
**TRANSFER PRICING AUDIT AND TAX COMPLIANCE LEVEL OF
MULTINATIONAL COMPANIES IN NIGERIA**

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ABSTRACT

This study examined the effect of Transfer Pricing Audit on Tax Compliance Level of Multinational Companies in Nigeria. Specifically, the study sought to determine the effect of probability of transfer pricing audit, corporate tax rate, tax penalty imposition, and shared tax information on tax compliance level of multinational companies in Nigeria. Survey design was adopted and data were sourced through structured questionnaires using 5-point Likert scale. Ordered Logistic Regression technique was employed to analyse the responses. The result showed significant and positive relationship between transfer pricing audit and multinational tax compliance level. The probability of transfer pricing audit, tax penalty and shared tax information jointly has significant and positive effect on tax compliance of multinational companies. The finding also indicates that corporate tax rate has significant but negative effect on the tax compliance of multinational companies. The implication of the findings is that if transfer pricing audit is effectively and efficiently carried out, government revenue for domestic infrastructural development would be improved as most of the multinational companies which accounts for greater portion of Nigeria tax base and revenue will comply thereby increasing their compliance level in Nigeria. The study recommends that government and tax authority (FIRS) in particular should give more emphasis and greater attention on the role of transfer pricing audit as it has the capacity to improve

Keywords

Probability of transfer,
pricing audit, Tax rate,
Penalty imposition,
Shared tax information,
Compliance level

multinational taxpayer's tax compliance in order to curtail illicit financial outflows, generate more tax revenue and improve tax to GDP ratio in Nigeria.

Introduction

Multinational companies' operation is on the increase across the globe. This increases cross-border trade between related parties resulting in transfer pricing issues across the countries of the world. This was occasioned by rapid advances in technology, transportation and communication which have given rise to a large number of multinational enterprises (MNEs) which have the flexibility to place their enterprises and activities anywhere in the world. It is estimated that about 65 per cent of business transactions across the globe take place within a group either in form of subsidiaries, branches or permanent establishment and multinational enterprises account for 10 per cent of world gross domestic Product (GDP); hence playing continuous important role in global trade (Awasthi, 2011; UNCTAD, 2007). Hence, businesses with cross-border intercompany transactions have increased exponentially in recent years.

Multinational Corporation is a business organization whose activities and operations are located in more than two countries with a centralized head office where they coordinate global management. Multinational companies' operations in Nigeria are on the increase; available records in Federal Inland Revenue Service (FIRS) International Tax Department, Lagos indicates that over 4000 multinational and Nigerian companies registered and file their annual returns in line with transfer pricing regulation. These includes both resident and non-resident multinational companies, leading to creation of Non-Resident Tax office to oversee all non-resident multinational companies and individuals. This confirms the fact that Nigeria reliance on Multinational Enterprises for tax revenue is marked as 88% of its tax base is from MNEs (OECD, Part 1, 2014).

Multinationals seek means of reducing their global tax burden to increase global profit in order to gain a foothold in the global economy (Wang & Chen, 2020). More so, to reduce their compliance burden in different tax jurisdictions, they engage in aggressive tax avoidance strategies; amongst them is irregular transfer pricing strategies within their related parties in their group of companies. This makes mobilisation of tax revenue from the multinational enterprises (MNEs) due to their complexity a challenge to revenue authorities in developing countries, Nigeria inclusive (McNair, Dottey, & Cobham, 2010). Nigeria in her quest to increase her tax revenue, ensure tax fairness and avoid erosion of tax base and profit shifting from the multinational enterprises, adopted the Organisation for Economic Co-operation and Development transfer pricing guideline by introducing Transfer Pricing regulation as "The Income Tax (Transfer Pricing) Regulations No 1, 2012 (Oyedele, Curtis, Sweigart, & Smallwood, 2013). The regulations was revised in 2018 to conform to the OECD 2017 Transfer Pricing Guidelines providing for filing compliance action of Declaration, Disclosure and Documentation. Transfer pricing regulation in Nigerian was birthed as a necessity having become the most significant challenges in corporate tax administration of multinationals.

Transfer pricing refers to the setting of prices for controlled transactions between associated enterprises involving the transfer of property or services (UN, 2017). It is the prices at which different entities of the same corporation trade among themselves in goods, services and intangibles (Kaur, 2013). In order to put a check on controlled transactions of multinational companies transfer pricing regulation became a veritable tool and framework that Nigerian tax authority (FIRS) adopts to exercise her mandate in ensuring that Nigeria is able to tax on an appropriate taxable bases corresponding to economic activities deployed by multinational companies in Nigeria and also use it as a tool to fight tax evasion that may arise through over or under pricing of transaction between related persons (FGN, 2018).

