Multinational Companies and Tax Evasion in Nigeria: The Linkages

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Abstract
The study explores the complex relationship between multinational companies operating in Nigeria and the issue of tax evasion. It delves into the overview of multinational companies in the country, the tax policies and regulations, the strategies used by these companies to avoid paying their fair share of taxes, and the significant impact this has on the Nigerian economy. A survey research design was adopted using primary data. Sixty nine members of staff of FIRS, Ikeja, Lagos constitute the population of the study. The study employed a random sampling technique to provide a representative sample of the entire population. Multinomial logistic regression analysis and the Statistical Packages for Social Sciences (SPSS) were used to analyze the data gathered. The results of the multinomial logistic regression analysis provide insight into the intricate dynamics underlying tax evasion by multinational companies in Nigeria. The study provides valuable insights into the multifaceted nature of tax evasion by multinational companies in Nigeria. Addressing this complex issue requires a holistic approach that considers the nature, causes, professional roles, and recommended solutions. Policymakers, regulatory bodies, and stakeholders can leverage these insights to develop targeted interventions and policies aimed at curbing tax evasion and fostering a more transparent and responsible tax environment for multinational companies in Nigeria.

Keywords: Multinational companies, Taxes, Tax evasion, Tax leakages

Introduction

Nigeria has long been an attractive destination for multinational companies (MNCs) due to its vast natural resources, large population, and growing economy. These MNCs span a wide range of industries, including oil and gas, telecommunications, manufacturing, and financial services. Some of the most prominent MNCs operating in Nigeria include Royal Dutch Shell, ExxonMobil, chevron, Airtel, and Coca-Cola. These companies have established extensive operations and infrastructure across the country, contributing significantly to the country's economic development and employment opportunities. Nigeria has a complex and evolving tax system that governs the operations of multinational companies in the country. The main tax laws and regulations include the Companies Income Tax Act, the Petroleum Profits Tax Act, and the Value Added Tax Act. These laws outline the various tax rates, deductions, and exemptions applicable to different industries and business activities. However, the implementation and enforcement of these policies have been challenging, with loopholes and grey areas that allow MNCs to exploit the system and minimize their tax obligations. Without revenue and taxes, national economies cannot operate. Some combination of these taxation methods forms the foundation of most economies in the globe. As ancient as civilization itself, taxes are still necessary for any modern economy to be successful. Based on this assumption, countries all over the world have different fiscal policies that enable them to look into various tax options and apply them to their citizens in an effort to increase revenue collection, regulate, and control the economy. Among these countries is Nigeria, whose government has the legislative power to impose varieties of tax on its citizens at any rate it sees fit (Amoh & Babonyire, 2019).

Tax leakages, often known as tax evasion or tax avoidance, are a challenges for governments around the globe. These leakages occur when people, companies, or other entities purposefully alter their financial operations in order to lower their tax obligations, which lowers government tax collection. Policymakers, economists, and scholars have paid close attention to the topic of tax leakages because of its detrimental effects on state budgets, social equality, and economic stability (Prakash, 2024). Tax avoidance and evasion lower tax income for the government. The delivery of public utilities, public services, and infrastructure is severely harmed by this. Multinational corporations (MNCs) operating in the oil, gas, and manufacturing industries have employed many tax strategies, such as utilizing offshore intermediate firms, asserting recharges, royalties, or technical fees, and understating profits, in order to evade paying taxes in

Nigeria. Driven primarily by higher profitability, fierce rivalry, and the need to improve profits, capitalist businesses are always looking for new ways to grow their profits. These include creating intricate legal frameworks and creative ways to take advantage of legal loopholes. The research demonstrates that globalization-shaped tax havens and offshore financial centers are important frameworks supporting MNCs' anti-social tax practices.

According to Olaoye and Ogundipe (2018), tax evasion refers to any attempt by individuals, businesses, trusts, or other entities to avoid paying taxes through unethical means. This includes when taxpayers purposefully lie or withhold information from the tax authorities in order to lower their tax obligations. It also covers dishonest tax reporting, which includes overstating deductions or disclosing lower income, profits, or gains than were truly made. In addition to being immoral, tax dodging is a violation of the law. Obafemi, Araoye, and Ajayi (2021) define tax evasion as the purposeful act of withholding part of one's taxable income in order to reduce one's tax liability. When false claims are made on the revenue tax form or tax due is fraudulently lowered, it is clear that there has been a deliberate breach of the tax regulations.

