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Conditional Accounting Conservatism and Corporate Tax Avoidance: Evidence from Listed Insurance Firms in Nigeria

Aselemi Godspower Umor & Micah Leyira Christian.
Department of Accounting, Faculty of Management Sciences,
University of Portharcourt, Choba, Rivers State, Nigeria.
Phone: 234 8062997299; 234 8033542244;
Email; aselemi.umor@uniport.edu.ng, leyira.micah@uniport.edu.ng

Abstract

This paper focuses on the complex interaction between conditional accounting conservatism and corporate tax avoidance in the context of the peculiar insurance industry of Nigeria. The study is based on the Agency and Deterrence theories where it is hypothesized that asymmetric timeliness of conditional conservatism conditional recognition of losses and delayed recognition of gains is a dual-purpose mechanism. It reduces the opportunism of managers and at the same time affects corporate tax strategies. The paper uses the Autoregressive Distributed Lag (ARDL) bounds testing model on cointegration with a longitudinal data comprising of 10 insurance companies listed on the Nigerian Exchange Group (NGX) between 2010 and 2023. Basu (1997) asymmetric timeliness model is used to measure conditional conservatism and the Cash Effective Tax Rate (Cash ETR) and of Henry and Sansing (H&S) measure of tax avoidance. The results demonstrate that there is a statistically significant negative association between conditional conservatism and the Cash ETR, and thus, with the higher the conditional conservatism is in firms, the less tax burdens are reported in the long-term. Nevertheless, the correlation between the H&S measure is less obvious. The paper concludes that conditional conservatism is an important restriction of tax avoidance, first of all, it places restrictions on the extent to which accruals-based earnings management could occur, and secondly, it enhances the level of financial reporting transparency, which aligns with the provisions of Agency and Deterrence theories. Such reflections have important implications on regulators, standard-setters, and management of firms in developing economies.

Keywords:

Conditional Conservatism, Tax avoidance, Cash ETR, Agency Theory, Deterrence Theory, Insurance Firms, Nigeria, ARDL.

1. Introduction

Tax evasion by corporations is one of the ongoing and increasing problems to governments across the globe especially in the less developed world where tax proceeds play a significant role in the provision of infrastructure and services to the people (Christensen and Murphy, 2004; Avi-Yonah, 2006). The magnitude of revenue loss on the global scale is impressive amid estimates between hundreds of billions up to trillions of dollars annually because of profit shifting and reactive tax planning by multinational corporations (Crivelli et al., 2016; Cobham and Jansky, 2018). Although a significant share of the academic and regulatory focus was directed to the developed economies, the effects on the emerging economies such as Nigeria are arguably more devastating, since they depend on the income of corporate taxes more, and their regulatory enforcement tools tend to be less pronounced (Besley and Persson, 2014).

In that environment, the contribution of financial reporting practices in enabling or limiting tax avoidance has emerged as one of the key questions in the accounting research. One of the core and perennial concepts of financial reporting is accounting conservatism that stipulates a greater level of validation of recognition of good news (gain) compared to bad news (loss) (Basu, 1997; Watts, 2003a). The principle has two main types, which are unconditional (news-independent) and conditional (news-dependent) conservatism. Whereas a systematic understatement of net assets is conditional conservatism, wherein an economic event is recognized more slowly on a loss than on a gain, unconditional conservatism is associated with a faster recognition of an economic event (Ball and Shivakumar, 2005).

There is a theoretical and empirical correlation between accounting conservatism and tax avoidance which is rather complicated and not always clear. Conservatism is an effective governance structure as per the agency theory, which limits managerial opportunism and overstatement of performance (Watts, 2003a). It limits the discretion of managers to practice aggressive earnings management that is often complicit with tax avoidance practices by compelling them to recognize losses in a timely manner (Desai and Dharmapala, 2006; Kim, Li and Zhang, 2011). The deterrence theory also implies that the higher level of transparency and verification of reporting by conservatives increases the perceived risks and potential costs of conducting opaque aggressive transactions with taxes (Dularif et al., 2019).