To drive compliance with the Transfer Pricing regulations, FIRS has embarked on the Transfer Price audit of taxpayers' related party transactions to confirm compliance with the arm's length principle- that is transfer pricing audit (Agboola & Seriki , 2019). Transfer pricing audit involves a painstaking inquiry into compliance or otherwise of multinationals to arms length principles in her transactions with their related parties. Transfer pricing audit becomes a mechanism for preventing tax avoidance and as a means of ensuring that a reasonable basis is employed to identify and extract economic benefits of business operations in a particular tax jurisdiction (Ahmed, 2014). Transfer Pricing audit is a specialised type of audit that requires special expertise and it is carried out by specially trained officers in the International Tax Department (Domestic and Cross-border Divisions) of FIRS. Shongwe (2019) noted that transfer pricing audit of MNEs requires careful considerations and expertise as it is not simple.

Transfer pricing audit is gaining much needed attention as a result of its expected strategic role to stem the tide of low tax compliance level among companies in Nigeria. At a workshop on "Effective Audit of Multinational Corporations for Domestic Revenue Mobilisation in Nigeria", the FIRS boss stated that FIRS is paying greater attention to tax audit in general and Transfer Pricing audit in particular in order to improve the level of tax compliance in the country (Ujah, 2021). This important step was geared towards boosting tax compliance level of multinational companies in Nigeria as the urgency of domestic resource mobilization through corporate income tax cannot be overemphasized. Thus, if multinational companies know that their transfer pricing related transactions could be evaluated through transfer pricing audit, they may tend to reduce or avoid sharp practices that will reduce their tax compliance level. It is on this note that the study has adopted tax penalty imposition, corporate tax rate and shared tax information, as a measure to enforce tax compliance through transfer pricing audit. Probability of transfer pricing audit is operationally defined in this study as possibility of subjecting multinational companies' related party transactions to detailed review and examination; and corporate tax rate is the percentage at which a corporation is taxed. Tax Penalty is defined as a punitive measure that the tax law imposes for the performance of an act (tax related) that is proscribed. While shared tax information is the requirement for provision of aggregated information from different tax jurisdictions on tax related data.

Going by the 2020 world bank report, Nigeria ranked 159 out of 183 (53.7%) in tax payment, by implication, most MNEs may be in the category that are not fully complying. This makes it critical that the relevant tax authority is able to tax MNEs on the full profits that they earn, accrue or brought in her jurisdictions according to clear rules and on the right corporate tax rate. This is because Multinational Enterprises tend to shift their tax base and profit to tax heaven where there are lower corporate tax rate. Whenever, organizations know that their transfer pricing related

transactions could be evaluated through audit they may tend to reduce or avoid sharp practices that will reduce their tax compliance level. It is on this note that the study has adopted tax penalty imposition, corporate tax rate, and shared tax information, as a measure to enforce tax compliance through transfer pricing audit.

In recent years, there has been deliberate shift from oil revenue to tax revenue and taxation is expected to continue to shoulder the Government's Budget performance. To ensure this, Govt through its strategic revenue growth initiative recently stated that Federal government will shift focus from revenue collection to tax compliance. Adoption of this approach as a new normal may be as a result of fiscal losses through tax revenue to government occasioned by illicit financial outflows from the country. For instance, it was reported that Nigeria in 10 years (between 2007 and 2017) have lost over US\$178 billion (about N5.4 trillion at today's rate) through tax evasion by Multinationals doing business in the country and that Nigeria accounted for 30.5% (US\$ 217.7 billion) of the money lost by the continent (Africa) through illicit financial flows, of which are the proceeds of commercial tax evasion mainly through abusive transfer pricing, trade mispricing, misinvoicing of services and intangibles and using unequal contracts, all for purposes of tax evasion, and aggressive tax avoidance accounts for the largest component (GFI, 2019; Igbatayo, 2019; UNCTAD, 2020; Ujah, 2021). This raises tax compliance concerns among multinational companies and if the MNEs know that there is possibility (probability) of subjecting their transactions (outflows to their related party in other tax jurisdictions suspected to be transfer pricing manipulation) to transfer pricing audit, could there be a change in their compliance level and control on their illicit outflow through these transfer pricing manipulation tactics? There is also suggestion that imposition of stiffer penalty could be a way to checkmate the above challenges. Hence, how can tax authority take action against transfer pricing manipulation to ensure that MNEs pay 'the right amount of tax, at the right time, and in the right place without resorting to measures that might have a negative impact on tax revenue mobilization.

There is also the issue of inability to obtain the information required from MNEs to adequately assess the risk of Base Erosion and Profit Shifting. Developing countries face difficulties in obtaining information about the foreign operations of an MNE group often needed to fully assess the risk of possible tax loss. For instance, OECD Part 1 (2014) reported that measures adopted by developing countries (Nigeria inclusive) to challenge Base Erosion and Profit Shifting are often hindered by lack of information. As a result of this, some income from cross-border activities may go untaxed anywhere. Hence, exchange of tax information compliance to some extent is still a challenge and calls for more investigation to know how it can affect tax compliance of Multinational Enterprises. It is against this backdrop that this study will attempt to examine how transfer Pricing Audit probability, imposition of stiff penalties, Corporate Tax Rate and Shared tax information (Country by Country Reporting) as proxies of transfer pricing audit could affect tax compliance level of multinational companies in Nigeria.

