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CORPORATE TAX AVOIDANCE PRACTICES: AN EMPIRICAL EVIDENCE FROM NIGERIAN FIRMS

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Abstract
This study examined the existence of corporate tax avoidance practices among the public listed firms in Nigeria. Secondary data were obtained from annual published reports from selected Nigerian firms listed in Nigeria stock exchange from 2006 to 2017. Panel Data analysis technique was used to analyse the effect of independent variables (Thin capitalization, Leverage, Firms Size, Transfer Pricing, and Intangible Assets) on dependent variable (Corporate Tax Avoidance). The result showed that thin capitalisation, firm size, profitability, leverages, intangible assets, and transfer pricing are significantly related with corporate tax avoidance. Thin capitalisation, profitability and transfer pricing are the primary driver of corporate tax avoidance. It is concluded that there are several corporate tax avoidance practices employed by Nigerian firms to aggressively reduce their corporate tax liabilities in Nigeria.

JEL Classification : H26, G31, H29, L25, L11, E22

Keywords: Tax Avoidance, Thin capitalization, Leverage, Firms Size, Transfer Pricing, Intangible Assets

1. Introduction

Construction of better road networks, effective and efficient telecommunication, electricity and water supply which are the responsibilities of government which ultimately are benefited by corporate organisation. Therefore government needs to be compensated in form of payment of corporate taxes by corporate organisation for the service rendered in order to fulfil their fiscal responsibilities. Corporate tax is referred to tax paid to the government from the income of corporate organisation (Adegbite, 2015). According to Adegbite, Fasina and Araoye (2019) one of the greatest problems facing this tax system is the problem of tax compliance. Tax

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compliance may be seen in terms of tax avoidance which is being referred to as the active means by which the taxpayer seeks to reduce or remove altogether its liability to tax without actually breaking the law, and it is regarded as a legal measure of reducing tax liability. The practice of tax avoidance involves capitalizing on the advantage of the loopholes and available gaps in tax reform in order to reduce corporate tax considerably (Eugene & Abigail, 2016).Corporate tax avoidance has drastically reduced revenue to be accrued to the government. This invariably translated to immeasurable loss of corporate tax revenue to the government which has exposed the government to fiscal irresponsibility. The attributed reason for the low report of tax liabilities of the quoted firms are based on the transfer pricing rules, and the practice of tax haven. The increase of corporate tax avoidance opportunities is also linked with the complexity of transactions which involves operation in the tax havens zone (Otusanya, 2011).

Government's revenues are lower when multinational enterprises avoid paying corporate income taxes through shifting their profits to tax havens. To estimate the scale of profit shifting it was observed that the higher the share of investment from offshore financial centres, the lower is the reported rate of return on inward foreign direct investment which eventually reduces corporate tax. (Janský and Palanský (2017). There are limited literature that examined the effect of firm's thin capitalisation, transfer pricing, income shifting, and Multinationality on the corporate tax avoidance practices in the Nigerian context. Most of the existing literature employed primary data to examine the effect thin capitalisation on Corporate Tax Avoidance. This paper therefore contributes to existing knowledge by using secondary data to assess the extent to which Nigerian firms retain income in an organisation as the expense of the government. This study adopted the assertion of Otusanya, (2011) to examine the effect of thin capitalization, leverage, firms size, transfer pricing, and intangible assets on corporate tax avoidance. Thus, it is significantly important to gain an understanding to the key motivating factors and methods employed by the firms to minimise their company tax.

This paper is organized as follows: In the next section we provide a description of the background literature. Section 3 describes the data and presents the tools/methodologies used in this study. Section 4 describes the results of the research, while in the last section we discuss the findings and draw the conclusions of the study.

2. Literature Review

2.1 Tax Compliance and Corporate Tax Avoidance

Tax compliance has been defined as reporting of tax liability to the relevant authority in compliance with applicable tax laws, regulation and court decision (Jackson & Milliron, 1986). It has also been defined as a process in which taxpayers file all the required tax returns by declaring all income accurately and paying the exact tax liability using applicable tax laws and regulation (Palil & Mustapha, 2011). However, tax compliance can be in two forms; administrative and judicious compliance. Administrative compliance refers to compliance with the applicable tax laws as stipulated in the relevant regulations whereas judicious compliance refers to the accuracy in

filling the tax return forms (Chow, 2004). Compliance can be through enforcement by relevant authorities or through voluntary willingness of the taxpayers (Kastlunger, Lozza, Kirchler, & Schabmann, 2013). The tax compliance enforcement is through powers conferred on the relevant authorities to force the taxpayers to pay while voluntary means by morality of the taxpayers to pay tax willingly. Thus, voluntary tax compliance has been defined as filling and reporting of tax returns, correct self-assessment of tax due and payment of taxes before or on the due date without enforcement (Silvani & Baer, 1997).

