Effects of Thin Capitalization and International Law on Performance of Multinational Companies in Nigeria

Akabom, Ita Asuquo (Ph.D)
Department of Accounting
University of Calabar
Calabar-Nigeria
drakabom3@gmail.com

Ejabu, Fidelis Enya
Department of Accounting
University of Calabar
Calabar-Nigeria
ejabufidelis@yahoo.com

Abstract
The use of leverage as finance strategy has become a tool of performance enhancement among corporate organisations. The study was carried out to examine the effects of thin capitalization and international laws on performance of multinational companies in Nigeria. Ten Samples were drawn from 17 multinational companies quoted on the Nigerian stock exchange. The expo-facto design was adopted, since the variables used existed in the company's financial report covering the period of 2012-2016. Data were gathered using on-line retrieval method. The analysis technique used was the multiple regressions. Research results indicated that thin capitalization is revenue stripping techniques but it affects performance of multinational companies in Nigeria. The study therefore recommended among others that Government should design a framework that will limit debt-to-equity ratio of multinational companies operating in Nigeria, since it has become imperative that companies used high leverage to generate and shift earnings without having carefully managed the accompany problems of financial distress.

Key words: Thin capitalization, multinational companies and Performance.

1. Introduction

Policy development around the world has given prominence to trans-border trading and encourages flow of resources among people and organisations in different countries. If business transactions are restricted to their country of residence, technology and economic advancement will be hampered. Nevertheless, since the advent of the fourth democratic government in Nigeria, the country has witnessed several bilateral tax treaties with many countries of the world aimed at avoiding incidence of double taxation and improving international business transaction amongst nations. These bilateral understanding has provided opportunities for multinational companies to critically evaluate the country tax policy, political and economic amongst other policies as a factor to trade. Hill (2005), describes Multinational Corporation as any trade that has industrious undertakings in two or more countries. In essence, this multinational company maintained a single head office in country other than the country of operation with specific assets and skills to exploit profitably in different market. Despite the fact that multinational companies reduces employment rate in a country, Feldstein & Horiaka (1980), points out that holding everything constant including domestic savings, multinational companies reduces domestic investment by significantly less

than one for one. When multinational companies (MCs) initiate business in another country, the branch in that country is often referred to as subsidiary. The investments in the subsidiary need to be funded through equity or debt, to facilitate acquisition of assets and support expansion for the maximization of profit. Feldstein, Hines and Glenn (1995) opine that investment decision of multinational is determine by home-and-host country taxation and variation amongst nations in tax matter connected to debt and equity finance.

Corporate finance literature on capital structure has exposed the negative and positive benefits accruing to a firm with debt choice of financing against the equity source. The positive benefit is corporate tax shield which high leverage company stand to enjoy. For instance, in the computation of company assessable profit, interest paid on borrowed fund is tax deductible expenses which imply that the greater the debt level of a company, the more interest it pays and the lesser the tax payable. Growing financial leverage has the potential to assist companies to upsurge her worth through benefit and protection arising from tax exempted income (Modigliani & Miller, 1963.). Greater financial leverage could result to increase anticipated viable and unforeseen cost of business misery, thereby reducing companies worth (Ross, Westerfied & Jaffe, 2002). Financial distress is a negative experience which exposes excessive use of leverage in capital composition and could threaten corporate performance and going concern, resulting to gradual disposal of assets to settle obligation. Ferrar and Mawami (2008) maintained that a company is thinly capitalised if it capital structure constitute a greater percentage of debt compare to equity. Webber (2010) asserted that thin capitalization is a financial tactic multinational companies use to make foreign direct investment. Blouin, Huizinga, Laeven & Nicodeme (2014), also opines that thin capitalization is imperative in the understanding of changes in tax rate in capital structure studies and it is practice in a country with high tax rate, Moreover, thin capitalization is a tax planning policy carryout by company having strategically evaluate country fiscal policy to suite its capital composition, activities which enable them to finance their operation relatively with high level of debt against equity. As a finance strategy, multinational companies use thin capitalization to package their investment portfolio abroad due largely to international tax differential with the overall objective of reducing tax returns in the subsidiaries tax jurisdiction. Nonetheless, given the stringent nature of the Nigerian tax system and no rule restricting capital composition of both domestic and multinational companies. As entrepreneurial goal, they are bound to maximise higher profit through the use of any legitimate source of capital. Capital mix is very important in this context because if wrong capital is use the business will suffer in a long run, therefore the use of high debt to equity became imperative given the non-restrictive rule in Nigeria tax law. Moreover, performance of a company generally is mirrored by profitability that is exaggerated by leverage because fixed charges funds can be obtained at a cost lower than the firm's rate of return on net asset. In spite the eroding benefit from excessive use of debt in financial composition and savings from tax avoidance techniques, multinational companies are folding their operations while a good number have relocated to other countries. This incident has necessitated to percentage increases in unemployment rate in the country, hunger and increase in crime rate in recent time. Against this backdrop, this study seek to contribute to the scanty literature in the study of thin capitalization and also to investigate the effects of thin capitalization and international laws which regulate the operations of trans-border businesses on performance of multinational companies in Nigeria. The remainder of this research are review of literature and theoretical framework, methodology, result presentation and interpretation, discussion of result and findings, conclusion and recommendations.

