THE EFFECT OF TAX REFORM ON FINANCIAL REPORTING PRACTICES OF NIGERIAN COMPANIES

Mohammed Aminu Bello, PhD, ACA, CNA
Department of Business Management, Faculty of Economics and Management Sciences
Bayero University Kano
Email: mabello.bus@buk.edu.ng
Tel: 08036075240

Abstract

This study examines the effect of tax reform on the financial reporting practices of Nigerian companies, with a specific focus on how changes in tax policies influence tax-related disclosures, compliance behaviour, and reporting transparency. Utilising a combination of quantitative and qualitative research methods, the study investigates whether recent tax reforms have improved the quality of financial reporting and whether this relationship is mediated by enhanced tax compliance. Drawing on data from 114 listed firms and applying hierarchical regression analysis, the results reveal that tax reforms positively influence financial reporting practices and that this effect is significantly mediated by firms' tax compliance behaviour. Larger firms were found to benefit more from the reforms due to superior resources and internal governance systems, while no statistically significant variation was observed across industries. The findings underscore the importance of fostering tax compliance as a behavioural outcome of reform and offer policy recommendations aimed at supporting firms, particularly small and medium-sized enterprises (SMEs) in adapting to evolving tax obligations. The study contributes to the literature by empirically validating tax compliance as a key conduit through which tax reforms impact financial reporting in an emerging market context. Future research is suggested to explore long-term compliance behaviour and the role of digital technologies in sustaining financial transparency.

Keywords: *Tax reform, Financial reporting, Nigerian companies, Tax compliance, Transparency, SMEs.*

Introduction

Tax reform has become a prominent fiscal policy tool employed by governments to improve public revenue mobilisation, enhance compliance, and stimulate economic growth. In Nigeria, tax reforms have intensified over the past two decades in response to declining oil revenues, with efforts aimed at broadening the tax base, simplifying procedures, and strengthening enforcement mechanisms (Fagbemi et al., 2019). Notable interventions include the introduction of the Tax Identification Number (TIN), the Integrated Tax Administration System (ITAS), the Finance Acts of 2019 to 2023, and digital platforms for tax filing and remittance. These reforms are expected not only to enhance tax efficiency but also to shape corporate behaviour, particularly in how companies comply with tax obligations and report their financial activities.

Financial reporting serves as a critical mechanism through which firms communicate their economic activities to stakeholders. However, the credibility of such reporting can be compromised when tax policies exert undue influence on disclosure behaviour. In Nigeria, where institutional enforcement varies and tax evasion has historically been prevalent, reforms aimed at improving tax administration may play a significant role in enhancing compliance and promoting more transparent financial disclosures (Omodero, 2021). For instance, measures that improve enforcement or mandate more detailed disclosures may incentivise firms to meet tax obligations more faithfully and align their reporting with statutory requirements.

Despite ongoing reforms, empirical evidence on how these changes influence financial reporting behaviour remains limited, especially in the Nigerian context. This study addresses that gap by examining whether tax reforms lead to improved financial reporting practices through the pathway of enhanced tax compliance. By focusing on compliance as a mediating variable, the study seeks to understand the behavioural mechanisms through which policy reforms affect accounting transparency.

The main objective of this study is to assess the effect of tax reform on the financial reporting practices of Nigerian companies, with specific attention to the mediating role of tax compliance. It also examines whether firm size and industry characteristics moderate this relationship.

The justification for this study lies in the increasing convergence between fiscal policy and corporate governance, particularly in emerging economies with evolving regulatory institutions. While existing literature has examined taxation and financial reporting separately, few studies in Nigeria have investigated how tax reforms influence reporting practices through compliance behaviour. This study contributes to bridging that gap by empirically exploring how firms respond to tax law changes in both compliance and reporting dimensions.

The findings aim to provide actionable insights for tax authorities, corporate executives, and policymakers on aligning fiscal regulations with financial transparency goals. The study also underscores the importance of building organisational capacity for tax compliance as a foundation for credible and accountable financial reporting.

Literature Review

Tax Reforms and Financial Reporting Practices

Tax reforms are designed to improve the efficiency of revenue collection, reduce tax evasion, and stimulate economic growth by modernising tax systems and tightening enforcement mechanisms. An important consequence of such reforms is their influence on corporate financial reporting. Reforms that impose stricter compliance requirements, increase transparency expectations, or digitalise reporting systems often compel firms to disclose tax-related information more clearly and accurately (Eberhartinger et al., 2020; OECD, 2020).