Corporate tax avoidance which is defined as the payment of low cash taxes in naira of pre-tax earnings of corporate entities (Hanlon and Heitzman, 2010). Tax minimisation, tax avoidance and tax evasion can be considered along a spectrum of activity. At the most egregious end, tax evasion refers to taxpayers deliberately and dishonestly breaking the law to avoid paying tax. Next to tax evasion is a large grey area, in which taxpayers construct contrived schemes or exploit loopholes to reduce their tax liability. This is known as tax avoidance. Some tax avoidance activity might technically comply with the law but be contrary to its spirit and purpose. Other tax avoidance activity may in fact cross the line of what is legal but will require detailed investigation (and possibly litigation) to determine this. Tax avoidance can be particularly harmful because it is far more difficult for tax administrations to take action against (compared to tax evasion). This is because, by definition, such behaviour occupies a legal grey area. As a result, it is often seen by the public as going unpoliced.

If ordinary taxpayers lose confidence in the system because they see tax avoidance going unaddressed, there is likely to be a reduction in voluntary compliance. Under the Nigeria tax system, taxpayers are required to self-assess their tax obligations, rather than the Federal Inland revenue service board reviewing every transaction or event that may have tax consequences. Voluntary compliance is the cornerstone of this system and is more readily achieved when taxpayers have confidence that the tax system is fair and is being evenly applied. Further, if multinationals are artificially reducing their tax bills, governments are also likely to collect less revenue. A significant source of tax base erosion globally is profit shifting. As a result, taxpayers not engaging in profit shifting shoulder a greater share of the tax burden (than they otherwise would) and face a competitive disadvantage. Government's revenues are lower when multinational enterprises avoid paying corporate income taxes through shifting their profits to tax havens. To estimate the scale of profit shifting it was observed that the higher the share of investment from offshore financial centres, the lower is the reported rate of return on inward foreign direct investment. (Janský and Palanský (2017). Nigerian quoted firms use their level of tax understanding and loopholes legally to minimise corporate taxes (Eugene & Abigail, 2016). A quoted Nigerian firm's average tax rate to reflect a mix operation in a high and low rate of corporate tax payment.

2.2 Empirical Review of Associated Literature

Kim, Li, and Zhang (2011) provided evidence on an effective tax planning and corporate tax avoidance by firms, it was indicated that tax incentives has effect on corporate tax payable to the government by Nigerian quoted firms.

According to Johnson and Soenen (2003), size of company, earning, return on company assets, company leverages and advertisement expenditure are related with the long run performance of the company. It was also observed that the executives and firms have a significant effect on the level of company tax avoidance due to the direct influence on the tax responsibility given to the top management of the organisation. Alalade (2004) concluded that culture and the behaviour of the top management have a positive influence on the taxpayers' avoidance because of the loopholes from the tax law. Furthermore, it was further reported that there is a significant relationship between tax aggressiveness of firms and their financial reporting aggressiveness, most especially firms that participate in earnings management of taxable profit and financial profit simultaneously in the financial reporting.

Adegbite *et al* (2019) examined the effect of tax compliance on personal income tax return in Oyo state. Primary data were collected through standardized questionnaire that were administered to staff of Oyo State Board of Internal Revenue and other taxpayers through random sampling. Data collected were analysed using descriptive statistics, chi- square and Multivariate Analysis of Variance and Covariance (MANOVA). The outcome of the study showed that there is a positive effect of Tax Compliance on PIT. An increase in the level of Tax Compliance result to an increment in the level of Personal Income Tax returns. The level of compliance in payment of PIT would have been higher if tax delinquency which is an act of tax malpractice either by the taxpayers or the tax officials which have adverse effect on the administration of tax is eradicated or reduced. The study recommended that there should be adequate and continuous tax education for a better understanding of tax issues, which will be utilized effectively to formulate successful tax compliance strategies. However, this study examined the effect of tax compliance on personal income tax return not on corporate tax avoidance, therefore the results may not be generalized in wider perspectives.