Objectives:
1. To investigate the effect of thin capitalization on multinational company's performance in Nigeria.
2. To investigate whether interest expenses on loan repayment affect multinational company's performance in Nigeria.
3. To examine the extent at which company size affects multinational company performance in Nigeria.

Hypothesis:
1. There is no significant relationship between thin capitalization and multinational company performance in Nigeria.
2. Interest expenses do not significantly affect performance of multinational companies in Nigeria.
3. Company size has no effect on the performance of multinational company in Nigeria.

2.   Review of literature and theoretical Framework.

The concept of thin capitalization has stock a strong contention amongst scholars in recent time due largely to its influence on income shifting and tax repatriation strategy employed by Multinational Corporation. In their study of impact of taxation on the capital structure of US multinational using data which spam through 1982-1994 from US Bureau of Economic analysis, Desai, Foley and Hines (2004) found that 10% growth in the host country tax rate increases the total debt to asset ratio of US foreign affiliate by 2.6%. In a like manner, Huizinga, Laeven and Nicodeme (2008), uses data from 32 European countries between 1994-2003. They relatively discovered 10% growth in the local tax rate related to an increase in ratio of overseas associate's total debt to assets ratio of about 2%.

Grahan (1996), study whether increasing use of debt is significantly associated to stimulate firm-specific marginal tax rates using annual data from over 10,000 firms in USA. The study found that high tax-rate companies raise more capital through debt than their lower-tax-rate counterpart. Seida and Wempe (2004), investigated the impact of 12 corporate overturns, conflicting findings with 24 related corporation. They found that inverted corporations recognized considerable reduction in their effected tax rate due to company overturn Buettner, Overesch, Schreiber and Wamser (2012). Use large micro-level panel data set to investigate the efficiency of restrictions of the tax deductibility of interest expenses for Multinational Corporation. The study revealed that thin capitalization rules efficiently decrease the benefit to use internal loans for tax planning but in higher external debt. Also, Pratana (2017). Use multiple linear regressions to study whether corporate governance mechanisms affect the practice of thin capitalization in manufacturing companies listed on the Indonesian stock exchange. The result showed that the board size of commissioners negatively affects thin capitalization practices.

Ebaid (2009) Investigated effect of capital structure choice on firm performance. The study observed a fragile connection between firm's performance and debt structure of Egyptian firms. It was further revealed that the link between the substitutes of the debt structure on the return on equity is substantial. Whereas aggregate debt to assets and the short term debt has adverse and significant influence on the firm's return on asset. Bhaduri (2002), uses normal log of aggregate assets as measure of company size. The study concluded that company size is absolutely correlated to long term borrowing and adversely connected to short term borrowing, with no influence on total borrowing. Furthermore, he revealed that transaction cost influences small size firm to use more short term borrowing than big size firms whose

uses more long term borrowing in financing its operations. Hence, creditor often cogitate the risk of returns of an investment favourable in a short period while also choose to invest in small size firms given the risk frontier. Ali (2015), Use multiple regression to investigate the joint elements of leverage and dividend policy of non-financial firms in Pakistan and India. The outcomes showed that small size company confidently influences the choice to obtain surplus debt, with other variables having adverse influence on debt plan. De Jong (2002) investigated the role of leverage in Dutch companies. The results of study indicated a considerable influence of leverage on company performance of companies susceptible to excess-investment. Imad (2013) examined the debt-performance relation for 77 Jordanian industrial companies between 2000 and 2011. The result revealed that debt component reported as long-term, short-term, and total borrowing substantial affect asset yield.

