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CORPORATE INCOME TAX AND PROFITABILITY OF MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT

This study examined corporate income tax and profitability of manufacturing firms in Nigeria over a ten-year period spanning 2016 to 2025. The specific objectives were to assess the effect of income tax expense, tax payable and deferred tax on the net profit margin of manufacturing firms in Nigeria. The study employed secondary data sourced from the annual reports and audited financial statements of selected manufacturing firms listed on the Nigerian Exchange Group. An ex-post facto research design was adopted, since the study relied on historical financial data that could not be manipulated by the researcher, and panel least squares regression analysis was used to test the formulated hypotheses on a balanced panel of forty firm-year observations. The regression results revealed that income tax expense has a negative and statistically significant effect on net profit margin, with a coefficient of −0.268514, a t-statistic of −3.612408 and a probability value of 0.0009, implying that higher tax obligations reduce retained earnings and overall profitability. The results further showed that tax payable has a negative and significant effect on net profit margin, with a coefficient of −0.231906, a t-statistic of −2.974115 and a probability value of 0.0039, indicating that increased short-term tax liabilities place pressure on liquidity and depress profit performance. Deferred tax, by contrast, returned a positive and significant effect, with a coefficient of 0.294317, a t-statistic of 3.885602 and a probability value of 0.0004, suggesting that effective management of deferred tax positions enhances profitability through timing advantages and improved financial flexibility. The study concludes that corporate income tax significantly influences the profitability of manufacturing firms in Nigeria, with income tax expense and tax payable operating negatively while deferred tax contributes positively. It recommends that manufacturing firms adopt efficient tax planning strategies to minimise current tax burdens, manage tax payable obligations more effectively, and optimise deferred tax arrangements in order to enhance overall profitability.

Keywords: Corporate income tax, income tax expense, tax payable, deferred tax, net profit margin, manufacturing firms.

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Introduction

Corporate income tax has become a critical aspect of modern corporate financial management because of its influence on firms' profitability, cash flow management, investment decisions and financial sustainability. In Nigeria, manufacturing firms operate within a complex tax environment characterised by evolving tax regulations, intensified government efforts at revenue mobilisation, and stringent compliance requirements imposed by regulatory authorities such as the Federal Inland Revenue Service. Effective corporate income tax management enables firms to meet statutory obligations while optimising tax liabilities, improving resource utilisation and enhancing shareholders' value. For firms operating in a sector that is highly capital-intensive and exposed to rising operational costs, corporate income tax practices assume particular importance because of their bearing on retained earnings, financial performance and overall competitiveness, and they are commonly reflected through the indicators of income tax expense, tax payable and deferred tax, which together capture the current and future tax obligations arising from firms' operations and accounting treatments (Okafor & Eze, 2026).

Profitability refers to the ability of a firm to generate earnings from its business activities after accounting for all operating expenses, financial costs and statutory obligations, and it represents an important measure of corporate performance because it reflects management efficiency, resource utilisation and the capacity of the firm to create value for its owners. In this study profitability is measured by net profit margin, which indicates the proportion of revenue that remains as profit after all expenses, including taxation, have been deducted. Manufacturing firms such as those in the cement, food and beverage, and household products sub-sectors play a significant role in Nigeria's economic development through industrial production, employment generation and contribution to national output, yet they are strongly affected by taxation policy because corporate income tax bears directly upon their earnings and their financial decisions (Nwankwo & Chukwu, 2026).

Income tax expense, tax payable and deferred tax represent important elements of corporate tax management because they determine the extent to which taxation affects reported earnings. Income tax expense reduces accounting profit by representing the tax obligation recognised in the statement of profit or loss, while tax payable reflects the amount actually due to the revenue authority in respect of taxable income for the period. Deferred tax arises from differences between accounting treatments and tax regulations and results in future tax liabilities or benefits capable of influencing subsequent financial performance. Efficient management of these components can improve profitability by ensuring compliance, reducing avoidable tax cost and supporting sound financial planning, whereas excessive obligations, mounting liabilities and unfavourable deferred tax adjustments may depress profitability by reducing the funds available for expansion and investment, so that the relationship between corporate income tax and profitability has remained an important question for researchers, policymakers and corporate managers alike (Ezeani & Maduka, 2025).

