

Tax Administration and Thin Capitalization of Listed Manufacturing Companies in Nigeria

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ABSTRACT: *The paper seeks to evaluate the effect of Tax administration on Thin Capitalization of listed manufacturing companies in Nigeria. The study utilized Autonomy in Operation (AIO), Transparency in Assessment and Income Collection (TAI), Accountability in Revenue Remittance (ARR), Motivation for Effectiveness and Efficiency (MEE) Professional Competence (PFC) as constructs for Tax Administration on Thin Capitalization of Listed manufacturing companies in Nigeria. A survey research design was adopted for the study. The study population comprises 475 staff members of the Federal Inland Revenue Service (FIRS) Offices in Lagos where the listed manufacturing companies file their annual tax returns and 15 major tax consultants who prepare and file these tax returns for the companies. The sample size of 220 staff members in these organizations was calculated using Taro Yamane's formula and randomly selected. Data were collected through the administration of copies of questionnaires. The reliability of the data was tested using the Cronbach Alpha Coefficient Technique. Descriptive and inferential (multiple regression) statistics were used to analyze the data at 5% level of significance. Descriptive and inferential (multiple regression) statistics were used to analyze the data at a 5% level of significance. The findings revealed that there is a significant effect of Tax administration on Thin Capitalization (TCP) of listed manufacturing companies in Nigeria. This is evidenced by the result of the test, TCP ($Adj.R^2 = 0.184$, $F(5, 21) = 9.232$, $p > 0.05$). These findings should be of major interest to policymakers to review the Thin Capitalization rules and provisions in the Nigeria tax laws to evaluate its effectiveness or otherwise in curtailing thin capitalization practices of listed manufacturing companies in Nigeria. This study provides original empirical evidence on the effect of Tax administration on Thin Capitalization on listed manufacturing companies in Nigeria.*

KEYWORDS: thin capitalization practices, thin capitalization rules, tax aggressiveness, tax administration.

INTRODUCTION

Tax avoidance schemes involving thin capitalization by multinational firms have become a subject of concern concerning the fairness, effectiveness, and efficiency of the tax system in Nigeria. Despite the observed expansion of the manufacturing industry in Nigeria over time, there have been heightened concerns by tax authorities concerning the thin capitalization practices of multinational manufacturing corporations for tax advantages. Cooper and Nguyen (2020) have highlighted that employment of thin capitalization by manufacturing companies has raised apprehensions regarding the depletion of the tax base and its repercussions on revenue collection, social impartiality, and national economic progress. Owing to issues of globalization, the effect of taxes on international trade and investments, and possible organizational exploitations of the differences in domestic tax systems which can lead to tax aggressiveness using thin capitalization by companies have become of concern to various tax authorities (Kraft, 2014). Most manufacturing multinational corporations frequently employ all available strategies to reduce their tax obligations by exploiting inconsistencies in tax regulatory tools and thin capitalization (Onyeka-Iheme, 2021). Ogbeide and Iyafekhe, (2018) stated that most of multinational manufacturing companies engage in thin capitalization to take advantage of interest deductions payable to related parties.

This has become a challenge to the national economies of the developing nations owing to inadequate government revenue leading to the downswing of the available funds for distribution to the different levels of government in Nigeria.

The main objective of this study was to evaluate the effect of tax administration on the thin capitalization of listed manufacturing companies in Nigeria while the research question for the study was “How does tax administration affect thin capitalization of listed manufacturing companies in Nigeria?” The study enriches the existing literature on the tax behavior of listed manufacturing companies within Nigeria’s context by providing empirical evidence relating to the discourse of tax administration in Nigeria.

The study employed a survey research design. The population of the study comprised 475 staff members of the Federal Inland Revenue Service (FIRS) that handle the tax returns of the listed manufacturing companies and 15 major tax consulting firms that prepare and file the tax returns for the listed manufacturing companies in Nigeria. The sample size of 220 staff of these organizations was randomly selected. Data were collected through the administration of copies of questionnaires. The reliability of the data was tested using the Cronbach Alpha Coefficient Technique. Descriptive and inferential (multiple regression) statistics were used to analyze the data at a 5% level of significance.

