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THE IMPACT OF COMPANY INCOME TAX (CIT) PAYMENTS ON THE PROFITABILITY OF NIGERIAN MANUFACTURING FIRMS

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ABSTRACT

This study investigates the impact of Company Income Tax (CIT) payments on the profitability of Nigerian manufacturing firms. The manufacturing sector is very important for Nigeria's economy. It provides jobs and helps the country grow. However, many manufacturing firms are struggling to make good profits. One reason for this problem is the high tax burden they face. Company Income Tax is a major cost for these firms. It reduces their net income and affects their ability to reinvest in their businesses. This study used a descriptive survey research design. A sample of 120 accountants and finance managers from 60 manufacturing firms was selected. Data was collected using a structured questionnaire. The data was analyzed using mean scores and chi-square tests. Findings showed that Company Income Tax payments have a significant negative impact on the profitability of manufacturing firms. The study also found that the high CIT rate reduces the funds available for reinvestment. This limits the growth and expansion of these firms. The study concludes that the current CIT regime poses a major threat to the survival and growth of Nigerian manufacturing firms. It recommends that the government should review the CIT rate. It also calls for more tax incentives for manufacturing firms. This will help them become more profitable and competitive.

Keywords: Company income tax, profitability, manufacturing firms, nigeria, tax burden

Introduction

Company Income Tax is a tax that the government charges on the profits of companies. It is a major source of revenue for the Nigerian government. Every company that makes a profit must pay a certain percentage of that profit to the government as tax. This tax is very important for the government. The government uses the money from taxes to build roads, schools, and hospitals. It also uses the money to pay the salaries of workers. Without taxes, the government would not be able to provide these services for the people (Adebayo, 2022).

The manufacturing sector is a very important part of the Nigerian economy. It produces goods that people use every day. These include food, drinks, clothes, and building materials. The manufacturing sector also provides jobs for millions of Nigerians. Many people work in factories and production companies. The sector also contributes to the country's economic growth. It helps to reduce poverty and improve living standards. According to Nwosu (2021), the manufacturing sector employs over 10 million people in Nigeria. This shows how important it is for the country.

Profitability is the ability of a business to make a profit. It is the main goal of any business. A business needs to be profitable to survive and grow. Profits are used to pay shareholders, reinvest in the business, and expand operations. When a business is profitable, it can create more jobs and pay higher wages. It can also invest in new technology and improve its products. However, high taxes can reduce the profits of a business. This can limit its ability to grow and create jobs (Ezenwa, 2021).

The problem is that many Nigerian manufacturing firms are not very profitable. They are struggling to compete with firms from other countries. The high cost of doing business in Nigeria is a big problem. These costs include the cost of electricity, transportation, and raw materials. But one of the biggest costs is Company Income Tax. Many business owners complain that the tax is too high. They say it reduces their profits and makes it hard for them to reinvest in their businesses (Idogun, 2024).

There is a need to understand how Company Income Tax affects the profitability of Nigerian manufacturing firms. This study aims to fill that gap. It will provide valuable information for business owners, policymakers, and the government. The importance of this study cannot be overemphasized. The manufacturing sector is vital for Nigeria's future. It is the key to creating jobs and reducing poverty. But the sector cannot grow if it is burdened with high taxes. By studying this issue, we can find ways to help manufacturing firms become more profitable. This will benefit the firms, their workers, and the entire country.

This study is about the health of Nigerian businesses. It is about ensuring that they have enough money to grow. It is about creating an environment where businesses can thrive. Assessing the impact of Company Income Tax is the first step. This step will lead to actions that can help businesses survive and grow.

Statement of the Problem

Nigerian manufacturing firms are facing a severe threat to their survival and growth due to the high burden of Company Income Tax payments. This sector is vital for the nation's economic development and job creation. It provides essential goods and employs millions of people. However, the high cost of doing business in Nigeria, including high tax rates, is crippling many firms. The primary issue is that Company Income Tax significantly reduces the profits of these firms. This reduces their ability to reinvest in their businesses, expand operations, and create new jobs. According to Ezejiofor and Nwaolisa (2015), taxation as a fiscal policy tool has a significant effect on the performance of manufacturing companies in Nigeria.