Akinleye, Olaoye and Fajuyagbe (2018) examined the effects of transfer-pricing regulation and compliance on tax administration in Nigeria. The paper used a descriptive survey research design. Questionnaire was used as the research instrument for data collection. Logit regression, Pearson product moment correlation, variance inflation factor (VIF) and white heteroskedasticity test were employed to analyse the sourced data. The study revealed that transfer- pricing regulation had a tendency to significantly influence tax administration. This study implied further that transfer pricing and its compliance has the capacity to improve the effectiveness and efficiency of tax administration in Nigeria. Hence, it was concluded that there is poor administration of transfer- pricing tax policy in Nigeria. The study recommended that Federal Inland Revenue Service should put in place not only transfer- pricing laws but adequate machinery in terms of human and technological capital coupled with sensitization on the applicability of the existing transfer- pricing tax policy in Nigeria. However, this study examined the effects of transfer- pricing regulation and compliance on tax administration not on corporate tax avoidance. It was also employed primary source of data in its analysis. Therefore, the results cannot be generalised in wider perspective.

Babatunde (2018) focused on the long run corporate tax avoidance of listed firms in Nigeria with a view to examine the ability of listed firms to pay low amount of cash taxes in naira of pre-tax earnings over a long run period of twelve

years. A sample of 19 listed firms were selected based on purposive sampling technique from the list of NSE 30 listed firms on the Nigeria stock exchange. The long-run cash effective tax rate developed by Dyreng, Hanlon, and Maydew (2008) to measure long run tax avoidance was adopted. The study found that there is variation across the firms in tax avoidance at long run with some firms achieving a lower amount of cash taxes in naira of pre-tax earnings compared to others. The study concluded that firms in the consumer sector pay more taxes than financial service sector though financial service sector firms declare more profit before tax than the consumer sector firms. The study recommended than financial service sector firms should contribute more to education tax in Nigeria.

Taylor and Richardson (2012) investigated the international corporate tax avoidance practices of publicly listed Australian firms. A hand collected sample of 203 publicly listed Australian firms over the 2006- 2009 period are selected from the population of the listed firms. Using OLS estimation techniques to analyse the data, the results indicated that there are several practices Australian firms use to aggressively reduce their tax liabilities. These practices include thin capitalization, transfer pricing, income shifting, multi-nationalism, and tax haven utilization as they are significantly associated with tax avoidance. They found that thin capitalization and transfer pricing are major drivers of tax avoidance whereas, income shifting, and tax haven utilization are less important. Furthermore, their finding revealed that tax havens are likely to be used together with thin capitalization and transfer pricing to maximise international tax avoidance opportunities via increased complexity of transactions carried out through tax havens.

Adegbite (2015) empirically analysed the effect of corporate tax on revenue profile in Nigeria and also examines the impact of corporate tax revenue on economic growth in Nigeria. Secondary data were obtained from Central Bank of Nigeria Statistical Bulletin from 1993 to 2013. Multiple regressions analysis were employed to analyse the relationship between the dependent variable (Gross Domestic Product (GDP)) and independent variables (company income tax, value added tax, petroleum profit tax and inflation). It is therefore concluded that corporate income tax has positive significant impact on revenue profile in Nigeria which directly enhanced growth in Nigeria. Government derives revenue from corporate tax in discharging their obligation by providing funding for infrastructure, education and public health this invariably enhanced economic growth in Nigeria. The study recommended that government should reduce corporate tax rate rather than eliminate corporate tax in Nigeria, lower corporation tax will increase the demand for labour which in turn raises wages and increases consumption. Therefore, a reduction in the corporation tax rate will reduce the incentives to shift profits out, protecting the Corporation Tax base. But the study is about revenue generation not on corporate tax avoidance.

Dyreng et al. (2008) investigated the extent to which some firms can avoid corporate taxes over a long -run period of ten years and determined how predictive one year tax rates are for longrun tax avoidance in U.S for the period 1995 to 2004. They developed and described a new measure of longrun corporate tax avoidance which they labelled as longrun cash effective tax rate. Sample of 2,077 listed firms were selected from 2,439 firms based on positive reported earnings before tax. Descriptive statistics and OLS estimation technique were used to estimate the data. They found that there is considerable crosssectional variation in tax

avoidance among the firms and some of the firms have ability to pay low cash taxes of their pretax earnings than others. They also found that annual cash effective tax rates are not very good predictors of longrun cash effective tax rates and, thus, are not accurate proxies for longrun tax avoidance. While there is some evidence of persistence in annual cash effective tax rates, the persistence is asymmetric.