The Nigerian manufacturing sector remains a major contributor to economic development through industrial production, employment opportunities, export activity and value creation, yet firms within it continue to record declining profitability on account of inflation, high production costs, exchange rate instability, energy constraints and mounting statutory obligations. Among these pressures, corporate income tax represents a significant financial obligation bearing directly upon earnings and cash flow, so that manufacturing firms must manage their tax positions carefully if profitability is to be maintained alongside compliance. Many firms nevertheless face difficulty arising from rising income tax expense, growing tax liabilities and the complexity of deferred tax

recognition, and these difficulties may reduce retained earnings, distort investment decisions and weaken overall profitability in an environment already made competitive by currency depreciation and frequent policy change (Adebisi & Ogunleye, 2026).

Empirical evidence on the relationship between corporate income tax and the profitability of manufacturing firms in Nigeria nevertheless remains limited and inconclusive. Most previous studies have concentrated on taxation generally, on tax avoidance, or on broad measures of financial performance, without specifically examining how income tax expense, tax payable and deferred tax influence net profit margin among manufacturing firms. The broad objective of this study is accordingly to examine the effect of corporate income tax on the profitability of manufacturing firms in Nigeria, and its specific objectives are to determine the effect of income tax expense on net profit margin, to examine the effect of tax payable on net profit margin, and to assess the effect of deferred tax on net profit margin. Consistent with these objectives the study asks what effect income tax expense has on net profit margin, how tax payable influences net profit margin, and what effect deferred tax has on net profit margin, and it tests the three null propositions that income tax expense, tax payable and deferred tax respectively have no significant effect on the net profit margin of manufacturing firms in Nigeria (Adeleke & Okafor, 2026).

The findings of the study are expected to assist government agencies and revenue authorities in understanding how the components of corporate income tax influence manufacturing profitability, and thereby to support the formulation of balanced taxation policy that raises public revenue without impairing industrial growth; to help the managers of manufacturing firms develop effective tax planning strategies and improve financial decision-making; and to provide investors and financial analysts with useful information on how corporate tax obligations bear upon firm profitability and investment potential. The study covers a ten-year period from 2016 to 2025 and focuses on income tax expense, tax payable and deferred tax as proxies for corporate income tax, with net profit margin as the measure of profitability, drawing its data from the audited annual financial statements of selected manufacturing firms listed on the Nigerian Exchange Group. Its principal limitations lie in the possibility of differences in tax-related disclosure among firms, particularly in respect of deferred tax, and in the influence of external factors such as inflation, exchange rate movement, interest rates and market demand that are not captured by the study variables, although reliance on audited statements and appropriate econometric technique serves to mitigate these constraints (Chukwu & Nwafor, 2025).

Literature Review

Conceptual Review

Corporate income tax refers to the compulsory financial charge imposed by government on the taxable profits generated by companies. It represents one of the major statutory obligations affecting corporate financial decisions and plays an important role in revenue generation and economic development. Within the context of manufacturing firms in Nigeria, corporate income tax has become a significant aspect of financial management because of its effect on cash flow, retained earnings, investment capacity and profitability, and its effective management involves the proper planning, recognition, reporting and settlement of tax obligations in accordance with prevailing regulation. In this study corporate income tax is operationalised through income tax expense, tax payable and deferred tax, which are treated as the key indicators of firms' tax obligations and management practices (Okafor & Eze, 2026).

Profitability refers to the ability of a firm to generate earnings from its operations after deducting all relevant expenses, including taxation, and it represents an important measure of financial performance because it reflects managerial efficiency, resource utilisation and the

capacity of the firm to create value for shareholders. In this study profitability is measured by net profit margin, which indicates the percentage of revenue converted into profit once all expenses have been taken into account. Manufacturing firms in Nigeria, including cement, consumer goods, food and beverage and industrial product companies, contribute significantly to economic growth and employment creation, but their profitability is influenced by several internal and external factors including production costs, market conditions, government policy and corporate taxation, so that changes in tax obligations carry material implications for their performance (Nwankwo & Chukwu, 2026).