The broad objective of this study is to examine the effect of Transfer Pricing Audit on Tax Compliance level of Multinational Companies in Nigeria. To achieve the major objective, this study specifically sought to:

1. Ascertain the effect of corporate tax rate on tax compliance level of multinational companies in Nigeria.
2. Examine the effect of tax penalty imposition on tax compliance level of multinational companies in Nigeria.

3. Examine the effect of shared tax information on tax compliance level of multinational companies in Nigeria.

The findings of the study will provide detailed insight and let policy makers especially tax authority to gain a better understanding of the major variables of transfer pricing audit that are significant and positive in determining tax compliance level of multinationals in Nigeria. It will help FIRS to beam search light on how to improve the transfer pricing audit construct and enhance tax compliance level in multinational companies in Nigeria when formulating and executing tax policies (especially in transfer pricing regulations) that are suitable in order to discourage tax non-compliance in Nigeria.

The outcome may benefit researchers and academics, who would undertake to study transfer pricing audit and other areas in transfer pricing generally, which are an emerging topic across the globe, hence, it would create more literature that may be valuable to them. However, the focal point of this study was on the effect of transfer pricing audit on the compliance level of multinational companies operating in Nigeria. The variables specifically looked at were tax penalty, corporate tax rate, and shared tax information.

Review of Related Literature

Transfer Pricing Audit

Agboola & Seriki (2019) defined transfer pricing audit as a review or examination of taxpayers related party transactions by the tax authorities to determine whether the prices charged on the controlled transactions are reasonable from an arms length perspective. Ahmed (2014) referred transfer pricing audit as a mechanism for preventing tax avoidance and as a means of ensuring that a reasonable basis is employed to identify and extract economic benefits of business operations in a particular tax jurisdiction. UN (2017) also note that a transfer pricing audit usually takes longer than an ordinary tax audit because the scope of the factual matters to be investigated is much broader and the amount of time and effort needed for transfer pricing analysis is much greater. Therefore, TP audit involves a painstaking inquiry and review of taxpayers' related party transactions and other activities to confirm or otherwise, compliance with arm's length principles and other regulations as provided in the relevant extant tax laws.

Transfer Pricing Audit Processes

UN (2017) in their practical manual on transfer pricing stated that the outcome of an effective audit process has two aspects: increased future compliance (which indirectly contributes to future tax revenue and protection of the tax base); and increased current tax revenues (where cases are successfully audited). This implies that TP audit processes are vital if good outcome can be achieved. The processes are:

Risk Assessment: Transfer pricing risk assessment is the process of identifying the risk to the tax administration from the taxpayer's transfer pricing arrangements and determining whether the risk is worth pursuit by conducting a resource-intensive audit. And it can be a continuing exercise throughout an audit (Ugbomeh, 2019). It also involves a review of taxpayers TP returns, TP policy and documentation and other documents to determine the risk profile of the tax payer. It should be noted that effective risk identification and assessment are important steps toward ensuring that the most appropriate cases are selected for TP audit.

Desk Query: This is where a desk audit of information, especially from financial statements, are evaluated whether there are any transfer pricing issues. The tax authorities through risk assessment have certain transfer pricing information in their possession before a transfer pricing audit starts. Thus, where the TP risk is perceived high through risk assessment, tax authority proceeds to carry out a desk query to evaluate the existence of possible TP issue. The service may send out preliminary information requests at this stage.

Field Query and Function, Asset & Risk (FAR) Interview: This is where fact-finding exercise are carried out. It is common in a transfer pricing audit for the audit team to request interviews with key company personnel involved in transactions with related parties. Hence, the tax authority may proceed on a fact-finding exercise that involves conducting interviews, site visits and documentation gathering to verify the functions, assets, and risk regarding the related party controlled transactions (Shimbe, 2021; Agboola & Seriki, 2019).

Raising Assessment: When the audit team considers that it sufficiently understands the transfer pricing issues and has concluded discussions with the taxpayer, it will produce the draft proposed adjustments in the form of assessment, if any. Once assessment are raised and the audit is officially closed. The case closure needs to be properly documented, as every decision taken can potentially be subject to litigation (EY, 2021; UN, 2017).

Resolution: This is post audit process. The most efficient method of addressing disputes is to prevent them from arising as transfer pricing audits disputes generally take much longer to resolve and are usually more complex (UN, 2017). Akinla, (2016) noted that it is expected that TP audits would result in disputes. Therefore, where the taxpayer and the service are unable to reconcile their respective positions, both parties can embark upon a dispute resolution process in line with provisions of the TP regulation and other extant tax laws.

Performance of Transfer Pricing Audit in Nigeria

Table 1

Year	Performance	
	Assessment	Collection
2016	6,262,866,858.16	3,863,952,050.79
2017	204,450,911,155.17	1,727,115,070.06
2018	65,028,521,151.57	10,874,569,966.88
2019	18,427,406,592.88	15,643,012,889.46
2020	92,322,868,880.12	70,477,913,431.59

Source: FIRS (International Tax Department) Annual Report

In the above table 1, the trend shows the additional assessment raised and collection made through the effort of Transfer pricing audit. All things being equal, if there was no transfer pricing audit in place, such revenue would have been lost by government in Nigeria and possibly in other tax jurisdictions. The highest additional assessment of 204.451 billion naira in 2017 is marked and is

an indication that TP audit is a veritable tool to enforce compliance among multinational companies.

