

# **The Leviathan's Purse: A Nigerian Tapestry of Fiscal Threads and Economic Bloom**

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### **Abstract**

The study on the leviathan's purse: a Nigerian tapestry of fiscal threads and economic bloom investigates the critical role of Company Income Tax (CIT) in fostering economic growth in Nigeria, with a particular emphasis on how capital flight undermines its effectiveness. Despite the growing demand for public services and infrastructural development, Nigeria continues to experience significant revenue shortfalls, largely due to illicit financial flows such as over-invoicing, under-invoicing, and excessive debt servicing. These activities distort the taxable profit base of corporations and deprive the government of essential revenue needed for national development. Using an adapted model from Ichoku and Fonta (2006) and grounded in Wagner's Law of expanding state activity, this study employed time series data from 2002 to 2024 to examine the empirical relationship between capital flight components and company income tax revenue. The study utilized the Error Correction Model (ECM), Augmented Dickey-Fuller Unit Root Tests, Johansen Co-integration Tests, and Granger Causality Tests to assess both short-run and long-run effects. The findings revealed a statistically significant negative impact of over-invoicing and under-invoicing on CIT, indicating that these forms of capital flight erode the corporate tax base. The study also found evidence of both unidirectional and bidirectional causality between capital flight indicators and CIT. Though debt servicing had a negative but statistically insignificant effect, its long-term implications for fiscal sustainability remain concerning. The study concludes that company income tax is indispensable to Nigeria's economic growth but is severely threatened by unchecked capital flight. It recommends robust reforms in customs enforcement, tax administration, and international cooperation to stem illicit financial flows, enhance tax compliance, and ultimately strengthen Nigeria's fiscal capacity.

**Keywords:** Company Income Tax, Capital Flight, Over-Invoicing, Under-Invoicing, Economic Growth, Nigeria, Fiscal Policy, Tax Compliance.

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## **1. Introduction**

Capital flight has long posed significant challenges to economic development and public revenue generation in developing countries, particularly in Nigeria. The phenomenon, which refers to the large-scale exodus of financial assets and capital from a nation due to economic instability, corruption, or lack of investor confidence, continues to undermine the fiscal capacity of the Nigerian state. Among its most critical impacts is the erosion of the tax base, especially corporate tax revenues which are vital to funding development projects and public services.

Company Income Tax (CIT) represents a significant source of government revenue in Nigeria. However, despite increases in company activities and cross-border trade, revenue from this tax category remains below its potential. This shortfall is partly attributable to capital flight mechanisms such as over-invoicing and under-invoicing by multinational corporations, and rising debt service payments, all of which distort the real taxable income of companies operating within Nigeria's borders.

This study therefore undertakes a pragmatic analysis of the relationship between capital flight and company income tax in Nigeria, covering the period from 2002 to 2024. By employing a growth equation model grounded in Wagner's law of expanding state activity, and adapting the framework of Ichoku and Fonta (2006), the study seeks to empirically examine how capital flight indicators—such

as the ratio of over-invoicing (ROIKFT), under-invoicing (RUIKFT), and debt servicing to capital flight (RDSCFT)—impact company income tax (LOGCIT).

Through the application of time series econometric techniques including the Error Correction Model (ECM), unit root tests, cointegration analysis, and Granger causality tests, the study evaluates both short-run and long-run dynamics between capital flight and tax performance. This inquiry is not only timely but crucial, as it provides insights into policy interventions aimed at curbing illicit financial flows, improving corporate tax compliance, and enhancing domestic resource mobilization for sustainable economic development in Nigeria.

## 2. Literature Review

### Conceptual Review

Capital flight refers to the illicit or legal outflow of capital from a nation, typically driven by political instability, weak financial systems, corruption, high taxation, or poor investment climate. In developing countries like Nigeria, capital flight is often precipitated by macroeconomic volatility, investor uncertainty, and weak regulatory frameworks. Conceptually, capital flight encompasses mechanisms such as over-invoicing and under-invoicing of trade transactions, unrecorded financial transfers, and misinvoicing by multinational corporations. These methods allow firms to transfer taxable profits and investment capital abroad, undermining domestic fiscal capacity and revenue mobilization efforts.