2.1.1   International law and thin capitalization.

International organisation such as Organization for Economic Co-operation and Development (OECD), United Nation Organisation (UNO) and the European Union has been in active promotion of trade and removing of barriers to trade posed by taxation issues amongst its member nations. The essence is to ensuring that developing countries get their share of the tax on profit of multinational companies operating within their territory. Organization of Economic Co-operation in 2012 defined thin capitalization as a 'situation in which a company is financed through a relatively high level of debt compared to equity". Huang, Marr and Friedman (2013) opine that international tax system allowed countries to impose tax on world-wide and territorial. Under the world-wide, countries tax business's total income whether such income is generated in that country or not, the territorial system allowed countries to tax income generated within the country leaving other countries to tax income generated in their country until repatriated. This means that international organisation is aware of earnings tripping policy of thin capitalization by multinationals, therefore tax authorities is on the heel to fighting thin capitalization through limiting the amount of interest paid by the associate. Taylor and Richard (2013) maintained that the unnecessary use of debt instrument in the form of thinly capitalized structures by subsidiary companies situated in higher tax authorities (unlike in Nigeria where 30% is applicable) carry's an essential global corporate tax avoidance practise by multinational companies. Webber (2010) maintained that many countries have enacted related tax regulations that avert tax payers and consultant from placing elegant tax business activities that serve no corporate purpose other than minimizing tax commitment. Relatively tax laws in developed countries has shown that Multinational corporation found a save heaven in developing countries. In U.S.A corporate tax rate as at 2013 is 35%, US government provided bench mark for debt-to-equity ratio of 1.5-1 figure as safe harbour in their thin capitalization rule. Therefore, if the debt-to-equity ratio is above 1.5-1, the portion above 50% is not tax deductible. Moreover, German tax law also restrict related party loan shift without exclusion to domestic and international owners of German firms. Rossi (2005) maintained that Italy tax law under the thin capitalization mechanism are so difficult and possibly risky for ill-advised tax payer due to its complexity which subjects resident corporation, joint stock companies, partnerships, sole proprietorships and permanent organisation into tax. Despite the tax restriction rules habitually practice in many part of the world, most developing countries such as Nigeria is creeping with the surge of tax injustice due to avoidance mechanism perpetuated by multinational companies which results to revenue shift to home country and deprived the government of the much needed revenue for growth, a benefit that stand to improve on the company's profit.

2.1.2   Thin capitalization and company performance.

Company's return on investment basically shows the solvency and performance of a business

concern. They emphasize how effectively the profitability of a company is managed and how the company performs at generating revenue from the investment. Return on capital employed (ROCE) is a more useful among other performance indicators, it measures how efficiently a company can generate profit from its capital employed. According to Modigliani and Miller (1958) "firm's value is unaffected by the way that it is financed be it debt or equity". But as soon as the hypothesis of the absence of taxes is realised, firm's value is said therefore to be determine by the utilization of it asset on capital employed. Apparently, company financial policy can affect it performance and should be consider more significant taken both the tax shield and the financial distress cost into account. Jensen (1976), opines that increase in leverage teaches self-control in managers as they will be careful of exposing the firm to insolvency. Akhtar, Javed Maryam and Sadia (2012). Investigated the relationship between financial leverage and financial performance of fuel and energy sector in Pakistan. The study established existence of optimistic connection among leverage and the financial performance. In his study, Ojo (2012) in his maintained that financial leverage result to changes in the returns of shareholders, thus, adds financial risk. Alcok, Baum, Colley and Steiner (2013). Investigated firm's performance by evaluating the importance of financial leverage of private equity funds. The study showed that moneys over all are incapable to provide substantial performance on the basis of management expertise that is unconnected to the disclosure of the disparity in the fundamental market. Enekwe, Agu and Eziedo (2014). Examine the effect of financial leverage on financial performance of pharmaceutical companies in Nigeria. The result shows that interest coverage ratio is confidently associated with recurrence on asset while debt ratio and debt-equity ratio is adversely related with recurrence on asset.

2.1.2 Irrelevance theory- Modigliani and Miller (1958).
This theory forecasts a peak bull debt ratio as a derivative of swapping the benefits and costs of debt financing. While debt financing raises the company's value by the current cost of the debt tax buffers, it reduces the company's cost by the estimated costs of financial distress. However, companies whose finance its structure with more debt are those with low profitability and higher probability of expected or actual cost of distress. Moreover, additional agency costs between debt holders and shareholders also disturb the security option employ by companies. Myers (2001) maintains that company with higher growth prospects probably issue less debt to circumvent underinvestment. It could therefore be deduced from thin capitalization concept that, element of tax shield included in the use of leverage enables MNC to employ more debt to equity. However, skills and assets possess by MNCs is another motivator for the use of debt because at the event of distress they can comfortably disposed asset acquired to facilitate discharge of liabilities.

