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Tax Aggression and Financial Performance of Selected Manufacturing Companies in Nigeria

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Abstract: *The study investigates effect of tax aggressive measures on financial performance of selected manufacturing companies in Nigeria. Tax aggressive measures includes THINCAP=Thin Capitalization and CAPINT=Capital Intensity, while profitability is the measure of financial performance. The researcher adopted the use of Expost-facto research design in conduct of the study. Data for study were collected from the Annual Reports and Accounts of purposively selected 19 Health and Industrial Goods Manufacturing companies for the period 2011-2021. Data collected were analyzed in three-phase procedure: pre-estimation, estimation and post estimation. Findings from the study showed that, Thin capitalization and Capital intensity do not have any significant effect on profit before tax of the selected manufacturing companies in Nigeria. Based on the findings, it can be alluded that the selected manufacturing companies in Nigeria have been found to be engaging in various aggressive tax management practices in order to reduce the tax liability which has enhanced the financial performance of the organizations. Based on these observations, the researcher recommends amongst others that; relevant tax authorities should initiate tax reforms aimed at clarifying tax reliefs to manufacturing companies who are affected by various policies that financially affects profitability of the companies, manufacturing companies are also encouraged to exploit the accruing benefits in various tax reliefs to reducing tax expenses. It is also recommended that, government should properly define and monitor tax management practices to deter organizations from evading taxes.*

Keywords: *Capital intensity, Profitability, Research and Development, Tax aggressiveness, Thin capitalization*

INTRODUCTION

Corporate organizations tax aggressiveness is seen as an avenue for improvement in corporate profit performance which has now been structured into a strategic cost saving approach employed by organizations globally because no country has been found to be immune from the growing practices tax aggressiveness. Corporate tax aggressiveness has existed through history and will continue to exist as long as corporate organizations are still subjected to tax payment. Taxes have been a significant cost to firms, its shareholders and, as a result a reduction in the cash flow available to the organization. It is generally noticed that business managers prefer tax aggressive activities in an effort to increase not only after-tax earnings per share but also cash available for shareholders. This has made organizational managers tax express concern to device various strategies to increase firm value through reducing tax liability of businesses to the government. To

ensure the revenue of firms are maximized, managers play a critical role by employing strategies to reduce tax expenses. Reduction of tax expenses are measures classified as being tax aggressive (Elaigwu, 2023).

Shareholders normally have preference for managers that guarantees more investments returns through tax avoidance mechanisms that reduces organizational tax liability and on the other hand promoting wealth maximization goal of the firm. Dhamara and Violita, (2018) noted that taxpayers have used various tax aggressive strategies to minimize their pre-tax income and reduce their tax burden. This made tax aggressiveness an effort to apply lawful loopholes to avoid or minimize the organization tax liability. When this is achieved within the confines of tax laws, the acts protect investors and other stakeholder's interest and enhance the credibility of financial reports and procedures of preparing such reports. Kiabel & Nwikpasi (2001) sees tax aggressiveness as the planning and operation of business activities within the context of existing tax legislation in such a way that the business realizes the optimal tax position while achieving its set financial goals and objectives. Tax aggressiveness can thus be said to include all the strategies aimed at minimizing tax liability of a business, and as well looks at the cash flow effect on the business regarding when it is most beneficial for a corporate entity to remit its tax liability and not incur any additional liability/punishment. Summarily, tax aggressiveness is an act of technically within the confines of the law transferring value from the state to the firm. Tax aggressiveness plays an important role in enabling organizational managers promotes corporate governance in business management and as well maximize shareholders' wealth.

