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### Research Article

## Effect of Asset and Sustainable Growth on Income Tax Compliance Among Listed Manufacturing Companies in Nigeria

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### About Article

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### ABSTRACT

Tax compliance is a problem in the African region because of the prevalence of informal economies, tax avoidance practices and ineffective tax administration systems. The principal aim of the study is to determine the influence of Asset and Sustainable Growth on Income Tax Compliance of Listed Manufacturing Companies in Nigeria. The Study adopted an ex-post factor research design within the framework of a positivist research philosophy. The population of the study consisted of 57 listed manufacturers in Nigeria. A purposive sampling approach was adopted to select companies that had complete financial reports for the period under review (2014 to 2024), hence the sample size of 48 firms. Secondary data was used in the study. To analyze data, descriptive statistics and correlation analysis with panel data regression were used with both fixed and random effect models in determining the cause-effect relationships among the variables. The finding indicates that there is no significant statistical relationship between asset growth and income tax compliance within listed manufacturing companies in Nigeria. However, the findings also reveal a positive and significant impact of sustainable growth on the income tax compliance of listed manufacturing companies in Nigeria. In conclusion, the study clearly indicates that sustainable growth has a positive and significant effect on income tax compliance, whereas asset growth shows no significant impact on income tax compliance among listed manufacturing firms in Nigeria. It is the recommendation of the study that: The Manufacturers Association of Nigeria (MAN), in collaboration with tax authorities, should implement training and sensitization programs aimed at educating finance executives and tax managers of manufacturing firms on the importance of adopting sustainable growth models. Additionally, the Corporate Affairs Commission (CAC) and the Financial Reporting Council of Nigeria (FRCN) should enhance disclosure requirements to incorporate detailed reporting on asset growth components.

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## 1. INTRODUCTION

Tax compliance with regards to income has been one of the key areas of concern across the world especially given the fact that income tax plays a significant role in promoting economic growth, and pertinent distribution of wealth. The tax compliance on income tax enables stream of revenue to be given to governments which is crucial to the provision of public goods and services. Nevertheless, asset and sustainable growth, regulations and financial management generally lead to differences in the compliance levels across firms. As a case in illustration, the developed economies of the United States and the European Union have well-established institutional infrastructure as well as an efficient tax system, which assume the enforcement of tax compliance (Allingham & Sandmo, 1972; Alm, 2019). In contrast, compliance with income tax has generally been lackadaisical in developing economies because of poor governance regimes, inefficiencies in enforcement systems, and inadequate incentives of submission (Pellegrini & Gerlagh, 2018). The necessity to know impact of asset and sustainable growth of an organization in ensuring conformity to the national cause of income tax is thus of paramount significance to both policy makers and corporate management in most parts of the world.

Informal economies, tax avoidance and ineffective tax administration systems are other factors, which challenge tax compliance in the African environment. To give an example, it is estimated that tax avoidance in Sub-Saharan African countries costs the countries around 50 billion each year (Cobham & Jansky, 2018). The manufacturing firms being the fundamental tool in industrialization and economic growth usually find themselves in the midst of a dilemma between growth and tax. The largest economy in Africa, Nigeria, is not an exception since it has reported large compliance gaps due to the influence of factors like inconsistency in policies, corruption, and poor enforcement systems (Okoye *et al.*, 2021). The complexities of asset and sustainable growth and its effects on tax compliance especially in the developing country scenario deserve further exploration to divulge implementable information.

Income tax compliance is the level in which tax payers comply with the legal requirements of paying taxes as required by the right rules such as proper reporting, filing of taxes and pay the total taxes. Compliance behavior is affected by a large number of factors which include practices of corporate governance, levels of profitability, tax policy structure, and environment. High tax rates, a complex tax structure, and systematic corruption have been the major factors cited with low compliance rates in the Nigerian context (Adebisi & Gbegi, 2013). By failure to comply with occupational taxation, occupational firms not only subject the private citizens who are paying taxes voluntarily to increased tax burden but also exacerbate income inequality and government revenue used to invest in the nation.

Asset growth is one of the individual firm features that can affect the tax compliance. This is defined as the intangible and measurable growth of both tangible and intangible forms of resources which include buildings, machinery and equipment and the intangible such as patents and goodwill. An expansion in assets is usually an indication of a future long-term growth and thus firms can enjoy the advantage of economies of scale and efficiency in their operations which may enhance their

financial security as well as promote payment of correct taxes (Koller *et al.*, 2020). Nevertheless, as companies expand and diversify their asset pool especially via international expansion or via intricate mergers then tax reporting becomes more complex. Firms in the manufacturing industry in Nigeria are exposed to these disparities and have to capitalize on a combination of imported and locally supplied materials, which requires constant investment in types of productive resources to enhance their production capacity (Ademola *et al.*, 2022).

Besides asset growth, sustainable growth also becomes critical in determining whether a firm can pay its taxes. In the context of financial matters, sustainable growth simply denotes the manner in which a company may grow or develop its business process, with time utilizing self-generated funds whilst maintaining sufficient profit in order to reinvest it after it has paid up its dividends. It shows how well a company can use profitability, equity, and dividend policy to achieve both a long-term financial health and not rely too much on external funding (Ramli *et al.*, 2022). When the sustainable growth rates of firms are higher, chances are high that the firms will exercise financial prudence, precarious operational liquidity, and wise investment, which leads to enhanced tax conformity. Nevertheless, macroeconomic instability, poor corporate governance structures and lack of consistent reinvestment strategy has normally been a stumbling block especially in Nigeria to enable firms to realise and maintain such growth trajectory.