On the evidence given from the above empirical studies, the gaps identified are scope, methodology and conceptual gap. This is because all the studies seen and reviewed are conducted in Nigeria with different scope, methodology and concepts, and the findings may not be generalized in wider perspectives. From the empirical literature reviewed, it is obvious that there are no studies specifically on the corporate tax avoidance and firms in Nigeria. The existing literature is limited to tax compliance only which did not extended to corporate tax avoidance. Thus, this study is unique and intends to contribute to knowledge by investigating the existence of corporate tax avoidance practices among the public listed firms in Nigeria.

3. Methodology

Secondary data were used in this study. The data were obtained from annual reports accounts of twenty (20) Nigerian firms listed in Nigeria stock exchange from 2006 to 2017. Panel Data analysis technique was used to analyse the effect of independent variables (Thin capitalization, Leverage, Firms Size, Transfer Pricing, and Intangible Assets) on dependent variable (Corporate Tax Avoidance).

Model Specification

Corporate Tax Avoidance is the explained variable in this model, while the explanatory variables are Thin capitalization, Leverage, Firms Size, Transfer Pricing, and Intangible Assets. Twenty (20) Nigerian firms listed in Nigeria stock exchange were purposefully selected from 2006 to 2017. These years were chosen because it were these years Nigeria experiences global economic recession which is being significant to the corporate taxpayers and more important to the level of revenue generated by the government.

$$\text{CORPORATAX} = \text{f}(\text{TCAPIT}_{\text{it}}, \text{SSZ}_{\text{it}} + \alpha \ \text{PROFT}_{\text{it}}, \text{LEVERAG}_{\text{it}}, \text{INTER}_{\text{it}} \ \text{TRANSFP}_{\text{it}} + u) \quad (1)$$

$$\text{CORRPORATAX} = \alpha_o + \alpha_1 \text{TCAPIT}_{\text{it}} + \alpha_2 \text{SSZ}_{\text{it}} + \alpha_3 \text{PROFT}_{\text{it}} + \alpha_4 \text{LEVERAG}_{\text{it}} + \alpha_5 \text{INTER}_{\text{it}} + \alpha_6 \text{TRANSFP}_{\text{it}} + \varepsilon \quad (2)$$

where:

CORPORATAX = Corporate Tax Avoidance (long run income tax expense divided by pre-tax accounting income over the period OR pre-tax accounting income less taxable income (where taxable income is computed as income tax expense divided by the statutory corporate tax rate of 30%)

TCAPIT	=	Thin Capitalisation (a dummy variable of 1 if the firm has Subsidiary greater than one, otherwise it is 0)
SSZ	=	Firm Size (the natural logarithm of total assets)
PROFT	=	Profitability (pre-tax income divided by sales.)
LEVERAG	=	Leverages (debt divided by total assets)
INTER	=	Intangible Asset (net property, plant and equipment divided by lagged total assets)
TRANSFP	=	Transfer Pricing (the transfer pricing index of the firm based on the sum of eight different transfer pricing items divided by eight)
I	=	Firms 1 through 20
T	=	Financial Years 2006 to 2017
ε	=	Error term

4. Results and Discussion

Table 1: Descriptive statistics

Variables	N	Mean	Std. Dev	Min	Max
CORPORATAX	240	0.188	0.345	0	1
TCAPIT	240	0.423	0.365	.251	0.243
SSZ	240	0.132	0.349	6.113	12.112
PROFT	240	0.160	0.410	0.324	.431
LEVERAG	240	0.286	0.236	0.221	.212
INTER	240	0.142	0.527	.241	.434
TRANSFP	240	0.255	0.134	.121	0.34

Source: Researchers' Computation (2019)

Table 1 details the descriptive statistics of the dependent variable (CORPORATAX) and Independent variables (TCAP, SIZE, PRO, LEV, INT and TP). The dependent variable (CORPORATAX) has a mean (standard deviation) of 0.188 (0.345). These data indicated acceptable level of corporate tax avoidance attributes. The TCAPIT has a mean (standard deviation) of 0.423 (0.365). This also indicated that the selected quoted firms have not breached the required capitalisation provision since the value has not exceeded the threshold value of 1. If the TCAPIT value range from 0 to 1.486 it indicates that there is substantial diversity in the assets, interest bearing liability of the sampled quoted firm.