The empirical data though is hardly definitive. In some of the studies, especially in developed markets, tax avoidance is limited by conservatism (Gan, 2018) and in some, especially in emerging economies such as Indonesia, has insignificant or even contradictory results (Purwantini, 2017; Yuniarsih, 2018). This discrepancy can be explained by the existence of different institutionalizations, measurement of both the conservatism and tax avoidance, and the inability to distinguish the impact of conditional and unconditional conservatism.

Insurance industry in Nigeria is a strong environment to investigate this. Insurance firms are a highly regulated sector with major fiduciary liability which means that they are highly subject to extensive reporting and are frequently monitored by both the financial and tax authorities. The stability of the national economy is inherently connected with the sector, and the tax compliance of the most important players in it is a subject of social concern. This notwithstanding, research

on the particular accounting behavior of conditional conservatism and its effects on the tax avoidance behavior of these firms is deficient.

This proposed research will address this fatal deficiency by examining the long-run association between conditional accounting conservatism and corporate tax avoidance among Nigerian listed firms in the insurance industry. The research question of the study is the following one: What is the meaningful long-run association between conditional conservatism and corporate tax avoidance in Nigerian insurance companies?

This study can be relevant to the literature in various respects by using a strong methodological framework (ARDL) and various measures of its key constructs. First, it gives subtle evidence of a significant but poorly studied African emerging market. Second, it clearly addresses the topic of conditional conservatism and its impact is different as compared to the impact of the unconditional one. Third, to have a more detailed analysis, it uses a more traditional tax avoidance measure (Cash ETR) as well as one that is recent (H&S measure). The results provide insightful information to the tax authorities of Nigeria (the Federal Inland Revenue Service), insurance regulators (the National Insurance Commission), and accounting standard-setters to see the relationship between the quality of financial reporting and corporate tax strategy.

2. Literature Review and Theoretical Framework

2.1. The Concept of Conditional Accounting Conservatism

One of the most persistent and powerful financial accounting principles is accounting conservatism which has its roots in centuries (Basu, 1997). Its main principle is the promotion of prudent attitude toward the financial reporting expressed in the words: anticipate no profit, but expect all losses. Basu (1997, p. 7) operationalized it by defining conservatism by the fact that the accountant has a tendency to seek a greater level of verification in order to pick up good news as gains rather than picking up bad news as losses. It is on this definition that the distinction between two forms of conservatism was based in a critical way:

Unconditional Conservatism: This is a news-independent, ex-ante type of conservatism that leads to systematic understatement of the net asset book value of the report at the beginning of a transaction. These are instant expensing research and development expenditure or accelerating depreciation of fixed assets regardless of whether they are actually utilized in an economic activity or not (Beaver and Ryan, 2005). It establishes reserves which may be spread out in the long run.

Conditional Conservatism: This is a form of conservatism that is ex-post and depends on news. It is defined as the asymmetric verification criterion that is used to the gains and losses as the economic events take place. In conditional conservatism reductions in the value of assets (bad news) are recorded in earnings at a timelier fashion than increases in the value of assets (good news). An illustration is the lower of cost and market rule with regard to inventory and

impairment test on long-term assets (Ball and Shivakumar, 2005). It should be noted that its major feature is timeliness it is more sensitive to negative economic shocks than to positive ones.

This paper dwells on conditional conservatism owing to its dynamic and governance-oriented nature. Compared with the unconditional conservatism that is usually embedded in the accounting standards, conditional conservatism requires a great deal of managerial discretion and judgment on the recognition of economic losses, and thus, it is a powerful tool of monitoring and limiting managerial opportunism.

2.2. Corporate Tax Avoidance: Measures and Definitions.

Tax avoidance is a continuum of activities which are executed by firms to minimize their overt tax expenses. It is loosely defined by Hanlon and Heitzman (2010, p. 137) as any activity that saves a firm some taxes as opposed to its accounting pre-tax income. The line between tax avoidance (which is within the assumptions of the tax code, sometimes to an aggressive level) and illegal tax evasion should be drawn. Tax avoidance is a rather opaque phenomenon and thus difficult to measure. A number of proxies have been developed by the researchers with their advantages and disadvantages: The first is the Cash Effective Tax Rate (Cash ETR) which is estimated by taking the cash taxes paid over the accounting income before taxes. When cash ETR is low, it implies that the firm is more successful in avoiding taxes since the company will pay less cash tax per naira of profit reported. It is also not prone to accrual manipulations as compared to the GAAP ETR (Dyreng et al., 2008).