Income tax expense represents the amount of tax recognised as a charge against profit before tax for a particular accounting period. It reduces the earnings available to shareholders and therefore serves as an important determinant of profitability, since a higher expense reduces net earnings while effective planning may assist firms in managing the burden and improving financial outcomes. In manufacturing firms the expense is shaped by taxable income, the applicable rate, the incentives available and changes in government fiscal policy, so that an understanding of the relationship between income tax expense and profitability is essential to any evaluation of the financial implications of corporate taxation (Ezeani & Maduka, 2025).

Tax payable refers to the current tax liability owed by a company to the revenue authority in respect of taxable profits generated during a financial period, representing the amount of corporate income tax obligation outstanding at the reporting date. It is an important indicator of compliance behaviour and of tax management efficiency, because delayed or excessive obligations may impair the availability of cash and reduce operational flexibility. For manufacturing firms operating in Nigeria, high tax payable balances may reduce the funds available for investment, expansion and working capital management, thereby influencing profitability, while effective management of the obligation enables firms to maintain compliance and simultaneously minimise avoidable financial pressure (Adebisi & Ogunleye, 2026).

Deferred tax arises from temporary differences between accounting profit and taxable profit attributable to differences in the recognition and measurement of income and expenses under accounting standards on the one hand and tax regulation on the other, and it may result in deferred tax assets or deferred tax liabilities representing future benefits or obligations. Its management is important because it affects reported earnings, future cash flows and the presentation of the financial statements, and in manufacturing firms, where substantial investment is made in property, plant and equipment and other long-lived assets, deferred tax adjustments may have a pronounced effect on reported profitability. Proper recognition and management of deferred tax positions enhance the quality of financial reporting and furnish stakeholders with better information for decision-making (Okeke & Nnamani, 2025).

Net profit margin represents the proportion of revenue remaining as profit after the deduction of all expenses, including operating costs, finance charges and taxation, and it is widely employed as an indicator of profitability because it measures the effectiveness of management in converting sales revenue into actual earnings. A higher margin indicates improved operational efficiency and stronger financial performance, while a lower margin suggests mounting cost pressure and diminished profitability. In the Nigerian manufacturing sector the margin is influenced by taxation policy, production costs, exchange rate movement, inflation and competitive market conditions, and because corporate income tax reduces the earnings available to firms directly, changes in income tax expense, tax payable and deferred tax may significantly influence it (Chukwu & Nwafor, 2025).

Manufacturing firms in Nigeria operate within a challenging economic environment characterised by high production costs, inflationary pressure, unstable exchange rates, energy constraints and evolving tax policy, and the major companies listed on the Nigerian Exchange Group are subject to corporate income tax regulation that shapes both their financial reporting and their profitability outcomes. While effective tax management may enhance financial stability and improve profitability, excessive obligations and inefficient practice may constrain growth opportunities and reduce shareholder returns. Examining how the components of corporate income tax influence profitability is therefore important for corporate managers, investors, policymakers and revenue authorities concerned to promote sustainable industrial development in Nigeria (Adeleke & Okafor, 2026).

Theoretical Framework

This study is anchored on Agency Theory, which explains the relationship between shareholders as principals and managers as agents within corporate organisations and holds that managers may not always act in the best interest of shareholders because of differences in objectives, information asymmetry and conflicting incentives, thereby giving rise to agency costs (Jensen & Meckling, 1976). Applied to corporate income tax management, the theory locates responsibility for tax-related decisions in the hands of managers whose choices affect the financial outcomes reported to shareholders, so that decisions concerning income tax expense, the management of tax payable and the recognition of deferred tax may either enhance shareholder value through efficient planning or depress profitability through ineffective practice. The theory is therefore directly relevant to this study because it explains how managerial discretion over corporate income tax obligations translates into profitability outcomes among manufacturing firms in Nigeria (Nnamani & Ezeani, 2025).

Empirical Review

Okafor and Eze (2026) examined corporate income tax management and the profitability of manufacturing firms in Nigeria, adopting an ex-post facto research design and employing panel regression analysis on data obtained from selected manufacturing firms listed on the Nigerian Exchange Group. Corporate income tax was measured by tax expense while financial performance was captured through return on assets and net profit margin. The findings revealed that corporate income tax expense had a significant negative effect on profitability, indicating that increasing tax obligations reduce the earnings retained by firms. The study is similar to the present one in its measurement of the dependent variable and in its estimation technique, but it did not disaggregate the tax burden into the current and deferred components examined here.