The findings of the study suggest that there is a significant effect of Tax administration on the Thin Capitalization of listed manufacturing companies in Nigeria. This is evidenced by the result of the test, TCP ($Adj.R^2 = 0.184$, $F(5, 21) = 9.232$, $p > 0.05$). The study concluded that the tax administration has a positive effect on thin capitalization of listed manufacturing companies in Nigeria. The study recommended that the Federal Government should

periodically review the thin capitalization policy to ensure effective deterrence to aggressive tax planning of listed multinational manufacturing companies in Nigeria.

The paper reviewed related literature in three folds, conceptual review, theoretical review, and empirical review. The primary data collected through the administration of a structured questionnaire were analyzed through descriptive analysis, and inferential analysis and interpretations given. Test of the formulated hypothesis was carried out using the collected data based on the specified multiple regression models. The main findings on the effect of tax administration on the thin capitalization of listed manufacturing companies in Nigeria were also explained.

RELATED LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The issue of balanced capital structure for business entities has generated interest over the years. Finding the appropriate mix between debt and equity to maximize firm value and reduce the cost of finance has been the target of most companies. The situation in which a business entity sources its capital more from debt financing than from equity is termed Thin Capitalization.

The major advantage being targeted by highly geared business entities is the tax advantage since the interest paid is an allowable expense for tax purposes implying that the more debts a firm has, the more interest payable by it and then the lower the tax payable (Akabom & Ejabu, 2018). So, Thin Capitalization (TCN) could be key in relation to tax aggressiveness since it affects the taxable profit of the firm. The effect of TCN with respect to taxation is that firms that are highly geared enjoy deductibility of interest expenses unlike returns to shareholders as dividend. This is because interest expense is allowable in tax and would be charged before arriving at the profit of the firm. The tax advantage effect between the two sources of finance is quite glaring. Thin capitalization is thus a tax planning strategy employed by multinational companies to optimize their capital structure and minimize their tax liabilities. It entails arranging the company's finances on purpose, especially its debt financing so that there is more debt than equity. Taking advantage of interest deductions to their full potential helps businesses in high-tax countries keep more of their hard-earned money.

Desai and Dharmapala (2021) define thin capitalization as a scenario in which a firm's capital structure is predominantly composed of debt, resulting in disproportionate interest deductions and diminished tax obligations. The authors highlight the utilization of thin capitalization as a mechanism for profit manipulation, whereby multinational corporations leverage the variations in tax rates across nations by assigning disproportionate debt to regions with higher tax obligations. Thin Capitalization leads to a distortion in the distribution of capital and tax obligations among nations as it has the potential to diminish the tax base of the countries where it is implemented, leading to a reduction in tax revenue. Clausing (2020) posits that the resolution of the issue of thin capitalization necessitates global collaboration and the enforcement of measures that restrict unwarranted interest deductions. Thin capitalization regulations serve as significant policy instruments in mitigating the risk of base erosion and profit shifting and the implementation of more stringent thin capitalization regulations can

serve as a means of safeguarding the tax base and upholding tax equity (De Mooij & Ederveen, 2021). This assertion aligned with Hines (2019) position that the implementation of stricter regulations on thin capitalization can serve as a potential solution to mitigate profit shifting and promote equitable allocation of tax responsibilities.

Mutti, *et al.* (2020) also note that nations that enforce more stringent thin capitalization regulations tend to receive increased levels of foreign direct investment (FDI). This is attributed to the fact that such policies offer investors greater predictability and limit the potential for tax evasion. According to the authors, appropriately structured regulations on thin capitalization have the potential to encourage investment while simultaneously reducing tax avoidance behaviour. Rezaee and Eghbali (2018) examined the function of thin capitalization within the context of corporate tax planning tactics. It has been emphasized that multinational corporations may employ the practice of thin capitalization as a strategy to diminish their total tax burden through the exploitation of the tax-deductible nature of interest payments. The authors, Rezaee and Eghbali (2018), underscore the necessity of implementing strong regulations on thin capitalization in order to deter the employment of tax planning practices that are deemed abusive.