Next is the Measure of Henry and Sansing (H&S). This measure controls the possibility of losing potentially biasing firms through truncation. It is calculated as (Cash Taxes Paid- (Pre-tax Income x Statutory Tax Rate)/ Total Assets) (Henry and Sansing, 2014). A negative value of H&S is a sign of tax avoidance (paying less than is expected) whereas a positive value is a sign of over-payment. In this paper, both Cash ETR and the H&S measure are used to represent the various aspects of tax avoidance and help in increasing the strength of the results.

2.3. Theoretical Relationships: Agency and Deterrence Theories.

Agency theory and Deterrence Theory allow explaining the relationship between conditional conservatism and tax avoidance in a very influential way.

2.3.1. Agency Theory

Agency theory looks at conflict of interest that occur between managers (agents) and the shareholders (principals) (Jensen and Meckling, 1976). There is a underlying agency problem in

the setting of tax avoidance. Although the shareholders might want to see a reduction in tax to augment after-tax cash flows, intricate and opaque tax-avoidance schemes can offer a smokescreen behind which managers can explore rent-extraction, earnings-manipulation, and other selfish practices that ruin the shareholder wealth (Desai and Dharmapala, 2006; Kim et al., 2011). Conditional conservatism serves as a means to reduce this agency conflict in a number of ways. These include; Timely Loss Recognition: Conditional conservatism like timely recognition of economic losses compels managers to overstated earnings and poor performance. This restricts their ability to participate in accruals-based earnings management which is typically a major element in aggressive tax planning schemes that produce substantial booktax differences (Frank et al., 2009); Improved Supervision: The asymmetric standard of verification boosts the disclosure of financial statements. This enables shareholders, creditors, and boards of directors to oversee the managerial behaviors more, and managers will be less able to cover the risks of such complex tax shelters and the real nature of the complex tax shelter (Garcia Lara, Osma, and Penalva, 2009) and; Limit To the opportunistic Behavior: Conditional conservatism is a priori limiting to managerial optimism and over-investment in negative net present value projects (Watts, 2003a). Such a strict financial reporting practice will probably trickle down to tax policies, where too aggressive a stance would not be encouraged, as it might damage the company's image or result in a major fine.

In this vein, according to the agency theory, we would anticipate that there would be a negative correlation between conditional conservatism and tax avoidance: the more conservative it is the less aggressive tax planning would occur.

2.3.2. Deterrence Theory

Deterrence theory is based on criminology and economics theory which assumes that humans and other individuals are less likely to perform unwanted action when they believe that the chances of detection and punishment severity are elevated (Allingham and Sandmo, 1972). Applied to corporate tax avoidance, it states that companies will balance the possible gain of saving in terms of tax with the possible expenses of being detected.

2.4 Conditional conservatism

Conditional conservatism improves the deterrence mechanism in the following ways: Heightened Transparency and Oversight. The early reporting of losses increases the transparency and the accuracy of the financial statements with the true economic status of the firm. This openness puts more aggressive tax positions at risk of detection by tax authorities, auditors and financial analysts, thus raising the perceived likelihood of detection; Increased Risk Perception. The culture of conservative reporting creates an overall mood of moderation and obedience. The managers in this kind of setting will also tend to be more risk-averse and consider the possible reputational, legal, and financial fines of aggressive tax avoidance more salient and likely to

occur (Dularif & Rustiarini, 2022) and; Consistency with Regulatory Expectations: Conservative reporting is usually considered positively by the regulators because it lowers the possibility of corporate failure and cushions the stakeholders. By following this principle, the firms can become more compliant to taxation rules in order to sustain a good relationship with the government.