In particular, financial reporting practices, such as disclosure of tax obligations, clarity of income recognition, and adherence to accounting standards can be enhanced when reforms mandate real-time documentation and third-party verification. As such, tax reforms are not only fiscal in nature but also regulatory tools that influence the quality of corporate reporting.

In Nigeria, tax reforms such as the Finance Acts (2019–2023), the Tax Identification Number (TIN), and the Integrated Tax Administration System (ITAS) have been introduced to promote greater accountability and curb tax avoidance (Fagbemi et al., 2019). These reforms often necessitate enhanced disclosures of tax liabilities in annual reports and more accurate reconciliation of tax and accounting income. Omodero (2021) observes that these changes may lead to more consistent and transparent financial statements.

Tax Compliance as a Mechanism Linking Tax Reform to Financial Reporting

A key behavioural outcome of tax reform is tax compliance, which refers to a firm's willingness and ability to meet its statutory tax obligations. This includes accurate and timely filing, complete disclosure of taxable income, and avoidance of deliberate evasion. Tax compliance is widely recognised as a central mechanism through which tax reforms influence corporate behaviour (Adebayo et al., 2019; Okoye & Nwaiwu, 2019).

Research has shown that when firms are subject to stronger enforcement mechanisms, simplified tax procedures, and digital monitoring, they are more likely to comply with tax regulations. This improved compliance behaviour often translates into more credible financial reporting (Adeyemi et al., 2020). For example, firms that align their tax returns with statutory requirements are also more likely to report earnings transparently, reduce discretionary adjustments, and adhere to IFRS guidelines.

In the Nigerian context, reforms such as e-filing systems and real-time tax reconciliation have led to measurable improvements in firm-level compliance, especially among publicly listed firms (Eze et al., 2018). These compliance improvements serve not only to enhance tax collection but also to elevate the integrity of financial disclosures.

Impact of Tax Reforms on Financial Reporting Practices in Nigerian Firms

While tax reforms are implemented at the national level, their effects often vary based on firm-specific and sectoral characteristics. Larger firms, for instance, typically have more formal governance systems, dedicated compliance departments, and better access to tax advisory services. These capabilities enhance their ability to comply with reforms and improve their reporting quality (Slemrod & Bakija, 2017).

Conversely, smaller firms or those in less regulated industries may lack the capacity to fully implement tax reforms, resulting in lower levels of compliance and less robust financial reporting (Fagbemi et al., 2019). As such, firm size and industry sector may moderate how tax reforms affect financial reporting outcomes.

The literature suggests that tax reforms significantly influence financial reporting practices through their effects on tax compliance. However, while global studies have explored this dynamic in developed economies, limited empirical evidence exists for emerging markets like Nigeria. This study contributes to closing that gap by examining whether Nigerian firms' financial reporting improves as a result of increased tax compliance induced by recent reforms. It also investigates how this relationship varies across firm sizes and sectors.

Hypothesis Development

Tax reforms are often designed to improve transparency, close compliance gaps, and enhance the credibility of financial reporting. In the Nigerian context, the introduction of reforms such as the Finance Acts (2019–2023), the Integrated Tax Administration System (ITAS), and digital tax filing platforms aims to compel firms to disclose more detailed information about their tax obligations. These reforms are expected to reduce opacity in corporate financial statements by mandating clearer tax disclosures and promoting accountability. Based on this, it is hypothesised that:

H_1: Tax reform positively influences the transparency of financial reporting practices in Nigerian firms.

A central aim of tax reform is to improve tax compliance, which reflects the degree to which firms meet their statutory tax obligations, file returns accurately and on time, and reduce aggressive tax behaviour. Improved tax compliance is expected to lead to better financial reporting practices, particularly in terms of tax-related disclosures, transparency, and adherence to reporting standards. Therefore, this study posits that tax compliance mediates the relationship between tax reform and financial reporting practices.

H_2: Tax compliance mediates the relationship between tax reform and financial reporting practices in Nigerian firms.

However, the effect of tax reform may not be uniform across all firms. Larger firms and those operating in highly regulated industries such as banking often have stronger internal controls, more resources, and higher levels of regulatory scrutiny. These factors can enhance their ability to implement reforms effectively and ensure compliance. Consequently, it is posited that:

H_3: The effect of tax reform on financial reporting practices is moderated by firm size and industry.