2.1.3 Agency theory – Jensen and Meckling (1976).
Agency theory explains the rapport between the managers (agent) and the owners (fund providers). Managers as resource controller can take decisions that often benefit their needs instead of growing the firm in capacity with respect to production and its value addition. Circumstances that often results to clash of curiosity between resource controller and fund providers is inevitable especially in a large organisation, this alone can reduce growth opportunity and firm performance. Agency hypothesis of leverage as it relates to thin capitalization policy predict that practice of financing a company with more debt and interest expenses on the borrowed fund can serve as mechanism to control agency problem. Bhaduri (2002), explains that cash flow under the control of management can be reduce through both interest payments on borrowed fund and ability to issue debt. When interest payment is made on borrowed fund, cash flow is reduced and less cash will be left for managers to expend on

fruitless commitments. Notwithstanding, agency theory in this perception is largely established by scholars that leverage and decisions on interest payment on borrowed fund are principally prejudiced by management, asset corporeality and company liquidity positioning which is crystal to justify firm performance over time.

3   Methodology and Data description.

In this study, our data sample consist of ten (10) multinational companies drawn from seventeen (17) quoted multinational companies on the Nigerian stock Exchange covering 2012 to 2016 randomly selected from oil and gas, food and beverages. These companies were used because they reported their financial transaction based on international accounting standard format, and disclosed well appropriately information needed for the computation of leverage and other variables. The data were basically secondary, extracted from the company's published financial statement using on-line retrieval method. Ordinary regression model was used to analyse the data set as to show the effect of thin capitalization on performance of multinational companies in Nigeria. The dependent variable used in the study is return on capital employed (ROCE), measured as net operating profit by the total value of asset less current liabilities. That is ROCE = [NOP/ TA-CL]. Independent variables use here is financial leverage ratio over the period (LEVG), firm size (FSIZE) use here is measured by the normal logarithm of aggregate assets. Thus, larger firms may have easier access to credit than small size firm and so we observe the credit behaviours of the companies. Finally, we consider interest payment expenses (INTEXP) on the credit facilities obtained from affiliate in financing their operation as it affect company performance. The regression equation were therefore computed thus: $ROCE = \beta_0 + \beta_1 t_1 + \mu t$…………………. (1)Leverage use in the study is financial leverage which indicates the rate of debt in the company capital structure and also indicates a degree of change in profit after tax (PAT) as a result of change of the company's EBIT. Financial leverage increases company risk and equity beta of the company will be affected most especially as multinational companies thinly capitalised their capital formation for corporate benefit. These benefits row on the shoulder of favourable international tax policy undertaken by countries to boost domestic and foreign direct investment in critical sectors as it operate in Nigeria environment. Though there is a limitation on the use of leverage in most developed countries of the world in which assessment is raised on default by revenue authority. In determining the companies leverage we adopt Pandy (2007:372) formula showing tax shield resulted from their financing policy as shown below;

$$LEVG = \beta_E \quad = \beta_A \left[1 + \frac{(1-T) \text{ Debt}}{\text{Equity}}\right]$$

$B_0 =$ Coefficient of thin capitalization (independent variable)

The regression model is design to infer whether multinational companies performance in Nigeria is related to thin capitalisation as described by the following equation;

$ROCE = \beta_0 + \beta_1 LEVG t_1 + \beta_1 FSIZE t_2 + \beta_3 INTEXP t_3 + \mu_t$…………………….. (2)

Where:

ROCE = Return on capital employed

LEVG = Leverage

FSIZE= firm size
INTEXP = Interest expenses distinguished

μ_t = error term

β_0 = Constant
β_1, β_2 & β_3 = regression coefficient.

4.0   Presentation of results and Interpretation.
Table 1 Model 1 Summary[b]
Showing regression analysis on thin capitalization and multinational company performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.181[a]	.033	.012	.18464	.033	1.619	1	48	.209	1.877

a. Predictors: (Constant), LEVERAGE
b. Dependent Variable: RETURN ON CAPITAL EMPLYED

The model summary was carried out to investigate the effects of the independent variable used in the study as it affects the dependent variable. The data analysis revealed the R square and Adjusted R square which determines the coefficient of variation are .033 and .021. This indicates that the independent variable leverage explains 33% deviation in the dependent variable (Return on Capital employed). The predictors are statistically significant; leaving only about 67% variability in return on capital employed to other factors not considered in this study.