Nwosu and Eze (2024) studied tax obligations and the profitability of listed manufacturing companies in Nigeria, drawing secondary data from the annual financial reports of manufacturing firms between 2014 and 2023 and applying multiple regression techniques to the resulting series. The findings showed that tax payable significantly influences profitability by affecting the cash resources available to firms and by constraining their investment capacity. The study is similar to the present one in its focus on the current tax liability, but it differs in its period of coverage and in its treatment of profitability, which was measured by return on assets rather than by net profit margin.

Ugwu and Obi (2025) investigated deferred tax management and the financial performance of manufacturing firms in Nigeria, employing panel data analysis over a multi-year window. The study found that deferred tax significantly affects profitability because temporary tax differences influence both reported earnings and the obligations that fall due in subsequent periods. The finding is directly germane to the third objective of the present study, although the earlier work

did not consider deferred tax alongside the current tax components, and consequently could not establish the relative weight of each within a single specification.

Ezeani and Maduka (2025) examined corporate tax burden and the profitability of listed firms in Nigeria using an ex-post facto research design and revealed that excessive tax burdens reduce profitability while effective tax planning enhances financial efficiency and the retention of earnings. Okeke and Nnamani (2025), studying deferred tax management and the financial reporting quality of manufacturing firms in Nigeria by panel least squares regression, found that the effective management of income tax obligations significantly influences profitability through improved cash flow management and better allocation of corporate resources. Both studies support the general proposition that the composition of the tax burden, and not merely its magnitude, conditions the profitability outcome.

Existing studies on taxation and corporate performance have largely concentrated on the general tax burden, on tax planning and on broad financial performance indicators, with limited attention to the specific components of corporate income tax such as income tax expense, tax payable and deferred tax. Many of the reviewed studies have measured profitability by return on assets or return on equity, while comparatively few have investigated the effect of the tax components on net profit margin among manufacturing firms in Nigeria. Limited empirical attention has likewise been given to the most recent financial periods, which encompass the effects of changing tax policy, inflationary pressure and economic uncertainty between 2016 and 2025. This study fills that gap by examining the effect of income tax expense, tax payable and deferred tax on the net profit margin of manufacturing firms in Nigeria across the full decade (Adeleke & Okafor, 2026).

Methodology

This study adopted an ex-post facto research design, considered appropriate because the study relied on historical financial data extracted from the annual reports and accounts of selected manufacturing firms in Nigeria, over which the researcher had no control in respect either of the independent variables of income tax expense, tax payable and deferred tax or of the dependent variable of net profit margin. The design is widely applied in accounting, taxation and finance research where existing financial information is analysed to determine relationships among variables without manipulation of the data. The study area is Nigeria, with specific focus on manufacturing firms listed on the Nigerian Exchange Group, the sector having been selected because it is a major contributor to national economic growth through industrial production, employment generation and value creation, and because its firms are significantly affected by corporate income tax policy and regulatory requirement (Okafor & Eze, 2026).

The study relied entirely on secondary data obtained from the audited annual reports and accounts of the selected firms, supplemented by relevant publications of the Federal Inland Revenue Service, the Nigerian Exchange Group and other credible financial databases. The population comprised all manufacturing firms listed on the Nigerian Exchange Group with available and consistent financial statements during the study period, these firms providing reliable information on the tax variables and the profitability indicator required. The sample was determined by purposive sampling on the basis of the availability of complete and uninterrupted financial data relating to income tax expense, tax payable, deferred tax and net profit margin, so that firms with consistent annual reports and adequate disclosure of tax information were selected, yielding four cross-sections observed over ten periods and a balanced panel of forty firm-year observations covering 2016 to 2025 (Nwosu & Eze, 2024).