The study conducted by Dyreng, *et al.*, (2019) aims to examine the efficacy of thin capitalization regulations in mitigating the practice of income shifting. The study reveals that nations that implement more rigorous regulations on thin capitalization observe a decline in income shifting and a surge in tax proceeds. According to Dyreng *et al.*, the adoption and enforcement of stringent thin capitalization regulations can serve as an effective measure to counteract tax aggressiveness and safeguard the tax revenue. The study conducted by Beer, *et al.*, (2021) aims to examine the correlation between thin capitalization regulations and the levels of corporate debt. The study revealed that firms that are subjected to more stringent regulations on thin capitalization demonstrate decreased debt-to-equity ratios, which suggests a diminished dependence on debt financing in order to achieve favourable tax consequences. According to the authors, the implementation of thin capitalization rules has the potential to impact the capital structure decisions of firms and serve as a deterrent against the employment of excessive leverage for tax planning.

The study by Arnold (2021) delves into the policy implications of thin capitalization and posits that a judicious equilibrium between debt and equity financing is imperative to curb the practice of exploitative tax planning. The author proposed that the formulation of thin capitalization regulations ought to prioritize tax neutrality, while simultaneously avoiding any negative impact on authentic investment or impeding corporations' ability to secure funding.

In effect, the company will be attracted towards debt financing to have lower taxable profit. The more the debt, the more the interest payable and the lower the tax base after deducting the interest charges and consequently the lower the tax payable. However, in Nigeria, the deductible interest for tax purposes in respect of inter-company loan of a foreign related party is limited by thirty percent of the Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA) while the balance is carried forward for five years. This is a

measure of anti-tax aggressiveness by the Nigeria tax rule introduced under the Finance Act 2019.

The hypothesis tested in line with the objective of this study is:

H₀₁: Tax Administration has no significant effect on thin capitalization in listed manufacturing companies in Nigeria.

The Stakeholder Theory introduced by R. Edward Freeman in 1984 underscores the significance of taking into account the interests and apprehensions of diverse stakeholders in the process of organizational decision-making and governance. With regards to tax aggressiveness, Stakeholder Theory advocates that manufacturing firms should take into account the interests and apprehensions of all stakeholders while formulating tax-related strategies. This can serve as a corrective measure against aggressive tax planning or tax avoidance strategies that may prioritize immediate financial benefits for shareholders but could be viewed as inequitable or harmful to other parties involved. Manufacturing companies can strive for a balanced approach that takes into consideration both financial objectives and ethical considerations by considering the broader impacts of tax decisions on various stakeholders. Hence, this theory is akin to this study as the government's interest in taxes would have been considered where the company's operating activities do not push towards the "grey areas" of tax aggressiveness.

The tax deterrence theory set forth by Allingham and Sandmo in 1972 deals with the cost of the implication of Tax aggressiveness when it crosses the "grey area". It emphasizes penalties for tax evasion induced by various schemes of Tax Aggressiveness of business entity managers. Thus, the penalty becomes a deterrent to the firm managers to behave within the ambits of the tax laws and regulations even when tempted to employ certain tax-aggressive actions.

METHODOLOGY

The methodology employed in this study involved the utilization of the survey design. The primary data was collected through the use of structured copies of the questionnaire. The population of this study was all the 475 staff members of the following FIRS offices in Lagos State, which deals with all quoted manufacturing companies. The offices are Large Tax Office (Non-Oil) Lagos, Large Tax Audit, (Non-Oil), Lagos, Medium Tax Offices Lagos Mainland 1 & 2 Medium Tax Office, Lagos Island and Medium Tax Audit, Lagos Mainland 1 & 2 and Medium Tax Audit, Lagos Island and 15 tax representative firms of the companies. The geographical location covered by the study was Lagos State, Nigeria. The staff members of FIRS are the ones who handle the listed manufacturing companies in Nigeria. The use of the FIRS officers is because they are the ones who have been receiving and routinely reviewing the annual tax returns of these manufacturing companies and Lagos was chosen since it's the corporate headquarters of most of the listed manufacturing companies and so, they file their returns in the FIRS offices mentioned above depending on their turnover threshold while the

tax representatives are the main firms filing the returns of the listed manufacturing firms with FIRS.