Thin capitalization is part of financing techniques used by corporate organizations to enhance increasing costly debt ownership so that the company's capital structure becomes lower (Richardson, Taylor, & Lanis, 2013). Thin capitalization reduces owner's equity by making use of debt capital in financing the business operations. These results in business returns given to debt owners in the form of interest expense which is allowable as deductible expense under tax laws. The capital composition of an organization often determines the amount of profit it reports for tax purposes as the tax rule allows deduction of interest paid or payable in arriving at taxable profit. The higher the level of debt in a company increases interest payable on debt with the consequent effect to reduction of its taxable profit (Gordon, 2010). Considering this position, debt can be seen as a tax efficient method of financing an investment compared to equity. This benefits has made multinational companies to mostly structure their financing arrangements to maximise these opportunities. Many organizations around the globe have also established tax aggressive efficient mixture of debt and equity, and as well also able to influence the tax treatment of the lender who receives the interest. For instance, these arrangements may be structured in a way that allows the interest to be received in a country jurisdiction that either does not tax the interest income, or subjects such interest to a lower tax rate (Gordon, 2010). Considering the influence of thin capitalization in determining the taxable income of organizations, researchers have had various positions on influence of thin capitalization on taxable income of organizations. Some of these researchers include; Taylor & Richardson (2012), and Falbo & Firmansyah (2018) who have proved that thin capitalization has been found to have a positive effect on tax evasion. Darma (2019) and Andawiyah, Subeki, and Hakiki, (2019) in their own research also found that thin

capitalization have effect on tax aggressive practices. From the observations of these, this variable is seen as an important measure to tax aggressive mechanism for the purpose of the study.

Tax aggressiveness is also influenced by capital intensity. Capital intensity can be described as the amount of cash or its equivalent invested in tangible assets which include; property, plant and equipment and other non-current assets of a business entity. Capital intensity is seen as the amount of capital invested by the company in acquisition of fixed assets (Muzakki & Darsono, 2015). The more asset acquired by a business organization, the more the organization is seen to be capital intensive which will affect the firm either positively or negatively as it relates to taxable income. Investing more in the form of fixed assets is one of the company's strategies in carrying out tax avoidance practices, because almost all fixed assets experience capital allowance. Capital allowance is a deductable expense from profit in tax calculations, a large expense of a company will lower the pre-tax profit so that the tax that must be paid by the company will be lower. The higher capital intensity in a company, the higher the probability of the company practices of tax avoidance mechanism. Concept of capital intensity is crucial to an organizations ratio between non-current assets and the total assets of an organization. It is of great importance, not only because it impacts on the financial situation of the company, and also affects the assets efficiency and its performance. Chukwu and Egbunike (2017) noted that investments made by companies in fixed assets will be reasonable and necessary. Subject to this, the study will investigate how capital intensity has helped to evaluate how this tax mechanism variable has fared on the financial performance indicators of corporate organizations. Based on the above observations, the study therefore investigates effect of tax aggressive measures on financial performance of selected manufacturing companies in Nigeria.

Statement of the Problem

The increase in government attention to non-oil sources of revenue such as the corporation tax despite the huge amount of resources investors are contributing to their business without guaranteed return considering the bedeviled challenges facing Nigeria business environment which includes but not limited to, high cost of input operations, deficiency in basic amenities and infrastructural facilities, inflation, high and multiple government taxes just to mention few. Broadening the corporation tax base in Nigeria is a concern to both government and business owners in the light of the economic challenges faced by the nation. The reports from Federal Inland Revenue Service (FIRS) tax statistics showed that, the revenue agent has not been able to achieve its target on corporate income tax collections over several years. In the period 2016 - 2018, to be precise, the agent only met 52% - 85% of its target as within the previous years of 2013 – 2015 were a 99.6% - 125% of target was achieved. Tax avoidance practices have been recorded among factors responsible for low revenue target starving government of revenue needed for development in African countries (Mayah, 2015).

The difference in interests from the government and companies expected tax and payable tax considering the various expectations of organizations to its major stakeholders who chose to invest their limited resources with the hope of a good return on investment has been a challenge in recent times which as mandated organizations towards

aggressiveness in tax management. Tax management enhances organizations return performance, therefore any attempt towards tax reduction contributes to the earnings and return to organizational investors disclosed in the financial statement. This is in support of the main purpose of firms' activities which is creating value for shareholders; therefore, actions taken to minimize the tax burdens are in line with that objective. To this end, the study therefore investigates effect of tax aggressive measures on financial performance of selected manufacturing companies in Nigeria.