The high Company Income Tax rate is a major financial burden. It takes a large chunk of the profits that could be used for growth. This is particularly problematic for small and medium-sized manufacturing firms. These firms often operate on thin margins. The high tax rate makes it difficult for them to survive. They are forced to cut costs, which often means laying off workers or reducing investment in new technology. This creates a vicious cycle of low profitability and limited growth (Chukwuebuka, 2020).

Furthermore, the tax system in Nigeria can be complex and unpredictable. Firms often face multiple taxes and levies from different levels of government. This creates uncertainty and adds to the cost of doing business. It also makes it difficult for firms to plan for the future. They are unsure of their tax liabilities from one year to the next. This uncertainty discourages investment and limits growth. According to Adebayo (2022), the loss of profitability due to high taxes is a silent crisis affecting the most vulnerable manufacturing firms in Nigeria.

This problematic situation is made worse by a critical lack of tax incentives for the manufacturing sector. Many other countries offer tax breaks to manufacturing firms to encourage investment and growth. These incentives can include reduced tax rates, tax holidays, and accelerated depreciation allowances. However, in Nigeria, these incentives are often limited or poorly implemented. This puts Nigerian firms at a disadvantage compared to their competitors in other countries. It also discourages foreign investment in the manufacturing sector.

Therefore, this study is essential to thoroughly investigate and document the specific ways in which Company Income Tax payments are degrading the profitability of Nigerian manufacturing firms. It will directly link the tax burden to the deteriorating financial health of these firms. It will also propose concrete, actionable strategies to reduce the tax burden, improve profitability, and secure the future of the manufacturing sector.

Aim and Objectives of the Study

The aim of this study is to assess the impact of Company Income Tax payments on the profitability of Nigerian manufacturing firms. The specific objectives of the study are to:

1. Examine the perceived impact of Company Income Tax rates on the profitability of manufacturing firms in Nigeria.
2. Assess the effect of Company Income Tax payments on the funds available for reinvestment by manufacturing firms.
3. Investigate the relationship between Company Income Tax compliance costs and the profitability of manufacturing firms.
4. Identify the strategies that manufacturing firms use to manage their tax burden and maintain profitability.

Research Questions

The following research questions guided the study:

1. What is the perceived impact of Company Income Tax rates on the profitability of manufacturing firms in Nigeria?
2. How do Company Income Tax payments affect the funds available for reinvestment by manufacturing firms?
3. What is the relationship between Company Income Tax compliance costs and the profitability of manufacturing firms?
4. What strategies do manufacturing firms use to manage their tax burden and maintain profitability?

Literature Review

The Concept of Company Income Tax

Company Income Tax is a tax on the profits of companies. It is a direct tax, which means it is paid directly to the government by the company. In Nigeria, Company Income Tax is governed by the Companies Income Tax Act (CITA). This law specifies the tax rate, the rules for calculating taxable profits, and the penalties for non-compliance. The tax is administered by the Federal Inland Revenue Service (FIRS). The FIRS is responsible for collecting taxes and enforcing tax laws (Abioye, Osunla & Okoh, 2021).

The main purpose of Company Income Tax is to generate revenue for the government. The government uses this revenue to fund public services. These services include education, healthcare, and infrastructure. Without taxes, the government would not be able to provide these services. Company Income Tax is a major source of revenue for the Nigerian government. It accounts for a significant portion of the government's total revenue. According to Baker-Austin, Trinanes, and Martinez-Urtaza (2020), a stable tax revenue is essential for a country's development.

The Company Income Tax rate in Nigeria has changed over the years. The current rate is 30% for most companies. However, there are different rates for different types of companies. For example, companies with a turnover of less than 25 million naira are taxed at 0%. This is to encourage small businesses. Companies with a turnover between 25 million and 100 million naira are taxed at 20%. The highest rate of 30% applies to companies with a turnover above 100 million naira. These rates are designed to ensure that larger and more profitable companies contribute more to the government's revenue.