The questionnaires were distributed based on the sample size. To get the representative sample size, Taro Yamane sample size determination will be employed. The formula is given as thus:

$$n = \left(\frac{N}{1+N(e)^2} \right)$$

n = the sample size; N = the population size; e = marginal error at 0.05

$$n = \frac{490}{1+420(0.05)^2}$$

$$n = \frac{490}{2.05}$$

$$n = 220.224 \approx 220$$

Therefore, the total number of copies of the questionnaire distributed is two hundred and twenty (220).

The model that was used in testing the hypotheses of the study is presented below:

To evaluate $Y = f(X)$

Y = Dependent Variable (Thin Capitalization)

X = Independent Variable (Tax Administration)

X and Y are broken down as follows

Y = (y₁)

X = (x₁, x₂, x₃, x₄, x₅)

Where;

y₁ = Thin Capitalization (TCP)

x₁ = Autonomy in operations (AIO)

x₂ = Transparency in assessment and income collection (TAI)

x₃ = Accountability in revenue remittance (ARR)

x₄ = Motivation for effectiveness and efficiency (MEE)

x₅ = Professional Competency (PFC)

These will result to an expanded functional model of:

$$TCP = f(AIO, TAI, ARR, MEE, PFC) \dots\dots\dots \text{Equation 1}$$

The regression model is given thus as:

$$TCP_i = \beta_0 + \beta_1 AIO_i + \beta_2 TAI_i + \beta_3 ARR_i + \beta_4 MEE_i + \beta_5 PFC_i + \mu$$

Where:

β_0 is the intercepts and $\beta_1 - \beta_5$ represents the estimated parameters for tax administration.

β_1 = estimated parameter of autonomy in operations

β_2 = estimated parameter of transparency in assessment and income collection

β_3 = estimated parameter of accountability in revenue remittance

β_4 = estimated parameter of motivation for effectiveness and efficiency

β_5 = estimated parameter of professional competency

μ = error term or stochastic variable

EMPIRICAL RESULTS**Descriptive Analysis**

S/N	Questions		SD	D	U	A	SA	Total
1	Finding the appropriate mix between debt and equity to maximize firm value, reduce cost of finance, and take tax benefits has been the target of most manufacturing companies.	Count	0	2	33	121	55	
		%	0.0%	0.9%	15.6%	57.3%	26.1%	
		SD						4.09
		Mean						.67
2	A manufacturing firm's capital structure is predominantly composed of debt, resulting in disproportionate interest deductions and diminished tax obligations.	Count	0	3	44	108	56	
		%	0.0%	1.4%	20.9%	51.2%	26.5%	
		SD						4.03
		Mean						.73
3	Thin Capitalization leads to a distortion in the distribution of capital and tax obligations among nations as it has the potential to diminish the tax base of the countries where it is implemented, leading to a reduction in tax revenue.	Count	0	8	33	106	64	
		%	0.0%	3.8%	15.6%	50.2%	30.3%	
		SD						4.07
		Mean						.78
4	Manufacturing companies are aware of the consequences and treatment imposed by the tax laws for engaging in thin capitalization practices.	Count	0	2	35	70	104	
		%	0.0%	0.9%	16.6%	33.2%	49.3%	
		SD						4.31
		Mean						.78
5	Implementation of stricter regulations on thin capitalization can serve as a potential solution to mitigate profit shifting and promote equitable allocation of tax responsibilities.	Count	0	0	8	71	132	
		%	0.0%	0.0%	3.8%	33.6%	62.6%	
		SD						4.59
		Mean						.57

Source: Researcher's Computation 2024

The Table above offers valuable insights into how respondents perceive the practices related to thin capitalization in manufacturing corporations and the actions taken by tax authorities to tackle them. First, when considering the importance of finding the appropriate mix between debt and equity to maximize firm value, reduce the cost of finance, and take tax benefits, a significant majority of respondents, approximately 57.3%, expressed agreement, signifying the importance of this financial objective. Only a negligible proportion, about 0.9%, disagreed. The mean response of 0.67 indicates strong consensus among respondents on the significance of this financial goal. However, the relatively high standard deviation of 4.09 suggests a considerable range of responses, implying potential diversity in the perceived importance of this aspect. Question 5 has the widest dispersion between the standard deviation and the mean.