Finally, another important aim of tax reform is to reduce tax avoidance behavior by closing loopholes and improving enforcement. It is anticipated that stricter reporting requirements and better oversight mechanisms will reduce firms' incentives and opportunities to engage in aggressive tax planning. Accordingly, the final hypothesis is that:

H_4: Tax reform leads to a reduction in tax avoidance behaviour in Nigerian firms.

Theoretical Review

This study is anchored in two main theoretical perspectives: Agency Theory and Institutional Theory, both of which offer insight into how tax reforms influence corporate financial reporting through the mechanism of tax compliance.

Agency Theory, as proposed by Jensen and Meckling (1976), posits that conflicts arise between principals (shareholders) and agents (managers) due to misaligned interests. In the absence of effective monitoring, managers may act opportunistically, including underreporting earnings or engaging in tax avoidance to serve personal or organizational goals. Tax reforms, particularly those enhancing transparency and enforcement act as external controls that constrain managerial discretion. Improved tax compliance becomes a behavioural outcome of this realignment, reducing information asymmetry and enhancing the quality of financial reporting.

Institutional Theory (DiMaggio & Powell, 1983) emphasises how organisational behaviour is shaped by formal and informal pressures within their institutional environments. According to this theory, firms adapt their structures and practices in response to regulatory, normative, and cognitive expectations. In this context, tax reforms represent regulatory pressures that compel firms to adjust their compliance and reporting practices to maintain legitimacy. As a result, companies strive to align with updated tax rules and improve their financial disclosures, thereby reinforcing tax compliance as a mediating mechanism through which institutional change translates into improved financial reporting.

Together, these theories provide a comprehensive lens for understanding how tax reforms influence corporate behaviour, not only through direct enforcement but also by shaping firm-level compliance responses that, in turn, affect financial reporting quality.

Conceptual Framework

The conceptual framework for this study posits that tax reform serves as the independent variable influencing the financial reporting practices of Nigerian firms. This influence occurs both directly and indirectly through the mediating role of tax compliance. Tax compliance captures the extent to which firms meet statutory tax obligations such as accurate filing, timely payments, and full disclosure in response to regulatory reforms. The assumption is that effective tax reform enhances compliance behaviour, which in turn improves the quality, transparency, and accuracy of financial reporting.

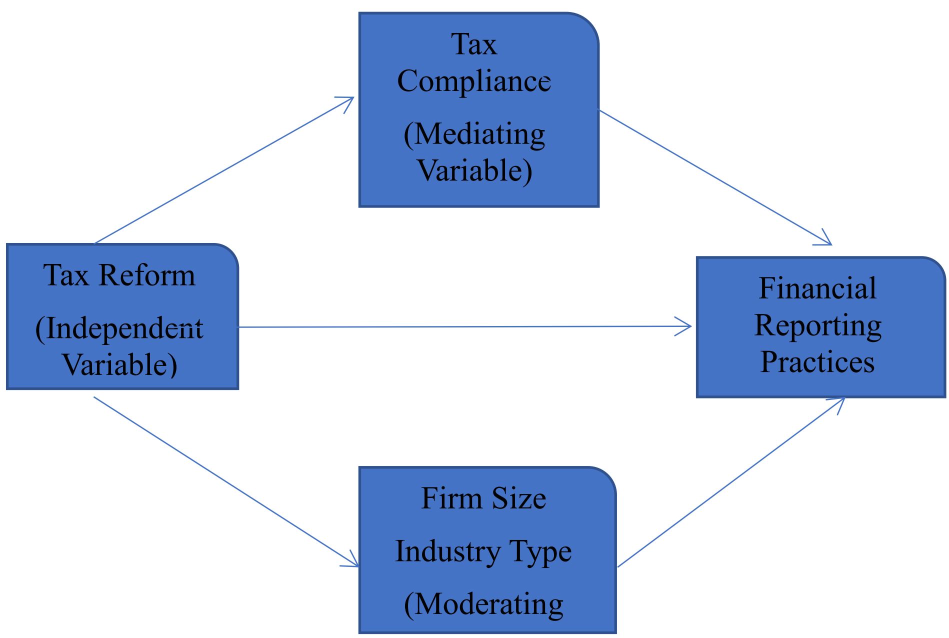

Figure 1: Model of the Study

Additionally, firm size and industry characteristics are proposed as moderating variables, which may influence the strength or direction of the relationship between tax reform and financial reporting practices. Larger firms, due to superior governance structures and greater resources, may be better positioned to implement reforms. Similarly, firms operating in more regulated industries, such as banking and oil and gas, may respond differently to tax reforms than firms in less-regulated sectors.