Tax Penalty

Tax penalty is one of the strategies provided in tax laws (TP Regulation inclusive) to enforce tax compliance. Tax penalty is a punitive measure that the tax law imposes for the performance of an act that is proscribed, or for the failure to perform a required act such as failure to timely file return or filling wrong or undervalued returns etc. (Oladipupo & Obazee, 2023). Deterrence model holds that taxpayers comply with their tax obligations to avoid legal sanctions whenever those sanctions are expected to be more costly than compliance (Oladipupo & Obazee, 2023; Modugu & Anyaduba, 2014; Doran, 2009). By implication, tax penalties should be severe enough that taxpayers expect the costs of noncompliance to exceed the costs of compliance which is in consonance with economic analysis of punishment.

Corporate Tax Rate

Corporate tax rate is the percentage at which a corporation is taxed. The tax rate is the percentage of an income or an amount of money that has to be paid as tax. In Nigeria, it is expressed as a fraction of every naira earned by a corporation. It is alluded that corporate tax rate is a critical variable in tax compliance and it should be considered as valid instruments for influencing tax payment or otherwise. Empirical evidence shows that tax rate has significant positive correlation with tax compliance and high tax rate is positively related to tax evasion and negatively related to tax compliance (Mas'ud Aliyu, & Gambo, 2014; Ali, Cecil, & Knoblett, 2001). Corporate tax rate could be a motivating factor for multinational to shifting income between different tax jurisdiction in order to tax advantage of presumed better tax rate and incentives as the case may be.

Shared Tax Information

FIRS in their publication on guidelines on transfer pricing documentation, raised the issue of shared tax information in different tax jurisdiction by the multinational companies operating in Nigeria. Annually, it is required that MNEs should provide aggregated information by tax jurisdiction, showing MNE's allocation of income, income tax paid, and certain indicators of the location of economic activity among tax jurisdictions in which the MNE group operates. It is insinuated that this shared tax information will assist the tax administration (especially TP auditors) in carrying out high-level transfer pricing risk assessment and subsequent detailed TP audit where applicable (FIRS, 2018). Therefore, increased disclosure through country-by-country reporting of MNCs' activities is expected to provide revenue authorities (TP auditors) with some information with which to target their auditing resources.

Tax Compliance

Tax compliance has been defined variously in line with the behavior of the taxpayer in relation to extant tax laws. Badara (2012) referred it to an ability of a tax liable body to submit accurate, complete and satisfactory returns in conformity with tax laws and regulations of the state to the tax authority for the purpose of tax assessment. Kirchler, Hoelzl, & Wahl(2008) described it as

taxpayers' willingness to pay their taxes. They are three aspects of tax compliance: payment compliance; filing compliance and reporting compliance and they are also mutually exclusive and exhaustive (Brown & Mazur, 2003). The willingness of individuals or corporate body to comply with relevant tax laws by appropriately filing and paying their taxes as at and when due is tax compliance.

Transfer Pricing Audit and Tax Compliance

Tax audit generally, through empirical evidence has been adduced as one of the compliance strategies that can be used to achieve tax compliance. For instance, Appah & Eze (2013) in their study stated that tax audit is one of the compliance approaches that can be used to achieve tax compliance in Nigeria as the average Nigerian is known for tax evasion and avoidance. Tax Authority employs tax audit to achieve target revenue, reduce the problems of tax evasion (Badara, 2012). Ngundi (2012) stated that there is now an increased level of tax compliance enforcements and tax authority shall be forced to conduct transfer pricing audits and raise assessments on MNEs that fail to comply with the rule. Similarly, Akinleye, Olaoye, & Fajuyagbe (2018) in their study noted that transfer pricing and its compliance has the capacity to improve the effectiveness and efficiency of tax administration in Nigeria. Therefore, transfer pricing audit is suggested be an established tool to ventilate tax compliance among multinationals.

Empirical Review

Osho, Efuntade, & Jemisye-Dav (2020) examined the impact of taxation on transfer pricing in Nigeria economy. The study used Augmented Dickey Fuller (ADF) Unitroot test and Johansen co-integration econometric tools to determine the order integration and the long run relationship among the variables. The result of the study suggests that the taxation is negatively associated with transfer pricing decision because an increase in income tax will definitely lead to an increase transfer pricing. They further argued that the position of tax rates in Nigeria is high enough to bring the risk of losing tax revenue due to the practice of profit shifting through the transfer pricing mechanism. In addition to this, they stated that the result provides attention (warning) for the government to be more careful in every tax policy that affects the tax expense of companies in Nigeria.

Olaoye & Aguguom(2017) examined Tax Base Erosion and Profit Shifting through Transfer Pricing: evidence from Nigeria. They reviewed multinational establishments' tax avoidance strategies and attitude through transfer pricing manipulations, particularly profit shifting tendencies from the Nigeria perspective. They adopted a content analysis research approach. The study revealed that multinational companies although make a huge tax revenue contribution to Nigeria Gross Domestic Product (GDP), yet in their pursuit of profit maximization goal, engage in tax avoidance strategies inform of profit shifting, through tax havens in manipulating tax motivated transfer pricing, aimed at huge reduction in their tax liabilities.