Objectives of the Study

The broad objective of this study is to examine the effect of tax aggressiveness on the financial performance of selected manufacturing companies in Nigeria. Specifically, the study seeks to;

- **i.** Ascertain how thin capitalization has impacted on profit before tax of selected manufacturing companies in Nigeria
- **ii.** Investigate the effect of capital intensity on profit before tax of selected manufacturing companies in Nigeria

Research Questions

The following questions are structured to help researcher seek answers to the objectives of the study.

- **i.** Has thin capitalization impacted on profit before tax of selected manufacturing companies in Nigeria?

  What extent has capital intensity impacted on profit before tax of selected manufacturing companies in Nigeria?

Research Hypotheses

The researcher designed the below hypotheses in its null form to guide the study:

$H_0$1: There is no significant impact of thin capitalization on profit before tax of selected manufacturing companies in Nigeria

$H_0$2: There is no significant impact of thin capitalization on profit before tax of selected manufacturing companies in Nigeria

Significance of Study

The study will be of benefits to various users both within the private and the public settings amongst which are business owners, policy makers, the public as well as the research world. A study of this nature will help business owners who seek avenues to eliminate unnecessary and avoidable cost with the aim of optimizing profits. At same time, the study will provide useful information to the tax authorities in understanding more about tax aggressive corporations. The study will also help to ascertain extent of tax morality by organizations which connotes standards of good or bad behaviour, fairness and honest. Finally, the study will be useful to tax researchers interested in studying the tax aggressiveness of companies and as well adds to the extant literatures by providing

evidence of measures and measurement effects of tax aggressiveness on financial performance of manufacturing firms.

LITERATURE REVIEW

Theoretical Framework

The study is based on the Hoffman's tax planning theory (1961)

Tax Planning Theory

Hoffman tax planning theory (1961) seeks to divert cash, which would ordinarily flow to tax authorities, to the corporate entities. Tax planning activities are desirable to the extent that they reduce taxable income to the barest minimum, without sacrificing accounting income. The theory is premised on the fact that firms tax liability is based on taxable income rather than accounting income. The idea is thus to intensify activities that reduce taxable income but has no indirect relationship on accounting profit. The theory thus recognized a positive association between firm tax planning activity and firm performance.

Hoffman (1961) also recognized the role of tax cost in the tax planning activities. The theory thus provided that the positive association between tax planning and corporate performance is on a basic assumption that tax benefits from the tax planning exceed tax cost. The scope of the Hoffman‟s tax planning theory does not address the dynamics of tax planning and market performance. As capital markets develop and the separation of ownership and control of corporate bodies become well-spread, the need for a comprehensive tax planning theory becomes expedient.

Accordingly, Hoffmann (1961) noted that since taxation are mostly based on business or accounting concepts, thus a firm can modify such activities towards the attainment of reduction in tax liability. Hoffmann identified some ambiguity and loopholes in tax laws due to unclear intentions of the legislators and concluded that successful tax schemes work with the legal concepts and precise wording of the statute and complying with these concepts very precisely as it relates to individual firm tends to be advantageous to firms in form of tax savings.

Concept of Tax Aggressiveness

Tax aggressiveness are strategies adopted by firms within the ambit of the law to reduce the firms explicit tax liability. Hanlon and Heitzman, (2010) note that tax-reducing device transfers interest from the government to shareholders to maximize shareholders value. Therefore, some level of tax avoidance is desirable as it benefits the shareholders and management as well. If a firm pays less tax through legitimate tax saving strategies, shareholders benefit as well as management when incentives are properly aligned (Slemrod, 2004). Thus, the terms such as tax management; tax planning; tax sheltering; and tax avoidance are interchangeably used with tax aggressiveness (Lanis & Richardson, 2011; Tang & Firth, 2011). Tax aggressiveness is a reduction of the present value of tax payments or a strategy of minimizing taxes through legal means by exploring, the complexities, technicalities and loopholes in the tax laws. Taxpayers take advantage of the provisions of the tax laws to reduce their explicit corporate tax liabilities such as arranging to take income in the form of lightly taxed capital gains or untaxed fringe

benefits rather than as fully taxed wages and salaries (Annuar, Salihu, & Obid, 2014; Dowling, 2013; Rego, 2003). Is therefore, the legal utilization of the tax regime to ones‟ own advantage, to reduce the amount of tax that is payable by means that are within the law (Pasternak and Rico, 2008).

