust than when it is high.

In the study of Cai, Rahman, and Courtenay's (2018), the researchers examined how managerial ownership impacts the connection between tax aggressiveness and financial distress in Australia. They collected data from listed companies in Australia for the period between 2006 and 2014 and employed panel data regression analysis to test their hypotheses. The findings indicate a positive relationship between tax aggressiveness and financial distress, but high managerial ownership weakened the relationship. The authors suggest that their results demonstrate the advantages of aligning managers' and shareholders' interests through significant levels of managerial ownership.

Using Malaysian data, Ibrahim, Rahman, and Mohamad (2018) conducted a study to examine how managerial ownership influences the connection between tax aggressiveness and financial distress. They collected data from Malaysian listed companies spanning for the period 2005 to 2015 and utilized panel data regression analysis to test the study hypotheses. The study results indicate a positive relationship between tax aggressiveness and financial distress, but the significant strength of the relationship's is weakened in the presence of high managerial ownership.

Kim, Li, and Yoo (2020) investigated the impact of managerial ownership on the connection between tax aggressiveness and financial distress in South Korea. The study gathered data from listed companies in South Korea for the years between 2010 and 2018 and used panel data regression analysis to evaluate their hypotheses. According to the results, there is a positive link between tax aggressiveness and

financial distress, but in the presence of high managerial ownership, the strength of the association weakens.

Yu, Jiang, and Xu (2019) investigated how managerial ownership influences the connection between tax aggressiveness and financial distress in China. The study used a sample of 3,532 Chinese listed firms with data covering 2010 to 2016. Altman Z-score as the dependent variable, and effective tax rate and managerial ownership as independent and moderator variables were also included in the model. The study controlled for firm size, leverage, profitability, growth opportunities, cash holdings, and board independence. According to the regression results, tax aggressiveness has a positive association with financial distress, and high managerial ownership significantly moderates this relationship, resulting in a reversal of the positive relationship between tax aggressiveness and financial distress.

Zhang, Zhang, and Deng (2021) studied the moderating role of managerial ownership on the relationship between tax aggressiveness and financial distress in China. The study utilized a sample of 5,400 firm-year observations from listed Chinese firms over the 2011 and 2018 period. The dependent variable of Altman Z-score was regressed against the independent and moderator variables; effective tax rate and managerial ownership respectively. The study controlled for firm size, leverage, profitability, growth opportunities, and cash holdings. The research findings indicate a positive relationship between tax aggressiveness and financial distress, while managerial ownership revealed a significant moderating effect on the relationship.

Ojeka, Okoye, and Okafor (2018) conducted a study to investigate how managerial ownership affects the relationship between tax aggressiveness and financial distress in Nigeria. In this study, a sample of 91 Nigerian firms listed during the 2009 to 2015 period was employed. The study measured financial distress using Altman Z-score and tax aggressiveness using effective tax rate, while managerial ownership was determined by the percentage of shares held by top executives. After controlling for firm size, leverage, profitability, and liquidity, the results of multiple regression analysis revealed that managerial ownership negatively moderate the relationship between tax aggressiveness and financial distress, and this effect is statistically significant.

Adetiloye, Akinjare, and Taiwo (2018) conducted a study to examine how managerial ownership affects the link between tax aggressiveness and financial distress among 40 Nigerian companies that were listed on the Nigerian Exchange Group over the period between 2008 and 2015. Altman Z-score which formed the dependent variable was regressed against tax aggressiveness and managerial ownership which represent both the independent and moderator variables. The study used multiple regression analysis technique, and controlled for firm size, leverage, profitability, liquidity, and growth opportunities. The results showed that managerial ownership have a significant negative moderating effect on the relationship between tax aggressiveness and financial distress.

Adeniyi and Sanni (2019) examined the moderating effect of managerial ownership on the relationship between tax aggressiveness and financial distress in Nigeria. The study used a sample of 59 Nigerian firms listed on the Nigerian Stock Exchange during the 2011 to 2015 financial year. The dependent (Altman Z-score) together with independent variables; tax aggressiveness and managerial ownership were included in the model. Five control variables to include; firm size, leverage, profitability, liquidity, and growth opportunities were introduced and the regression result showed that managerial ownership had a significant negative moderating effect on the relationship between tax aggressiveness and financial distress.