This therefore implies that deterrence theory also shows a negative association; the higher the transparency and the risk aversion brought about by conditional conservatism, the more aggressive tax managers ought to be discouraged to use aggressive tax avoidance.

2.5 Empirical Review and Hypothesis Development

Earlier empirical research in conservativeness-tax avoidance nexus had provided inconsistent results, which provided a rationale why context-specific research is necessary. Within the U.S. setting, Gan (2018) has identified a strong negative relationship between conditional conservatism (meaned by the C-score) and the Cash ETR, which supports the restricting effect of conservatism. Likewise, Frank et al. (2009) have recorded that the companies that practice aggressive financial reporting (anti-conservatism) are also aggressive in their taxes.

But other jurisdictions are not that conclusive. In Indonesia, Purwartini (2017) and Yuniarsih (2018) did not find any significant direct impact of accounting conservatism on tax avoidance. In Nigeria, Hamid, Zaid, and Suleiman (2023) did not specifically identify conditional conservatism through the Basu model, and the unbalanced panel they used has limitations, although they did not need to investigate the broader subject.

The ambiguity in the developing economies such as Nigeria can be explained by the fact that they have a weaker institutional system, less strict implementation of the law, and other managerial motives (Umobong, 2025). However, the high theoretical foundation of the Agency and Deterrence theories gives a strong background on why conditional conservatism would serve as a major limitation of tax avoidance, even in these settings. This may be enhanced by the insurance sector where regulation is high, and emphasis is solvency-based. According to the sound theoretical forecast of Agency and Deterrence theories and after taking into account the particular situation in the insurance business of Nigeria, the hypothesis is as follows:

H1: There exists a significant negative relationship between conditional conservatism and the cash effective tax rate of the insurance firms in Nigeria.

H2: there is a strong negative correlation between conditional conservatism and the measure of tax avoidance in insurance companies in Nigeria proposed by Henry and Sansing (H&S).

3. Methodology

3.1. Research Design and Data

This paper has a research design that is quantitative ex-post facto based on secondary data. All the insurance companies that are listed on the Nigerian Exchange Group (NGX) are its population. The purposive sampling method has been used in the context of the study, and the sample consisted of choices of firms that possess the following characteristics: (i) are listed on the NGX throughout the years of 2010 to 2023, (ii) published audited annual reports over all the years, and (iii) have all the financial information needed to calculate the variables. The panel of 10 insurance companies obtained by this procedure was balanced, and 137 firm-year observations were yielded.

The published annual reports and accounts of the sampled firms were carefully analyzed to get the data.

3.2. Measurement of Variables

3.2.1 Dependent Variable: Tax Avoidance (TAV)

Cash Effective Tax Rate (Cash ETR): Measured as Cash Taxes Paid / Pre-tax Accounting Income. A lower value indicates higher tax avoidance.

Henry and Sansing's Measure (H&S): Measured as [Cash Taxes Paid - (Pre-tax Income × Statutory Tax Rate)] / Total Assets. A negative value indicates tax avoidance.

3.2.2 Independent Variable: Conditional Conservatism (CDC)

Measured using the Basu (1997) asymmetric timeliness model. The firm-specific coefficient from the following cross-sectional regression for each year serves as the proxy: $EPS\_it / P\_it\text{-}1 = \beta 0 + \beta_1 DR\_it + \beta_2 R\_it + \beta_3 R\_it + DR\_it + \varepsilon\_it$

Where:

EPS_it is earnings per share for firm i in year t.

P_it-1 is the share price at the beginning of the year.

R_it is the annual stock return for firm i in year t.

DR_it is a dummy variable equal to 1 if R_it is negative, and 0 otherwise.

The coefficient β3 captures the incremental timeliness of earnings to bad news over good news. A larger, positive β3 indicates a higher degree of conditional conservatism. This firm-year measure (C_Score) is then used in the main regression models.

3.2.3 Control Variable: Unconditional Conservatism (UCC)

To isolate the effect of conditional conservatism, unconditional conservatism is included as a control variable, measured by the Market-to-Book ratio (MTB): Share Price / Net Book Value per Share. A higher MTB ratio indicates a greater level of unconditional conservatism (Beaver & Ryan, 2000).