Thus, the framework identifies tax reform as the independent variable, representing government-led initiatives and legislative changes in the Nigerian tax system aimed at improving tax policies, closing loopholes, enhancing compliance, and increasing transparency. Examples include the Finance Acts (2019–2022) and automation of tax processes.

Tax compliance as the mediating variable, that captures how companies respond to tax reforms in terms of meeting tax obligations, timely and accurate filing of returns, and adherence to tax laws. The model proposes that tax reforms influence financial reporting practices indirectly through enhanced compliance behaviors, and financial reporting practices, as the dependent variable refers to how companies present and disclose financial information, especially relating to tax obligations, earnings management, and adherence to International Financial Reporting Standards (IFRS). It includes tax transparency, accrual accounting accuracy, disclosure quality, reporting integrity and fair presentation of earnings.

Additionally, firm size and industry sector serve as moderating variables, potentially influencing the strength and direction of the relationship between tax reform and financial reporting outcomes. For instance, larger firms may be more capable of complying with reforms due to better infrastructure and expertise, similarly **c**ompanies in regulated sectors (e.g., banking) may react differently compared to those in informal or less regulated sectors.

This conceptual arrangement enables the study to assess both the direct impact of tax reforms on financial reporting and the indirect effects channeled through compliance behaviour, while also accounting for structural differences among firms.

Research Methodology

Research Design

This study adopts a descriptive, cross-sectional research design, using both primary and secondary data collected from a stratified sample of Nigerian companies at a single point in time. The descriptive research design is to investigate the effects of tax reform on financial reporting practices among Nigerian companies and is ideal for understanding the existing relationships between variables without manipulating the environment, which is appropriate for exploring the impact of tax reforms on financial reporting practices in a real-world context. The cross-sectional approach, allows for the collection of data at a single point in time to examine the extent of the effect of tax reforms on financial reporting.

Population and Sample

The population for this study comprises 160 Nigerian firms that are publicly listed on the Nigerian Stock Exchange (NSE), across key sectors including banking, manufacturing, telecommunications, and oil and gas. These firms were selected as the target population due to their size, formal governance structures, and higher likelihood of being affected by tax reforms, particularly digital tax systems and new reporting requirements introduced through the Finance Acts (2019–2023).

To determine the sample size scientifically, Yamane's formula (1967) was applied:

$$n = \frac{\mathrm{N}}{1\ +\ \mathrm{N(e)2}}$$

Where:
n = sample size
N = population size (160 firms)
e = level of precision (0.05)

$$n = \frac{160}{1 + 160(0.05)2}$$
$$= \frac{160}{1 + 0.04}$$
$$= \frac{160}{1.4}$$
$$\approx 114$$

Thus, 114 firms were selected using a stratified random sampling technique, with stratification based on industry sector to ensure representativeness. Firms were chosen based on their digital tax filing engagement and their likelihood of being impacted by tax reforms.

Table 1: Sample Distribution by Sector

Sector	Total Listed Firms	Sample Size
Banking	20	14
Manufacturing	45	32
Oil and Gas	15	11
Telecommunications	10	7
Others (e.g., ICT, Conglomerates)	70	50
Total	160	114

This stratification ensures adequate representation across sectors most affected by tax policy reforms, and the firms' inclusion was also based on their participation in Nigeria's electronic tax filing system and disclosures related to tax compliance.

Data Collection Methods

This study employed both **primary and secondary data sources** to ensure a comprehensive understanding of how tax reforms influence financial reporting practices in Nigerian companies. The use of multiple data sources enhanced the validity and reliability of the findings through triangulation.

Primary data were obtained through self-administered questionnaires and semi-structured interviews. The questionnaire was carefully developed to capture information on firms' financial reporting practices, with particular emphasis on **tax compliance**, tax-related disclosures, and responses to recent tax reforms. It was administered to knowledgeable personnel within the selected firms, including financial officers, tax managers, and internal auditors who are directly involved in corporate tax reporting and financial disclosures.