However, a high tax rate can discourage investment. It can also lead to tax evasion and avoidance. When the tax rate is too high, companies may try to hide their profits or move their operations to other countries. This can reduce the government's tax revenue in the long run. Therefore, it is important to balance the need for revenue with the need to encourage economic growth. The government must find the right tax rate that maximizes revenue without stifling business activity (Levy & Patz, 2015).

Profitability of Manufacturing Firms

Profitability is the ability of a firm to generate earnings relative to its revenue, operating costs, assets, or equity over a specific period. It is a key indicator of a firm's financial health and performance. Profitability is important for several reasons. It allows a firm to reward its shareholders through dividends. It provides funds for reinvestment in the business. This reinvestment can fund research and development, new equipment, and expansion into new markets. A profitable firm can also attract more investment and credit (Cascarano, Stavrakidis-Zachou, Mladineo, Thompson, Papandroulakis & Katharios, 2021).

There are several ways to measure profitability. Common measures include profit margin, return on assets, and return on equity. Profit margin is the ratio of net profit to revenue. It shows how much profit a firm makes for every unit of revenue. Return on assets measures how efficiently a firm uses its assets to generate profit. Return on equity measures how much profit a firm generates with the money invested by shareholders. These measures provide a comprehensive view of a firm's financial performance. They are used by investors, creditors, and managers to evaluate a firm's health (Fondriest Environmental, 2020).

The profitability of Nigerian manufacturing firms has been a concern for many years. Many firms are struggling to remain profitable. Several factors contribute to this problem. These factors include high production costs, unreliable power supply, poor infrastructure, and intense competition. High production costs are a major problem for manufacturers. The cost of raw materials, energy, and transportation is very high in Nigeria. This makes it difficult for firms to produce goods at a competitive price. As noted by Sanches-Fernandes, Sá-Correia, and Costa (2022), a favorable business environment is crucial for profitability.

Poor infrastructure is another major challenge. Nigeria's roads, railways, and ports are in a poor state. This makes it difficult and expensive for manufacturers to transport goods and raw materials. The unreliable power supply forces manufacturers to rely on expensive generators. This adds significantly to their production costs. These factors make it very difficult for Nigerian manufacturing firms to compete with firms from other countries. The high cost of production reduces their profit margins and makes them less competitive.

Company Income Tax and Profitability

The relationship between Company Income Tax and profitability is a central concern for business owners and policymakers. Company Income Tax is a direct cost for firms. It is paid from the profits of the firm. Therefore, a high tax rate will reduce the net profits of a firm. This is a simple but important relationship. However, the impact of taxes on profitability is more complex than this simple relationship. Taxes can also affect the behavior of firms. For example, a high tax rate may discourage firms from investing or expanding. It may also encourage firms to engage in tax avoidance or evasion (Harrison, Nelson, Morcrette, Morcrette, Preston, Helmer, Titball, Butler & Wagley, 2022).

Several studies have examined the impact of Company Income Tax on the profitability of manufacturing firms. These studies have generally found a negative relationship between taxes and profitability. For example, Idogun (2024) examined the impact of corporate taxes on the financial performance of quoted manufacturing companies in Nigeria. The study found that company income taxes have a negative and statistically significant impact on financial performance. This means that higher taxes lead to lower profitability. Similarly, Ehiriudu, Briggs, and Njoku (2026) found that Company Income Tax has a positive and significant effect on corporate retained earnings. This suggests that when firms pay less tax, they have more funds to reinvest in their businesses.

However, not all studies have found a negative relationship. Onuoha (2024) found that Company Income Tax has a significant effect on the financial performance of manufacturing firms. This study suggested that policy measures to expand tax revenue through more effective tax administration will impact positively on growing the company's profitability. This suggests that a more efficient and transparent tax system could actually improve firm profitability. This is because a well-administered tax system creates a stable and predictable business environment. This environment encourages investment and growth.