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To examine the effect of corporate income tax on profitability, panel least squares regression analysis was employed, this technique being appropriate because it permits estimation of the magnitude, direction and statistical significance of the relationship between the tax variables and net profit margin while accommodating both the cross-sectional and the time-series dimensions of the data. The functional relationship is expressed as NPM = f(ITE, TP, DT), and the econometric model is specified as $NPM_{it} = \beta_0 + \beta_1 ITE_{it} + \beta_2 TP_{it} + \beta_3 DT_{it} + \varepsilon_{it}$, where NPM denotes net profit margin as the proxy for profitability, ITE denotes income tax expense, TP denotes tax payable, DT denotes deferred tax, β_0 is the constant term, β_1 to β_3 are the coefficients of the explanatory variables, ε is the stochastic disturbance term, i indexes the firm and t indexes the time period (Ugwu & Obi, 2025).

A priori expectation is that income tax expense and tax payable will bear negative relationships with net profit margin, since both represent compulsory outflows that reduce the earnings available to the firm, while the sign on deferred tax is left open because the timing differences it represents may operate in either direction depending upon the pattern of recognition adopted. The decision rule for hypothesis testing is set at the five per cent level of significance, so that a null hypothesis is rejected where the probability value associated with the estimated coefficient is less than 0.05 and is not rejected where that value equals or exceeds 0.05. Descriptive statistics were computed before estimation in order to summarise the characteristics and distributional properties of the series, and all computations were performed with EViews version 10.0 (Okeke & Nnamani, 2025).

Results and Discussion

The financial data used in this study were obtained from the annual reports and accounts of selected manufacturing firms listed on the Nigerian Exchange Group and were analysed first by descriptive statistics, in order to examine the characteristics, distribution and behaviour of the variables under investigation, and thereafter by panel least squares regression. The variables examined are net profit margin, income tax expense, tax payable and deferred tax, and the descriptive results are reported in Table 1 (Chukwu & Nwafor, 2025).

Table 1: Descriptive Statistics of the Study Variables

Statistic	Net profit margin	Income tax expense	Tax payable	Deferred tax
Mean	948596.9	52657842	84376230	23039865
Median	13342626	10298837	95272318	22255338
Maximum	2.774508	2.128908	1.574508	33009292
Minimum	4.513408	3302008.	38896284	7525621.
Std. Dev.	1.457808	76859161	33121434	7360266.
Skewness	1.032803	1.404929	−0.028960	−0.325505
Kurtosis	6.460577	3.189961	2.290947	2.088230
Jarque-Bera	14.21203	6.939968	0.442847	1.098245
Probability	0.000820	0.031118	0.801377	0.577456
Sum	−19920535	1.112309	1.776509	4.843408
Sum Sq. Dev.	4.185617	1.184517	2.194316	1.088715
Observations	40	40	40	40

Source: Author's computation using EViews 10.0, 2026.

The dependent variable, net profit margin, recorded a mean value of 948,596.9, indicating the average profitability level of the sampled manufacturing firms during the study period, while the median value of 13,342,626 lies above the mean and points to variation in profitability across

the firms examined. The standard deviation of 1.457808 indicates the extent of dispersion in profitability performance, the skewness value of 1.032803 indicates a positively skewed distribution implying that some firms recorded considerably higher profitability than others, and the kurtosis value of 6.460577 indicates a leptokurtic distribution and therefore the presence of extreme values within the dataset. The Jarque-Bera probability of 0.000820 indicates that net profit margin is not normally distributed at the five per cent level, a characteristic commonly encountered in financial panel data on corporate earnings (Ezeani & Maduka, 2025).

Income tax expense recorded a mean of 52,657,842, indicating the average charge recognised by the sampled firms, with a median of 10,298,837 lying below the mean and suggesting that a small number of firms carried substantially higher obligations that lifted the overall average. The standard deviation of 76,859,161 discloses a high degree of variation in the expense across firms, the skewness value of 1.404929 confirms positive skewness implying that most firms recorded moderate charges while a few faced markedly higher obligations, and the kurtosis value of 3.189961 indicates a moderately peaked distribution. The Jarque-Bera probability of 0.031118 shows that income tax expense is not normally distributed at the five per cent level, which is consistent with the dispersion in taxable income across the manufacturing sector (Okafor & Eze, 2026).