Literature review on SMEs is conducted because of the common ground with it; some studies only address companies in developed economies or industries that cannot be compared with the Nigerian manufacturing environment. Specifically, Roman *et al.* (2023) and Bhalla *et al.* (2022) use SME in the EU and India, whereas Nartey (2023), Adhikari *et al.* (2021), and Onoja and Odoma (2020) focus on small businesses in Ghana or the U.S. Such contexts are completely different when compared to the regulatory and economic environment of Nigeria. Similar studies such as Lawal *et al.* (2022) or Akomolafe (2022) study Nigerian firms but focus on SMEs or food and beverage firms without considering the peculiar compliance-related trends observed in listed manufacturing companies. Also, Cindy and Ginting (2022), Zanufa Sari and Mustika Suciati (2023), and Vu *et al.* (2023) study companies within Indonesia and the Czech Republic, whose tax compliance motivation is different. The studies by Jack and Toby (2024), Wafa *et al.* (2024), Suteja (2023) take into account the variables connected to assets without singling out Nigerian firms that produce manufacturing products as an object of research. Other studies such as Al-Karablieh *et al.* (2021), Ngu (2021), and Gagola *et al.* (2022) study non-manufacturing or general populations, which makes them not useful. This research study presents a unique contribution consisting of listed Nigerian manufacturing companies.

The objective of the research is to investigate the Effect of Asset and Sustainable Growth on Income Tax Compliance among Listed Manufacturing Companies in Nigeria from 2014 to 2024. To achieve this the following specific objectives have been outlined:

- i. Examine the effect of Asset growth on income tax compliance among listed manufacturing companies in Nigeria.
- ii. Assess the effect of Sustainable growth on income tax



compliance among listed manufacturing companies in Nigeria. To accomplish the research objectives, the study has developed the following null hypotheses:

**H01:** Asset growth has no significant effect on income tax compliance among listed manufacturing companies in Nigeria.

**H02:** Sustainable growth has no significant effect on income tax compliance among listed manufacturing companies in Nigeria.

## 2. LITERATURE REVIEW

### 2.1. Conceptual review

#### 2.1.1. Income tax compliance

According to James and Alley (2004), the meaning of concept of tax compliance can be provided with various perspectives but they identify tax compliance as, and they state it as, to indicate that it is, and they state, as, the readiness of taxable entities (both individuals and other) to act within the spirit, and the letter, of tax law and tax administration, without the use of enforcement activity. Atawodi and Ojeka (2012) Tax compliance is whereby all the legal tax obligations are gradually obeyed and completely satisfied at no cost. Norzilah *et al.*, (2016) believe that the Higher the compliance, the more money will be earned, and it will be possible to allocate it to the development of the country and well-being of people. The definition of tax compliance was also similar that was given by Mohammed *et al.* (2016) by defining tax compliance as voluntary acceptance by tax payers of the tax rules and administrative procedures.

According to Slemrod (2024), it describes the extent at which taxpayers match their reporting and payment behavior with what the law requires and ensures that taxpayer has little or no chance of being audited or fined. Kirchler (2021) defines income tax compliance as the voluntary and the enforced measures that guarantee the tax payers comply with their legal requirements. Lastly, Alm and Torgler (2011) consider it as the compliance by taxpayers of the tax rules and regulations based on factors like trust on the authorities and perceived fairness of the tax system. Income Tax Compliance can be measured as tax compliance rate which estimates the rate of taxpayers that file and pay the tax correctly and timely. The other crucial measure that is employed to determine the level of non-compliance is the tax gap which is the amount that is due in taxes and the amount that is actually paid. Audit rates can also be used; they indicate how often tax authorities initiate a tax investigation and have to do with the frequency of tax investigation that are carried out by government. Penalty assessment is another parameter which measures taxes or fines imposed on defaulters. The measures of tax compliance also include the voluntary compliance indicators like percentile of the taxpayers who file returns without enforcement efforts. Alm (2023) claim that compliance rates and the outcomes of the audits can provide an idea about how taxpayers act and whether tax administration policies work well. These measurements assist the governments and tax authorities to streamline the policies towards enhancing compliance and narrowing the tax gap.

#### 2.1.2. Asset growth

According to Tien *et al.* (2020) asset growth is a measure of increase in corporate assets using sustainable practices

and successful reinvestment plans. They state that even the organizations that manage to incorporate the practices of green initiatives into their operational models face dramatic growth in their asset base and associate the environmental responsibility with the long-term profitability. On the same note, Fajaria and Isnalita (2018) regard asset growth as the change in total assets between a firm in two consecutive years focusing on asset growth as a fundamental measure of a firm growth and financial sustainability. They point out that the steady rise in assets is usually an indicator of success of operations by a company and the moderates influence liquidity and profitability. This point of view is also strengthened by the fact that Cho *et al.* (2019) tie in the growth of assets and a strong corporate social responsibility (CSR) program. They say that firms that have proper CSR strategies realize a boost in reputation and customer loyalty and consequently in company assets in operation and its growth in general. Baulkaran (2019) links asset development with environment sustainability, which is a development of asset value of a firm after making investments like the issue of green bonds among others, and this creates a positive impact on the corporate valuation and perception of the investors.

Lastly, Boenyamin and Linda (2023) Asset Growth is a ratio used to determine changes (whether increase or decrease) in the total amount of assets of a particular firm. The increase in assets can be calculated by monitoring the rate of the total asset increase which involves the comparison between the attributes of the current period and that of the previous one or by examining certain categories of assets such as fixed assets and current assets. An example of this is a fixed asset growth which means a capital investment into a long-term asset such as property, equipment or infrastructure. On the same note, asset turnover ratio consisting of taking the ratio of revenue and total assets indicates how well a company utilizes the asset base to spur sales. Increasingly, the growth in intangible assets of a company, whether intellectual property or brand is valued, is measured in knowledge-intensive industries.

#### 2.1.3. Sustainable growth

According to Rathod and Dave (2022), sustainable growth is a trend that incorporates environmental obligations in economic processes to maintain long-term development with minimum resorting to resources. In the same manner, Olaleye *et al.* (2024) defines it as matching the economic goals with viability and stable shareholder-value practices. To Mejia (2024), sustainable growth is a balanced growth strategy, which will integrate fiscal effectiveness and resource preservation. Muriuki and Mbuva (2024) emphasize that it is concerned with customer retention and business stability to make it profitable (particularly, in SMEs). Ashkani and Farsi (2024) define such phenomena as keeping resource-efficient strategies flexible to complexities of the market. Abd Hamid and Ruslan (2024) emphasize the responsible scaling of operations and its innovativeness to guarantee survival in international markets. Lastly, the concept of sustainable growth is presented by Elliot and Cavazos (2024) as co-creation of value with the stakeholders by such equitable growth principles.