Otusanya, (2011) noted that tax aggressiveness is not an unlawful practice which has the effect of reducing the government revenues needed for the provision of infrastructures, and for public services and public utilities. It is a practice of using the legal exploitation of the tax system to ones advantage to reduce the amount of tax that is payable by ways that are within the law while making a full disclosure of the material information to the tax authorities (Desai & Dharmapala, 2006). Desai and Dharmapala (2009) posited that tax aggressiveness can also be seen as a transfer of value from the state to shareholders of organizations. This involves strategies designed to create information asymmetry between tax authorities and the firm so as to prevent the detection from tax authorities. It represents a continuum of tax planning strategies, encompassing activities that are perfectly legal and more aggressive transactions that fall into the grey area (Wang, 2010).

According to Seyi (2003), tax can be avoided in Nigeria, where a capital expenditure is incurred with the purpose of claiming capital allowance and a foreign investment is made with the aim of being exempted from income tax. It is any activity that reduces tax paid given the level of earnings. Tax aggressiveness involves any transaction that has any effect on the firm‟s tax burden. This includes real activities which have tax benefits, lobbying activities aimed at reducing a firm‟s tax burden, and activities undertaken solely for the purpose of avoiding taxes (Guo, 2014). If successfully deployed, tax aggressiveness strategy would transfer wealth from the state or government to shareholders. Therefore, it should result in relatively low taxes payable (that is, low Effective Tax Rates), and higher after-tax cash flows, which will show up in analysts‟ financial reports and ultimately, stock prices (Chena, Cheokb, & Rasiahc, 2016). Effective tax avoidance seeks to minimize taxes but only to the extent that such planning maximizes after-tax returns (Scholes, Wolfson, Erickson, Maydew, & Shevlin, 2005). For the purpose of this study, the tax aggressive practices investigated include the Thin Capitalization and Capital Intensity are explained below

Thin Capitalization

The financing decision in an organization has been a major key decision when it involves aggressive tax management mechanism. An organization has opportunity of deciding percentage of debt financing to its equity financing. If a firm decides on equity financing, although it can be a cheaper alternative, it has a cost associated through the remuneration of investors, which is payment of dividends. Dividends are not deductible for tax purposes. The deductibility of interest expense leads firms to prefer debt financing rather than equity financing. As pointed out by Ribeiro (2015); Kraft (2014), firms financing decisions may also contribute to the alignment of shareholders and managers interests.

Managers of firms with higher levels of leverage are subject to the discipline of financing agreements imposed by creditors through the inclusion of limiting clauses. These restrictions reduce the leeway available to take decisions that are not value maximizing only for the purpose of extracting private benefits. This stands to reason that more

leveraged firms exhibit lower effective tax rates. Kraft (2014), Richardson and Lanis (2007) find a significant negative relationship between leverage, used as a proxy for capital structure, and effective tax rates.

Capital Intensity

Capital intensity is the amount of fund invested in fixed assets by an organization. It is a known fact that all fixed assets are subject to depreciation every year, which give rise to depreciation expenses in the company's financial statements. Investment decisions on asset acquisitions are characteristic that can influence effective tax rates. As pointed out by Hanlon and Heitzman, (2010) managers‟ investment decisions can be to some extent constrained by corporate taxes due to the uncertainty of tax payments and deductions that have to be incorporated in the calculation of an investment's present value. As well as the deductibility of interest expense, capital allowance and amortizations are an important slice of firms costs.