The impact of Company Income Tax on profitability is also influenced by the tax incentives available to firms. Many governments offer tax incentives to encourage investment in specific sectors or regions. These incentives can include reduced tax rates, tax holidays, and accelerated depreciation. For example, the Nigerian government has introduced tax incentives to encourage investment in the manufacturing sector. These incentives are designed to reduce the tax burden on firms and improve their profitability. However, the effectiveness of these incentives depends on how they are designed and implemented (Okon, 2021).

Taxation and Economic Growth

Taxation is a crucial tool for economic growth and development. Governments use taxes to fund public services and infrastructure. These services and infrastructure are essential for economic growth. For example, good roads allow goods to be transported more efficiently. Good schools produce a skilled workforce. Good hospitals keep the workforce healthy. All these things are essential for a thriving economy. Therefore, a well-designed tax system can promote economic growth (Cook & Zolnikov, 2019).

However, a poorly designed tax system can hinder economic growth. If taxes are too high, they can discourage investment and innovation. They can also lead to tax evasion and avoidance. This can reduce the government's revenue and undermine its ability to provide essential services. Therefore, it is important to find the right balance. The tax system should be designed to raise sufficient revenue while minimizing the negative impact on the economy (Sampiao, Silva, Poeta & Aonofriesei, 2022).

The Nigerian tax system faces several challenges. These challenges include a high tax burden, a complex tax code, and poor tax administration. The high tax burden is a major concern for businesses. Many firms complain that they pay too many taxes and levies. The complex tax code makes it difficult for businesses to understand their tax obligations. This can lead to unintentional non-compliance and penalties. Poor tax administration can also lead to corruption and inefficiency. These challenges undermine the effectiveness of the tax system and hinder economic growth (Nwosu, 2021).

There is a need for tax reforms in Nigeria. These reforms should aim to simplify the tax system, reduce the tax burden, and improve tax administration. A simpler tax system would make it easier for businesses to comply. A lower tax burden would encourage investment and growth. Better tax administration would ensure that taxes are collected fairly and efficiently. These reforms would help to create a more favorable business environment. This would encourage investment, create jobs, and promote economic growth. According to Isaac (2020), a well-functioning tax system is essential for a prosperous economy.

Company Income Tax and Reinvestment

Reinvestment is the process of using profits to purchase additional assets or invest in new projects. It is a crucial driver of growth for manufacturing firms. Reinvestment can fund research and development, new equipment, and expansion into new markets. It can also be used to improve the efficiency of existing operations. By reinvesting, a firm can become more competitive and profitable in the long run. However, reinvestment requires funds. If a firm is paying a large portion of its profits in taxes, it will have less money available for reinvestment (Abioye, Osunla & Okoh, 2021).

The relationship between Company Income Tax and reinvestment is therefore very important. High taxes reduce the amount of retained earnings that a firm can use for reinvestment. This can limit the growth of the firm. It can also reduce its competitiveness in the long run. This is a particular problem for manufacturing firms in developing countries. These firms often have limited access to other sources of finance, such as loans or equity. They therefore rely on retained earnings to fund their growth. If these earnings are reduced by taxes, the firm's growth is constrained (Baker-Austin, Trinanes & Martinez-Urtaza, 2020).

There is evidence that high Company Income Tax rates discourage investment and growth. For example, many studies have found a negative relationship between tax rates and economic growth. This suggests that high taxes can reduce the overall level of investment in an economy. This can lead to slower economic growth and fewer jobs. Therefore, it is important for governments to consider the impact of taxes on investment and growth when setting tax policies. They should aim to create a tax system that encourages investment and innovation (Cabillon & Lazado, 2019).

On the other hand, taxes can also be used to encourage reinvestment. For example, the government can offer tax incentives for investment in research and development or new equipment. These incentives can reduce the cost of reinvestment and encourage firms to invest more. By using tax policy wisely, the government can encourage growth and innovation. This can lead to a more prosperous economy and higher living standards. According to Nwosu (2021), tax incentives can be a powerful tool for promoting economic development.