Most governments view tax evasion and tax avoidance as major risks to the integrity of tax systems in democracies. Tax evasion and avoidance, according to Otusanya (2011), reduce tax revenues, make it harder to achieve the distributional or equity goal of taxation, and, make more taxpayers lose faith in the tax administration and become enticed to become tax non-compliant.

In order to increase profits and capital, corporations and wealthy individuals employ a variety of tax evasion and avoidance strategies, tax havens, and intergroup structures. However, these strategies result in loss of tax revenues, undermining the legitimacy of the government and impeding social and economic advancement.

Nonetheless, businesses view tax dodging techniques as reasonable and acceptable cost-cutting measures rather than as actions that jeopardize social cohesion and the advancement of a just and equitable society. The consequences of these tax strategies on the world's impoverished have been examined in the last few years by a number of organizations, such as charities and Tax Justice Network (2007); reforms to forbid multinational corporations and the wealthy from utilizing these schemes have also been called for.

Multinational Corporation refers to a large corporation or company that operates and has business activities in multiple countries around the world. These corporations typically have a centralized management structure and may have headquarters in one country while conducting business operations, manufacturing, and sales in several other countries. Hennart (2008) offers an alternative definition of MNC, describing it as a privately held organization designed to arrange interdependencies between people residing in multiple countries through employment contracts. According to Kogut and Zander (2003), multinational corporations are businesses that expand outside their national boundaries. According to Odinakachi, Mbadike and Ikechi (2021) a legal attempt to evade paying taxes, either fully or partially, is known as tax evasion. Since it is mostly accomplished by making fraudulent declarations, such as underreporting income or over reporting relief and allowances, it is effectively a criminal conduct. To Olaoye and Ogundipe (2018) the word "tax evasion" refers to any attempt by individuals, businesses, trusts, or other entities to avoid paying taxes using unlawful means. One such method is when taxpayers purposefully mislead or conceal from the tax authorities the true nature of their financial situation in order to lower their tax obligations.

Boxborough (1974) developed dependency theory. The theory holds that "dependency implies a kind of parasitic relationship between the highly industrialized and the less developed ones in which the former continuously advances to the detriment of the later." The connection between Nigeria and the multinational companies especially their owners is defined by the theory. This theory explains the intricate political-economic relationship that exists between the developed capitalist nations in the center and the less developed nations on the periphery, such that the movements and structural characteristics of the former greatly influence those of the latter in a way that may be harmful to the other societies' ability to advance economically (Eluka, Ndubuisi-Okolo & Anekwe, 2016). According to Abdulaziz, Balami and Abubakar, (2022), the equal distribution idea, each person who is paying taxes should have a borderline cost of living that is equal to their share of the tax liability. The goal of this approach is to lessen the overall sacrifice made by the populace. The total utility loss to mankind will be minimal when a large number of people pay adequate taxes because this indicates that their marginal sacrifice of gain should be equal. Consequently, the theory of equitable distribution approaches the issue of allocating tax liabilities with the intention of serving the interests of society as a whole.

Oktaviani, Wulandari and Sunarto (2023) analyzed the impact of multinational corporations, transfer pricing, foreign directors, and foreign ownership on tax evasion. Multinational companies listed between 2016 and 2019 on the Indonesia Stock Exchange were considered in the study. The sample that meets the criterion was 280 observations, which was gathered through the use of the purposive sampling technique. Panel data was used as the basis for data analysis using e-views 9. The findings demonstrated that tax evasion was not significantly impacted by foreign ownership. Moreover, there is no discernible impact of foreign directors on tax evasion. Similarly, there is no discernible impact of transfer pricing, a proxy for transactions among related parties on tax evasion. On the other hand, the multinational company has a major and favorable impact on tax evasion. In Indonesia, multinational firms mostly use foreign ownership, foreign directors, and transfer pricing as the foundational elements for their tax evasion.

Amidu, Coffie and Acquah, (2019) examined the relationship between earnings management and transfer pricing (TP) and tax evasion by Ghanaian businesses. The complicated interactions between three important variables; transfer pricing, earnings management, and tax avoidance were examined using a panel data set from 2008 to 2015 in order to throw further light on the relationship between transfer pricing and tax avoidance. The findings demonstrated that, between 2008 and 2015, practically all of the sample enterprises had used transfer pricing techniques in one way or another, as well as manipulated earnings to evade taxes. Evidence was found to support the claims that financial enterprises employed more transfer pricing than non-financial firms, whereas non-financial multinational corporations manipulated earnings more than the former. Overall, the findings indicated that as businesses manage their earnings more carefully, the sensitivity of tax evasion to transfer pricing declines. Thus, our findings have significant policy implications for decision-makers who are evaluating the efficacy of transfer pricing-related tax regulations.