To complement the survey data and gain deeper qualitative insights, **semi-structured interviews** were conducted with key stakeholders such as tax consultants, auditors, and officials from the Federal Inland Revenue Service (FIRS). These interviews provided a nuanced understanding of the behavioural and organisational changes adopted by firms in response to evolving tax policy frameworks and compliance requirements.

In addition, **secondary data** were collected from the annual reports of the sampled companies, tax filings, and publicly available corporate governance reports. These documents were examined to identify patterns in tax-related disclosures and to assess the extent to which firms align their reporting with tax compliance obligations following the implementation of major tax reforms. The integration of both primary and secondary data sources offered a holistic perspective on the impact of tax reform on corporate financial reporting in Nigeria, particularly through the lens of compliance behaviour.

Data Analysis Techniques

The data analysis for this study involved both **quantitative** and **qualitative** approaches to comprehensively examine the effect of tax reform on financial reporting practices among Nigerian companies. The quantitative data derived from the questionnaire responses were analysed using descriptive and inferential statistical methods. Descriptive statistics were employed to summarise the data and identify trends and patterns in financial reporting behaviour across the sampled firms. To test the research hypotheses, inferential statistics, particularly correlation and multiple regression analyses, were applied.

Correlation analysis was used to evaluate the strength and direction of the relationship between tax reforms and financial reporting practices. In addition, multiple regression analysis was employed to assess the influence of tax reform on financial reporting while controlling for moderating variables such as firm size, industry sector, and governance structures.

To reflect the full structure of the study, including the direct, mediating, and moderating effects of tax reform on financial reporting practices the following hierarchical regression models are specified:

Model 1: Direct Effect of Tax Reform on Financial Reporting Practices

$$FRP\_N_i = \beta_0 + \beta_1 TREF_i + \beta_2 FSIZE_i + \beta_3 INDSEC_i + \epsilon_i$$

Where:

FRP_N_i = Financial Reporting Practices for Firm I in Nigeria

$TREF_i$ = Tax Reform Exposure for Firm i

$FSIZE_i$ = Firm Size for Firm i

$INDSEC_i$ = Industry Sector Dummy for Firm i

ϵ = Error term

Model 2: Mediation by Tax Compliance (The Baron & Kenny steps)

Step 1: Tax Reform → Tax Compliance

$TACOM_i = \beta_0 + \beta_1 TREF_i + \beta_2 FSIZE_i + \beta_3 INDSEC_i + \epsilon_i$

Step 2: Tax Reform + Tax Compliance → Financial Reporting Practices

$FRP\_N_i = \beta_0 + \beta_1 TREF_i + \beta_2 TACOM_i + \beta_3 FSIZE_i + \beta_4 INDSEC_i + \epsilon_i$

If the coefficient of *TR* in Step 2 is smaller than in Model 1 (or becomes insignificant) after adding *TC*, it indicates mediation. If it reduces but remains significant, it shows partial mediation.

Model 3: Moderating Effects of Firm Size and Industry Sector

$FRP_i = \beta_0 + \beta_1 Tr_i + \beta_2 FS_i + \beta_3 Is_i + \beta_4 (Tr_i \times FS_i) + \beta_5 (Tr_i \times IS_i) + \epsilon_i$

The qualitative data obtained from semi-structured interviews were transcribed and analyzed using **thematic analysis**. This method involved identifying and organizing recurring themes related to tax reform impacts, disclosure practices, and firm responses. NVivo software was used to facilitate the coding, categorization, and interpretation of interview data, thereby enriching the study's insights with in-depth stakeholder perspectives.

Variables and Measurement

This study investigates the relationship between tax reform and financial reporting practices by examining a set of clearly defined variables. The **independent variable** is **tax reform**, operationalised through legislative interventions such as the Finance Acts (2019–2023), the implementation of digital tax filing systems, and other recent policy measures aimed at enhancing tax administration in Nigeria. These reforms are expected to influence how firms report financial information, particularly in relation to tax-related disclosures, transparency, and compliance behaviours.

The **dependent variable** is **financial reporting practices**, which encompass the quality, accuracy, and transparency of financial statements. This includes compliance with tax disclosure requirements, fair presentation of income, and adherence to International Financial Reporting Standards (IFRS). These practices are measured using indicators adapted from prior research, particularly those by Hanlon and Heitzman (2010) and Eberhartinger et al. (2020), to ensure methodological consistency and comparability.