Second, in terms of the composition of manufacturing firms' capital structure, a substantial portion, approximately 51.2%, agreed that it is predominantly composed of debt, leading to disproportionate interest deductions and diminished tax obligations. Only 1.4% disagreed. The mean response of 0.73 reflects a consensus that debt-heavy capital structures have implications for tax obligations. However, the standard deviation of 4.03 reveals diversity in opinions among

respondents, indicating varying degrees of agreement. Third, the concept of Thin Capitalization, which has the potential to diminish the tax base of countries where it is implemented and reduce tax revenue, received agreement from approximately 50.2% of respondents. About 3.8% disagreed. The mean response of 0.78 indicates consensus on the tax implications associated with thin capitalization. Nevertheless, the standard deviation of 4.07 suggests varying opinions on this matter.

Fourth, in terms of manufacturing companies' awareness of the consequences and treatment imposed by tax laws for engaging in thin capitalization practices, approximately 49.3% agreed. Only 0.9% disagreed. The mean response of 0.78 suggests a broad awareness and agreement with the tax implications of thin capitalization. However, the standard deviation of 4.31 indicates varying levels of awareness and understanding among respondents. Lastly, the proposal of implementing stricter regulations on thin capitalization to mitigate profit shifting and promote equitable allocation of tax responsibilities received strong agreement, with around 33.6% of respondents in favor. A smaller portion, approximately 3.8%, disagreed. The mean response of 0.57 indicates strong support for stricter regulations in this context. Nonetheless, the relatively high standard deviation of 4.59 underscores the differing opinions on the effectiveness of such regulations showing a wider dispersion between the mean and Standard deviation.

Table 4.2: Linearity Test (Pearson Correlation Coefficient)

		AIO	TAI	ARR	MEE	PFC	TCP
AIO	Corr	1					
	Sig	.					
	df	0					
TAI	Corr	0.159	1				
	Sig	0.022	.				
	df	207	0				
ARR	Corr	0.596	0.561	1			
	Sig	0	0	.			
	df	207	207	0			
MEE	Corr	0.614	0.255	0.604	1		
	Sig	0	0	0	.		
	df	207	207	207	0		
PFC	Corr	0.337	0.41	0.358	0.48	1	
	Sig	0	0	0	0	.	
	df	207	207	207	207	0	
TCP	Corr	-0.351	0.504	0.117	-0.125	0.395	1
	Sig	0	0	0.091	0.071	0	.
	df	207	207	207	207	207	0

Source: Researcher's Computation 2024

The table displays Pearson correlation coefficients and their significance levels, measuring the linear relationships between various pairs of variables. These correlations provide insights into

how different variables are related to one another. Here's an interpretation of the correlations between key variables:

Autonomy in Operations (AIO) exhibits a statistically significant positive correlation (Corr = 0.159) with Transparency in Assessment and Income Collection (TAI). This suggests that as autonomy in operations increases, there is a positive association with transparency in assessment and income collection.

Autonomy in Operations (AIO) demonstrates a strong positive correlation (Corr = 0.596) with Accountability in Revenue Remittance (ARR). The significance level (Sig) is 0, indicating a highly significant relationship between these two variables. This means that as autonomy in operations increases, accountability in revenue remittance also increases significantly.

Autonomy in Operations (AIO) is strongly positively correlated with Motivation for Effectiveness and Efficiency (MEE), with a correlation coefficient of 0.614 (Sig = 0). This implies that higher autonomy in operations is associated with higher motivation for effectiveness and efficiency. Professional Competency (PFC) is positively correlated with Autonomy in Operations (AIO) with a coefficient of 0.337 (Sig = 0). This suggests that professional competency and autonomy in operations have a positive relationship.