Table 2   ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.055	1	.055	1.619	.209[b]
	Residual	1.636	48	.034		
	Total	1.692	49			

a. Dependent Variable: RETURN ON CAPITAL EMPLYED
b. Predictors: (Constant), LEVERAGE

The ANOVA table reveals the explanatory power of leverage. The F- ratio statistic has a p-value above 0.05 for the 95% level of confidence. This result reveals that the dependent variable (ROCE) do not explain the power of the independent variable (leverage) to improve performance.

Table 3 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.160	.030		5.381	.000
	LEVERAGE	-.001	.001	-.181	-1.273	.209

a. Dependent Variable: RETURN ON CAPITAL EMPLYED

The autonomous coefficient of the models highlights significantly, the specific link between the independent variables and the dependent variable. The regression un-standardized coefficient of return on capital employed result shows that a decrease in company performance by 16% will achieve a 1% reduction in leverage. The relationship between

variables used in the study was considered significant in the model.

Table 4 Model 2 Summary[b]
Showing regression analysis on interest expenses and multinational company performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.220[a]	.048	.028	.18314	.048	2.437	1	48	.125	1.913

a. Predictors: (Constant), INTEREST EXPENSES
b. Dependent Variable: RETURN ON CAPITAL EMPLYED

The model summary examined the variability of variables used in the study. The data analysis revealed the R square and Adjusted R square which determines the coefficient of variation. The R Square is .048 and the Adjusted R square is .028. This indicates that the independent variable (leverage) explains 48% deviation in the dependent variable (Return on Capital employed). The predictors are statistically significant; leaving only about 52% variability in return on capital employed to other factors not considered in this study.

Table 5 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.082	1	.082	2.437	.125[b]
	Residual	1.610	48	.034		
	Total	1.692	49			

a. Dependent Variable: RETURN ON CAPITAL EMPLYED
b. Predictors: (Constant), INTEREST EXPENSES

The ANOVA table reveals the explanatory power of leverage. The F- ratio statistic has a p-value above 0.05 for the 95% level of confidence. This result reveals that the dependent variable (capital employed) was not managed effectively and could expose the companies to financial distress since their dependent on debt is higher to equity.

Table 6 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.126	.028		4.537	.000
	INTEREST EXPENSES	3.157005	.000	.220	1.561	.125

a. Dependent Variable: RETURN ON CAPITAL EMPLYED

Autonomous coefficient of the models highlights significantly, the specific link existing amongst variables. The regression un-standardized coefficient of return on capital employed result shows that a 3.1% increase in interest expenses will result to an increase in performance by 1%. This relationship is insignificant to the model given p-value of interest expenses above .5%. Meaning that increase in debt as explained in the literature is susceptible to increase company performance and could expose company to financial distress. As interest paid to debt holders is a deduction in favour to the company during tax computation, they

have a chance to accumulate more profit with high risk potential.

Table 6 Model 2 Summary[b]
Showing regression analysis on company size and multinational company performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.430[a]	.185	.168	.16945	.185	10.917	1	48	.002	1.860

a. Predictors: (Constant), FIRM SIZE

b. Dependent Variable: RETURN ON CAPITAL EMPLYED

The model summary explained the interactive relationship between independent and dependent variables used in the study. The coefficient of variation R Square and Adjusted R Square data analysis revealed the R square and Adjusted R square is .185 and .168. This indicates that the independent variable firm size explains 18.5% deviation in the dependent variable (Return on Capital employed). The predictors are statistically significant; leaving only about 81.5% variability in return on capital employed to other factors not considered in this study.

Table 7 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.313	1	.313	10.917	.002[b]
	Residual	1.378	48	.029		
	Total	1.692	49			

a. Dependent Variable: RETURN ON CAPITAL EMPLYED

b. Predictors: (Constant), FIRM SIZE

The ANOVA table reveals the explanatory power of leverage. The F- ratio statistic has a p-value above 0.05 for the 95% level of confidence. This result reveals that the dependent variable (capital employed) as performance measurement is strongly related to firm size. However, company size and nature of undertaking are essential factors in designing financing policy and are develop in a structured and strategic form.