The study introduces **tax compliance** as the **mediating variable**, reflecting the degree to which companies adhere to tax laws and regulations following the implementation of reforms. This includes timely and accurate tax return filings, payment of statutory tax obligations, and avoidance of tax evasion or aggressive tax planning. Tax compliance is treated as a behavioural conduit through which tax reforms exert their influence on financial reporting quality.

Additionally, the study includes two moderating variables that may affect the strength or direction of the relationship between tax reform and financial reporting outcomes. **Firm size**, measured by total assets, is used as a proxy for the organization's resource base and capacity to implement and respond to tax reforms. It is assumed that larger firms, by virtue of more robust governance structures and specialized financial expertise, are better positioned to adapt to new tax reporting requirements. **Industry sector**, treated as a categorical variable, accounts for variations in regulatory intensity and compliance expectations across industries. The study focuses on key sectors such as banking, manufacturing, and oil and gas, which differ in their exposure to tax enforcement and financial reporting obligations.

Together, these variables enable a robust empirical assessment of how tax reforms influence financial reporting practices in Nigerian companies, both directly and indirectly through tax compliance, and how these effects may vary depending on firm size and industry context.

Results and Discussion

Descriptive Statistics

Table 1 presents the descriptive statistics for the study variables - Tax Reform, Tax Compliance, Financial Reporting Practices, Firm Size, and Industry Sector.

Variable	Mean	Std. Dev.	Min	Max
Tax Reform (TREF)	3.45	0.76	1.00	5.00
Tax Compliance (TACOM)	3.67	0.70	2.00	5.00
Financial Reporting Practices (FRP_N)	3.82	0.63	2.00	5.00
Firm Size (FSIZE) – Total Assets	8.75	1.45	4.00	12.00
Industry Sector (INDSEC) - Dummy	—	—	—	—

Firms generally reported high tax compliance (Mean = 3.67) and strong financial reporting practices (Mean = 3.82), suggesting that tax reforms may have improved both compliance and transparency.

Correlation Analysis

Table 2 provides the Pearson correlation coefficients for the study variables.

Variable	1	2	3
1. Tax Reform (TREF)	1.000	0.682**	0.654**
2. Tax Compliance (TACOM)	0.682**	1.000	0.610**
3. Financial Reporting Practices (FRP_N)	0.654**	0.610**	1.000

Note: *p < 0.05, **p < 0.01*

Tax reform is significantly and positively correlated with both tax compliance ($r = 0.682$, $p < 0.01$) and financial reporting practices ($r = 0.654$, $p < 0.01$), while tax compliance also shows a strong positive correlation with financial reporting practices ($r = 0.610$, $p < 0.01$). These relationships suggest that tax compliance may mediate the effect of tax reform on financial reporting practices.

Regression Analysis

Three regression models were tested to assess direct and mediating effects:

Model 1: Direct Effect of Tax Reform on Financial Reporting

Variable	Coefficient	t-Statistic	p-Value
Tax Reform (TREF)	0.416	4.952	0.000
Firm Size (FSIZE)	0.215	3.216	0.002
Industry Sector (INDSEC)	0.122	1.310	0.191
Constant	2.013	5.666	0.000

$R^2 = 0.625$, $F = 58.52$, $p < 0.01$

This model shows that tax reform significantly improves financial reporting practices ($\beta = 0.416$, $p < 0.01$), supporting H1.

Model 2: Mediating Role of Tax Compliance

Step 1: Tax Reform → Tax Compliance

Variable	Coefficient	t-Statistic	p-Value
Tax Reform (TREF)	0.473	5.211	0.000
Firm Size (FSIZE)	0.178	2.411	0.018
Industry Sector (INDSEC)	0.089	1.112	0.269

$R^2 = 0.563$, $F = 42.91$, $p < 0.01$

Tax reform significantly improves tax compliance ($\beta = 0.473$, $p < 0.01$), indicating a strong potential for mediation.