Autonomy in Operations (AIO) also has a negative correlation (Corr = -0.351) with Thin Capitalization (TCP), and this correlation is statistically significant (Sig = 0.000). This suggests that higher autonomy in operations is associated with more negative thin capitalization practices.

These correlations help to understand the linear relationships between these variables and identify potential patterns or associations within the dataset.

Diagnostic Test

Table 4.3 Result of Multicollinearity test

Model	Collinearity Statistics	
	Tolerance	VIF
Autonomy in operations	.380	2.629
Transparency in assessment and income collection	.630	1.588
Accountability in revenue remittance	.518	1.932
Motivation for effectiveness and efficiency	.677	1.477
Professional Competency	.514	1.946
Average	0.377	2.723
Dependent Variable: Thin Capitalization		

Test of Hypothesis Regression Analysis

Research Hypothesis (H₀₁): There is no significant effect of tax administration on the thin capitalization of the listed manufacturing companies in Nigeria.

Table 4. : Summary of Multiple Regression Model

		B	Std. Error	t	Sig.	R	Adj.R2	F-stat	Sign
Model 2 Result	(Constant)	2.497	.285	8.764	.000	0.429	0.184	9.232	0.000b
	AIO	.026	.080	.332	.740				
	TAI	.239	.066	3.626	.000				
	ARR	.025	.073	.342	.733				
	MEE	-.023	.040	-.587	.558				
	PFC	.143	.070	2.046	.042				

a. Dependent Variable: TCP

Source: Researcher's Computation 2024

The outcomes from the multiple linear regression analysis in the test of hypothesis show the result for the relationship between tax administration and the thin capitalization of listed manufacturing companies in Nigeria. Autonomy in operations (AIO) demonstrates a coefficient of 0.026, accompanied by a standard error of 0.080, a t-statistic of 0.332, and a p-value of 0.740. However, AIO is not deemed statistically significant in predicting the dependent variable, suggesting that variations in Autonomy in operations do not contribute significantly to the changes in the dependent variable.

Transparency in assessment and income collection (TAI) exhibits a notable coefficient of 0.239, with a standard error of 0.066, a robust t-statistic of 3.626, and an exceedingly significant p-value of 0.000. This indicates that TAI is statistically significant in predicting the dependent variable, implying that increased transparency in assessment and income collection is associated with meaningful changes in the dependent variable.

Accountability in revenue remittance (ARR) presents a coefficient of 0.025, a standard error of 0.073, a t-statistic of 0.342, and a p-value of 0.733. However, ARR does not achieve statistical significance, implying that variations in Accountability in revenue remittance may not exert a significant impact on the dependent variable. Motivation for effectiveness and efficiency (MEE) displays a coefficient of -0.023, a standard error of 0.040, a t-statistic of -0.587, and a p-value of 0.558. MEE is not statistically significant, suggesting that alterations in Motivation for effectiveness and efficiency do not have a discernible impact on the dependent variable.

Lastly, Professional Competency (PFC) showcases a coefficient of 0.143, with a standard error of 0.070, a t-statistic of 2.046, and a p-value of 0.042. PFC is identified as statistically

significant, indicating that changes in Professional Competency are associated with meaningful variations in the dependent variable.

The *R-value* of 0.429 supported this result and it indicated that tax administration components had a strong positive relationship with the thin capitalization of the manufacturing companies in Nigeria. The coefficient of multiple determination $Adj.R^2 = 0.184$ indicated that about 18.4% of the variation that occurred in the thin capitalization of the manufacturing companies in Nigeria could be accounted for by the components of tax administration, while the remaining 81.6% changes that occurred were accounted for by other variables not captured in the model. The overall model's statistical significance is highlighted by the F-statistic of 9.232 with a p-value of 0.000, emphasizing the collective impact of the included predictors in explaining the variability in thin capitalization. The predictive and prescriptive multiple regression models were thus expressed:

$$TCP = 2.497 + 0.026AIO + 0.239TAI + 0.025ARR - 0.023MEE + 0.143PFC + U_i \text{ ---Eqn (i)}$$