The second independent variable TCAPIT, LEVERAG and TRANSFP have a mean (standard deviation) of 0.255 (0.134), 0.286 (0.236) and 0.246 (0.349) respectively. The SSZ, PRO and INTER of the firm have a mean (slandered deviation) of 0.132 (0.349), 0.160 (0.410) and 0.142 (0.527). This above-mentioned variable has indicated that on the average of 13.2% the quoted firms in our selected sample have a subsidiary incorporated in a tax heaven area. The mean, standard deviation, median, and range of the independent are presented in Table1. Finally, an acceptable range of variation is observed for all variables, and there is a reasonable level of consistency between the means and medians, reflecting normality of distributions.

Table 2: Pooled effect Model on effect of thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing on corporate tax avoidance

Dependent variable	Independent variables	Coefficient	Standard error	t	P>/t/	(95% conf. Interval)	
CORPORA TAX	TCAPIT	.2820000	.0750270	3.76	0.013	-2.52e+07	8.12e+07
	SSZ	4.754967	1.172513	4.06	0.000	2.426589	7.083344
	PROFT	.7353560	.1844856	3.99	0.006	-.401879	1.872591
	LEVERAG	.4474251	.1152563	3.89	0.011	.1310381	.7638122
	INTER	.0725316	.0120886	6.00	0.001	-.2621605	.4072238
	TRANSFP	2.588032	1.036428	2.50	0.014	.5298904	4.646173
	CONSTANT	16.021911	2.243349	7.13	0.000	-5.81e+07	4.61e+07
R-squared = 0.7103		Adj R-squared = 0.6045			Prob > F = 0.0000		
					F(6, 93) = 157.32		

Source: Researcher's Computation

Table 2 showed the effect of thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing on corporate tax avoidance. 1% increase in Thin capitalisation (TCAPIT) increases corporate tax avoidance (CORPORATAX) by 0.28%, it shows that there is a positive significant effect of TCAPIT on CORPORATAX (β= .2820000, t = 0.013 < 0.05). 1% increase in SSZ increases CORPORATAX by 0.47%, it shows that there is a positive significant effect of SSZ on CORPORATAX (β= .0203016, t = 0.000 < 0.05). 1% increase in PROFT increases CORPORATAX by 0.735%, it shows that there is a positive significant effect of PROFT on CORPORATAX (β = .0763049, t = 0.001 < 0.05). Also, 1% increase in LEVERAG increases CORPORATAX by 0.441%, it shows that there is a positive significant effect of LEVERAG on CORPORATAX (β = -.0413753, t = 0.011 < 0.05).1% increase in intangible assets (INTER) increases CORPORATAX by 0.725 %, it shows that there is a positive significant effect of intangible assets on CORPORATAX (β = .258, t = 0.001 < 0.05).1% increase in transfer pricing (TRASFP) increases CORPORATAX by 0.049%, it shows that there is a positive significant effect of transfer pricing on CORPORATAX(β = -.0942741, t = 0.000 < 0.05).

Given the coefficient of determination (R^2) as 0.7103 which is 71% supported by high value of adjusted R^2as 60%, it presumes that the independent variables incorporated into this model have been able to explain the effect of CORPORATAX to 60 %. That is, there is a significant effect of independent variables (Thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing) on corporate tax avoidance. The F Probability statistic also confirms the significance of this model. The adjusted R^2 of 0.6377 indicates that about 64 % of total variation in the dependent variable is accounted for by the explanatory variables at level of 0.05 level of significance.