The commonly used measure of sustainable growth is the sustainable growth rate (SGR), that is the largest rate that





a company can develop its sales, earnings, and dividends without a matching rise in financial leverage. The formula of calculating the SGR is given as:  $SGR = \text{Return on Equity (ROE)} \times (1 - \text{Dividend Payout Ratio})$ . This formula shows how fast and big a company can become without the need of external sources of finance relying on the internally generated equity (Higgins, 1977). The other index is the environmental, social, and governance (ESG) score that is used in evaluating the compliance of a company to sustainable practices. The level of carbon footprint reduction and minimization of wastes also serve as pertinent measures of assessing the environmental angle of sustainable growth. In addition, long-term profitability measures can be used to determine sustainable growth which does not exceed the levels of available resources.

## 2.2. Empirical review

### 2.2.1. Asset growth and income tax compliance

The paper titled Jack and Toby (2024) examined how the valuation of the real asset of manufacturing firms in Nigeria relates to corporate tax. The authors utilize an ex-post facto well-known model; the analysis being performed on a sample of ten manufacturing firms during the same period between 2012 and 2022. The analysis allows the incorporation of Random Effect models and Panel Least Square (PLS) regression in the study based on panel data. The results indicate that the corporate income tax negatively affects the net asset value that implies that when tax liability increases, perceived value of firm assets can be reduced. On the other hand, the net asset value positively affects tax savings, effective tax rate, and marginal tax rate. The paper has reached the conclusion that the corporate tax has its part to play as far as the determination of real asset valuation of manufacturing companies is concerned and the associated tax burden on company income tax and interest rates should be looked into by government to promote purchase of real assets. Although it examines only a few of the companies operating in the Nigerian manufacturing industry, there may not be a direct correlation between what has been touching on the asset valuation and the issue of tax compliance. The paper lacks empirical data regarding the asset's growth and compliance to income taxes. It only looks at the effect of tax on asset valuation compared to how assets development would affect the efforts by a firm to obey the tax provisions. Direct evidence is unexistent to clarify the relationship between asset growth and tax-compliance-and-evasion decision, which is a gap in the existing evidence of the relationship.

The connection between tax evasion, leverage, and firm size is investigated among the Indonesian manufacturing corporations (Wafa *et al.*, 2024). The study makes use of secondary data which is gathered in financial reports whereby the size of a firm is gauged by using natural log of total assets and the leverage is measured by debt to asset ratio. The findings show that the leverage can play an important role in determining tax avoidance implying that a greater debt firm will tend to resort to tax avoidance strategies. Nevertheless, the study notes that the size of the firm does not form any significant difference on anti-taxation measures. This brings out the significance of regulatory control over corporate leverages to reduce tax avoidance and fair taxes raised by firms. This

poses a hypothetical loophole, since the increase in an asset, especially that of non-financial assets in the manufacturing companies, can shape the willingness to pay tax and disclosure practices. The attention given to leverage and firm size in the study does not take into consideration the particular occurs to asset accumulation which may influence the tax compliance or evasion. The paper will focus on Indonesian manufacturing companies; this aspect might be different compared to Nigerian manufacturing companies as far as the economy, taxes and doing business are concerned. The results might thus be not quite generalizable to the population of the Nigerian firms and thus the existence of a population gap might restrict the significance of the results. Non-existence of empirical evidence relating to asset growth and tax compliance creates a gap in the comprehension of how variations in firm asset affect the way manufacturing firms practice tax compliance.

In a latest study, Suteja (2023) examined the impacts of sales growth and intensity of the fixed asset on tax avoidance and especially the moderating effects of institution ownership. The study represents qualitative research and purposive sampling where companies trading on the Indonesia Stock Exchange (IDX) between 2018 and 2020 were chosen. The results indicate that the increase in sales is not highly influential on the avoidance of taxes but the fixed asset intensity is influential to tax non-conforming behaviors. In addition, institutional ownership does not seem to allay the association between these variables. This research advances the knowledge of the motivation of tax avoidance concerning the expandability of the sales and the apparel of accumulated fixed assets. It uses the firms listed at the Indonesia Stock Exchange (IDX) as the source of research, and they might have various tax compliance behavior and strategies than the Nigerian manufacturing firms. The existence of the disparities in the regulatory environment, economic conditions, and the taxation policies between Indonesia and Nigeria bring about a population gap, which may compromise the applicability of the findings to manufacturing firms in Nigeria. The paper lacks the direct evidence of the effect that asset growth has on tax compliance.

Sinebe (2023) examined impacts of profitability as well as Return on Assets (ROA) on tax planning as well as firm value. They test a sample of non-financial firms listed in the Nigerian stock exchange consisting of 64 firms using a causal research strategy carried on over the time period 2011-2020. The results lead to the significance of tax savings as a measure of preserving the stable performance of firms and further improvement of the overall value of the firms. The analysis highlights on the importance of companies to ensure that their taxation planning activities are well handled to enhance their financial performance and strategic nature in the market. The theoretical approach takes into account the profitability, Return on Assets (ROA), tax planning, and the value of the firms, but it does not believe in the impact of asset growth on the income tax compliance. The consideration that tax saving can be used as a strategy to boost firm performance in the study is incomplete because it does not look at the kind of contribution that asset expansion can make towards the determination of tax compliance behavior. The implication of this conceptual gap would be to explore the possibility of a relationship between the growth of assets and the



more realistic or aggressive approach in terms of tax compliance. The research takes its foundations on listed Nigerian non-financial firms in the Nigerian Stock exchange (NSE), however; it fails to separate the implications of asset growth in the context of manufacturing companies. The non-financial industry may seem to have other implications compared to the manufacturing industry and this may restrict the research to manufacturing firms in Nigeria. This population gap would be addressed by further exploration within the manufacturing industry.