Akinleye, Olaoye, & Fajuyagbe(2018) investigated the effects of transfer- pricing regulation and compliance on tax administration in Nigeria. The paper used a descriptive survey research design and questionnaire was used as the research instrument for data collection. Analyses were made with ordered logit regression. They posited that transfer pricing and its compliance has the capacity to improve the effectiveness and efficiency of tax administration in Nigeria and that there is poor administration of transfer pricing tax policy in Nigeria.

Kurfi, Udin, & Kasuwa (2017) studied transfer pricing and the regulation in Nigeria milieu. The main objective of the paper was to provide an overview of the transfer pricing practices and highlight the newly adopted regulations on transfer pricing in Nigeria. Their study shows that the transfer pricing activities by multinational corporations in the country has resulted in economics lost and a large number of net resources being carried away from the region and these unethical exercises had signal clearly of the serious need to amend the massive leakages of economic resources. They were of the opinion that tax authority (FIRS) should introduce an electronic TP Audit (e-TPA) as part of its internal control system and through such measures enforce compliance. In addition, they argued that TP audit would enhance the efficiency and effectiveness of the assessment process by tax authority related TP matters and indirectly encourage taxpayer compliance.

Shongwe (2019) looked at “improving transfer pricing audit challenges in Africa through modern legislation and regulations”. The main objective of the study was to look at some of the key aspects of the modern TP legislation and illustrate how different drafting of regulations can assist in additional revenue collection as well as increased compliance. His finding shows that MNEs form a significant part of the tax base of African countries and he argued that this may not be an ideal tax mix as it creates an uphill challenge for tax administrations.

Wang & Chen (2020) investigated impact of transfer pricing for special tax adjustment measures on corporate effective tax rate in China. The major objective was to investigate whether corporate effective tax rates (ETRs) will increase after the implementation of China’s Measures for Special Tax Adjustment and the interaction effects with goods (or service) transactions, inter-financing transactions, and investment income transactions within the related parties. The empirical results indicate that the ETRs of companies increase significantly after the implementation of the Measures for Special Tax Adjustment (TP Audit) and the ETRs of companies with a greater number of related party transactions of goods (or services) significantly increase after the implementation of Measures for Special Tax Adjustment (TP audit). This implies that Special tax adjustment measures (TP Audit inclusive) is capable of increasing tax revenue available to government, curbing corporate tax avoidance or corporate tax planning.

McNair, Dottey, & Cobham (2010) examined transfer pricing, and the taxing rights of developing countries. The finding is that the complexity of the system, coupled with a lack of capacity and expertise in developing countries, leaves the latter open to abuse; and as transfer pricing mechanisms currently operate, they cannot but be responsible for a significant shift in taxing rights

away from those countries where they are most important for poverty eradication. They further noted that the complexity of transfer pricing audits, particularly in relation to finance, cost sharing and intangibles poses a significant problem for developing countries. However, an international disclosure standard for multinational companies through country by country reporting (shared tax information) would address some of the information asymmetries thereby giving room for improved compliance.

Theoretical Framework

Conflict of Interest Theory

This study is anchored on the conflict-of-interest theory, developed in 1970 by Robert Axelrod. He defined it in terms of the incompatibility of actor goals and preference disagreement among the parties involved (Browne, Gleiber, & Mashoba, 1984). Conflict of interest occurs where different parties' obligation to further their purpose is at odds with others financial interest (Newman, 2013). Financial interests have often been considered as the source of conflict of interest and this results in loss of objectivity and exploitation of another party (ASA, 2021). Accordingly, the conflicts of interest theory arise in related party transactions as such are seen detrimental since the greater number of majority of shareholders are favored at the expense of the other stakeholders (tax authority inclusive). In this regard, multinationals in handling financial gains for categories of reasons: misappropriation of assets, overpricing and mispricing, shifting of profits to low income tax nations and possibly understating of profits before taxation in their financials do exploit tax authority as both having conflicting interest on the revenue of an entity (Olaoye & Agugum, 2017). Hence, going by the proposition of Axelrod, conflict of interest requires all the actors to be ordered along single policy continuum; it is presumed that multinational companies and tax authority could be ordered along single policy of legal framework of transfer pricing audit continuously.

The theory is relevant to the study because it has become imperative to look at how transfer pricing could affect the tax compliance level of multinationals and eliminate the crux of the conflict in the first place. More so, the Transfer Pricing auditors will bear this conflict in mind while carrying out their assignment; focusing on the multinational companies transfer pricing manipulations for the purpose of minimization of tax expense and maximization of her profit thereby not creating value for government in area of revenue generation.

Therefore, this study is anchored on conflict-of-interest theory as it suggests possible conflicts of interest as a result of maximization of profit and minimization of tax expenses by the multinational companies and quest to increase tax compliance and revenue for government by tax authority. And transfer pricing audit is seen as a framework that would provide common ground on compliance level of multinational companies and other major stakeholders including tax authorities.