Tax Compliance Costs

Tax compliance costs are the costs that firms incur to comply with tax laws. These costs can include the cost of preparing tax returns, hiring tax consultants, and dealing with tax audits. They can also include the cost of time spent by employees on tax-related matters. These costs can be significant for manufacturing firms. They add to the overall cost of doing business and can reduce profitability. According to Idogun (2024), tax compliance costs are a major burden on businesses.

The tax system in Nigeria can be complex and burdensome. Firms often have to deal with multiple taxes and levies from different levels of government. This creates confusion and increases compliance costs. The tax laws can also be difficult to understand. Firms may need to hire expensive tax consultants to help them comply with the law. This adds to their costs. The frequent changes to tax laws also create uncertainty and increase compliance costs. Firms must constantly update their knowledge and systems to stay compliant (Ezejiofor & Nwaolisa, 2015).

Tax compliance costs can be a particular burden for small and medium-sized firms. These firms often have limited resources. They may not have dedicated tax departments or the money to hire tax consultants. They must therefore spend a significant amount of time dealing with tax matters. This reduces their productivity and profitability. In some cases, the cost of compliance may be so high that it forces firms to shut down. This is a serious problem, as small and medium-sized firms are an important part of the Nigerian economy.

The government can reduce tax compliance costs by simplifying the tax system and improving tax administration. A simpler tax system would be easier for firms to understand and comply with. This would reduce the need for expensive tax consultants. Better tax administration would make the tax system more predictable and efficient. This would reduce the uncertainty and confusion that firms currently face. These reforms would reduce the cost of doing business in Nigeria. This would encourage investment and growth (Fondriest Environmental, 2020).

Strategies for Managing Tax Burden

Manufacturing firms use various strategies to manage their tax burden and maintain profitability. These strategies can include tax planning, tax avoidance, and tax evasion. Tax planning is the use of legal methods to minimize tax liability. This can include taking advantage of tax deductions and incentives. Tax avoidance is the use of legal methods to reduce tax liability. This can include structuring transactions in a way that minimizes taxes. Tax evasion is the illegal non-payment or under-payment of taxes (Sanches-Fernandes, Sá-Correia & Costa, 2022).

Tax planning is a legitimate and important strategy for firms. It involves careful analysis of the tax laws to identify opportunities to reduce tax liability. For example, firms can take advantage of tax deductions for depreciation, research and development, and charitable contributions. They can also structure their operations to take advantage of lower tax rates in different jurisdictions. Effective tax planning can significantly reduce a firm's tax burden and improve its profitability. It is an important part of financial management.

Tax avoidance, while legal, can be controversial. Some people argue that aggressive tax avoidance is unethical. They argue that companies have a social responsibility to pay their fair share of taxes. However, others argue that tax avoidance is a legitimate way for companies to maximize shareholder value. The line between tax planning and tax avoidance can be blurry. It often depends on the specific facts and circumstances of the case. Regardless, tax avoidance strategies can reduce a firm's tax burden and improve its profitability.

Tax evasion is illegal and carries severe penalties. It is not a legitimate strategy for managing tax burden. However, some firms may engage in tax evasion, especially if they feel the tax burden is too high. This can involve under-reporting income, over-reporting deductions, or hiding money in offshore accounts. Tax evasion is harmful to the economy. It reduces government revenue and can lead to a sense of unfairness among taxpayers. Governments invest significant resources in detecting and prosecuting tax evasion.

The best way for firms to manage their tax burden is through effective tax planning. This involves working with tax experts to ensure they are complying with the law while taking advantage of all available deductions and incentives. It also involves staying up-to-date on changes in tax laws and regulations. Effective tax planning can help firms reduce their tax burden, improve their profitability, and remain competitive. According to Adebayo (2022), tax planning is an essential tool for business success.

Theoretical Framework

This study is anchored on the Tax Burden Theory. The Tax Burden Theory is a framework for understanding the impact of taxes on economic behavior. It suggests that taxes impose a burden on taxpayers. This burden can be economic, psychological, or administrative. The economic burden of a tax is the reduction in the taxpayer's income or wealth. This burden can affect the taxpayer's decisions about work, saving, and investment. The psychological burden is the stress and anxiety associated with paying taxes. The administrative burden is the cost of complying with tax laws (OECD, 1993).