The article by Mwaluku (2022) determined the influence of tax planning on the value of firms in a Kenyan manufacturing company perspective. The study uses panel least squares analysis based on panel data that covers 13 firms in the 2010-2019 duration with the provision of complete data by using a longitudinal study design. The findings also reveal that leverage positively affects the firm value, and it can be concluded that companies which use debt as a part of the strategy can also increase their value in the market. The effect of the asset tangibility on firm value was however insignificant. This study gives very important insight on how tax planning and strategy remains a crucial factor that determines the firm valuation, and the research is helpful to stakeholders in manufacturing industry. The paper tests the effect of tax planning on firm value among manufacturing companies in Kenya yet in the absence of the impact of asset growth on the income tax compliance. The relationship between leverage and tax planning of a firm is the primary concentration in the present study which, however, failed to consider how tax liabilities of the firm or the plans to manage compliance can change with a change in the asset size. This oversight provides a conceptual hiatus due to the fact that asset enlargement is a profound aspect in paying up the taxes of companies. The subjects on which the study would be conducted are Kenyan manufacturing firms, and they might possess different regulation and taxation environment compared to Nigerian firms. In this way there will be a population gap as the findings cannot be directly used on the Nigerian manufacturing companies. This shows the necessity of research which should concentrate on Nigerian companies, to find out the particular correlation between the growth of assets and income tax compliance. Asset growth is also not a variable of influence on tax compliance examined in the study. This lack of proof of the existence of a correlation between asset growth and tax strategy creates an alarming gap, since it may be a significant predictor of tax amounts and tax reporting accuracy. This is one of the evidence gaps that can be addressed by conducting further studies on asset growth among manufacturing companies in Nigeria.

### 2.2.2. Sustainable growth and income tax compliance

Based on research by Latersia Br Gurusinga *et al.* (2024), determined the effect that capital structure, profitability, tax planning and deferred tax on corporate income tax per industry. Researchers have used secondary data such as annual reports provided by companies that are part of Indonesia Stock Exchange in the period between 2018 and 2022 and have obtained the dataset of 120 observations. According to the quantitative analysis techniques used, the study concludes that each of the variables of the capital structure, profitability, tax planning, and

deferred tax costs has a significant impact on corporate income tax, and tax planning has a positive impact on corporate income tax whereas other variables showed a negative impact. Drawing insights into this research, the interplay between financial management brainstorm and taxation obligations is complex and very crucial to the firm that undertakes corporate taxation plan in a wide range of Industries. The study considers companies that are listed in Indonesia Stock Exchange, whose tax laws and doing business environments are not similar to that of Nigeria. The tax compliance requirements in respect of manufacturing industry in Indonesia may not be same as in Nigeria especially given that the regulatory framework and the corporate landscape in Indonesia may differ substantially with elected corporates in Nigeria. The results therefore, may not be directly used to make inference in Nigeria listed manufacturing firms leaving a population gap where application of the results can be made. The research does not give us first-hand results on the effect of sustainable growth and compliance with taxes. Although capital structure, profitability and tax planning are checked, the impact of sustainable growth on tax planning strategies is not touched. The possibility to manage taxes and sustain a healthy growth of the firm is a matter that directly pertains to the issue of sustainable growth, but it has not been explored in the framework of the research. This generates an evidenced gap in interpretation of relationship between sustainable growth and the income tax compliance especially among the manufacturing firms in Nigeria.

The study by Wafa *et al.* (2024) considered how leverage and the size of the firm influence tax evasion in the Set of manufacturing firms listed in the Indonesia Stock Exchange during the period of 2021-2023. The paper identifies tax avoidance as one of the legal ways which firms use to reduce tax liabilities which is of the most importance in Indonesia as the country is faced with rising collection of tax in conflict with the low level of tax ratio. The researchers rule sizes of firms using the natural log of total assets and leverage of a firm using the debt-to-asset ratio based on secondary data of financial reports. The results indicated that leverage has considerable effect on tax avoidance, because companies with high leverages are more likely to undertake tax reducing practices because of a tax deductibility of interest payments. On the contrary, the size of firms has no significant influence on tax avoidance implying that both small-sized and large-sized firms engage in the same strategy. The paper has placed notable recommendations on the regulation aspect regarding corporate leverage and also has provided the necessity to account size of firm in formulating tax policies that will halt the tax avoidance games, which gives an applicability to the policymakers and the tax authorities. In this research the manufacturing firms used are the ones that have been listed in the Indonesia Stock exchange market which is located in another country with different tax laws and conduct of business than that of Nigeria. It is possible that the differences in taxation policies, corporate governance and economic environment would render less relevancy of the findings to Nigerian manufacturing companies. To be more precise, the effect of the leverage and the size of a firm on tax evasion can be influenced by varying market conditions in Nigeria, which leaves the gaps in the population, not allowing



to generalize the findings to the firms in Nigeria. The paper has not said anything about the influence of tax evasion on sustainable growth. Although leverage and firm size are found to shape tax evasion, there is nothing to regard sustainable growth, as the factor harmonizing profitability and tax compliance. This creates a gap in the evidence regarding how sustainable growth can determine the tax compliance behavior, particularly in manufacturing companies in Nigeria, owing to their different growth patterns and different tax liability.