Random effect needs to be tested because of the doubt that may arise with pooled result. Table 3 showed the effect of Thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing on corporate tax avoidance. 1% increase in thin capitalisation (TCAPIT) increases corporate tax avoidance (CORPORATAX) by 0.28%, it shows that there is a positive significant effect of TCAPIT on CORPORATAX (β= 2.80e+07 t = 0.000 < 0.05). 1% increase

in SSZ increases CORPORATAX by 0.52%, it shows that there is a positive significant effect of SSZ on CORPORATAX (β= 5.215767, t = 0.000 < 0.05). 1% increase in PROFT increases CORPORATAX by 0.275%, it shows that there is a positive significant effect of PROFT on CORPORATAX (β = .2751591, t = 0.002 < 0.05). Also, 1% increase in LEVERAG increases CORPORATAX by 0.421%, it shows that there is a positive significant effect of LEVERAG on CORPORATAX (β = .4211378, t = 0.004 < 0.05).1% increase in intangible assets (INTER) increases CORPORATAX by 0.11 %, it shows that there is a positive significant effect of intangible assets on CORPORATAX (β = .0117284, t = 0.001 < 0.05).1% increase in transfer pricing (TRASFP) increases CORPORATAX by 0.16%, it shows that there is a positive significant effect of transfer pricing on CORPORATAX(β = .2501176, t = 0.007 < 0.05).

Table 3: Effect of Thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing on corporate tax avoidance using Random effect model

Dependent variable	Independent variables	Coefficient	Standard error	T	P>/t/	(95% conf. Interval)	
CORPORATAX	TCAPIT	.2820007	.0361740	7.80	0.000	-.0367922	.0473078
	SSZ	.5215767	.1052308	4.96	0.000	-.0136342	.0526918
	PROFT	.2751591	.0781701	3.52	0.002	-.0289531	.1727598
	LEVERAG	.4211378	.1429258	2.95	0.004	-.1309993	.0394872
	INTER	.0117284	.0025845	4.54	0.001	-.1028935	.5549898
	TRANSFP	.2501176	.0931238	2.69	0.007	-.302077	.4020496
	CONSTANT	.2876366	.0334983	8.59	0.000	7.932452	19.74354
R-sq: within = 0.7197 between = 0.9541 overall = 0.9095		sigma_u | 53084919 sigma_e | 1.012e+08 rho | .21575038 (fraction of variance due to u_i)			Wald chi2 (6) = 623.30 Prob > chi2 = 0.0000		

Source: Researchers' Computation

Table 4 showed the effect of thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing on corporate tax avoidance. 1% increase in thin capitalisation (TCAPIT) increases corporate tax avoidance (CORPORATAX) by 0.28%, it shows that there is a positive significant effect of TCAPIT on CORPORATAX (β= .2820007, t = 0.000 < 0.05). 1% increase in SSZ increases CORPORATAX by 0.524%, it shows that there is a positive significant effect of SSZ on CORPORATAX (β= .5242953, t = 0.000 < 0.05). 1% increase in PROFT increases CORPORATAX by 0.451%, it shows that there is a positive significant effect of PROFT on CORPORATAX (β = .4515670, t = 0.002 < 0.05). Also, 1% increase in LEVERAG increases CORPORATAX by 0.353%, it shows that there is a positive significant effect of LEVERAG on CORPORATAX (β = .3533903, t = 0.004 < 0.05).1% increase in intangible assets (INTER) increases CORPORATAX by 0.055 %, it shows that there is a positive significant effect of

intangible assets on CORPORATAX (β = .0550808, t = 0.009 < 0.05).1% increase in transfer pricing (TRASFP) increases CORPORATAX by 0.022%, it shows that there is a positive significant effect of transfer pricing on CORPORATAX(β = . 0222192, t = 0.018 < 0.05).

Table 4: Effect of Thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing on corporate tax avoidance using Fixed effect model

Dependent variable	Independent variables	Coefficient	Standard error	T	P>/T/	(95% conf. Interval)	
CORPORATAX	TCAPIT	.2820007	.0361702	7.80	0.000	-.0367922	.0473078
	SSZ	.5242953	**.1036839**	5.06	0.000	-.0163196	.0506943
	PROFT	.4515670	**.0941035**	4.80	0.003	-.0297371	.1794669
	LEVERAG	.3533903	.1408153	2.51	0.014	-.1338697	.0363124
	INTER	.0550808	.0165632	3.33	0.009	-.7871915	.3435201
	TRANSFP	.0222192	**.0091437**	2.43	0.018	.0743813	1.000795
	CONSTANT	**6.665677**	**2.840766**	2.35	0.022	7.992576	23.28138
R-sq: within = 0.7263 between = 0.9472 overall = 0.9037		Prob > F = 0.0000		**sigma_u | 99655624 sigma_e | 1.012e+08 rho | .49226311 (fraction of variance due to u_i)**			