Research Methodology

The research adopted a survey research design. Survey design are procedure in quantitative research where information is gathered systematically from a sample or the entire population to describe the behavior, attitude, opinion of the population, of which statistical inference are made (Tanny, 2018; Avedian, 2014). Therefore, it is appropriate for the study as it seeks to determine the opinion and perception of the population on effects of Transfer Pricing audit on tax compliance of multinationals in Nigeria. Primary source was used and were sourced through questionnaires. The area of study is Federal Inland Revenue Service, particularly International Tax Department, Lagos that is in-charge of Transfer pricing audit of multinational companies.

The study used the binary logit regression research technique analysis stated in its multiple forms. This was obtained through Statistical Package for Social Science (SPSS) edition 20.0. In presentation and analysis of data, the study used measures of central tendency and dispersion such as mean, standard deviation and others to analyse the data generated for the study after testing the validity and reliability of the data.

Population and Sample Size of the Study

The population of the study include all the senior members of staff of FIRS working at the International Tax Department (Transfer Pricing), Lagos and they were 74. The justification for this population is that they are saddled with the responsibility of transfer pricing audit and have garnered required information on the compliance of multinational as a result of exercising that responsibility (Transfer Pricing audit). The study employed census method in collecting data from the target population and hence the researcher was guided by the number of all senior cadres of members of staff working in the International Tax Department of the Service (FIRS).

Research Instrumentation

A structured questionnaire of 5-point Likert scale was used to gather information from the members of staff FIRS in International Tax Department (Transfer Pricing), Lagos deemed to be the most suitable instrument for data collection. The developed questionnaire was checked for its validity by two tax experts (an academia and a tax administrator expert in transfer pricing) and it was also checked for its reliability through pilot testing. This gave room to see some of the weaknesses in design and instrumentation. The pre-testing allowed for modification of various questions to rephrase, clarify and clearing up any shortcomings in the questionnaires before they were administered to the actual respondents.

RESULTS

Descriptive Analysis and Result

The descriptive statistics result shows that the total number of observation is 66, the average score values of the variables of the study such as Multinational Companies' Tax Compliance (MCTC) and Corporate Tax Rate (CTR) are 15.9697 and 24.7424 respectively whereas that of Tax Penalties

(TP) and Shared Tax Information (STI) are 19.6364 and 23.0152 respectively. The average score values of the variables of the study further shows that corporate tax rate has the highest mean score while Multinational companies’ tax compliance has the lowest mean score of the distribution.

Analysis and Interpretation of Regression Result

A Multiple linear regression model was used to predict tax compliance in the study. The prediction was carried out basing on the effect of the four independent factors: Corporate Tax Rate, Tax Penalties and Shared Tax Information. In addition, the β coefficients for each independent variable generated from the model was subjected to a t-test, in order to test each of the hypotheses under study. The study thus came up with a model summary, the ANOVA and the regression model as presented in tables 2, 3 & 4.

From table 2 below (Model Summary), the result shows that the R-square with a value of 0.956 implies that about 95.6% of the changes in Multinational company’s tax compliance could only be explained by predictors namely; Corporate Tax Rate (CTR), Tax Penalties (TP) and Shared Tax Information (STI) while about 4.4% of the changes in Multinational company’s tax compliance could be explained by other factors not included in the model.

Table 2: Model Summary^b

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	.978 ^a	0.956	0.953	1.36178	0.956	328.78	4	61	0	0.371

a. Predictors: (Constant), SHARED TAX INFORMATION, TAX PENALTIES, CORPORATE TAX RATE.

b. Dependent Variable: MULTINATIONAL COMPANY'S TAX COMPLIANCE

Source: Researcher’s Computation 2023

The ANOVA model in table 3 below showed that the regression model was also adequate. The effect size of the regression model was shown to be over 65 that contributed by the residual mean sum of squares. The F-ratio was 328.780. This represented the effect size of the regression model and was significant with a p-value of 0.000.

Table 3: ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2438.818	4	609.705	328.78	.000 ^b
Residual	113.121	61	1.854		
Total	2551.939	65			

a. Dependent Variable: MULTINATIONAL COMPANY'S TAX COMPLIANCE

b. Predictors: (Constant), SHARED TAX INFORMATION, TAX PENALTIES, CORPORATE TAX RATE.

Source: Researcher’s Computation 2023

The regression results in table 4 below shows that each of the predicted parameters in relation to the independent factors were statistically significant and also all but one (corporate tax rate) have a positive effect on the multinational companies' tax compliance level in Nigeria. The results showed that the coefficients tax penalties (TP) and Shared tax information (STI) showed positive values of 0.321 and 0.638 respectively but Corporate Tax Rate (CTR) showed negative value of -0.621 implying negative relationship also. All the variables are statistically significant in explaining level of tax compliance of multinational companies in Nigeria. This indicates that for each unit increase in tax penalties imposition (TP) and Shared Tax Information (STI) there are 0.321 and 0.638 units increase in multinational company's tax compliance within the period of the study. However, for each unit increase in corporate tax rate, there is up to 0.621 unit decrease in Multinational Company's tax compliance.