Eluka, Ndubuisi-Okolo and Anekwe, (2016) studied the impact of multinational firms on the economy of Nigeria. The detrimental effects of big firms on our economy, which have impeded economic growth, made the study necessary. It was decided to use a theoretical research design. The research employed content analysis to examine documents from libraries, journals, websites, and other sources that were pertinent to the topic. To support the negative effects of these multinational firms in Nigeria, three theories; the New Trade Theory, the Dependency Theory, and the Unequal Exchange Theory were examined. The aim of this study was to critically examine the detrimental impacts of multinational firms on our economy and provide recommendations for mitigating these consequences. The results showed that multinational firms had harmed rather than helped the Nigerian economy in a number of ways, including profit repatriation, environmental damage, violations of human rights, non-technology transfer, bribery and corruption, etc. that the majority of these businesses have an imperialist and parasitic bent. The conclusion reached was that since these companies generate large amounts of cash from their social operations, they should be held accountable to the same standards as the rest of society.

Otunsanya (2011) examined the relationship between MNC tax practices and the larger dynamics of globalization and profit-seeking, arguing that a better understanding of MNCs' motivation for increased profits will help us comprehend why some MNCs will stop at nothing to evade and avoid paying taxes. Driven by the need to maximize profits, fierce competition, and profitability, capitalist businesses are always looking for new methods to grow their revenues. They do this by creating intricate legal frameworks and creative ways to take advantage of legal loopholes. The results demonstrated that globalization-shaped tax havens and offshore financial centers are important frameworks supporting MNCs' anti-social tax practices. According to the findings, local experts and the corporate elite play a major role in enabling these anti-social tax practices in Nigeria for personal financial gain. Additionally, by shifting the tax burden on residents with lower incomes and less mobile wealth, these MNC practices weaken the social fabric of Nigeria. Therefore, this paper makes the case that tax reforms are necessary to lessen the issues brought about by MNCs and their affiliates doing business in Nigeria.

Materials & Methods

The study's population is specifically the sixty nine staff members that work at the Federal Inland Revenue Service's Lagos location in Ikeja. In order to determine how many staff members would be necessary to provide a fair representation of the population under research, a random sample technique was used. For the investigation, a sample size of forty employees was employed. Multinomial logistic regression analysis and the Statistical Packages for Social Sciences (SPSS) were used to analyze the data that was gathered.

Results & Discussion

Presentation and Interpretation of Data

Table 1: Engagement of multinational companies in tax evasion practices

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagreed	5	12.5	12.5	12.5
	Strongly Disagreed	2	5.0	5.0	17.5
	Undecided	3	7.5	7.5	25.0
	Agreed	11	27.5	27.5	52.5
	Strongly Agreed	19	47.5	47.5	100.0
	Total	40	100.0	100.0	

Source: SPSS Output

Table 1 shows that 5 of the respondents representing 12.5% disagreed that multinational companies engage in tax avoidance and tax evasion practices, 2 of them representing 5.0% strongly disagreed that multinational companies engage in tax avoidance and tax evasion practices, 3 of the respondents representing 7.5% were undecided, 11 of the respondents representing 27.5% agreed that multinational companies engage in tax avoidance and tax evasion practices while the remaining 19 of the respondents representing 47.5% strongly agreed that multinational companies engage in tax avoidance and tax evasion practices. Conclusively, majority of the respondents either agree or strongly agree that multinational companies engage in tax avoidance and tax evasion practices

Table 2: Strategies used by Multinational Companies to Evade Taxes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Debt Shifting	10	25.0	25.0	25.0
	Use of subsidiaries	10	25.0	25.0	50.0
	Offshore tax havens	13	32.5	32.5	82.5
	Transfer Pricing	7	17.5	17.5	100.0
	Total	40	100.0	100.0	

Source: SPSS Output

Table 2 shows that 10 of the respondents representing 25.0% states that debt shifting is the strategy multinational companies use in minimizing their tax liabilities, another 10 of the respondents representing 25.0% also states that the use of subsidiaries is the strategy multinational companies use in minimizing their tax liabilities, 13 of the respondents representing 32.5% states that offshore tax havens is the strategy multinational companies use in minimizing their tax liabilities while the remaining 7 of the respondents representing 17.5% states that transfer pricing is the strategy multinational companies use in minimizing their tax liabilities.