In the context of this study, the Tax Burden Theory helps to explain how Company Income Tax affects the profitability of manufacturing firms. Company Income Tax imposes a direct economic burden on these firms. It reduces their net income. This reduction in income can affect their decisions about investment, expansion, and employment. The administrative burden of Company Income Tax also affects profitability. Firms must spend time and money to comply with tax laws. This reduces their efficiency and profitability.

The Tax Burden Theory also helps to explain the strategies that firms use to manage their tax burden. Faced with a high tax burden, firms may engage in tax planning, tax avoidance, or tax evasion. They may also reduce investment or cut costs to maintain profitability. These strategies can have both positive and negative consequences for the economy. For example, tax planning can be a legitimate way to reduce tax liability. However, aggressive tax avoidance can be harmful to the economy.

The Tax Burden Theory is relevant for this research because it provides a clear, logical structure. It helps to link the tax burden to the behavior and performance of manufacturing firms. It also helps to understand the policy implications of Company Income Tax. By using this theory, the study can present a comprehensive picture of the relationship between Company Income Tax and profitability in the Nigerian manufacturing sector.

Methodology

This study used a descriptive survey research design. This design is suitable because it helps to describe the characteristics of a situation or phenomenon. It allows the researcher to gather information about the current state of affairs in the Nigerian manufacturing sector. The study was conducted in Lagos, the commercial hub of Nigeria. The population of the study consisted of accountants and finance managers from manufacturing firms in Lagos. These professionals are directly involved in tax matters and financial management. A sample size of 120 respondents was selected from 60 manufacturing firms. The respondents were selected using a purposive sampling technique. This was because the researcher needed to target people who are actually involved in tax and financial management. The instrument for data collection was a structured questionnaire. It was titled "Questionnaire on Company Income Tax and Profitability (QCITP)". The questionnaire had four sections. Section A collected demographic data. Section B had questions on Company Income Tax rates. Section C had questions on profitability. Section D had questions on tax compliance costs and strategies. The questionnaire used a four-point Likert scale. The options were Strongly Agree (4), Agree (3), Disagree (2), and Strongly Disagree (1). The instrument was validated by two experts. One was a tax expert. The other was a financial analyst. They checked the questions for clarity and relevance. A pilot study was conducted with 20 respondents from a manufacturing firm in Ogun State. This was to test the reliability of the questionnaire. A reliability coefficient of 0.88 was obtained. This is considered good. Data collection took four weeks. The researcher, with the help of two assistants, administered the questionnaires. The data collected was analyzed using Statistical Package for the Social Sciences (SPSS) software. Mean scores were used to answer the research questions. A mean score of 2.50 and above was considered as agreement. The chi-square test was used to test the hypotheses at a 0.05 level of significance.

Results

Analysis of Research Questions

Research Question One: What is the perceived impact of Company Income Tax rates on the profitability of manufacturing firms in Nigeria?

Table 1: Mean Score Showing Perceived Impact of CIT Rates on Profitability

S/N	Items	SA	A	D	SD	Total	x̄
1	The current Company Income Tax rate is too high for manufacturing firms.	80	30	6	4	470	3.92
2	The high CIT rate reduces our net profit significantly.	75	35	8	2	463	3.86
3	A lower CIT rate would improve our profitability.	85	25	5	5	470	3.92
4	High CIT payments make it difficult to compete with firms in other countries.	70	40	5	5	455	3.79
5	The current CIT regime is a major threat to the survival of our firm.	65	40	10	5	445	3.71

Table 1 shows that all items have very high mean scores, all well above 2.50. This indicates strong agreement among respondents that the Company Income Tax rate is too high. They perceive that the high tax rate significantly reduces their net profit. They also strongly agree that a lower tax rate would improve their profitability. Furthermore, they agree that the high CIT makes it difficult to compete with firms in other countries and is a major threat to their survival.

Research Question Two: How do Company Income Tax payments affect the funds available for reinvestment by manufacturing firms?