3.3. Model Specification and Method of Data Analysis

To investigate the long-run relationship, the study employs the Autoregressive Distributed Lag (ARDL) bounds testing approach to cointegration (Pesaran, Shin, & Smith, 2001). This method is particularly suitable because it can be applied to a mixture of stationary I(0) and first-difference stationary I(1) variables, which was confirmed by Augmented Dickey-Fuller (ADF) unit root tests (see Appendix). The ARDL model also provides both short-run dynamics and long-run equilibrium estimates. The general form of the ARDL model is specified as follows:

Model 1 (Dependent Variable: Cash ETR):

$$\Delta \text{Cash ETR}_t = \alpha_0 + \Sigma\alpha_{1i}\,\Delta \text{Cash ETR}_{t-i} + \Sigma\alpha_{2i}\,\Delta \text{CDC}_{t-i} + \Sigma\alpha_{3i}\,\Delta \text{UCC}_{t-i} + \lambda_1\,\text{Cash ETR}_{t-1} + \lambda_2\,\text{CDC}_{t-1} + \lambda_3\,\text{UCC}_{t-1} + \varepsilon_t$$

Model 2 (Dependent Variable: H&S):

$$\Delta \text{H\&S}_t = \beta_0 + \Sigma\beta_{1i}\,\Delta \text{H\&S}_{t-i} + \Sigma\beta_{2i}\,\Delta \text{CDC}_{t-i} + \Sigma\beta_{3i}\,\Delta \text{UCC}_{t-i} + \delta_1\,\text{H\&S}_{t-1} + \delta_2\,\text{CDC}_{t-1} + \delta_3\,\text{UCC}_{t-1} + \mu_t$$

Where Δ denotes the first difference operator, and the terms with Σ represent the short-run dynamics. The coefficients λ_1, λ_2, λ_3 and δ_1, δ_2, δ_3 represent the long-run parameters. The bounds F-test is used to test for the existence of a long-run relationship (cointegration) by testing the joint significance of these lagged level variables ($H_0: \lambda_1 = \lambda_2 = \lambda_3 = 0$).

If cointegration is established, the long-run model is estimated, and then the short-run Error Correction Model (ECM) is derived as:

$$\Delta Y_t = \text{constant} + \Sigma(\text{short-run coefficients}) + \varphi\,\text{ECM}_{t-1} + \nu_t$$

where φ is the speed of adjustment coefficient, which indicates how quickly the system returns to long-run equilibrium following a shock. Prior to the ARDL estimation, preliminary analyses including descriptive statistics and correlation analysis were conducted. Diagnostic tests for serial correlation (Breusch-Godfrey LM test), heteroscedasticity (Breusch-Pagan-Godfrey test), and model specification (Ramsey RESET test) were also performed to ensure the validity of the regression results.

4. Results and Discussion

4.1. Descriptive Statistics and Preliminary Analysis

The descriptive statistics for all variables over the 137 firm-year observations are presented in Table 1.

Table 1: Descriptive Statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
Cash ETR	0.744	0.135	42.174	-3.154	4.486	137
H&S (N'000)	101,952	-196	22,700,000	-2,380,000	1,960,000	137
CDC	0.253	0.000	0.985	0.000	0.388	137
UCC	16.804	0.019	2666.667	-1666.667	276.090	137

The descriptive statistics reveal notable characteristics of the data. The Cash ETR has a mean of 0.744, but a much lower median of 0.135, and a very high maximum value of 42.17, indicating a highly right-skewed distribution with extreme outliers. This suggests significant variation in tax payment practices, with some firms paying very high effective taxes and others engaging in substantial tax avoidance (including negative ETRs, implying tax refunds or credits). The H&S measure shows even more dramatic dispersion, with a massive standard deviation relative to its mean, confirming the heterogeneous tax behavior in the sample. The mean conditional conservatism (CDC) is 0.253, but the median is 0.000, showing that many firms in the sample did not apply conditional conservatism in a given year, while others did so significantly. The high standard deviation and extreme values for UCC also point to vast differences in accounting policies across firms.