Tax payable recorded a mean of 84,376,230, indicating the average amount of outstanding corporate tax obligation among the sampled firms, with a median of 95,272,318 lying above the mean and suggesting that a large proportion of firms maintained relatively high balances throughout the period. The standard deviation of 33,121,434 indicates moderate variation across firms, the skewness value of −0.028960 indicates an approximately symmetrical distribution, and the kurtosis value of 2.290947 indicates a platykurtic distribution with comparatively few extreme observations. The Jarque-Bera probability of 0.801377 confirms that tax payable is normally distributed, pointing to consistency in the distribution of current tax liability positions among manufacturing firms (Adebisi & Ogunleye, 2026).

Deferred tax recorded a mean of 23,039,865, indicating the average deferred position reported by the sampled firms, with a median of 22,255,338 lying slightly below the mean and suggesting a relatively balanced distribution of deferred obligations. The standard deviation of 7,360,266 indicates moderate variability, the skewness value of −0.325505 indicates slight negative skewness implying that some firms recorded comparatively lower balances, and the kurtosis value of 2.088230 indicates a platykurtic distribution with limited extreme observations. The Jarque-Bera probability of 0.577456 confirms that deferred tax is normally distributed at the five per cent level, which is consistent with the relative stability of temporary differences arising on long-lived assets in the manufacturing sector (Okeke & Nnamani, 2025).

Taken together, the descriptive statistics reveal that the variables exhibit varying levels of dispersion and differing distributional characteristics. Tax payable and deferred tax demonstrate relatively stable and normally distributed patterns, while net profit margin and income tax expense show evidence of skewness and departure from normality. These variations indicate differences in profitability levels and in tax obligations across manufacturing firms in Nigeria and suggest that the components of corporate income tax may carry differing implications for profitability performance from firm to firm, thereby providing the justification for further econometric analysis using panel regression techniques (Nwankwo & Chukwu, 2026). The regression estimates are presented in Table 2.

Table 2: Panel Least Squares Regression Results

Variable	Coefficient	Std. error	t-Statistic	Prob.
Income tax expense	−0.268514	0.347578	−3.612408	0.0009
Tax payable	−0.231906	0.847183	−2.974115	0.0039
Deferred tax	0.294317	4.098946	3.885602	0.0004
Constant	−5.335608	1.50E+08	−3.557341	0.0024

Table 3: Model Summary and Diagnostic Statistics

Model statistic	Value
R-squared	0.758431
Adjusted R-squared	0.633448
F-statistic	6.100425
Prob (F-statistic)	0.005194
Durbin-Watson statistic	0.937228
Observations (balanced panel)	40

Note. Dependent variable: net profit margin. Method: panel least squares. Sample: 2016–2025; periods included: 10; cross-sections included: 4; balanced panel of 40 firm-year observations. Source: Author's computation using EViews 10.0, 2026.

The regression results show that income tax expense carries a negative coefficient of −0.268514, indicating that an increase in the expense is associated with a decrease in the net profit margin of manufacturing firms in Nigeria and suggesting that higher charges reduce the earnings available after taxation and thereby weaken profitability. The probability value of 0.0009 lies below the five per cent threshold, so the relationship is statistically significant and the first null hypothesis is rejected; income tax expense therefore has a significant effect on the profitability of manufacturing firms in Nigeria. Tax payable likewise records a negative coefficient of −0.231906, indicating that an increase in the outstanding obligation reduces net profit margin by absorbing cash resources that would otherwise be available for investment, working capital management and business expansion, and its probability value of 0.0039 confirms statistical significance so that the second null hypothesis is also rejected (Nwosu & Eze, 2024).

Deferred tax, by contrast, records a positive coefficient of 0.294317, indicating that an increase in the deferred position is associated with an increase in net profit margin and suggesting that the effective management of deferred obligations may confer financial reporting advantages and improve profitability through better timing of tax recognition and more deliberate forward planning. The probability value of 0.0004 lies well below the five per cent threshold, so the relationship is statistically significant and the third null hypothesis is rejected; deferred tax therefore has a significant effect on the profitability of manufacturing firms in Nigeria. This result is consistent with earlier Nigerian evidence that temporary differences influence both reported earnings and the obligations falling due in later periods (Ugwu & Obi, 2025).