Source: Researchers' Computation

Table 5: Hausman test on the Effect of Thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing on corporate tax avoidance

Dependent variables	Independent variables	Coefficient (b)	Coefficient (B)	(b-B) Difference	Sqrt (diag (v-b-v-B)) S.E
CORPORATAX	TCAPIT	.2820007	.2820007	-	-
	SSZ	.5215767	.5242953	-.0271856	.171732
	PROFT	.2751591	.4515670	.7267261	-
	LEVERAG	.4211378	.3533903	.0677475	.0235739
	INTER	.0117284	.0550808	.0668092	-
	TRANSFP	.2501176	.0222192	.2792563	.1646783
b = consistent under Ho and Ha;	B = inconsistent under Ha, efficient under Ho	Test: Ho: difference in coefficients not systematic chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B) = 4.51 Prob>chi2 = 0.4789 (V_b-V_B is not positive definite)			

Source: Researchers' Computation

To decide between fixed or random effects, Hausman test was conducted where the null hypothesis is that the preferred model is random affects vs. the alternative the fixed effects (Green, 2008). It basically tests whether the unique

errors (*ui*) are correlated with the regressors, the null hypothesis is they are not. If Chi2< 0 is greater than 0.05 (i.e. significant), random effects should be considered, therefore the null hypothesis is accepted.

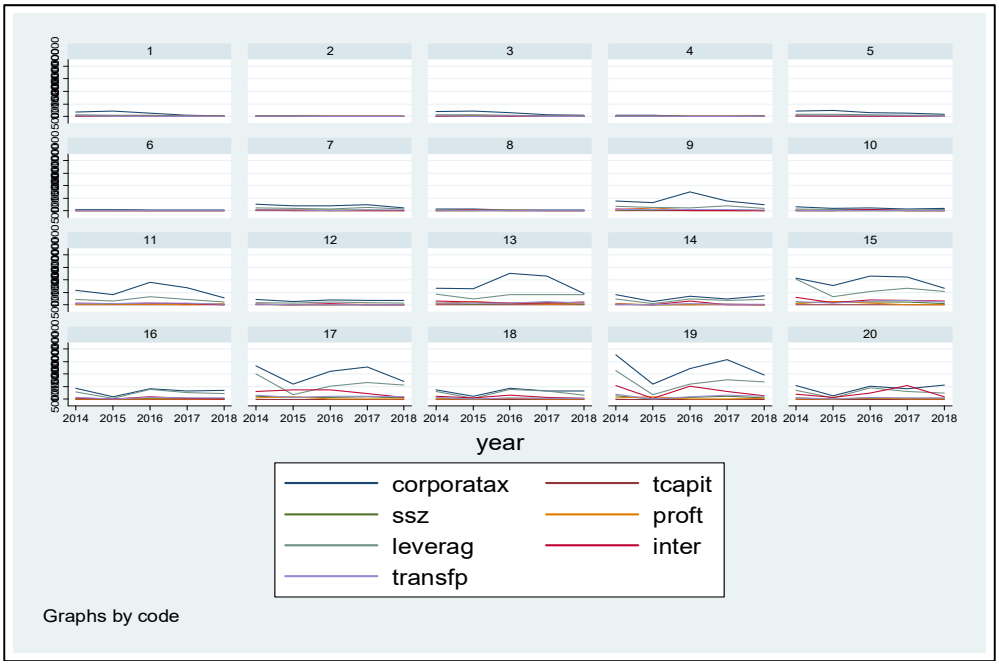

Fig. 1. Panel Analysis plots on the effect of Thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing on Corporate tax avoidance.