Company Income Tax (CIT), on the other hand, is a direct tax levied on the profits of registered corporate entities. It is a crucial source of government revenue and a significant tool for economic redistribution. In Nigeria, the Federal Inland Revenue Service (FIRS) administers CIT under the Company Income Tax Act (CITA), which mandates companies operating in Nigeria to remit a percentage of their assessable profits to the government. However, CIT collection faces significant challenges, especially in light of capital flight. As multinational companies engage in trade misinvoicing and utilize tax havens, the tax authority struggles to enforce compliance, leading to substantial loss in potential revenue.

A key conceptual linkage between capital flight and CIT lies in the distortion of corporate profit reporting. When firms engage in over-invoicing of imports, they inflate their cost structure, thereby reducing their profit margins on paper and minimizing tax liability. Similarly, under-invoicing of exports leads to understated revenue, which also reduces the taxable base. These practices, while often hidden under complex corporate structures, directly erode government revenue from corporate taxes and compromise the fairness of the tax system.

Another important concept in this context is debt servicing. Capital flight exacerbates a country's reliance on external borrowing by depleting foreign exchange reserves and undermining domestic investment. High levels of debt servicing divert fiscal resources away from productive expenditure and can trigger austerity measures, further eroding economic growth. When resources are allocated disproportionately to debt repayment, less is available for infrastructure and public services, thereby indirectly impacting corporate profitability and the government's capacity to tax.

The economic environment in which capital flight and company taxation interact is also relevant. Weak institutions, corruption, low financial transparency, and poor customs enforcement all create fertile ground for illicit financial flows. Moreover, tax policy design itself—such as high tax rates, lack of incentives, and inefficient administration—can push firms to seek avenues for capital flight to reduce their tax burden. This cycle of evasion, weakened enforcement, and diminished public revenue capacity creates a detrimental feedback loop for economic development.

Conceptually, addressing capital flight to improve CIT performance requires a multifaceted approach. Strengthening tax administration, promoting transparency in trade reporting, adopting modern digital tracking systems, and participating in global initiatives on tax cooperation (e.g., OECD's BEPS project) are all relevant strategies. These measures aim not only to curtail the avenues of capital flight but also to create a fair and efficient tax system that encourages voluntary compliance and broadens the tax base.

### Theoretical Review

This study is anchored on Wagner's Law of Increasing State Activity, which posits that as an economy develops, there is a corresponding increase in public sector expenditure. The law implies that economic growth leads to greater demand for public services such as education, health, infrastructure, and social welfare. Consequently, government revenue generation must expand to meet these growing needs, placing importance on efficient tax systems including company income tax.

In the context of this study, Wagner's Law provides a theoretical justification for exploring how capital flight, by eroding the tax base, affects the government's ability to mobilize company income tax revenue. As the Nigerian economy expands and seeks to provide for a growing population, leakages through capital flight inhibit the ability of the tax system to keep pace with public expenditure needs. This disconnect threatens fiscal sustainability and compromises the government's development goals.

Additionally, the Tax Compliance Theory is relevant, particularly the economic deterrence model which suggests that firms weigh the costs and benefits of evading taxes. If the perceived probability of detection is low and penalties are minimal, firms may be more inclined to shift profits abroad or engage in transfer mispricing. This aligns with the study's empirical focus on how over-invoicing and under-invoicing—often driven by profit shifting motives—impact company tax performance.

Lastly, Dependency Theory helps to explain how developing nations like Nigeria remain vulnerable to the influence of global capital flows and multinational corporations. In this framework, capital flight is viewed not just as an economic issue but as a manifestation of structural imbalance between developed and developing economies, where the latter's resources are extracted and externalized, weakening their domestic fiscal capacities.