Li, Li, and Ma (2017) investigated the moderating effect of managerial ownership on the relationship between tax aggressiveness and financial distress in the Chinese context. The study used a sample of 3,499 Chinese listed firms over the period 2010 and 2014. Altman Z-score is employed as dependent variable while tax aggressiveness, and managerial ownership represented the independent and moderator variables respectively. The study accounted for firm size, leverage, profitability, growth opportunities, and cash holdings as controls in the regression analysis. The results showed that managerial ownership have a significant negative moderating effect on the relationship between tax aggressiveness and financial distress.

Cheng, Liu, and Wei (2017) examine the moderating effect of managerial ownership on the relationship between tax aggressiveness and financial distress in the Taiwanese context. The study used a sample of 484 Taiwanese listed firms for the period between 2007 and 2012. In the study, Altman Z-score represented the dependent variable while effective tax rate, and managerial ownership were both independent and moderator variable respectively. The study controlled for firm size, leverage, profitability, growth opportunities, and agency costs and the regression results showed that managerial ownership have a significant negative moderating effect on the relationship between tax aggressiveness and financial distress during the period under study.

Darmadi and Siregar (2019) conducted a study to examine the impact of managerial ownership on the association between tax aggressiveness and financial distress. The study analyzed a sample of 178 listed Indonesian firms for the period between 2011 and 2015. The dependent variable used in the study is financial distress, which is measured using the Altman Z-score criteria. The independent variables of the study are tax aggressiveness, measured as effective tax rate, and the moderator variable; managerial ownership, measured as percentage of shares owned by top executives. The study controlled for firm size, leverage, profitability, liquidity, and growth opportunities. The findings revealed that managerial ownership have a significant negative moderating effect on the relationship between tax aggressiveness and financial distress in the Indonesian context.

3.0 Methodology

This study employed *ex-post facto* research design with a population of one hundred and six (106) non-finance firms listed on the floor of the Nigerian Exchange Group (NGX) over the period between 2006 and 2019. A sample of 59 firms that were filtered to produce a balanced panel data of non-finance firms was finally employed. However, in testing the study hypothesis in relation to examining the extent to which ownership structure moderates the relationship between tax aggressiveness and financial distress, Generalized Least Square regression analysis estimator was employed to control for panel-level heteroskedasticity concerns.

Measuring Financial Distress

In this study, to compute for financial distress, the Altman's Z-score model is employed. This measure has become popular and is a widely acceptable measure of financial distress and corporate default prediction. Therefore, this study provides a summarized guideline for determining the financial position of the firm at the end of each fiscal year as presented below;

Table 1 Altman Guidelines

Situation	Z-Score	Position
i.	**< 1.9**	**Financial Distress**
ii.	**1.9 to 2.9**	**Not Sure**
iii.	**> 2.9**	**Financial Health**

Source; Shahwan (2015)

From table 1, a firm with Z-Score that lies below 1.9 falls into the financial distressed zone with certainty to fail probably a two years period; For a firm with Z-Score values lying between 1.9, and 2.9, its financial position cannot be determined therefore its failure is uncertain to predict. However, looking at the table 1, Z-scores values that lies from 2.9 and above indicates that the firm is in 'a very healthy' financial zone and failure may likely not occur over the next two years. Related model of Parkinson, (2018) is modified to express the econometric equation as:

Financial Distress Econometric Model

$ALTMANZC_{it} = \beta_0 + \beta_1 CTAX_{it} + \beta_2 MOWN_{it} * CTAX_{it} + \beta_3 SUB_{it} + et$

Where:

ALTMANZC	=	ALTMAN_z Score
CTAX	=	Cash Effective Tax
MOWN	=	Managerial Ownership
SUB	=	Number of Subsidiary
β_0	=	Constant
β_1- β_3	=	Variable Coefficients
et	=	Stochastic disturbance
i	=	i^{th} firm
t	=	time period

Operationalization of Study Variables

Variable	***Acronym***	***Definition***	***Source***
Financial Distress	ALTMANZ_SCORE	Altman (1968) Financial Distress Model	Kim, Li, & Liang, (2019).
Cash Effective Tax	CTAX	computed in percentage as income tax paid in cash flow statement divided by profit before tax	Cai, Lin, & Xie, (2021).
Managerial Ownership	MOWN	computed in percentages as directors' direct and indirect shares divided by outstanding shares	Bøhren, & Josefsen, (2012).
Number of Subsidiary	SUB	Measured as the total number of subsidiaries of the firm.	Holderness, (2003).

Authors' Compilation (2023)

4.0 Results and Discussion

To examine the moderating effect of managerial ownership on the relationship between tax aggressiveness and financial distress, we first conduct pre-regression statistics to include; descriptive statistics. The descriptive statistics gives insight into the nature of the firms in the sample of the study as shown in the table 2.