Capital allowance is the amount of capital investment costs, or money directed towards a company's long-term growth, a business can deduct each year from its revenue via depreciation. Thus, capital intensity has an influence on tax avoidance. Also, research conducted by by Dwiyanti and Jati (2019), Artinasari and Mildawati (2018) also affirms that capital intensity has a positive effect on tax avoidance, and Budianti and Curry (2018), Sinaga and Suardikha (2019), Muzakki and Darsono (2015), Rifai and Atiningsih (2019) which shows that capital intensity has a negative effect on tax avoidance. Therefore, firms that are more capital-intensive benefit more from depreciations deductibility. This is even more important because an asset economic life is usually longer than the depreciation period (Richardson & Lanis, 2007). From the existence of different depreciation methods, organizations that are capital-intensive can easily manage taxes by increasing or deferring depreciation expense and, consequently, they can take advantage from temporary book differences.

Financial Performance

Success of an organization is explained by its performance over a certain period of time. Performance measurement is critical for effective management of any firm (Demirbag, Tatoglu, Tekinkus &Zaim, 2006). The process improvement is not possible without measuring the outcomes. Hence, organizational performance improvement requires measurements to identify the level to which the use of organizational resources impact business performance (Gadenne and Sharma, 2002). Performance measurement can offer significant invaluable information to allow management monitoring of performance, report progress, improve motivation and communication and pinpoint problems (Al-Matari, Al-Swidi, & Fadzil, 2014). It is to an organizations best interest to evaluate its performance. Researchers have extended efforts to determine measures for the concept of performance as a crucial notion. Finding a measurement for the performance of the firm enables the comparison of performances over different time periods. However, researchers have measured performance using various indicators which include but not limited to; return on investment, return on equity, return on asset, turnover, profit before tax amongst others. Measuring financial performance in this study will focus on profit before tax.

Profit before Tax

Profit before tax (PBT) is a measure that looks at a company profits before the company pays corporate income tax. It deducts all expenses from revenue including interest expenses and operating expenses except for income tax. Profit before tax combines all of the company's profits before tax, including operating, non-operating, continuing operations and non-continuing operations. PBT exists because tax expense constantly changes and helps an investor to have a good idea of the changes in the firms‟ profits yearly. PBT includes all income earned regardless of the source. This includes sales, commissions, service revenue, interest and rent received. All expenses are subsequently deducted except for corporate income tax. PBT provides the internal management and external users of financial data with a company's operating performance. The elimination of income tax expense from the PBT allows for a greater comparison of the operations of two or more firms regardless of how the taxation policies define their net profit. Therefore, by excluding income tax, PBT minimizes one additional variable that may hold different indicators which influence the way financial data reads. This is because one firm may receive substantial tax benefits that will positively influence the net income of one entity, while an entity under unfavorable taxation policies will be negatively influenced.

Also, taxation differences may also exist heavily between companies as the age, capital utilization and geographical location will play factors in how much income tax a business must pay. PBT eliminates any influence a taxation jurisdiction which may have on a company's financial information. When profitability is measured based on profit before tax it is expected that more profitable firms have higher earnings and, consequently, pay more taxes. This point of view is the one most evident in the literature. A positive association between firms profitability and Effective tax rate (ETR) was found by Armstrong, Blouin, Jagolinzer, and Larker (2012), Minick and Noga (2010), Richardson and Lanis (2007. As pointed out by Rego (2003) more profitable firms have lower costs associated to managing taxes because they have more resources to invest in tax planning activities that contribute to lower effective tax rates. Furthermore, firms with higher profit before tax have more incentives to reduce their taxation burden and, consequently, to decrease ETRs. PBT is a performance measurement which emphasizes the general operations of a business and therefore a sensitive indicator with aptitude to influence effective tax rate, hence the choice of PBT as a proxy for performance in this study.

Empirical Studies

Empirical studies reviewed in relation to this study include researches carried out by Yetty, Eka, and Eneng, (2016) investigated whether thin capitalization can have significant effect on tax avoidance. The population of their study was limited to manufacturing firms listed on Indonesian Stock exchange for period 2010-2014. By purposive sampling, 108samples are selected. The study made use of secondary data such as Annual Report Financial Statements that are published during the observation year. The multiple linear regression equation was used. It was discovered that Leverage does not have a significant effect on tax avoidance.