Table 4: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients			Correlations		
	B	Std. Error	Beta	t	Sig.	Zero-order	Partial	Part
(Constant)	-6.009	1.433		-4.194	0			
CORPORATE TAX RATE	-0.835	0.193	-0.621	-4.326	0	0.9	-0.485	-0.117
TAX PENALTIES	0.357	0.075	0.321	4.748	0	0.919	0.519	0.128
SHARED TAX INFORMATION	0.817	0.127	0.638	6.447	0	0.96	0.637	0.174

a. Dependent Variable: MULTINATIONAL COMPANY'S TAX COMPLIANCE

Source: Researcher's Computation 2023

Test of Hypotheses

Test of hypothesis is the use of statistics to determine the probability that a given claim or proposition is true or not. Thus, in hypothesis testing for this study, the probability value of the coefficient of the parameter estimates at 5% level of significant is used to decide if the null hypothesis is to be rejected or not, to this point a null hypothesis is to be rejected if the probability value of the parameter estimate is less than 5% level of significant which implies that the alternative hypothesis is accepted.

Hypothesis One

H₀₁: There is no significant effect of corporate tax rate on tax compliance level of multinational companies in Nigeria.

H₁: There is significant effect of corporate tax rate on tax compliance level of multinational companies in Nigeria.

From the result presented in table 4 above, the study rejects the second null hypothesis and concludes that the corporate tax rate is statistically significant but has a negative effect on tax compliance level of the multinational companies in Nigeria during the time of this study. It then follows that increase in corporate tax rate reduces the level of multinational tax compliance and vice versa, all things being equal.

Hypothesis Two

H₀₂: There is no significant effect of tax penalty imposition on tax compliance level of multinational companies in Nigeria.

H₁: There is significant effect of tax penalty imposition on tax compliance level of multinational companies in Nigeria.

From the result presented in table 4 the null hypothesis is rejected and conclude that imposition of tax penalty is statistically significant and has a positive effect on tax compliance level of the multinational companies in Nigeria during the time of this study.

Hypothesis Three

H₀₃: There is no significant effect of shared tax information (Country by Country Reporting) on tax compliance level of multinational companies in Nigeria.

H₁: There is significant effect of shared tax information (Country by Country Reporting) on tax compliance level of multinational companies in Nigeria.

From the result presented in table 4 above, the study rejects the null hypothesis of the study and conclude that shared tax information is statistically significant and has a positive effect on tax compliance level of the multinational companies in Nigeria during the time of this study.

Discussion of Results

1. Corporate tax rate and Tax Compliance Level of Multinational Companies in Nigeria

The estimated result of the corporate tax rate on the tax compliance of the multinational companies in Nigeria indicated that the coefficient of corporate tax rate was 4.327 while its probability value was 0.000 which was less than a 5% level of significance. Hence, the result disclosed that there was a strong positive relationship between corporate tax rate and multinational companies' tax compliance, with a highly significant p-value of 0.000.

The result aligns with the idea that companies tend to comply more when they believe there would be justifiable and reasonable corporate tax rate that are in line with tax regulations by the transfer pricing auditors. This relationship suggests that companies engaging in excessive or aggressive pricing/mispricing may be less compliant. It is consistent with the findings of (Adeyeye, Bale, Iredele, & Adeyeye, 2022), which identified overstating purchase prices for transfer of goods and services as a prevalent form of tax evasion through transfer pricing.

Thus, it is expected that Tax authorities should provide clear guidelines and expectations regarding price adjustments in transfer pricing. Companies engaging in excessive or aggressive pricing/mispricing may need to be scrutinized more closely to encourage compliance and prevent potential tax evasion. Ensuring fairness and transparency in pricing practices is crucial for improving overall compliance.

2. The Tax Penalty Imposition and Tax Compliance Level of Multinational Companies in Nigeria

The result of the tax penalty imposition on the tax compliance of the multinational companies in Nigeria shows that the estimated probability value was 0.000 which was less than a 5% level of significance. Therefore, as far as the estimated probability value of the coefficient of tax penalty imposition was less than a 5% level of significance, the null hypothesis was rejected and the alternate accepted that there was a significant impact of tax penalty imposition on the tax compliance level of multinational companies in Nigeria. Hence, the result indicated a positive relationship between the tax penalty imposition and tax compliance of the multinational companies, with a significant p-value of 0.000.

This result implies that the expectation of tax penalty imposition is linked to improved perceptions of multinational companies' tax compliance. This finding aligns with studies that have explored the impact of tax audits and penalties on compliance. For instance, a study by Abubakar, (2021) found a positive and statistically significant relationship between tax audit and personal income tax compliance in Nigeria, which suggests that tax audits, including the imposition of penalties, can enhance compliance. This result implies that the tax authorities can consider using tax penalties as a deterrent to non-compliance. The perception of potential penalties can be a motivating factor for companies to meet their tax obligations

3 The Share Tax information and Tax Compliance Level of Multinational Companies in Nigeria

The estimated result of the share tax information on the tax compliance of the multinational companies in Nigeria disclosed that the its probability value was 0.009 which was less than a 5% level of significance. Hence, since the estimated probability value of the coefficient of shared tax information was less than 5% level of significance, the null hypothesis was rejected whereas the alternate hypothesis was accepted which stated that there was a significant effect of shared tax information on the tax compliance level of multinational companies in Nigeria at 5% level of significance.