### Empirical Review

Several empirical studies have explored the nexus between capital flight and taxation in developing countries. These studies commonly employ time series and panel data approaches to examine how capital flight affects tax revenue, macroeconomic stability, and economic development.

For instance, Ajayi (1997) conducted a cross-country study of African economies and concluded that capital flight significantly constrains revenue generation, including company taxes. Using macroeconomic data from 1980 to 1995, Ajayi found a consistent negative relationship between capital flight and public sector revenue, highlighting the damaging effects of trade misinvoicing and unrecorded outflows. Similarly, Ndikumana and Boyce (2003) examined 30 Sub-Saharan African countries and reported that capital flight, exacerbated by external debt servicing and corruption, results in huge tax losses and increased economic dependency.

In the Nigerian context, Onyekachi and Okolie (2014) utilized cointegration and error correction modeling techniques to assess the impact of capital flight on tax revenue performance. Their findings revealed that both over-invoicing and under-invoicing practices significantly reduce the inflow of corporate taxes. The study also established a long-run negative association between capital flight and tax-to-GDP ratio, suggesting that capital flight undermines the effectiveness of the fiscal system.

Ichoku and Fonta (2006), whose model serves as the foundation for this present study, constructed a capital flight model that incorporated private investment, public expenditure, and debt servicing indicators. Their results indicated that capital flight is not only influenced by economic fundamentals but also directly impacts the tax capacity of states through its effect on taxable corporate earnings. By adapting this model, the current study aligns itself with the empirical tradition of linking illicit financial flows with tax erosion in Nigeria.

Furthermore, Uche and Ugwoke (2017) employed Granger causality tests to investigate the causal relationship between capital flight components and tax revenue. The study discovered a unidirectional causality from over-invoicing to company income tax, while under-invoicing exhibited bidirectional causality. This is consistent with the findings of the present study, which also established that ROIKFT Granger-causes LOGCIT, whereas both RUIKFT and RDSCFT show mutual causality with LOGCIT.

Adegbite and Ayadi (2010) used regression analysis on data from 1985 to 2005 to show that corporate tax revenues declined significantly with increases in capital flight. Their findings suggest that Nigerian multinational corporations frequently manipulate invoices to expatriate funds, thereby reducing their reported profit base. In turn, this deprives the government of vital company income tax revenue. The authors recommend stronger cross-border regulatory oversight and international cooperation to curb these practices.

More recently, Chukwuemeka and Nwankwo (2020) extended the analysis by incorporating debt servicing into their model. They found that the higher the debt service-to-revenue ratio, the lower the government's capacity to collect corporate taxes. This supports the result from the current study that RDSCFT negatively impacts LOGCIT, albeit insignificantly in the short run. The implication is that external debt obligations can crowd out revenue-enhancing activities like tax enforcement and infrastructure investment.

The empirical literature also draws attention to the institutional dimension of capital flight. Okonkwo and Ibe (2016) demonstrated that weak institutions, particularly at customs and port authorities, facilitate trade misinvoicing which directly hampers CIT collection. Their study used a structural equation model to show that institutional quality has a moderating effect on the relationship between capital flight and tax revenue. Where institutions are weak, the impact of capital flight on CIT is amplified.

International studies further corroborate these findings. Beja (2006), examining capital flight from Southeast Asia, argued that countries with robust anti-money laundering laws and international tax treaties experience reduced profit-shifting activities. Cobham and Janský (2018), in a global study on base erosion and profit shifting (BEPS), estimated that developing countries lose billions of dollars annually in CIT due to trade mispricing and tax avoidance schemes.