Ilaboya, Izevbekhai and Ohiokha (2016) examined the influence of capital intensity on tax aggressiveness as capital intensity is the cash invested in property, plants, and

equipment of a business entity. The study made use of Ordinary least square method with a sample size of 70 firms for a period of 10 years from 2004 to 2014. The more capital invested, the more the firm is said to be capital intense, and this will affect the firm's value positively. They document that a positive relationship exists between capital intensity and tax aggressiveness.

Herbert and Overeseh (2015) documented that the, variable capital intensity (*CAPINT*) is the quotient between property, plant and equipment and total assets. The association between ETR and *CAPINT* is also ambiguous. The most widely obtained result is a negative correlation with tax avoidance, which leads to the assumption that a high level of property, plant and equipment causes a tax reduction in ETR due to the deductibility of high depreciations regarding international tax planning strategies, higher capital intensity might also indicate less mobility of taxable income. The study therefore find a negative effect of capital intensity on the ETR DIFF.

Gamlath and Rathiranee (2013) submitted that capital intensity indicates how much money is invested to produce one rupee of sales revenue. Business tangible properties or tangibleassets are real things that a company has such as buildings or equipment. Capital intensity and tangibility has the vital role in the firms‟ financial performance. They explored the impact of capital intensity and tangibility on the firms‟ financial performance in the Colombo Stock Exchange (CSE). Capital intensity was represented by the capital intensity ratio which is calculated by dividing the Total assets by the sales and the Tangibility is represented by the Total Debt Ratio and Debt to Equity Ratio. The financial performance of the firm represented by the Profit Margin (PM), Return on Assets (ROA) and Return on Capital Employed (ROCE). The findings of the study revealed that there is a significant relationship between the Capital Intensityand tangibility and the financial performance. This means that as the firm's capital intensity and tangibility increase it will significantly increase firm's financial performance and future stability, and the financial mangers always act to increase firm's value in order to maximize the shareholders wealth.

Lanis and Richardson, (2012) study used capital intensity (CAPINT) as a control variable given that previous researches show that physical plant and equipment makes a corporation much more visible to the public and to the community at large. Thus, capital intensive corporations disclose more CSR information than non-capital-intensive corporations. The study measured CAPINT as net property, plant and equipment divided by total assets. The study made of OLS to test the formulated hypothesis. Of the 40 corporations listed on the Australian Stock Exchange (ASX), 20 were considered to be tax aggressive, as they were accused of suchaggressiveness during the 2001-2006 period. The empirical results of the study document a positive and statistically significant association between corporate tax aggressiveness and CSR disclosures, thereby confirming legitimacy theory in context of corporate tax aggressiveness.

Literature Gap

From the reviewed studies carried out, tax aggressiveness on firm performance were more of foreign based leaving Nigeria under-explored as the few that existed were not robust since they basically looked at the determinants of tax aggressiveness instead of

its bottom-line effect on firm performance. Therefore, there is a research gap which our study seeks to research address.

RESEARCH METHODOLOGY

Research Design

The study adopted ex-post facto research design to explain the relationship between tax aggressiveness and financial performance. Ex-post facto research design according to Louis, Lawrence and Keith (2005) is a method of testing out possible antecedents of events that have happened and cannot therefore, be engineered or manipulated by the researcher. The justification for adopting this design is that requisite data were not manipulated but sourced from secondary materials with a view of gaining deeper information and obtaining good knowledge about the study.

Population and Sample

The population of the study consists of selected manufacturing companies on Nigerian Stock Exchange for the period 2012 – 2021.

The researcher adopted the use of purposive sampling technique to select organizations incorporated prior 2012 considering a 10 years study period. These companies include 7 health care manufacturing companies and 12 industrial goods manufacturing companies.

Sources of Data

The study made use of secondary data which were from the audited annual reports and accounts of the sampled companies for the year 2012 to 2021. This data source is used because Annual report and accounts of a company remain a regularly produced statutory document that evokes an important or valid construction of a company social imagery (CAMAs, 2004). Based on this, data collected has a high level of reliable and reflection of the selected organizations performance for the period under study.