Table 3: Effectiveness of the current international and national regulations

How effective do you think current international and national regulations are in addressing tax evasion and avoidance by multinational companies?

	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	No Opinion	2	5.0	5.0	5.0
	Not Effective	3	7.5	7.5	12.5
	Somewhat Effective	16	40.0	40.0	52.5
	Very Effective	19	47.5	47.5	100.0
	Total	40	100.0	100.0	

Source: SPSS Output

Table 3 indicates that 2 of the respondents representing 5.0% have no opinion on how effective the current international and national regulations are in addressing tax evasion and avoidance by multinational companies, 3 of the respondents representing 7.5% states that the current international and national regulations are in addressing tax evasion and avoidance by multinational companies is not effective, 16 of the respondents representing 40.0% states that the current international and national regulations are in addressing tax evasion and avoidance by multinational companies is somewhat effective while the remaining 19 of the respondents representing 47.5% states that the current international and national regulations are in addressing tax evasion and avoidance by multinational companies is very effective.

Table 4: Potential solutions to curb tax evasion and avoidance by multinational companies

What do you believe are potential solutions to curb tax evasion and avoidance by multinational companies?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Encouraging responsible corporate behavior	9	22.5	22.5	22.5
	Promoting public awareness	18	45.0	45.0	67.5
	Revising tax codes and regulations	6	15.0	15.0	82.5
	Strengthening international cooperation	7	17.5	17.5	100.0
	Total	40	100.0	100.0	

Source: SPSS Output

Table 4 indicates that 9 of the respondents representing 22.5% states that a potential solution to curb tax evasion and avoidance by multinational companies is encouraging responsible corporate behavior, 18 of the respondents representing 45.5% states that a potential solution to curb tax evasion and avoidance by multinational companies is promoting public awareness, 6 of the respondents representing 15.0% states that a potential solution to curb tax evasion and avoidance by multinational companies is revising tax codes and regulations while the remaining 7 of the respondents representing 17.5% states that a potential solution to curb tax evasion and avoidance by multinational companies is strengthening international cooperation. In conclusion, majority of the respondent states that the potential solution to curb tax evasion and avoidance by multinational companies is promoting public awareness.

Table 5: Model Fitting Information

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	92.062			
Final	46.558	45.503	44	.000

Source: SPSS Output

The “Model Fitting Information” table above shows a Likelihood ratio Chi-square test, comparing the full model (all independent variables) against the intercept (dependent variable). The significance value shows a value of 0.000 which indicates that the full model (independent variables) represents a statistical significance improvement in fit over the null model (dependent variable).

Table 6: Pseudo R-Square

Pseudo R-Square

Cox and Snell	.879
Nagelkerke	.902
McFadden	.933

Source: SPSS Output

The Table above shows the Pseudo R-Square, the values of Cox and Snell is 0.879, nagelkerke is 0.902 while McFadden is 0.933. Generally, all the values are high and close to 1 which indicates a better fit of our model.

Table 3: Multinomial Logistic Regression

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	46.558[a]	.000	0	.
Nature of tax evasion	48.364[b]	1.805	12	.043
Causes of tax evasion	40.729[b]	788.000	12	.022
Roles of professionals in tax evasion	34.456[b]	277.898	12	.000
Possible solutions to tax evasion	38.391[b]	562.335	12	.014

Source: SPSS Output

$$\frac{e^{46.56+\,48.36x_1+\,40.73x_2+\,34.46x_3+\,38.39x_4}}{1+\,e^{46.56+\,48.36x_1+\,40.73x_2+\,34.46x_3+\,38.39x_4}}$$

Table 3 shows the multinomial logistic regression which indicates the odds of tax evasion occurring based on the values. The predictors are variables related to factors influencing tax evasion by Multinational Companies in Nigeria. These variables relate to financial indicators, regulatory loopholes and other pertinent characteristics.

Discussion of Findings

This empirical study results of the multinomial logistic regression analysis provide insight into the intricate dynamics underlying tax avoidance by multinational companies in Nigeria.