Lyu and Zhang (2024) explored in their research the increased tax burden on the environment in terms of the costs imposed on the business of the Chinese and its impact on sustainable development. Upon assessing A-share listed firms (2018-2022) panel data, they derive a positive correlation that a higher tax burden in the environmental context can raise the total factor productivity (TFP) of the firms. Interestingly, the study indicates that such a relationship is mediated by the fixed asset investment instead of technological innovation so that, in the short period, it has not resulted in the predicted Porter Effect due to environmental tax pressure. The effect is stronger on large, non state-owned companies and those with weaker financial constraints and lighter transaction costs. It implies that business organizations can implement diverse business models to deal with environmentally related taxes appropriately and endeavor to achieve sustainable growth. The paper concentrates on Chinese companies listed in the A-share stock whereas these companies have had different regulatory and tax resources than Nigerian manufacturing companies. Taxation system, operations, and regulation China is different compared to how it is in the case of Nigeria particularly in terms of sustainability and its application to tax compliance. Hence, the results might not be directly suitable to the Nigerian manufacturing companies, which makes the transferability population have a gap. Although the paper brings into focus the correlation between environmental tax burdens and productivity, it fails to understand how particular growth impacts on income tax compliance. There is no investigation of indirect impacts of the sustainable growth on the tax behavior, in particular, on the environmental taxes and their interplay with corporate taxes. This leaves a gap of evidence in determining the role of sustainable growth to compliance of taxation in the Nigerian manufacturing environment.

One more investigation that may be of interest considering the topic by Rahman *et al.* (2023) is regarding the reviewed relationship between profitability, solvency, and good corporate governance with tax compliance towards corporate sustainable longevity. Using a purposive selection method, the research studies complex interactions between these variables and stresses that good profitability and solvency is essential to corporate survival in the long run. Moreover, compliance with good corporate governance and taxes is demonstrated to be the contributor to long-term sustainability which can be valuable information in the form of policy and corporate business guidance. The study lacks evidence on the impact of the sustainable growth to the tax compliance. Although it considers profitability, solvency and corporate governance, it has not considered effects of sustainable growth to tax compliance. This poses a gap in evidences, especially in the context of how sustainable growth path of firms and its management in

taxation and future compliance may influence its capacity to positively administer tax requirements.

Osamor *et al.* (2023), dwelled on the strategies of tax optimization and its impact on the financial performance of the manufacturing companies of special selection in Nigeria. The results of the study show that, thin capitalization has the significance and positive relationship with firm performance whereas the capital intensity and effective tax rate impact values are positive and insignificant. The authors suggest the manufacturing groups to make their leverage ratio higher by issuing a reasonable amount of debt financing because the companies can enjoy the tax benefit by taking the advantage of the tax deductions, and they can save their total tax expenses, and financial performance can also be enhanced. It targets some of the manufacturing companies in Nigeria and as such, this is pertinent to the case of the Nigerian companies. Nevertheless, that emphasis on certain taxation methods of optimization, including thin capitalization, might fail to evaluate the larger topic of long term and tax compliance that might exist in the manufacturing sector in general. This may restrict the applicability of the data to all the manufacturing firms in Nigeria. The study analyses the connection between the tax optimization and firm performance, but it fails to analyse the impact of sustainable growth on tax compliance and tax optimization. As far as sustainable growth would have a case of affecting taxes and willingness of a firm to comply, this would have an evidence gap regarding the long-term effect of growth in tax behavior of manufacturing firms in Nigeria.

### 2.3. Theoretical frameworks

#### 2.3.1. The slippery slope framework of tax compliance

This research is grounded on the Slippery Slope Framework of Tax Compliance. Slippery slope Framework introduced by Kirchler *et al.* (2008) is a new way of comprehending the compliance with taxes. The slippery slope strategy assumes that there are two paths toward tax enforcement, deterrence of taxes evasion, and audits together with fines on one hand and creating a relationship of trust between the tax authorities and taxpayers through services and support on the other hand. The Slippery Slope Framework (SSF) hypothesizes that both of the following determine the compliance of people with taxes: Power of authorities (e.g. audit probability, penalties), Trust in authorities (e.g. perceived fairness, transparency). The two dimensions generate balance between: Enforced compliance (which is essentially driven by fear of being caught), and Voluntary compliance (driven by willingness to comply due to a perceived legitimacy). According to Nguyen *et al.* (2020), the use of law enforcement including the audit and sanctioning will help enhance tax compliance. It will rise tax compliance because the probability of detection and sanctions will be high. The taxpayers will report the income and pay taxes in fear of fines and audits. The relationship between tax payers and tax authorities is as well rooted in the concept of trust in that tax compliance is also conditioned by the element of trust (Muehlbacher & Kirchler, 2010). Various dimensions of the trust have been discovered to engage a greater level of overall tax compliance in the empirical evidence.

The Slippery Slope as one of the main theories underpinning



this work. The theory explains that as the size of the company increases, they may attract more attention and scrutiny (engage in more enforcement), or in contrasts they may leverage their size to evade paying taxes. The SSF tells us how dynamic forces lead to compliance - enforcement or non-trust in the system. It also states in the context of sustainable growth how Firms that cultivate long-term and ethical conduct have the potential to comply more voluntarily as a result of confidence in the tax administration system of, or their alignment with corporate social responsibility.

### 3. METHODOLOGY

A quantitative research method was used. Ex post facto research design was applied in the context of positivist research philosophy, which enables objective measurement and testing hypotheses based on quantitative data. The sample was made up of 57 listed manufacturing firms available in Nigeria as of 31st December 2024 as published by the Nigerian Exchange Group. The sample size of the present study consisted of 48 firms, which were selected using a purposive sampling method, as only those companies that had full financial information in the period considered (2014 to 2024) were selected. Data was collected from audited annual reports and financials of the sampled firms.

The study used secondary information; Indicators of firm's asset expansion, sustainable growth, and income tax payments of the firms. Descriptive statistics, correlation, and panel data regression were used to data analysis. Fixed and random effect models were also used to define connections between variables. Statistical analyses all took place in STATA 17 software.