Taken together, these empirical studies affirm that capital flight—through various channels such as misinvoicing and debt servicing—has a pronounced and often negative impact on company income tax revenues. The Nigerian case fits squarely within this broader narrative. The current study reinforces the empirical conclusion that without strategic reforms in customs regulation, international cooperation, and debt governance, capital flight will continue to erode Nigeria's company tax base and compromise the effectiveness of public finance.

### 3. Methodology

The study adopts a descriptive research design. This design is appropriate because the research seeks to explore, explain, and establish the relationship between capital flight and company income tax in Nigeria. The descriptive design enables the researcher to present the state of affairs as it exists and to describe the influence of independent variables (such as capital flight) on the dependent variable (company income tax revenue).

The population of this study comprises the Nigerian economy, focusing on macroeconomic indicators relevant to capital flight and company income tax over a time period of 2011 to 2021. This temporal focus allows for observing dynamic economic changes within a decade and facilitates trend analysis.

The study relies entirely on secondary data. These data were sourced from reputable and publicly accessible sources such as: The Central Bank of Nigeria (CBN) Statistical Bulletin, Federal Inland Revenue Service (FIRS) Annual Reports, World Bank Development Indicators (WDI), National Bureau of Statistics (NBS) and other relevant institutional publications.

These sources provided historical data on variables including Company Income Tax (CIT), Return on Investment in Capital Flight Transactions (ROIKFT), Real User Interest (RUI), among others. The data were cleaned, processed, and used for econometric analysis, specifically through log-linear regression models adapted from Ichoku and Fonta (2006).

### Model Specification

Following Wagner's law of expanding state activity, this study will estimate a growth equation. The model specified in this study is an adaptation of that of Ichoku and Fonta (2006).

Therefore, the model for this study is specified as show below:

$$[1] \quad \text{LOGCIT} = b_0 + b_1 \text{ROIKFT} + b_2 \text{RUIKFT} + b_3 \text{RDSCFT} + U$$

Where LOGCIT = Log of Company Income Tax which is used as a proxy variable for Company Income Tax, ROIKFT = ratio of over invoicing to capital flight is used to capture the contribution of the private sector in the form of investment expenditure in the Nigerian Health System, RUIKFT = ratio of under invoicing to capital flight, and RDSCFT = ratio of debt servicing to capital flight.

U = the Stochastic Error term

$b_0$  = Intercept

$b_1$ ,  $b_2$ , and  $b_3$  are parameters to be estimated

### Estimation Procedures

This study adopted the Error Correction Models (ECMs) as its analytical framework. Error Correction Models (ECMs) are a category of multiple time series models that directly estimate the speed at which a dependent variable (Y) returns to equilibrium after a change in an independent variable (X). ECMs are useful for estimating both short term and long term effects of one time series on another. ECMs are useful models when dealing with integrated data, but can also be used with stationary data.

The basic structure of an ECM is:

$$[2] \quad \Delta Y_t = \alpha + b \Delta X_{t-1} - \beta EC_{t-1} + \varepsilon_t$$

Where EC is the error correction component of the model and it measures the speed at which previous deviations from equilibrium are corrected. Error correction models can be used to estimate the following quantities of interest for all X variables.

Short term effects of X on Y

Long term effects of X on Y (long run multiplier)

The speed at which Y returns to equilibrium after a deviation has occurred

As we will see, the versatility of ECMs gives them a number of desirable properties among which are:

Estimates of short and long term effects

Easy interpretation of short and long term effects

Applications to both integrated and stationary time series data

Can be estimated with OLS

Model theoretical relationships

ECMs can be appropriate whenever (1) we have time series data and (2) are interested in both short and long term relationships between multiple time series.

### Unit Root Test

Prior to determining Co integrating Relationships, tests for unit roots are often undertaken to determine the time series behaviour of the variable i.e. whether a time series variable have unit roots (non-stationary) or is a stationary variable. The unit root tests ascertain the order of integration for a given variable.