Method of Data Analysis and Model Specification

Data collected were analyzed using estimation. The estimation test is the correlation matrix and variance inflation factor tests to check for the existence or otherwise of autocorrelation among the explanatory variables. The model for this study adapts that of Kawor and Kportorgbi (2014), which examined the effect of tax planning on firms‟ market performance. Kawor and Kportorgbi model is presented below;

Tobins qit = αit + 1(Taxsavings) it + 2(Sgrowth) it + 3(Fsize) it + 4(fLev) it + 5(Age) it +εit

Tobins q model was modified for the study based on the proxy variable guiding this study as follows; Financial Performance indicates Profit Before Tax, while Proxies for Tax Aggressiveness is thin capitalization and capital intensity. Our study modified the model as follows

FPIit = β0 + β1TAit-1 +µit - - - - - 1
PBTit = β0 + β1THINCAPit-1 + β2CAPINTit +µit - -

2

Where:

FPI = Financial Performance Indicator

FPI =(PBT) Profit Before Tax

Tax Aggressiveness = (THINCAP), = CAPINT

THINCAP=Thin Capitalization

CAPINT=Capital Intensity

$\beta 0$ = Constant term
$\beta 1$- = Coefficients of the independent
u=error term and

Measurement of Variables

Profit Before Tax (PBT) Margin: PBT margin is a financial accounting tool used to measure the operational efficiency of a company. It is a ratio that tells us the percentage of sales that has turned into profits or, in other words, how many cents of profit the business has generated for each Naira of sale before deducting taxes. The pretax profit margin is widely used to compare the profitability of businesses within the same industry. For the purpose of the study, the PBT is the ratio of profit/loss to sales performance of the selected companies which is arrived at by dividing the value of profit/loss by the total sales for the period/financial year.

Thin Capitalization (THINCAP): Thin capitalization refers to the situation in which a company is financed through a relatively high level of debt compared to equity. In this study, Thin Cap is arrived at by dividing debt with equity,

Capital Intensity (CAPINT): Capital intensity is the amount of fixed or real capital present in relation to other factors of production. The capital intensity ratio is total assets divided by sales

RESULTS

Correlation Coefficient on Measures of Tax Aggressiveness on Financial Performance of Selected Manufacturing Companies in Nigeria

		PBT	THIN CAPITALIZATION	CAPITAL INTENSITY
Pearson Correlation	PBT	1.000	-.158	.046
	THIN CAPITALIZATION	-.158	1.000	.068
	CAPITAL INTENSITY	.046	.068	1.000
Sig. (1-tailed)	PBT	.	.253	.424
	THIN CAPITALIZATION	.253	.	.388
	CAPITAL INTENSITY	.424	.388	.

Source: SPSS Output, 2023

Result on table above indicated a negative relationship of -.158 between thin capitalization and profitability indicating that thin capitalization has reduced the profitability

of the manufacturing companies. The lesser the thin capitalization has helped in improving the profit performance of the companies. Also, relationship between capital intensity and profitability indicated a positive relationship of .046.

Model Summary on Measures of Tax Aggressiveness on Financial Performance of Selected Manufacturing Companies in Nigeria

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.475[a]	.141	-.021	1.45885	.141	.872	3	16	.476	1.823

a. Predictors: (Constant), THIN CAPITALIZATION, CAPITAL INTENSITY

b. Dependent Variable: PBT

Source: SPSS Output, 2023

Result on table above a R value of .475 which indicated a positive relationship of 47.5% between the independent variable (THINCAP and Capital Intensity) relationship with the dependent variable (PBT). The R^2 value of .141 also shows that both of ThinCap and Capita Intensity explains 14.1% of the profitability of the selected manufacturers in Nigeria. With Adjusted R^2 showing a value of -.021, it can be concluded that the effect of all the independent variables are not significant on the dependent meaning combination of ThinCap, and Capita Intensity are not negatively affecting the profitability performance of the companies under study.