4.2. Stationarity and Cointegration Results

The ADF unit root tests (not tabulated here for brevity but available on request) confirmed that the variables were a mixture of I(0) and I(1), satisfying the pre-condition for the ARDL bounds test. The results of the bounds test for cointegration are presented in Table 2.

Table 2: ARDL Bounds Test for Cointegration

Model	Dependent Variable	F-Statistic	1% I(0)	1% I(1)	5% I(0)	5% I(1)	Result
1	Cash ETR	5.892	4.29	5.61	3.23	4.35	Cointegration*
2	H&S	4.115	4.29	5.61	3.23	4.35	Cointegration**

* and ** denote significance at the 1% and 5% levels, respectively.*

As shown in Table 2, the computed F-statistics for both models (5.892 and 4.115) exceed the upper critical bounds at the 5% significance level. This leads to the rejection of the null hypothesis of no long-run relationship. We conclude that a stable, long-run cointegrating relationship exists among conditional conservatism, unconditional conservatism, and the two measures of tax avoidance in Nigerian insurance firms.

4.3. Long-Run and Short-Run Estimation Results

The long-run coefficients derived from the selected ARDL models are presented in Table 3.

Table 3: Long-Run Coefficients from ARDL Model

Variable	Model 1: Dependent = Cash ETR	Model 2: Dependent = H&S
	Coefficient (p-value)	Coefficient (p-value)
Constant	0.1246 (0.002)**	1.48e+07 (0.011)**
CDC	-0.0457 (0.003)*	-2.71e+07 (0.001)*
UCC	-0.0035 (0.000)*	32657.12 (0.008)*

*, **, *** denote significance at the 1%, 5%, and 10% levels, respectively.

The results in Table 3 provide strong support for the study's hypotheses.

In Model 1, the coefficient for conditional conservatism (CDC) is -0.0457 and statistically significant at the 1% level. This indicates a significant negative long-run relationship between conditional conservatism and the Cash ETR. As conditional conservatism increases, the Cash ETR decreases, implying higher levels of tax avoidance. This finding is consistent with the agency theory perspective that conservative reporting constrains earnings overstatement but may also facilitate a more aggressive approach to minimizing cash tax outflows through the timely recognition of tax-deductible losses.

In Model 2, the coefficient for CDC is also negative and highly significant (-2.71e+07, $p<0.01$). This confirms a significant negative long-run relationship between conditional conservatism and the H&S measure. Since a more negative H&S value indicates greater tax avoidance, this result reinforces the finding from Model 1: conditional conservatism is associated with increased corporate tax avoidance among the sampled firms.

The short-run Error Correction Model (ECM) results (not fully tabulated) were also estimated. The error correction term (ECM_t-1) for both models was negative and statistically significant, falling within the acceptable range of -1 and 0. For Model 1, the coefficient was -0.421, and for Model 2, it was -0.385. This confirms a stable, self-correcting equilibrium relationship, with approximately 42.1% and 38.5% of any short-run disequilibrium in tax avoidance being corrected within one year, respectively.

4.4. Discussion of Findings

The empirical results consistently demonstrate a significant negative long-run relationship between conditional accounting conservatism and corporate tax avoidance in Nigerian insurance firms, regardless of whether tax avoidance is measured by the Cash ETR or the H&S measure. This finding aligns with the theoretical predictions of Agency Theory, but with an important nuance.

The prompt recognition of losses, a hallmark of conditional conservatism, means that expenses and asset write-downs are reflected in the financial statements sooner. For tax purposes, many of these losses (e.g., impairment charges, provisions) are often deductible, either immediately or in the future. Therefore, a conservative firm will report lower accounting income and, concurrently, lower taxable income, leading to a lower Cash ETR. This is not necessarily evidence of "aggressive" tax sheltering in the illicit sense, but rather the natural outcome of a prudent accounting policy that aligns book income more closely with a lower taxable income base through legitimate deductions.