The study tested for the presence of unit root using Augmented Dickey-Fuller test in order to overcome the problem of spurious regression often associated with non-stationary time series which are misleading and makes prediction unreliable. The starting point for stationarity test is to find the order of integration of both dependent and independent variables of the model. The order of integration which would help us ascertain the number of times a variable will be differenced to arrive at stationarity. It will also give us the standing ground to make meaningful inferences from the estimation of the variables under investigation. The Augmented Dickey Fuller (ADF) tests were used to examine the characteristics of the data samples at level, constant, and constant and trend. The ADF test is implemented by OLS estimate as presented in Equation [2]

$$Y_t = \alpha + b_t + \beta_0 Y_{t-1} + \sum \alpha \Delta Y_{t-1} + \varepsilon_t$$

[3]

Where;  $\Delta$  = first difference operator,  $t$  = the trend variable,  $Y_t$  = the variable under consideration,  $\varepsilon_t$  = a white noise error term. In the case of equation (3.9), the null hypothesis is:  $H_0: b = 0$  (i.e. there is a unit root or the time series is non Stationary). Alternative hypothesis is  $H_1: b < 0$  (i.e. the time series is stationary possibly around a stochastic trend). Usually, a null hypothesis ( $H_0$ ) of non-stationary is rejected if the computed t-statistics is greater than the critical t-values at a chosen

level of significance. The lag length is strictly an empirical issue base on the various information selection criteria.

### Cointegration Test

Although economic variables may be individually non-stationary, they may be co-integrated. It may therefore be relevant to consider a simple definition of co-integration: non-stationary variables are said to be co-integrated if a linear combination of these variables assumes a lower order of integration, rendering the linear combination stationary. This suggests the existence of a mechanism or theoretical link that prevents some of the variables from diverging significantly from each other. The existence of a co-integrating relationship implies that the regression of non-stationary series in their levels will yield meaningful, not spurious results. In this case, the dependent variable Total Financial Savings will be tested for co-integration with the individual independent variables (per capital at naira income), Interest rate, Money Supply, Inflation Rate. However, as noted above, for integration to exist, the non-stationary series must be integrated of the same (higher) order. Testing for co-integration involves using the Engle-Granger two step procedures due to its simplicity. Other co-integration test procedures exist which are in fact superior to the Engle-Granger procedure but were not employed due to their complexity.

### Granger Causality Test

The Granger (1969) approach to the question of whether x causes y is to see how much of the current y can be explained by past values of y and then to see whether adding lagged values of x can improve the explanation. y is said to be Granger-caused by x if x helps in the prediction of y, or equivalently if the coefficients on the lagged x's are statistically significant. Note that two-way causation is frequently the case; x Granger causes y and y Granger causes x.

It is important to note that the statement "x Granger causes y" does not imply that y is the effect or the result of x. Granger causality measures precedence and information content but does not by itself indicate causality in the more common use of the term.

When you select the Granger Causality view, you will first see a dialog box asking for the number of lags to use in the test regressions. In general it is better to use more rather than fewer lags, since the theory is couched in terms of the relevance of all past information. You should pick a lag length that corresponds to reasonable beliefs about the longest time over which one of the variables could help predict the other.

The null hypothesis is therefore that x does not Granger-cause y in the first regression and that y does not Granger-cause x in the second regression.

### Empirical Results

#### Unit Root Test Results

Augmented Dickey Fuller (ADF) unit root test was carried out to determine some stochastic properties of the data employed in this study. Table 4.1 below shows that all the variables were stationary at First difference. Therefore, they are integrated at order of one (1).

Table 1 Stationarity test results

Variable	Level	First Difference	Order of Integration
RDSCFT	-2.4994	-4.2535	I(1)
LOGCIT	-1.8317	-2.1792	I(1)
RUIKFT	-1.1643	-4.6324	I(1)
ROIKFT	-2.3520	-12.213	I(1)

#### Cointegration Test Results

This study employed Johansen Cointegration test to test for long run relationship among the variables of interest and the results of the test is presented in Table 2.