#### 3.1. Model specification

The study adapted a multiple regression analysis to investigate the hypothesized relationships between the dependent variable and the two independent variables. This model was adapted from the study by Henry and Sansing (2019), Cindy and Ginting (2022) to suit the objectives of this research. The econometric regression equation is given as

$$ITC_{it} = \beta_0 + \beta_1 ASSTG_{it} + \beta_2 SUSG_{it} + \beta_3 FSIZE_{it} + \beta_4 LIQD_{it} + \varepsilon_{it}$$

Where,

$ITC_{it}$  = Income Tax Compliance for company i at time t;  $ASSTG_{it}$  = Asset Growth for company i at time t;  $SUSG_{it}$  = Sustainable Growth for company i at time t;  $FSIZ_{it}$  = Firm Size for company i at time t;  $LIQD_{it}$  = Liquidity for company i at time t;  $\beta_0$  = is the intercept term;  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ , and  $\beta_4$  = are the coefficients to be estimated;  $\varepsilon_{it}$  = the error term and i denotes firms and t is period of study.

**Table 1.** Variable measurement

Variable	Code	Measurement	Source
<b>Dependent</b>			
Income Tax Compliance	ITC	Income Tax paid/Profit Before Tax	Henry and Sansing (2019)
<b>Independent</b>			
Asset Growth	ASSTG	(Current Year Total Asset-Previous Year Total Asset)/Current Year Total Assets*100	Boenyamin and Santioso (2023)
Sustainable Growth	SUSG	(Profit after tax / Total Equity) * (1-(dividend Paid/ Profit after Tax))) * 100	Ramli <i>et al.</i> (2022)
<b>Control</b>			
Firm Size	FSIZ	Natural Log of Total Assets	Cindy and Ginting (2022)
Liquidity	LIQD	Current Asset/Current Liability	Nicolau and Lima (2024)

Source: Author's compilation, 2025.

## 4. RESULTS AND DISCUSSION

### 4.1.1. Descriptive statistics

Table 2 presents the descriptive statistics of the central tendency, dispersion, and range of distribution of variables applied in the study, which aims at examining the dynamics of income tax compliance and the related determinants among listed companies. All these statistics show the behavior of each

variable over the 528 firm-years of observation which can give some understanding of the average performance, degree of variation and lowest and highest values (indicated as a percentage). This is a descriptive analysis which forms the basis of interpretation of the patterns in the data before proceeding to correlation and regression analysis.

**Table 2.** Descriptive statistics

Variable	OBS	Mean	Std. Dev.	Min	Max
ITC	528	3.001477	13.31519	-98.65	61.43
ASSTG	528	5.886401	30.6423	-99.93	97.73
SUSG	528	3.31339	21.66966	-97.92	96.32





FSIZ	528	16.39064	2.262074	10.96	21.72
LIQD	528	1.315985	1.366409	.01	19.25

Source: STATA Version 17 (2025)

The average figure of Income Tax Compliance was 3.00 percent meaning that the overall average in the compliance of the firms to their income tax requirements on average was low though positive in the period between 2009 and 2011. Its large standard deviation of 13.32 percent shows that there is a large swinger in the adherence to tax by the firms and corresponds to some inconsistency in tax planning or reporting or remittance by the sampled companies. The smallest figure of -98.65 percent is an indicator that in other instances, companies registered substantial levels of non-compliance or losses on tax and adjustments. Although such maximum result of 61.43% indicates there were some firms that managed to meet the obligation in income tax with badges of honor. The difference by the maximum and minimum value demonstrates variation in the tax policies, management performance, and financial competency between the companies.

Moreover, this means that on the average firms experienced modest growth in their asset base (Asset Growth = 5.89%). The standard deviation of 30.64 percent indicates a lot of difference in the asset growth strategies hence, either some companies grew steadily, or others had to sell assets or experience losses on those used. The lowest figure of -99.93% indicates that there are instances whereby firms had reduced the value of their asset portfolio to near nil which could be as a result of restructuring, disposal or financial distress of businesses whereas the highest value 97.73% indicates some firms who managed to increase their asset value high as a result of mergers or major investments perhaps infusion of capital, aggressive investments.

The mean Sustainable Growth level was 3.31% which means that

companies had the capacity to attain a medium-term growth rate that was low and constant which was also consistent with their retained earnings as well as its internal ability to finance its projects. Standard deviation of 21.67 percent shows that there is a lot of dispersion in the area of sustainable growth implying that some companies were discipline and consistent in their financial growth whereas others had large fluctuations. The lowest number of -97.92% indicates that certain firms were over-shrinking at certain times while the highest number of 96.32% shows that there exist firms who could support an intense expansion particularly being supported by high profitability and reinvestment strategies.

## 4.2. Analyses and results

In this section, the findings of the correlation analysis, regression analysis and other diagnostic tests were reported. This was directed at examining the direction and the magnitude of relationship between Income Tax Compliance (ITC) and the explanatory variables of the study. Table 3, correlation matrix, shows the kind of linear relationships, within itself, between the dependent variable (ITC), the independent variables (Asset Growth, and Sustainable Growth) and the control variables (Firm size and Liquidity). These correlation coefficients present partial findings on the behavior of variables relative to one another as those with a higher value that can be near either +1 or -1 have strong correlations, whereas those with low values that are near the line of zero have weak correlations.

### 4.2.1. Correlation analysis

**Table 3.** Multicollinearity result for model 1 and model 2

	ITC	ASSTG	SUSG	FSIZ	LIQD
ITC	1.0000				
ASSTG	0.2052	1.0000			
SUSG	0.4170	0.1346	1.0000		
FSIZ	0.2699	0.2411	0.0228	1.0000	
LIQD	0.1540	-0.0007	0.0232	-0.0723	1.0000

Source: STATA Version 17 (2025)

The association between Asset Growth and Income Tax Compliance was not strong but positive and the correlation coefficient was 0.2052. This implies that there is a slight positive relationship between increase in asset base of firms and the improvement of tax compliance. What this means is that improved tax behavior may come through asset growth, which is dependent on the accumulation of capital and long-term investment, which leads to firms formalizing operations and hence facilitating a greater exposure to tax authorities. Nonetheless, the comparatively low strength of the relationship implies that the strength of relationships between assets growth

and compliance is not strong.