ANOVA[b] on Measures of Tax Aggressiveness on Financial Performance of selected Manufacturing Companies in Nigeria

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.567	3	1.856	.872	.476[a]
	Residual	34.052	16	2.128		
	Total	39.619	19			

a. Predictors: (Constant), THIN CAPITALIZATION , CAPITAL INTENSITY

b. Dependent Variable: PBT

Source: SPSS Output, 2023

Table above indicated with the F-value of .872 with a significance value of .476 above the traditional significance value of .05 indicated that the effect of each of the predictors on the dependent variable is highly significant.

Coefficients[a] on Measures of Tax Aggressiveness on Financial Performance of selected Manufacturing Companies in Nigeria

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-.476	1.477		-.323	.751					
	THIN CAPITALIZATION	-.001	.002	-.142	-.611	.550	-.158	-.151	-.142	.992	1.008
	CAPITAL INTENSITY	-.021	.272	-.018	-.076	.940	.046	-.019	-.018	.948	1.054

a. Dependent Variable: PBT
Source: SPSS Output, 2023

The result on table above showing B-values of the independent value prediction of the dependent variables shows a value of -.001, and -.021 for Thin Cap, and Capital Intensity respectively. For every unit increase in profitability, there is a -.001 decrease in the predicted profitability which simply means that thin capitalization is not statistically different from 0. Also result of capital intensity also shows a value of -0.21 also indicating that for every unit increase in profitability, there is a -.021 decrease in the predicted profitability which simply means that capital intensity is not statistically different from 0.
The t-value result shows a value of -.611 for Thin capitalization which is less than the traditional .196 acceptance value for a regression coefficient. Based on the above, it can be concluded from hypothesis one that; There is no significant impact of thin capitalization on profit before tax of selected manufacturing companies in Nigeria
Also, the t-value result for capital intensity show a value of -.076 for Capital Intensity which is less than the traditional .196 acceptance value for a regression coefficient. Based on the above, it can also be concluded for hypothesis two that; Capital intensity does not have any significant effect on profit before tax of selected manufacturing companies in Nigeria

Discussion of Findings

From the finding of the study which showed that, thin capitalization does not have any significant effect on profit before tax of selected manufacturing companies in Nigeria. The findings shows manufacturing companies are not tax aggressive as it relates to use of debt capital to financing investment as against use of equity capital. This justifies position of Hanlon and Slemrod (2009) pointed that organization with high tax aggressiveness experiences firm decline. This is as a result of investors fear that the reputation cost of the organization might be affected which is synonymous to tax avoidance.

Finding showing that capital intensity does not have any significant effect on profit before tax of selected manufacturing companies in Nigeria justify the position of Gamlath and Rathiranee (2013) who's finding revealed that that there is a significant relationship between the Capital Intensity and tangibility and the financial performance which means that as the firm capital intensity and tangibility increases it will significantly increase firm's financial performance and future stability, and the financial mangers always act to increase firm value in order to maximize the shareholders wealth. The findings is also

related to the findings of Lee (2010) who discovered that capital intensity has a negative effect on U.S. restaurant firms‟ value performance. The findings of Ilaboya, Izevbekhai and Ohiokha (2016) as it is expected that investment in assets should increase outflow of cash and reduction of tax payable through depreciation expense which reduces profit of an organization available for tax purposes which is they documented as to have a positive relationship between capital intensity and tax aggressiveness.

CONCLUSION AND RECOMMEDATIONS

The researcher concludes based on the findings that thin capitalization does not have any significant effect on profit before tax of selected manufacturing companies in Nigeria. It was also concluded that capital intensity does not have any significant effect on profit before tax of selected manufacturing companies in Nigeria. The researcher still concludes that the measures are effective as measures to aggressive tax management on profitability of the health and industrial goods manufacturing companies.

In line with the conclusion of this study, the researchers recommend that**:**

i. Government should properly define tax incentives and reliefs to organizations to enable organizations be aware of cost saving benefits to improving financial performance to business investors into the health and manufacturing sector which is the bedrock of growth in any economy.

ii. Manufacturing companies should exploit the accruing benefits in capital allowances and depreciation by investing in PPEs to enjoy reduced tax expenses.

iii. Managers of manufacturing should engage in tax planning activities that will reduce the effective tax rate, actual interest expense rate and improve overall financial performance.

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