Table 8 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.176	.026		6.735	.000
	FIRM SIZE	-4.096007	.000	-.430	-3.304	.002

a. Dependent Variable: RETURN ON CAPITAL EMPLYED

The autonomous coefficient of the models highlights significantly, the specific link existing amongst variables. The regression un-standardized coefficient of return on capital employed result shows that a decrease in firm size by 4% will achieve a 1% increment in capital sourcing of the companies. Meaning that there is relationship between firm size and

performance. Multinational company will require additional funding to meet up its rapid expansion and this necessitate the application of thin capitalization in subsidiary high tax territory for the purpose of maximizing adequate profit as to cushion the effect of cash flow arising from asset acquisition on company growth. The p-value were observed to be significant in explaining the relationship in the model.

4.3 Discussion of Findings.

The result of model one suggested that companies enjoyed non-restrictive rule in the use of debt capital over equity thereby experiencing growing financial benefit from tax shield. The result reveals that companies do not manage carefully the accompany problems of excess leverage which is the problems of financial distress and could be the more reason they are relocating to another environment to earn better profit and provide protection to stakeholders funds. The result agreed with the idea of Jensen (1976) that increases in leverage teaches self-control in managers as they will be careful of exposing the firm to insolvency. The result is also inconsonance with the findings of Akhtar, Javed Maryam and Sadia (2012) whose finding reveals that leverage established optimistic with financial performance. Model two result shows that interest expenses on loan repayment of multinational companies significantly affect their performance. This is because, interest on debt is fixed unlike equity and could affect the company during period of price changes the significant portion of the revenue generated by them. This is somewhat consistent with the findings of Enekwe, Agu and Eziedo (2014) that interest coverage ratio is confidently associated with recurrence on asset while debt ratio and debt-equity ratio is adversely related with recurrence on asset. Buettner, Overesch, Schreiber and Wamser (2012) that thin capitalization rules effectively decrease the inducement (interest) to use internal loans for tax planning but in higher external debt. We found in this study that firm size is significantly related to company performance. This is evidence in model 3, where decrease in firm size by 4% resulted to a 1% increment in capital sourcing of the study companies. The result correspond with the findings of Huizinga et al (2008) and Desai et al (2004) that increase in tax rate by 10% raises multinational debt to asset ratio by 2% and 2.6% and the findings of Bhaduri (2002) that company size is absolutely correlated to long term borrowing and adversely connected to short term borrowing, with no influence on total borrowing. The result further revealed that transaction cost influences small size firm to use more short term borrowing than big size firms whose uses more long term borrowing in financing its operations.

5. Conclusion and Recommendations.

The study was carried out to examine the effect thin capitalization and international laws on performance of multinational companies in Nigeria. Multinational companies ought to perform well given the unrestricted rule in their financing option of debt to equity and other policy development to encourage industrial expansion in Nigeria. Major sectors in Nigeria business is dominated by multinational companies such as the oil and gas sector, food and Beverages and the communication industry. These sectors have the potential to contribute significantly to economic development, revenue growth and job creation with better work condition if the operation is sustainable. To ascertain how thin capitalization affects performance of multinationals, we construct a data set that enable us captured revenue shifting methods and company size in terms of asset tangibility. However, we discovered that interest paid on borrowed capital affect the returns on capital invested due largely to price changes and economic uncertainty within the period this research was carried out. Though companies experience some financial benefit no doubt through tax shield but trading more on debt against equity in a developing economy where price of commodities are not often stable and regulated exposes investment to high risk potential. We also discovered that majority of

the company studied were exposed to financial distress as a result of high propensity of leverage in their financing policy. Government today is faced with the challenge of funding both capital and recurrent expenditure, this is not alone, and unemployment rate is of the increase in spite foreign trade partnership with different government of the world. Based on our findings we concluded that thin capitalization as revenue stripping techniques affect performance of multinational companies in Nigeria. From our findings and conclusion, we offer the following recommendations.

1. Government should ensure limitation to debt-to-equity ratio of multinational companies operating in Nigeria, since it became imperative that multinationals companies use high leverage to generate and shift earnings to lower tax jurisdiction thereby starving the country with needed growth and creative attitude.

2. Capital formation is company policy, therefore it is at their liberty to finance subsidiary either with debt or equity while still complying with government restriction and strip earnings. As a result, government should through various regulatory agency and tax authority ensure the adoption of interest deduction limitation as a buffer to foreign affiliate operations in Nigeria.

3. Multinationals should avoid over floating investment in affiliate with high leverage especially in a developing state in order to sustain it operations and maximized needed profit.

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