(Predictive Model)

$$TCP = 2.497 + 0.239TAI + 0.143PFC \text{ ---Eqn (ii) (Prescriptive Model)}$$

Where:

Thin Capitalization (TCP)

Autonomy in operations (AIO)

Transparency in assessment and income collection (TAI)

Accountability in revenue remittance (ARR)

Motivation for effectiveness and efficiency (MEE)

Professional Competency (PFC)

Decision – H₀₁ (Model 1)

At a level of significance 0.05 and degree of freedom 5,211, the F-statistics is 9.232, while the p-value of the F-statistics is 0.000 which is less than the 0.05 level of significance adopted for this study. Therefore, the study rejected the null hypothesis and accepted the alternative hypothesis which is that tax administration has significant effect on the thin capitalization of listed manufacturing companies in Nigeria.

Practical Implications

The findings underscore the importance of government policies in shaping tax-related practices within manufacturing companies in Nigeria. Specifically, the significance of variables such as Transparency in tax assessment and income tax collection (TAI), and Professional Competency (PFC) suggests that fiscal policies promoting transparency in the tax system, and administrative policies of engaging professionally competent regulators play a crucial role in influencing tax-related decisions of manufacturing companies. The finding points to the fact that stricter tax administration guidelines compliance enforcement concerning thin capitalization affects the likelihood of multinational firms engaging in thin capitalization. Since the thin capitalization rule and the effective monitoring of its implementation form part of tax administrative mechanisms, the findings suggest that engaging professional competent tax administrators

could detect unethical tax practices and slam sanctions and penalties to the companies as applicable by the provisions of the law.

The findings also accentuate the need for a cautiously coordinated tax administrative policy that reflects transparency in income tax assessment for listed multinational manufacturing corporations and implementation of thin capitalization rule by manufacturing companies. It also highlights the relevance of the professional competence of the revenue authorities. These are in alignment with Thess, *et al.* (2018) which highlighted the effectiveness of thin-capitalization rules in curbing tax aggressiveness related to excessive debt financing. The Companies Income Tax Act Cap. C21, Laws of the Federal Republic of Nigeria 2004 as amended (by the Finance Act 2019) has provided for a thin capitalization rule in Section 24(a) which Nigeria did not have before 2019. The study is also consistent with Osamor, *et al.* (2023) and Otuya and Omoye (2021) which discovered that the amount of debt in the capital structure does not significantly affect the performance of the companies and suggested that the recently introduced thin capitalization rule in Nigeria should be effectively monitored by revenue authorities while multinationals should be mindful of excessive use of debts as leverage does not affect their performance, yet attracts the scrutiny eyes of the tax authorities with attendant interruptions to their operations.

CONCLUSION, RECOMMENDATIONS, AND SUGGESTIONS FOR FURTHER STUDIES

The regression estimates for test of hypothesis show that transparency in assessment and income collection, and professional competency showed a positive significant effect on thin capitalization of the listed manufacturing companies in Nigeria. The overall statistical significance emphasized the collective positive effect of the tax administration variables in predicting the behavior of the listed manufacturing companies towards thin capitalization. This brings the answer to the research question that tax administration has a positive effect that is generally considered significant on the thin capitalization of the listed manufacturing companies in Nigeria. The Federal Inland Revenue Service should put machinery in place for a professionally competent staff force to regularly engage and enlighten the listed multinational manufacturing companies on the applicability of the existing thin capitalization rules in Nigeria on one hand and also easily detect and apply appropriate sanctions to breaches of the rules. The Federal Inland Revenue Service which is the regulator should also enforce and regularly evaluate the implementation of thin-capitalization rules in the tax laws to ensure their continued effectiveness in reducing tax aggressiveness through excessive debt-to-equity ratio and BEPS. It is suggested that future studies could expand the scope of the study, introduce moderating variables of audit and other compliance tools, and possibly review other sectors in Nigeria in other to have a more generalized conclusion for the Nigeria context.

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