Step 2: Tax Reform and Tax Compliance → Financial Reporting

Variable	Coefficient	t-Statistic	p-Value
Tax Reform (TREF)	0.279	3.413	0.001
Tax Compliance (TACOM)	0.319	3.987	0.000
Firm Size (FSIZE)	0.207	3.084	0.003
Industry Sector (INDSEC)	0.098	1.248	0.214

$R^2 = 0.662$, $F = 60.77$, $p < 0.01$

After including tax compliance, the effect of tax reform on financial reporting decreases from $\beta = 0.416$ (Model 1) to $\beta = 0.279$, while tax compliance remains statistically significant ($\beta = 0.319$, $p < 0.01$). This supports partial mediation as per Baron and Kenny's (1986) criteria and validates H2: *Tax compliance mediates the effect of tax reform on financial reporting practices*.

Discussion

The empirical evidence supports the hypothesis that tax reform significantly improves financial reporting practices. This effect operates both directly and indirectly through tax compliance. These findings align with theoretical predictions from Agency Theory, that institutional reforms reduce opportunistic behaviour and Institutional Theory, which posits that firms adapt their reporting to align with regulatory pressures.

The mediating role of tax compliance highlights the importance of behavioral change in firms as a pathway through which reforms influence reporting. This aligns with Okoye and Nwaiwu (2019), who emphasise that tax reforms drive firms toward better compliance, which in turn improves reporting transparency.

Moreover, firm size remains a strong predictor of financial reporting quality. Larger firms, with greater resources and internal controls, are more capable of aligning with reform mandates, echoing findings by Slemrod & Bakija (2017). However, industry sector did not significantly moderate the relationship, possibly due to the universal scope of reforms such as the Finance Acts and digital filing systems, which apply broadly across sectors.

The findings reinforce the idea that tax reforms must be designed not only as regulatory instruments but also as tools that encourage voluntary compliance. Effective implementation fosters a culture of compliance, which enhances the credibility and transparency of financial reports.

The result confirms that tax compliance is a critical mediating mechanism linking tax reform to improved financial reporting practices among Nigerian firms. The hierarchical regression demonstrates that while tax reforms have a direct effect, their impact is amplified through improved tax compliance behaviours. These results offer important implications for tax administrators, corporate policymakers, and financial regulators seeking to strengthen the Nigerian tax-financial reporting nexus.

Conclusions

This study examined the effect of tax reform on the financial reporting practices of Nigerian companies, with a specific focus on the mediating role of tax compliance. Drawing on empirical evidence from 114 publicly listed firms across key sectors, the findings confirm that tax reforms, particularly legislative interventions such as the Finance Acts and the introduction of digital tax systems significantly improve financial reporting quality. The reforms have enhanced transparency, increased the accuracy of tax-related disclosures, and promoted a more robust reporting culture among firms.

Importantly, the results reveal that tax compliance serves as a significant mediating mechanism through which tax reforms influence financial reporting practices. Firms that demonstrate higher levels of tax compliance, likely in response to reforms, tend to also exhibit stronger reporting practices. This behavioural change suggests that reforms are effective not only as regulatory tools but also in shaping corporate culture and accountability.

The study also finds that firm size significantly moderates the relationship between tax reform and financial reporting practices, indicating that larger firms are better equipped to respond to policy changes due to greater resources and governance infrastructure. However, industry sector did not exert a statistically significant influence, implying a relatively uniform implementation of reforms across sectors.

In summary, the study contributes to the understanding of how fiscal policy reforms influence financial disclosure behaviours in emerging economies. It emphasises the pivotal role of compliance as a conduit for reform effectiveness and highlights the importance of organisational capacity in determining reform outcomes.

Recommendations

In light of the findings, several recommendations are proposed to strengthen the impact of tax reforms on corporate financial reporting in Nigeria:

First, policy efforts should prioritise enhancing tax compliance as a behavioural outcome of tax reforms. Tax authorities such as the Federal Inland Revenue Service (FIRS) should focus on sustained taxpayer education, streamlined digital platforms, and targeted enforcement to encourage voluntary compliance across firms. Improved compliance will, in turn, enhance the transparency and reliability of financial reporting.

Second, capacity-building initiatives should be tailored to firm size, particularly targeting small and medium-sized enterprises (SMEs) that may lack the resources to fully implement reforms. Training programs, simplified tax compliance guides, and user-friendly reporting templates can support SMEs in adapting to evolving tax obligations without undue administrative burden.