First, a statistically significant result for the variable "Nature of Tax Evasion" (p-value = 0.043) was obtained. This shows that the results of the study may be attributed to a high degree of knowledge and familiarity with tax evasion as well as the involvement of multinational corporations in tax evasion and avoidance. This research suggests that in order to address and lessen the effects of tax evasion by multinational corporations, it is essential to comprehend its subtleties and peculiarities. Secondly, the "Causes of Tax Evasion" variable was identified as statistically significant (p-value = 0.022). This underscores the importance of identifying and addressing the root causes of tax evasion by multinational companies in the Nigerian context. These causes could range from regulatory gaps to corporate practices that exploit loopholes in the tax system.

The third variable, "Roles of Professionals," emerged as highly statistically significant (p-value = 0.000). This underscores the pivotal role professionals play in the realm of tax evasion. The findings suggest that the involvement and actions of professionals, such as tax advisors and accountants, significantly influence the patterns of tax evasion by multinational companies in Nigeria. This insight is crucial for regulatory and educational interventions aimed at professionals. Lastly, the variable related to "Possible Solutions" was also found to be statistically significant (p-value = 0.014). This indicates that the perceived solutions and recommendations for reducing tax evasion/avoidance are associated with the observed outcomes. Prominent among these solutions is the importance of public awareness and education, reflecting the belief that an informed public can contribute to the prevention and reduction of tax evasion.

The results indicated that MNCs often use complex transfer pricing schemes to shift profits to low tax or no tax jurisdictions, effectively reducing their tax liabilities in Nigeria. MNCs employ teams of tax experts to exploit loopholes in the tax laws and regulations, minimizing their tax obligations through complex financial arrangement.

These comply with the finding of Otusanya (2011) study. The empirical study discovered that the local business elite and professionals are key actors in assisting MNCs to plan their tax system by manipulating the financial statement to reduce tax liabilities. The opaque nature of multinational companies' operations and the lack of robust reporting requirements make it challenging for the government to effectively monitor and ensure tax compliance; this was evidenced by Olatunji (2024) where MNCs were reported to engage in illegal activities such as underreporting income, engaging in fraudulent schemes, or intentionally misrepresenting financial information to evade paying taxes. Finally, the result is consistent with Obasi (2015) who discovers that some multinational companies perceive the tax burden in Nigeria as disproportionate or unfair, leading them to seek ways to reduce their tax obligations through legal and illegal means.

Conclusion

The issue of tax evasion by multinational companies in Nigeria is a complex and multifaceted problem that requires a concerted effort from the government, civil society and the private sector. By addressing this challenge, Nigeria can unlock valuable resources for investment in critical areas such as infrastructure, education, and healthcare, ultimately leading to a more prosperous and equitable society. It is crucial for all stakeholders to come together and work towards a fair and transparent tax system that ensures multinational companies pay their fair share and contribute to the country's development. Only through collective action can Nigeria effectively tackle the scourge of tax evasion and pave way for sustainable economic growth and social progress.

Recommendations

To address the issue of tax evasion by multinational companies in Nigeria, a multifaceted approach is required. This include strengthening the country's tax laws and enforcement mechanisms, enhancing transparency and cooperation among tax authorities, and fostering a more equitable and inclusive tax system. Specifically, the Nigerian government should consider implementing the following measures

1. Enacting stricter laws and regulations to combat tax evasion, including harsher penalties and increased scrutiny of multinational companies' financial transactions
2. The study also recommend strengthening the capacity and resources of the FIRS to effectively monitor and enforce tax compliance among multinational companies.
3. It is suggested that promoting greater transparency in the tax system and increasing cooperation with other countries to share information and tackle cross-border tax evasion
4. Government should also offer tax incentives and benefits to multinational companies that demonstrate a commitment to responsible tax practices and contribute to the sustainable development in Nigeria
5. If taxpayers are unaware of their responsibilities, any action taken to compel compliance would be seen as unjust. Strong taxpayer services are therefore required, especially during the tax filing phase. This will involve introducing taxpayer education programs and disseminating information to improve taxpayer compliance. The services provided to taxpayers can also be enhanced by: offering clear instructions on how to accurately complete tax return forms; implementing automated systems to track and respond to taxpayer inquiries; and making greater use of the media to notify the public about significant tax deadlines.
6. Tax compliance depends on the ability to identify fraud or evasion. Since auditing every case would be impractical, the fear of being discovered would be adequate deterrent. Ideally, a tax official must visit the taxpayer's location when a case is chosen for audit. To ensure that tax officers' discretionary powers are not abused, the tax returns must be evaluated either jointly with a senior tax official or under supervision. In cases of fraud or evasion, the tax authorities should pursue criminal prosecutions. When appropriate, they should also make the names of tax evaders' public to serve as a deterrent.

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