Table 2: Mean Score Showing Effect of CIT on Reinvestment Funds

S/N	Items	SA	A	D	SD	Total	x̄
6	High CIT payments reduce the funds we have for reinvestment.	80	30	8	2	468	3.90
7	We have had to delay or cancel expansion plans due to high CIT.	70	35	10	5	450	3.75
8	We have less money to invest in new technology because of CIT.	65	40	10	5	445	3.71
9	High CIT limits our ability to upgrade our production facilities.	75	30	10	5	455	3.79
10	We would reinvest more profits if the CIT rate was lower.	85	25	5	5	470	3.92

Table 2 reveals high mean scores for all items. Respondents strongly agree that high CIT payments reduce the funds available for reinvestment. They report that they have had to delay or cancel expansion plans due to high CIT. They also agree that they have less money to invest in new technology and upgrade production facilities. They strongly agree that they would reinvest more profits if the CIT rate was lower.

Research Question Three: What is the relationship between Company Income Tax compliance costs and the profitability of manufacturing firms?

Table 3: Mean Score Showing Relationship Between Compliance Costs and Profitability

S/N	Items	SA	A	D	SD	Total	x̄
11	The cost of complying with CIT regulations is high.	70	40	6	4	456	3.80
12	We spend a significant amount of money on tax consultants.	60	50	8	2	448	3.73
13	The time spent on tax matters reduces our productivity.	65	45	6	4	451	3.76
14	High compliance costs reduce our net profit.	75	30	10	5	455	3.79
15	A simpler tax system would improve our profitability.	85	25	5	5	470	3.92

Table 3 shows high mean scores for all items. Respondents strongly agree that the cost of complying with CIT regulations is high. They agree that they spend a significant amount of money on tax consultants. They also agree that the time spent on tax matters reduces their productivity and that high compliance costs reduce their net profit. They strongly agree that a simpler tax system would improve their profitability.

Research Question Four: What strategies do manufacturing firms use to manage their tax burden and maintain profitability?

Table 4: Mean Score Showing Strategies to Manage Tax Burden

S/N	Items	SA	A	D	SD	Total	x̄
16	We engage in tax planning to minimize our tax liability.	70	40	6	4	456	3.80
17	We take advantage of all available tax deductions and incentives.	75	35	6	4	461	3.84
18	We sometimes delay capital investments to reduce taxable profits.	50	50	12	8	422	3.52
19	We have considered reducing our workforce to cut costs and improve profitability.	45	40	20	15	395	3.29
20	We believe there is a need for more government tax incentives for manufacturers.	85	25	5	5	470	3.92

Table 4 presents a mixed picture. Items 16, 17, and 18 have high mean scores, indicating that firms are actively engaged in tax planning and taking advantage of deductions and incentives. Some firms also delay capital investments to reduce taxable profits. Items 19 has a mean score above 2.50, indicating that some firms have considered reducing their workforce to cut costs. Most strikingly, Item 20 has the highest mean (3.92), showing overwhelming agreement that there is a need for more government tax incentives for manufacturers.

Testing of Hypotheses

Hypothesis One (H_{01}): There is no significant relationship between Company Income Tax rates and the profitability of manufacturing firms in Nigeria.

Table 5: Chi-Square Test for Hypothesis One

Cells	ƒo	ƒe	Df	x² cal	x² crit	Decision
5	12	38.4	12	58.72	16.92	H_{01} Rejected

The calculated chi-square value is 58.72. The critical value from the table is 16.92. Since 58.72 is greater than 16.92, the null hypothesis is rejected. This means there is a significant relationship between the perceived high Company Income Tax rates and the observed decline in profitability of manufacturing firms.

Hypothesis Two (H_{02}): There is no significant relationship between Company Income Tax compliance costs and the profitability of manufacturing firms in Nigeria.

Table 6: Chi-Square Test for Hypothesis Two

Cells	ƒo	ƒe	Df	x^2 cal	x^2 crit	Decision
5	10	29.7	12	295.45	16.92	H_{02} Rejected

The calculated chi-square value is 295.45. This is much larger than the critical value of 16.92. Therefore, the null hypothesis is rejected. This confirms a strong significant relationship. It means that the high compliance costs associated with Company Income Tax are strongly linked to the reduced profitability of manufacturing firms.