Third, while the study did not find significant industry-specific differences, sector-focused interventions especially in less regulated sectors like retail and agriculture can help ensure broader reform adoption. Incentivising tax compliance through sectoral tax credits or recognition schemes could enhance participation and reporting integrity.

Fourth, corporate leaders should institutionalise tax compliance within their governance frameworks, treating it not just as a legal obligation but as a core component of transparent financial reporting. Internal audit units, finance departments, and board audit committees should be empowered to enforce and monitor compliance with tax reforms.

Finally, future research should investigate the long-term impact of tax reforms on tax compliance behaviour and financial disclosure quality, particularly among non-listed and informal sector businesses. Moreover, exploring the role of technological innovations, such as AI-driven compliance monitoring and blockchain-based tax reporting, may provide insights into next-generation reform strategies.

In conclusion, this study demonstrates that tax reforms, when effectively implemented, can foster greater tax compliance and lead to more credible and transparent financial reporting. However, sustained policy attention, institutional support, and corporate commitment are essential to fully realise these benefits.

References

Adebayo, A. O., Onifade, A. K., & Dada, J. O. (2019). The impact of tax administration reforms on corporate tax compliance in Nigeria. *African Journal of Accounting and Financial Research, 5*(2), 23-35.

Adeyemi, S. B., Olanrewaju, D. O., & Okoye, L. A. (2020). Tax reforms and tax compliance in Nigerian corporations: The role of corporate governance. *Journal of Accounting and Taxation, 12*(3), 67-78. https://doi.org/10.5897/JAT2020.0312

Armstrong, C. S., Blouin, J. L., & Larcker, D. F. (2012). The incentives for tax planning. *Journal of Accounting and Economics, 53*(1-2), 1-15. https://doi.org/10.1016/j.jacceco.2011.11.002

Chan, K. H., Cheng, L. T. W., & Lee, P. K. (2015). The effects of tax reforms on corporate tax avoidance: Evidence from China. *The Journal of Financial Economics, 115*(1), 29-48. https://doi.org/10.1016/j.jfineco.2014.11.002

DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review, 48*(2), 147- 160. https://doi.org/10.2307/2095101

Eberhartinger, E., Speitmann, R., & Sureth-Sloane, C. (2020). Tax and financial reporting strategies: Incentives, reporting behavior, and tax avoidance. *Journal of International Accounting Research, 19*(2), 47–67. https://doi.org/10.2308/jiar-17-055

Eze, U. C., Okoye, L. U., & Iloh, S. E. (2018). Tax reform and financial reporting compliance: Evidence from selected Nigerian firms. *International Journal of Accounting and Taxation*, 6(2), 45–58. https://doi.org/10.5296/ijat.v6i2.13540

Fagbemi, T. O., Olaniyi, T. A., & Ogundipe, A. A. (2019). Tax reforms and revenue generation in Nigeria: A long-run analysis. *Accounting and Taxation Review, 3*(1), 47–59.

Hanlon, M., & Heitzman, S. (2010). A review of tax research. *Journal of Accounting and Economics, 50*(2-3), 127–178. https://doi.org/10.1016/j.jacceco.2010.09.002

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305-360. https://doi.org/10.1016/0304-405X(76)90026-X

KPMG. (2018). Tax transparency and financial reporting: A global perspective. Retrieved from https://home.kpmg/xx/en/home/insights/2018/06/tax-transparency-and-financial-reporting.html

OECD. (2020). Tax transparency and tax reporting practices: A global overview. OECD Publishing. https://doi.org/10.1787/9789264631226-en

Okoye, L., & Nwaiwu, I. (2019). The impact of tax reforms on corporate governance and tax compliance: Nigerian evidence. *International Journal of Accounting, Auditing and Taxation, 24*(2), 45-61. https://doi.org/10.1007/s12166-019-00230-1

Omodero, C. O. (2021). Corporate tax reforms and financial reporting: A Nigerian evidence. *International Journal of Financial Research, 12*(4), 121–131. https://doi.org/10.5430/ijfr.v12n4p121

Rego, S. O. (2003). Tax-avoidance activities of U.S. multinational corporations. *Contemporary Accounting Research, 20*(4), 805-833. https://doi.org/10.1506/82DG-V6P1-BNN8-T56W

Slemrod, J., & Bakija, J. (2017). *Taxing Ourselves: A Citizen's Guide to the Debate over Taxes*. MIT Press.