From an agency perspective, this finding suggests that conditional conservatism effectively disciplines managers. It prevents them from inflating earnings by delaying loss recognition,

thereby closing off one avenue for earnings manipulation that can be used to mask underlying performance issues. The transparency forced by timely loss recognition makes it harder for managers to engage in the kind of opaque, complex transactions often associated with the most aggressive forms of tax sheltering, which are used to divert resources (Desai & Dharmapala, 2009). Thus, while conservatism may lead to lower tax payments through legitimate channels, it concurrently constrains the most egregious and risky forms of managerial opportunism linked to tax avoidance.

The results also resonate with Deterrence Theory. The culture of caution and verification inherent in conservative reporting likely makes managers more risk-averse. They may perceive that the transparent reporting of losses will attract scrutiny from auditors and tax authorities, thereby deterring them from pushing the boundaries of tax law too aggressively. The timely loss recognition acts as an early warning system, making it difficult to hide the economic realities that might otherwise be obscured by aggressive tax positions.

This study's findings contrast with some prior research in other emerging markets (e.g., Purwantini, 2017) but can be explained by the specific context of the Nigerian insurance industry. The sector's high regulation and solvency requirements may create a environment where accounting prudence is paramount, and the link between reported losses and tax deductions is direct and powerful.

5. Conclusion and Implications

5.1. Summary of Findings

This study set out to investigate the long-run relationship between conditional accounting conservatism and corporate tax avoidance in listed Nigerian insurance firms. Based on a robust analysis of data from 2010 to 2023 using the ARDL cointegration approach, the study finds compelling evidence of a significant negative relationship. Higher levels of conditional conservatism, characterized by the timely recognition of economic losses, are associated with lower effective tax rates (higher tax avoidance) as measured by both the Cash ETR and the H&S measure. This relationship is stable and persists in the long run.

5.2. Theoretical and Practical Implications

The findings have several important implications:

Theoretical Contribution: This research provides strong empirical support for the relevance of Agency and Deterrence theories in explaining corporate tax behavior in an emerging market context. It demonstrates that conditional conservatism is not just a financial reporting mechanism

but also a significant determinant of tax strategy, primarily operating by constraining managerial opportunism and increasing the perceived risks of aggressive tax positions.

Implication for Regulators and Tax Authorities: For the Federal Inland Revenue Service (FIRS), the findings suggest that firms adopting conservative accounting policies may report lower taxable income legitimately. Therefore, a low Cash ETR should not be automatically interpreted as evidence of illicit evasion. Tax authorities could use the level of conditional conservatism (e.g., measured via the Basu model) as an indicator when profiling firms for audit. A firm with low conservatism and a low ETR might warrant greater scrutiny than one with high conservatism and a low ETR.

Implication for Standard-Setters and Firm Management: The National Insurance Commission (NAICOM) and the Financial Reporting Council of Nigeria (FRCN) should recognize the dual effect of promoting high-quality, conservative reporting. While it enhances transparency and protects policyholders, it also has tangible tax implications. Corporate boards and audit committees should be aware of how their accounting policy choices, particularly regarding loss recognition, directly impact the firm's tax burden and risk profile.

5.3. Limitations and Suggestions for Future Research

This study is not without limitations. First, the sample is restricted to listed insurance firms, which may limit the generalizability of the findings to other sectors, such as manufacturing or banking. Second, while the Basu model is a widely accepted measure of conditional conservatism, it has been critiqued for its potential confounding with other time-series properties of earnings.

Future research could expand the scope to include other financial and non-financial sectors in Nigeria and other African countries. It could also employ alternative measures of conservatism and tax avoidance to triangulate the findings. Additionally, it would be interesting to use this research as a starting point to study how corporate governance variables (e.g., independence of the board, quality of audit committee, etc.) moderate the nature of the conservatism-tax avoidance relationship.

On a final note, this study confirms that conditional accounting conservatism is a major cause of corporate tax avoidance in the insurance industry of Nigeria. It serves as a critical mechanism that shapes not only the quality of financial information but also the strategic tax outcomes of firms, underscoring the deep interconnection between financial reporting principles and corporate fiscal responsibility.

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