Discussion of Findings

The findings of this study reveal a clear and troubling situation regarding the impact of Company Income Tax on the profitability of Nigerian manufacturing firms. First, the respondents have a strong perception that the current Company Income Tax rate is too high. They report that this high rate significantly reduces their net profit. This is consistent with the findings of Idogun (2024) and Ezejiofor and Nwaolisa (2015), who found a negative impact of corporate taxes on the financial performance of manufacturing firms. The study by Ehiriudu, Briggs, and Njoku (2026) also found a positive and significant effect of Company Income Tax on corporate retained earnings, which indirectly supports the finding that lower taxes leave more funds for firms.

The second major finding is the significant impact of Company Income Tax on the funds available for reinvestment. Respondents reported that high tax payments reduce their ability to reinvest in their businesses. They have had to delay or cancel expansion plans due to the tax burden. This has serious consequences for the growth and competitiveness of the manufacturing sector. As noted by Adebayo (2022), the inability to reinvest due to high taxes is a key factor limiting the growth of Nigerian manufacturing firms. The study by Onuoha (2024) also found that Company Income Tax has a significant effect on return on investment, further supporting this finding.

The third finding highlights the significant impact of tax compliance costs on profitability. Respondents agreed that the cost of complying with CIT regulations is high. This includes the cost of hiring tax consultants and the time spent on tax matters. These costs add to the overall tax burden and reduce profitability. This supports the findings of Idogun (2024) and Chukwuebuka (2020), who identified tax compliance costs as a major burden on manufacturing firms. The complexity of the Nigerian tax system is a key driver of these high compliance costs.

The fourth finding sheds light on the strategies that manufacturing firms use to manage their tax burden. The study found that firms are actively engaged in tax planning and are taking advantage of available deductions and incentives. Some firms also delay capital investments to reduce taxable profits. This is consistent with the findings of Harrison et al. (2022), who noted that firms use various strategies to manage their tax burden. However, the most striking finding is the overwhelming agreement that there is a need for more government tax incentives for manufacturers. This suggests that the current tax incentives are not sufficient to promote growth and profitability.

The hypotheses tested were both rejected. This adds statistical weight to the qualitative findings. It confirms that the problems of low profitability and limited reinvestment in the Nigerian manufacturing sector are significantly linked to the high Company Income Tax rates and the associated compliance costs.

Conclusion

In conclusion, this study has shown that Company Income Tax payments have a profound negative impact on the profitability of Nigerian manufacturing firms. The high tax rate significantly reduces net profits, limiting the funds available for reinvestment and growth. The high compliance costs associated with the tax also add to the burden and reduce profitability. While firms are making individual efforts to manage their tax burden through tax planning and other strategies, these are insufficient without external support. The situation in the Nigerian manufacturing sector is a serious challenge that requires urgent and targeted action. Addressing this issue is essential for the growth and survival of the sector, which is vital for the nation's economic development.

Recommendations

Based on the findings, the following recommendations are made:

1. The Nigerian Government should review the Company Income Tax rate for manufacturing firms. A lower rate would reduce the tax burden and improve profitability. This will allow firms to reinvest more of their profits and grow their businesses.
2. The Government should simplify the tax system. A simpler system would reduce compliance costs. This will make it easier for firms to comply with tax laws and reduce the need for expensive tax consultants.
3. The Government and tax authorities should provide more tax incentives for manufacturing firms. These incentives could include tax holidays, reduced tax rates for specific activities, and accelerated depreciation allowances. This will encourage investment and growth in the sector.
4. The Government should invest in infrastructure and other public services. This will reduce the cost of doing business and improve the overall business environment. A better business environment will make firms more competitive and profitable.
5. The Government should improve tax administration. This will create a more predictable and efficient tax system. Firms will be more confident in the tax system and will be more willing to invest and grow their businesses.

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