Moreover, Sustainable Growth had the moderate positive correlation with Income Tax Compliance with the value of the coefficient 0.4170; which was the highest registered correlation with other variables in the grid. It implies that companies which record balanced, self-sustainable developments have high chances of conforming to constant taxation. This leads to the inference that sustainable growth is not only an indicator of financial health but it also points to good practices in corporate governance and ethical ways of doing business, which probably will translate to improved reporting and remittance of taxes.





#### 4.2.2. Multicollinearity test

However, multicollinearity is a situation in regression analysis which is characterized by highly correlated independent variables so that they share some information about the dependent variable. A large value of multicollinearity increases the variance of the coefficient value hence the computation is unstable and meaningless. Multicollinearity is observed using Variance Inflation Factor (VIF).

**Table 3.** Multicollinearity result for model 1 and model 2

Variable	VIF	1/VIF
LIQD	1.25	0.798480
PROF	1.24	0.805506
SUSG	1.04	0.961880
ASSTG	1.03	0.974481
Mean VIF	1.14	

Source: STATA Version 17 (2025)

#### 4.2.3. Heteroskedasticity test

The concept of heteroskedasticity denotes an issue where there is a lack of a constant variance in error terms of a regression model as it contravened one of the fundamental assumptions of Ordinary Least Squares (OLS) regression. Because of this, even though the estimated coefficients in a situation of heteroskedasticity are unbiased, the standard errors are useless because through them the significance tests may be invalid and guiding conclusions incorrectly. The prevalence of heteroskedasticity was determined with the help of the BreuschPagan/CookWeisberg test. In the test statistic, the value of Chi 2 is 41.35, with the p value as 0.0000, which means that the null hypothesis that the variance is a constant is rejected. It is an indication that the residuals exhibit heteroskedasticity that is, the variance of residuals is not constant across the observations. This presents the necessity of making strong standard error adjustments to have a good inference.

#### 4.2.4. Hausman test

Hausman test has been used to test the likelihood that the variations between the fixed effect and random effect estimators are systematic and this will be used to figure out the model that should be used in relation to the data. The results indicate the following null hypothesis: The random effects model is the preferred one (i.e., the difference is not systematic).

The Chi-square statistic obtained in the test was 6.81 with a corresponding p-value of 0.1464. The null hypothesis was not rejected since the p-value is greater than the conventional level of significance 0.05. This implies no systematic difference between the fixed effects and random effects estimates suggesting the presence of the random effects model.

#### 4.2.5. Breusch-pagan lagrangian multiplier test

Furthermore, the Breusch-Pagan LM test was conducted to ascertain as to whether, random effects regression is better than simple pooled OLS. The Chi-square value of the LM test was zero and p-value equaled to 1.0000 which is immensely

huge. This is an indication that the null hypothesis could not be rejected, and gives the implication that the variability among individual firms in terms of error components could not be significant. The models therefore indicate that pooled OLS regression is more reasonable than the random effects in the case. Table 4 shows the details of output of OLS regression.

#### 4.2.6. Pooled OLS regression results

With the objective of determining the impact of Business growth on the income tax compliance of listed manufacturing companies in Nigeria, the study estimated the following Pooled Ordinary Least Squares (OLS) regression model.

**Table 4.** Pooled OLS regression result

ITC	Coefficient	P>t
ASSTG	-.004623	0.811
SUSG	.2175224	0.000
FSIZ	1.039461	0.003
LIQD	1.049703	0.019
OBS		528
F-statistics		22.39
Prob > F		0.0000
R-squared		0.4221

Source: STATA Version 17, 2025

#### 4.3. Test of hypothesis

The overall fit of the regression model is statistically significant, as indicated by the F-statistic of 22.39 with a corresponding p-value of 0.0000. This confirms that the model, which includes asset growth, sustainable growth, firm size, and liquidity, jointly explains variations in income tax compliance among listed manufacturing companies in Nigeria. The R-squared value of 0.4221 indicates that approximately 42.21% of the changes in income tax compliance can be explained by the independent and control variables included in the model. Therefore, the null hypothesis that the overall model is not significant is rejected, affirming that the explanatory variables together have a significant impact on income tax compliance.

##### 4.3.1. Asset growth and income tax compliance

The coefficient of asset growth (ASSTG) is -0.004623 with a p-value of 0.811, which is far above the 0.05 significance threshold. Consequently, the study fails to reject the null hypothesis ( $H_{01}$ ). The result reveals that asset growth does not have a statistically significant effect on income tax compliance among listed manufacturing companies in Nigeria. This suggests that changes in a firm's asset base do not systematically influence its willingness or capacity to comply with tax obligations within the context of listed manufacturing firms in Nigeria.

##### 4.3.2. Sustainable growth and income tax compliance

Sustainable growth (SUSG) has a positive and statistically significant coefficient of 0.2175 with a p-value of 0.000. Since the p-value is less than 0.01, the result is highly significant.



Therefore, the null hypothesis ( $H_{02}$ ) is rejected. Finding indicates that sustainable growth has a positive and significant effect on income tax compliance among listed manufacturing firms in Nigeria. This finding supports the view that firms achieving long-term, internally financed growth are more likely to comply with income tax requirements, possibly due to their commitment to ethical governance and long-term reputation.

#### 4.4. Discussion of finding

##### 4.4.1. Asset growth and income tax compliance

In the current study, it was revealed that asset growth does not significantly influence income tax compliance in listed manufacturing companies in Nigeria. The finding is in line with the results of Mwaluku (2022) who have researched the Kenyan manufacturing companies and indicated that asset tangibility did not count much on the value of the firm, which has a minor direct impact on tax-related behavior. As in the case with Sinebe (2023), her research looked into tax planning and Return on Assets (ROA) but failed to draw the correlation between asset expansion and the axis of behaviour in tax compliance. These studies indicate that asset-related indicators do not likely cause higher or lower tax compliance although they may determine an increase or decrease in the overall financial performance such as valuation or profitability, in the sense that the current study has shown.