Variable	Obs	Mean	Std. Dev.	Min	Max
altman_zc	824	2.929078	3.97186	-3.26	90.47
ctax	824	24.61733	90.99102	-399.24	1229.79
mown*ctax	826	3.551671	27.16129	-142.34	453.42
sub	823	1.54921	3.730547	0	29

Authors' Computation (2023)

From table 2, it is observed that on average, the firms under consideration are high above financial distress situation as the mean value of the Altman Zscore stood at 2.9 during the period under discussion. On average, we find that cash effective tax is 24.61 with a standard deviation of 90.99 and minimum and maximum values of -399.24 and 1229.79 respectively. For the control variable, the result shows that number of subsidiaries is about 2 on average, indicating that the firms in the sample operated at least two (2) subsidiaries during the period under investigation.

Table 3 Financial Distress Generalized Least Square Regression Model Estimates

VARIABLES	Cash Effective Tax	Cash Effective Tax * Managerial Ownership	Number of Subsidiary
Coef	0.003	-0.013	-0.161
z_ Stat	(1.68)	(-2.44)	(-4.30)
Prob_z	{0.093}	{0.054} **	{0.000} ***
Wald chi² = 20.03, Prob. > Chi²= 0.0002			

Note: () and {} contains z-statistics and respective probabilities
Where: ** represents 5% & * represent 1% level of statistical significance**
Authors' Computation

Discussion of Findings

From table 3, it is revealed that on average, the main effect of increases in tax aggressiveness is not substantial on financial distress 5%. This is indicated by the statistical insignificant value (0.093) recorded for cash effective tax during the period under concern. Hence, this study opines that on average and under the ceteris paribus assumption, increases in tax aggressiveness is not as good recovery tool in the event of financial distress. However, with the introduction of managerial ownership as a moderator, the result show that the financial status of the firms will experience a significant negative change. This outcome is strongly supported by agency theory, which suggests that managers may act in their own self-interest rather than in the best interest of shareholders. If managers have higher levels of ownership in a tax aggressive firm, they may be incentivized to engage in aggressive tax planning that increases their personal wealth but puts the firm at risk of financial distress. This outcome further supports the position of Hermalin and Weisbach (1998) who document that agency problems can be mitigated by aligning the interests of managers and shareholders, such as through stock options, restricted stock, or direct stock ownership. However, these mechanisms can create new agency problems, such as the potential for

managers to engage in risk-taking behavior (such tax aggressiveness) to increase the value of their equity holdings which may turn out unrewarding. The outcome from this study supports prior related studies of Yu, Jiang, and Xu (2019); Ojeka, Okoye, and Okafor (2018); Adetiloye, Akinjare, and Taiwo (2018); Adeniyi and Sanni (2019); Li, Li, and Ma (2017); Cheng, Liu, and Wei (2017); Darmadi and Siregar (2019) who noted that high levels of executive ownership negatively moderate the relationship between tax aggressiveness and financial distress.

Conclusion and Recommendation

Overall, the outcomes of this study suggest that ownership structure as a corporate governance mechanism is a vital factor to consider when examining the relationship between tax aggressiveness and financial distress. A negative moderation effect of managerial ownership on the relationship between tax aggressiveness and financial distress suggests that higher levels of managerial ownership may not always be effective in reducing tax avoidance practices. This study underscores the importance of good corporate governance and a balanced approach to tax management in promoting the long-term financial health and stability of listed non-finance firms in Nigeria. Further, this study highlights the importance of an optima approach to tax management that takes into account both tax minimization and compliance with tax laws. Policymakers may need to strengthen or enforce tax regulations to reduce the risk of tax aggressiveness and listed non-finance firms whose ownership structure policies favours managerial ownership may need to adopt more effective risk management strategies to mitigate the impact of tax aggressiveness on financial distress. This study provides valuable insights for regulators, investors, and policymakers to better understand the role of managerial ownership in managing tax aggressiveness and mitigating financial distress in the Nigerian context.

Practical Implication of the Study

This study practically explains why higher levels of managerial ownership in a tax aggressive firm can lead to financial distress. This outcome is feasible because managers may prioritize their personal wealth over the firm's financial health, potentially through aggressive tax planning that harms the firm's financial performance therefore increase its risk of financial distress. It practically highlights the need for additional corporate governance mechanisms to ensure that managers act in the best interests of all shareholders and to prevent conflicts of interest from arising.

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