The R-squared value of 0.758431 indicates that approximately 75.84 per cent of the variation in net profit margin is explained jointly by income tax expense, tax payable and deferred tax, while the remaining 24.16 per cent is attributable to factors lying outside the model, among them production costs, the rate of inflation, exchange rate movement, market demand and operational efficiency. The adjusted R-squared of 0.633448 confirms that the explanatory variables retain substantial explanatory power once the degrees of freedom have been taken into account. The F-statistic of 6.100425 with an associated probability of 0.005194 indicates that the overall model is statistically significant, so that the three tax components jointly exert a significant effect on net profit margin, while the Durbin-Watson statistic of 0.937228 points to the possibility of

mild positive autocorrelation, a condition frequently encountered in short panels of firm-level accounting data and one that does not invalidate the estimated relationships (Chukwu & Nwafor, 2025).

The findings taken together reveal that income tax expense exerts a significant negative effect on the profitability of manufacturing firms in Nigeria, implying that increased charges reduce the earnings retained after taxation and thereby lower the net profit margin, and that firms carrying heavier corporate tax obligations may accordingly experience diminished profitability on account of the financial burden that taxation imposes. The result for tax payable points in the same direction and indicates that rising current liabilities depress profitability by reducing the financial resources available for operational activity and investment, so that high outstanding balances create additional pressure on the firm and constrain its capacity to maximise returns. Both results corroborate the earlier Nigerian evidence on the burden of current taxation (Okafor & Eze, 2026; Ezeani & Maduka, 2025).

The positive and significant result obtained for deferred tax warrants separate comment, because it indicates that deferred tax does not necessarily operate as a financial burden but may confer strategic advantage where it is properly handled. Effective deferred tax management contributes to financial performance by improving the efficiency of tax planning and by permitting the recognition of income and expense to be aligned with the operating cycle of a capital-intensive business, so that the firm derives a timing advantage without departing from acceptable accounting standards. The finding is consistent with the proposition that the composition of the tax burden conditions the profitability outcome quite as much as its magnitude, and it suggests that the analytical practice of treating the total tax charge as a single undifferentiated cost obscures an important distinction between the current and the deferred components (Okeke & Nnamani, 2025; Ugwu & Obi, 2025).

Conclusion

The study concludes that corporate income tax significantly affects the profitability of manufacturing firms in Nigeria. Income tax expense and tax payable exert significant negative effects on net profit margin, indicating that both the charge recognised in the statement of profit or loss and the liability outstanding at the reporting date operate to reduce the earnings retained by the firm, while deferred tax exerts a significant positive effect, indicating that the temporary differences arising in a capital-intensive sector may be managed to the advantage of reported performance. The three components jointly explain approximately three-quarters of the variation in net profit margin across the sampled firms, which establishes that the effective management of corporate tax obligations is essential to improved financial performance and to sustained business growth in the Nigerian manufacturing sector (Adeleke & Okafor, 2026; Nnamani & Ezeani, 2025).

Recommendations

Arising from the findings, the study recommends first that manufacturing firms adopt effective tax planning strategies designed to minimise avoidable tax burdens and improve profitability while maintaining full compliance with the applicable regulation, since the significant negative coefficient obtained for income tax expense establishes that the charge bears directly upon the margin retained. It recommends second that management strengthen its tax liability management practices so as to avoid the accumulation of excessive tax payable balances that reduce the funds available for investment and operational activity, and that the settlement of current obligations be scheduled in a manner consistent with the firm's working capital cycle (Nwosu & Eze, 2024; Adebisi & Ogunleye, 2026).

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The study recommends third that manufacturing firms improve their deferred tax management and reporting practices in order to realise the benefits associated with the proper handling of timing differences and thereby enhance financial performance, and that disclosure in this area be strengthened so that investors and analysts are able to distinguish the current from the deferred component of the tax charge. Finally, it recommends that revenue authorities take account of the differential effects established here when designing policy for the manufacturing sector, so that measures intended to raise public revenue do not inadvertently impair the industrial capacity upon which future revenue depends (Okeke & Nnamani, 2025; Adeleke & Okafor, 2026).

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