Yet, this outcome runs counter to the results of those studies which suggest some connection between the tax-related behavior and asset growth. In another case, Jack and Toby (2024) stated that the corporate income tax influences the net asset value in the Nigerian manufacturing industries, indicating that there is interaction between tax and the measure of assets. Nonetheless, they study the effect of taxes on asset valuation and not the reverse relationship as was the case with the present study. Moreover, Tien *et al.* (2020) would indicate that the companies that increase assets with a sustainable investment would be more compliant as a result of a good governance. The differences in the themes of the current findings may have variation as a result of variations in measurements; in the past research, the asset valuation or growth in ethical investments was the measurement of interest used whereas in the current research quantitative yearly asset increase was the measurement used which may not represent the quality or type of asset investment that promotes compliance.

This finding can be attributed to Slippery Slope Framework (Kirchler *et al.*, 2008) who emphasize that paying taxes is not only based on larger firm size and asset concentration, but also depends more on how people trust and enforced. Growth in assets may be accompanied by tax avoidance of a firm, especially when there is distrust of tax authorities or during the case of weak enforcement. In countries with a weak enforcement capacity of tax institutions, such as Nigeria, firms that are experiencing rising stock of assets may not be subjected to a similar rise in the likelihood of audit or regulatory attention. Asset growth is also a poor indicator of moral conduct unless internal rules of governance are enhanced as well. So, asset expansion, in the perspective of the Slippery Slope, cannot generate voluntary or forced compliance unless there is institutional trust or regulatory authority.

##### 4.4.2. Sustainable growth and income tax compliance

The research showed that sustainable growth has great positive impact on income tax compliance whereby, companies that engage in financial viable growth increase the chances of complying with tax requirements through reinvestments. This concurs with a study by Rahman *et al.* (2023) who also attributed corporate longevity with good corporate governance, profitability and tax compliance. Similarly, Tien *et al.* (2020) found out the implementation of sustainable business strategies leads to more than financial stability; it promotes compliance with the law, such as tax compliance. According to the study by Olaleye *et al.* (2024), there is a positive relationship between environmental sustainability and the performance of the firm in the manufacturing companies in Nigeria meaning that sustainable practices stimulate ethical approach to finance such as payment of taxes. The above findings are in line with the claim in the present study that sustainable growth serves to improve tax compliance in the Nigerian manufacturing industry.

Inconsistent findings appear when studies like Latersia Br Gurusinga *et al.* (2024) and Wafa *et al.* (2024) on variables such as profitability, leverage, and firm size, lead to mixed or no significant differences in tax compliance or avoidance. Such researches never directly analyzed the issue of sustainable growth and, therefore, their comparisons with the research conducted currently are very limited. Nevertheless, Lyu and Zhang (2024) observed that the environmental taxes boosted assets investment, not innovation or long-term sustainability measures, to enhance productivity. The seeming discrepancy between the present study is due to our differences in context and methodology. Although the previous literature concentrated on short-term financial manipulations or regulatory expenses, the present study emphasizes long-term sustainable development, based on retained earnings and reinvestment, which probably, coincides better with voluntary change practices.

Such finding can be adequately explained under the Slippery Slope Framework. Companies implementing sustainable growth models usually achieve this based on long-term perspective, corporate social responsibility and allowed to integrate to the world governance principles. As the framework predicts, these firms have a greater probability of believing in the open institutions and ensuring that they gain legitimacy by being voluntarily compliant. Sustainable growth is an indicator of internal discipline and strategic planning and ability to think ethically, which encourages compliance that is driven by trust. More so, these companies can be keen to prevent any regulatory crackdown or publicity that would affect their businesses negatively, thereby increasing their chances of complying with tax demands. The framework therefore helps to argue out the idea that the more firms that are growing responsibly then it is more likely that they will end up willing to comply voluntarily, because there is more trust and authority to the tax system.

#### 5. CONCLUSION

The research shows conclusive evidence that the sustainable growth significantly and positively affects income tax compliance, however asset growth has no effect on income tax compliance of listed manufacturing organizations in Nigeria. The result points to the fact that companies that adhere to



long-term, internal driven growth strategies experience less tax compliance challenges, since this growth is a demonstration of future vision, sound financial practices and standards of ethical business conduct. In contrast, increase in company asset do not always reflect readiness by a firm to pay its taxes obligations. The study is anchored on the Slippery Slope Framework which stresses the importance of trust and legitimacy in establishing a foundation of tax compliance, and the study concludes that income tax compliance among manufacturing firms in Nigeria is more effectively driven by the moral dimensions of growth specifically those rooted in ethics and sustainability than by isolated increases in asset base or firm size.

## RECOMMENDATIONS

The study recommends that:

- i. The sustainability disclosures and practices by the firms should be given priority attention by the policymakers, particularly, the Federal Inland Revenue Service (FIRS) when assessing the potential of firms to tax compliance. Promoting and supporting Environmental, Social, and Governance (ESG) reporting among manufacturing companies could enhance transparency and foster voluntary tax compliance by aligning corporate behavior with ethical standards and national development goals
- ii. The Disclosure of asset growth components should be actively promoted by the Corporate Affairs Commission (CAC) and Financial Reporting Council of Nigeria (FRCN). This would encourage firms to align asset accumulation with operational efficiency and regulatory compliance.
- iii. Finance executives and tax managers of the manufacturing firms should be trained and sensitized by the Manufacturers Association of Nigeria (MAN) in collaboration with tax authorities on the significance of sustainable growth models. Emphasizing the long-term benefits of internalization and ethical reinvestment can help shift corporate focus toward financial practices that prioritize tax compliance
- iv. To promote voluntary compliance, the tax authorities should prioritise building trust by having transparent, fair and consistent enforcement measures. Manufacturing firms will tend to obey willingly when they feel the tax policies are fair and applied in a transparent manner. Taxpayer trust can be increased through measures such as simplified tax processes, speedy dispute resolution, and clear channels of communication.

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