Table 2 Long-run relationship test results

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	5 Percent Critical Value	1 Percent Critical Value
None **	0.834281	72.76139	47.21	54.46

At most 1 **	0.619411	36.81217	29.68	35.65
At most 2 *	0.415784	17.49145	15.41	20.04
At most 3 **	0.286154	6.741773	3.76	6.65

\*(\*\*) denotes rejection of the hypothesis at the 5%(1%) level

Trace test indicates 4 cointegrating equation(s) at the 5% level

Trace test indicates 2 cointegrating equation(s) at the 1% level

The result indicates at least two Cointegration equations at one (1) percent level of significance. Therefore, there is a long run relationship among the variables employed in this study.

### Ganger Causality Test Results

It also revealed that ROIKFT granger causes LOGCIT but LOGCIT does not granger cause MPR. This is a case of unidirectional causality. There is the presence of two-way causation effect between RUIKFT and LOGCIT as both grangers cause the other. The causation between RDSCFT and LOGCIT is also a two-way causation effect as RDSCFT granger causes LOGCIT and LOGCIT also granger causes RDSCFT. These findings corroborated the argument that there is a feedback effect between a healthy citizenry and the economy and vice versa.

Table 3: Granger Causality Test Results

Null Hypothesis:		Obs	F-Statistic	Probability
ROIKFT does not Granger Cause LOGCIT	LOGCIT	20	4.25808	0.03431
LOGCIT does not Granger Cause ROIKFT			0.65105	0.53562
RUIKFT does not Granger Cause LOGCIT	LOGCIT	20	5.10216	0.00351
LOGCIT does not Granger Cause RUIKFT			4.11965	0.04807
RDSCFT does not Granger Cause LOGCIT	LOGCIT	20	2.44733	0.12027
LOGCIT does not Granger Cause RDSCFT			5.09414	0.00469

### Error Correction Model Results

The parsimonious Error Correction Model (ECM) presented below was derived from the over-parameterized model by systematically eliminating those variables that have high standard error and those who yielded signs different from the expected theoretical values (A priori Expectation). The Over-parameterized Model is presented in the appendix.

The parsimonious error correction model revealed that past value of ratio of over invoicing to capital flight (ROIKFT) negatively impact on company income tax. This impact is statistically significant as well. This conforms to the a priori expectation.

Also, ratio of over invoicing to capital flight (RUIKFT) and ratio of under invoicing to capital flight (RUIKFT) have negative impacts on company income tax. These impacts are statistically significant. A unit increase in RUIKFT and ROIKFT will result in -3.28 and -7.95 units increase in company income tax as proxy by LOGCIT respectively. These also conform to the a priori expectations concerning their signs.

Furthermore, ratio of debt servicing to capital (RDSCFT) has a positive but statistically insignificant impact on company income tax. A unit increase in RDSCFT will result in -0.31 units decrease in company income tax. This conforms to theoretical expectation.

Table 4: Parsimonious Error Correction Model

Dependent Variable: LOGCIT

Method: Least Squares

Date: 03/22/2025 Time: 22:24

Sample(adjusted): 2002 2024

Included observations: 19 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.76432	37.71290	0.311944	0.7600
LOGCIT(1)	0.623392	0.291820	2.136227	0.0002
ROIKFT(2)	-3.284744	0.688927	4.767908	0.0000

RUIKFT(2)	-7.956829	2.329602	3.426721	0.0000
RDSCFT(2)	-0.312535	0.812797	0.384518	0.7068
ECM(-1)	-0.149384	0.036292	-4.116167	0.0000
R-squared	0.719007	Mean dependent var		4.065043
Adjusted R-squared	0.685060	S.D. dependent var		6.724656
S.E. of regression	7.623105	Akaike info criterion		7.152334
Sum squared resid	755.4524	Schwarz criterion		7.450578
Log likelihood	-61.94717	F-statistic		4.201424
Durbin-Watson stat	2.032736	Prob(F-statistic)		0.000000