The result revealed that there was a strong statistical impact of sharing tax information on tax compliance of the multinational companies in Nigeria. This result is in line with studies that have explored the impact of tax information exchange agreements (TIEAs) and transparency initiatives. For example, (Joshi, 2020) found that private disclosures of shared tax information can deter corporate tax avoidance. It also aligns with the idea that when companies are aware that tax authorities have access to shared tax information, they are more likely to comply with transfer pricing regulations. This supports the role of transparency and information sharing in improving compliance, which is also suggested by (Sebele-Mpofu, Mashiri, & Warima, 2022). Hugger (2019) also noted that shifting of profits out of high tax jurisdictions is reduced by shared tax information (Country by Country reporting) and seems to primarily reduce profits located in tax haven affiliates of multinational groups.

The positive relationship between shared tax information and multinational companies' tax compliance underscores the importance of transparency and information sharing in promoting compliance. Governments should continue investing in international efforts to share tax-related

information through tax information exchange agreements (TIEAs) and similar initiatives. The awareness of tax authorities' access to shared tax information acts as a strong motivator for companies to comply with transfer pricing regulations. Enhanced transparency can deter corporate tax avoidance and improve overall compliance.

SUMMARY OF FINDINGS, CONCLUSION & RECOMMENDATIONS

Summary of Findings

Generally, the finding indicates that very high percentage of changes in Multinational Company's tax compliance could only be explained by predictors: Corporate Tax Rate (CTR), Tax Penalties (TP) and Shared Tax Information (STI) and by extension, transfer pricing audit has significant effect on multinational companies' tax compliance level in Nigeria. Specifically, the findings are:

1. Corporate Tax Rate has a significant but negative effect on level of tax compliance of multinational companies in Nigeria. Higher tax rate will lead to low compliance and multinationals will tend to shift their income to other tax jurisdiction to take advantage of lower tax rate which results in lower compliance level in the jurisdiction in which their tax rate is high.
2. Imposition of tax penalties has a significant positive effect on level of tax compliance multinational companies in Nigeria; an effective use and enforcement of tax penalties on transfer pricing regulation offenders will enhance levels of tax compliance among the multinationals in Nigeria.
3. Shared tax information showed a strong significant positive relationship with multinationals tax compliance level in Nigeria. This shows that shared tax information facilitates and improves the compliance level of multinationals as it exposes their tax records in order tax jurisdictions.

Conclusion

From the findings of the study, it could be concluded that transfer pricing audit is a strong construct and veritable compliance tool in improving the tax compliance level of multinational companies in Nigeria. Probability of transfer pricing audit, tax penalty and shared tax information has significant and positive effect on multinational tax compliance level. In the other hand, corporate tax rate has significant but negative effect on tax compliance. Consequently, if tax authority adopts the transfer pricing audit tool effectively, sharp practices of multinationals resulting in huge illicit financial outflows, loss of tax revenue to other tax jurisdiction can be curtailed. In addition, more tax revenue would be generated which at same time could lead to improved tax to GDP ratio in Nigeria. Finally, going by the finding, Shared tax information which shows strong effect on tax compliance could close up the gap in the area of obtaining the information required from MNEs to adequately assess the risk of Base Erosion and Profit Shifting (BEPS) and stop such aggressive tax avoidance approach. Above all, transfer pricing audit could be deduced from the findings, as a best compliance tool that can be used to protect Nigeria's tax base against transfer mispricing, manipulation and profit shifting.

The implication of the findings is that if transfer pricing audit is effectively and efficiently carried out, government revenue for domestic infrastructural development would be improved as most of the multinational companies which accounts for greater portion of Nigeria tax base and revenue will voluntarily comply thereby increasing their compliance level in Nigeria.

Recommendations

The findings of the study show that the role of transfer pricing audit on compliance level of multinational companies is significant. We therefore make the following recommendations:

1. Tax authority should beam their searchlight more on multinational companies operating in Nigeria but has parent company or related party in other tax jurisdictions with lower corporate tax rate as there is likelihood of profit shifting among the related parties. This would improve the level of their compliance in Nigeria.
2. Transfer pricing compliance penalty in the regulation should be made to be deterrent enough and fully enforced as provided in the regulation. This would deter multinational companies from engaging in any form of evasion or aggressive tax avoidance through transfer pricing manipulations such as mispricing, profit shifting and base erosion, fake foreign direct investments etc.
3. There should be more collaboration with other tax jurisdictions in the area of accessing and sharing tax information and records of multinationals operating in Nigeria. More so, the Country-by-Country Reporting Regulation should be fully implemented and regularly amended to be in line with the best practice across the globe.

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