Source: Authors' Draft (2019)

Correlation Results

Table 5. The relationship among Thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing on corporate tax avoidance

	CORPORATAX	TCAPIT	SSZ	PROFT	LEVERAG	INTER	TRANSFP
CORPORATAX	1.0000						
TCAPIT	0.0258	1.0000					
SSZ	0.0264*	-0.0548	1.0000				
PROFT	0.0809*	0.0056	0.5381*	1.0000			
LEVERAG	0.0494*	-0.0591	0.0696*	0.3667*	1.0000		
INTER	0.0424*	-0.0156	0.7243*	0.3229*	0.7823*	1.0000	
TRANSFP	0.0330*	-0.0733	0.0255*	0.4148*	0.9385*	0.7452*	1.0000

Source: Researchers' Computation

The correlation result of Pearson pairwise in the table 5 showed that there is a positive significant correlation between CORPORATAX and TCAPIT, SSZ, PROFT, LEVERAG, INTER and TRANSFP. Corporate tax avoidance had positive significant relationship with SSZ, PROFT, LEVERAG, INTER and TRANSFP (0.0264*, 0.0809*, 0.0494*, 0.0424* and 0.0330* respectively). The results confirmed that CORPORATAX is positively and significantly linked with the company profitability, leverage and transfer pricing. This predicted that company utilised Thin capitalization, Leverage, Firms Size, Transfer Pricing, and Intangible Assets to circumvent payment of corporate tax in Nigerian firms. Also, most of the quoted firms tactically setting an artificial inter-company transfer prices in order to facilitate corporate tax avoidance.

5. Discussion of findings

The results from the analysis indicated that corporate tax avoidance is positively associated with firm size, leverages, Intangible asset, and Transfer pricing. This supported the view of Sinn, (1990): Chan, Troutman and Bryan (2000): Noor Sharoja Sapiei and Kasipillai (2013). They advocated that firms emphasize on corporate tax avoidance activities through thin capitalisation, firm size, profitability, leverages, intangible asset and transfer pricing. Transfer pricing involves the use of tax haven which is being incorporated with multinational entities. Transfer pricing has been used to shift profits from countries with a high tax burden to those countries with a relatively low tax burden by using prices that are not at arm's length. Firms also structure their prices and make intra- firms transaction in order to facilitate corporate tax avoidance. Most of the firms are tactically setting artificial intercompany price transfer. Additionally, it is also noted importantly that the nature of transaction that exist in recent years is turning the firms tax liability into profit which is an indication of risk related to thin capitalisation. This result is supported by Pearson (2005). This is further manifested by a decline in the operational tax rates to increase in number of firms reporting a zero or nominal corporate tax liability.

Firms also resorted to the use of leverage as a means of shifting income to an affiliate in a low tax jurisdiction in order to reduce tax liability. Leverage shows the composition/proportion of debt in the structure of firm financing activities. A firm is considered to be highly levered or geared, if the composition of debt in the firm financing structure is more than equity, and lowly levered if otherwise.

6. Conclusion

This study examined the existence of corporate tax avoidance practices among the public listed firms in Nigeria. Secondary data were obtained from annual published reports of selected Nigerian firms listed in Nigeria stock exchange from 2006 to 2017. The panel data analysis results showed that firm size, leverages, Intangible asset, Transfer pricing are associated positively and significantly with corporate tax avoidance.

In conclusion, thin capitalisation, firm size, profitability, leverages, intangible assets and transfer pricing are significantly related with corporate tax avoidance. With the significance level, it is deduced that thin capitalisation, profitability and transfer pricing are the primary drivers of corporate tax avoidance which obviously employed by corporate organisation in order to tactfully, diplomatically and legally circumvent payment of corporate tax. This traslated that there are several corporate tax avoidance practices employed by Nigerian firms to aggressively reduce their corporate tax liabilities in the country. We find out that Nigerian listed firms use a number of corporate tax avoidance practices to aggresively lessen their tax liability. Specifically, we find that thin capitalisation, firm size,leverages, intangible assets and transfer pricing are significantly related with corporated tax avoidance. It is therefore recommended that government should establish corporate tax avoidance monitoring mechanisms which may assist in limiting the tax avoidance related activities and bring the entities into tax net.

This paper is subjected to several limitation, the first limitation is that the sample is drawn from publicly listed firms in Nigeria. Because of data unavailability, the paper could not make inclusive firms that are not listed in the Nigeria stock exchange market. The second limitation is that the return on tax data are reconstuctive to various corporate tax avoidance measures based on the avaliable financial statement data.

The findings are based on scientific literature and the case study examined, therefore further research is recommended to broaden the knowledge on this topic. The future development of the topic could be conducted using banking sector as a case study in order to get not only qualitative, but quantitative results as well. In addition to this, the impact of transfer pricing on effective tax rate among mutinational companies can also be examined because of limited studies and contemporary nature of it.

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