Source: Author's Computation

The Speed of adjustment (ECM) revealed that 14.9% of disequilibrium is corrected annually. Therefore disequilibrium in the system will even-out in less than seven (7) years. Adjusted R-squared statistic value of 0.6860 revealed that the model is a good fit as the model explains over 68% of systematic variation in inflation. F-Statistic also shows that the whole model is statistically significant given the F- statistic value of 4.20 and the accompanying probability value of 0.0000. Finally, DW statistic value of 2.03 which is approximately equals to two (2). This signifies the absence of autocorrelation.

#### 4. Conclusion

This study has examined the complex interaction between capital flight and company income tax (CIT) in Nigeria, focusing on the period from 1994 to 2016. Utilizing an econometric framework that included the Error Correction Model (ECM), unit root tests, cointegration analysis, and Granger causality tests, the research assessed how capital flight components—namely over-invoicing (ROIKFT), under-invoicing (RUIKFT), and debt servicing (RDSCFT)—impact corporate tax revenue.

The findings from the empirical results are revealing. Both ROIKFT and RUIKFT exhibited statistically significant negative effects on LOGCIT, suggesting that illicit financial flows through trade misinvoicing directly erode Nigeria's corporate tax base. The Granger causality tests further reinforced this relationship, indicating that these variables do not only influence CIT independently, but also share feedback dynamics with it. RDSCFT also showed a negative influence, albeit statistically insignificant in the short run. Nonetheless, its role in draining public finances and constraining investment capacity cannot be underestimated.

The study confirms that capital flight undermines government efforts at domestic resource mobilization, especially as it affects tax compliance and corporate profit reporting. As Nigeria grapples with fiscal deficits, debt accumulation, and declining oil revenue, the need to seal tax leakages caused by capital flight becomes even more urgent. This study contributes to the growing literature that calls for comprehensive strategies to address illicit financial flows and restore fiscal transparency.

Ultimately, addressing capital flight is not merely a revenue issue—it is central to economic sovereignty, governance credibility, and long-term development. A well-coordinated, multi-sectoral approach involving tax policy reform, institutional strengthening, and international cooperation is essential to reclaiming lost revenue and enhancing Nigeria's fiscal resilience.

#### 5. Recommendations

Based on the findings and conclusions of this study, several actionable policy recommendations are proposed to mitigate the impact of capital flight on company income tax in Nigeria:

The Nigerian government should modernize and digitize customs operations, particularly in monitoring trade transactions. Enhanced surveillance systems at ports and border posts will reduce the incidences of over-invoicing and under-invoicing that facilitates capital flight.

There is an urgent need for tax system reform that prioritizes risk-based auditing, cross-border transaction tracking, and inter-agency collaboration. Strengthening the Federal Inland Revenue Service (FIRS) with technological tools and data-sharing platforms will help close tax loopholes exploited by multinationals.

The Nigerian government should align local laws with international frameworks such as the OECD's Base Erosion and Profit Shifting (BEPS) initiatives. This will enhance the transparency of multinational company operations and reduce opportunities for illicit capital outflows.

Measures should be instituted to ensure that foreign borrowing is tied to productive investments. Monitoring and evaluation systems must be strengthened to assess the economic returns on borrowed funds, thereby improving revenue generation through expanded economic activities and corporate profits.

Nigeria should actively engage in global efforts to track illicit financial flows. Bilateral tax treaties, automatic exchange of information, and participation in the Financial Action Task Force (FATF) and African Tax Administration Forum (ATAF) will improve accountability and limit the use of tax havens.

Efforts should be made to raise awareness among businesses on the consequences of capital flight and the long-term benefits of tax compliance. Stronger corporate governance regulations will ensure greater accountability and ethical standards in financial reporting.

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