The Relationship between Tax Avoidance Strategies and Economic Growth in Nigeria

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ABSTRACT

This study investigated the relationship between tax avoidance strategies and economic growth in Nigeria, a sample of selected respondents was drawn using the convenience sampling within Nigeria. To achieve this, the sample consisted two groups, the tax payers and the tax officials, while tax payers included managers, CFOs and employees of private sector, the tax officials were selected from the Federal Inland Revenue Service (FIRS). Descriptive analyses technique was employed to rank the selected tax avoidance strategies based on the responses obtained from each group while the multiple regression estimation technique was used to determine how each strategy affects economic growth in Nigeria. The descriptive analysis revealed that profit shifting to tax havens and transfer pricing strategies have significant inverse relationship with economic growth in Nigeria. We therefore recommended the need for a critical review of the Nigerian tax laws to take care of loopholes in the tax laws, and the contribution of other professionals such as accountancy firms and public tax officials should also be checked by the government by breaking the monopolistic tendency of these accountancy firms and ensuring that public tax authority is well funded.

KEYWORDS: Tax haven, tax avoidance, profit shifting, transfer pricing

INTRODUCTION

Onyeiwu (2019) states that economic growth simply refers to the increase in economic capacity of a country to produce those goods and services needed to improve the well-being of the citizens in increasing numbers and diversity. Economic growth also refers to growth of potential output. That is, the production at full employment which is caused by growth in aggregate demand or observed output in an economy (Muriithi, 2017). It is also theoretically defined as the increase in the value of goods and services produced in an economy. For the economy of a country to be stabilized, funds are needed to finance their activities at all levels. Strategies must be considered and ways of obtaining money to pay for their expenditure. Some of the sources of finance available to the government include: taxes, royalties, levies, fines, penalties, loans, grants and donations given to the government. (Bassey, 2016) The major source of revenue in Nigeria is the revenue from crude oil sale.

Nevertheless, taxation is still a very important source of revenue to the federal, state and local governments.

A tax is a compulsory payment made by individuals and organizations to the government in accordance with predetermined criteria for which no direct or indirect benefit is received by the tax payer (Bassey, 2016). Sankay (2022) states that taxes constitute the principal source of government revenue, and the tax revenue is the lifeblood of any government (Christensen & Murphy, 2020). The efficiency and effectiveness of any government largely depends on the ability of its citizens to voluntarily discharge their tax obligations without any coercion or harassment. Avoidance of tax reduces government revenue and endanger the reputation of tax system. Thus, government needs to prevent tax avoidance or keep it within safety limits. The competition that exists among firms, industries and banks influences the avoidance of tax so that firms can have more

investment money to compete favorably in the market (Cai & Liu, 2019). However, one of the greatest problems facing Nigerian tax system as well as Africa is the problem of tax evasion and tax avoidance. While tax evasion is the willful and deliberate violation of the law in order to escape payment of tax which is unquestionably imposed by law of the tax jurisdiction, tax avoidance is the active means by which the taxpayer seeks to reduce or remove altogether his liability to tax without actually breaking the law. Severally, the government has complained of the widespread incidence of tax avoidance and evasion in the state as companies and other taxable persons employ various tax avoidance devices to escape or minimize their taxes sometimes with the active involvement of the tax officials.

Nigeria tax system which was meant to achieve core economic, political and social objectives such as revenue generation for the sustenance of economic and social needs, control consumers demand, encourage investment and savings, field economic depression, inflation and deflation, guarantee equitable distribution of income and wealth, control the general trend of the national economy, and ensure a proper allocation of national resources has hitherto failed because of several impediments. This has resulted in the recurrent problem of dwindling revenue generation characterized by yearly budget deficits and insufficient funds for economic growth and development at the national and state levels. Nigerian citizens lack knowledge and education about taxation. Thus, there is greater desire for tax evasion, avoidance and non-compliance with relevant tax laws. In this respect, the country has been more adversely affected because of absence of tax conscience on the part of individuals and companies and the failure of tax administration to recognize the importance of communication and dialogue between the government and the citizens in matters relating to taxation. Although tax evasion and avoidance are problems that face every tax system, the Nigerian situation seems unique when viewed against the scale of corrupt practices prevalent in the country (Adebisi & Gbegi, 2018). This study is therefore set to determine the relationship between tax avoidance strategy on economic growth in Nigeria, and emphases are laid on such tax avoidance mechanisms used by multinational corporations (MNCs) to execute tax avoidance schemes such as profit shifting to tax haven and off-shore financial centers, transfer pricing, among others.

Aim and Objectives of the Study

The aim of the study is to investigate the relationship between tax avoidance strategies and economic growth in Nigeria, while the specific objectives of the study are to:
1. Determine the relationship between profit shifting to tax havens and off-shore financial centers and economic growth in Nigeria.
2. Ascertain the relationship between transfer pricing and economic growth in Nigeria.

The following specific hypotheses have been formulated for the purpose of this study:

Ho_1: Profit shifting to tax havens and off-shore financial centers has no significant relationship with economic growth in Nigeria

Ho_2: There is no significant relationship between transfer pricing and economic growth in Nigeria.

LITERATURE REVIEW
Theoretical Framework

There are lots of theories on taxation in general and tax avoidance in particular. However, this study is anchored on the "theory of tax avoidance" as proposed by Stiglitz (1986). Other theories considered includes the benefit theory, expediency theory, socio-political theory and ability-to-pay theory.

Theory of Tax Avoidance: The general theory of tax avoidance was propounded by Stiglitz (1986). In his theory, he stated that in a perfect capital market, the principles of tax avoidance are so powerful that they can enable the taxpayer to eliminate all taxation on capital income and possibly all taxation on wage income as well. He noted in particular that much of the general equilibrium gained from tax avoidance arises from differences in tax rates, both across individuals and across classes of income rather than from postponement. Stiglitz (1986) stated that the tax laws constantly change the opportunities for tax avoidance but underneath, there remain three basic principles of tax avoidance within an income tax, which are: postponement of taxes, tax arbitrage across individuals facing different tax brackets and tax arbitrage across income streams facing different tax treatment. The first principle which is postponement of taxes explains that the present discount value of a postponed tax is much less than that of a tax currently paid, while the second principle involving transactions among different individuals within a family would in the long run reduce the aggregate tax liability as a result of the same individuals facing different marginal tax rates at different times. The third principle states that long-term capital gains are taxed at lower rates than other forms of income from capital. This provision is an inducement to convert their returns on capital (or on labour) into long term capital gains. He also added that special treatment is given to the return on capital in the form of housing

and pension. Many tax avoidance devices involve a combination of these three. Furthermore, according to Bhartia (2016) as quoted in Ogbonna and Appah (2019), a taxation theory may be derived on the assumption that there need not be any relationship between tax paid and benefits received from state activities. In this group, there are four theories, namely, Socio-Political Theory, The Expediency Theory, Benefit Theory and Ability-to-Pay Theory.

Socio-Political Theory: This theory of taxation states that social and political objectives should be the major factors in selecting taxes. The theory advocates that a tax system should not be designed to serve individuals, but should be used to cure the ills of society as a whole (Ogbonna & Appah, 2019). Hence, this theory explains how the society suffers when taxes are not paid, or when taxes paid are not used to ensure societal growth and development. In this study, we argue through the socio-political theory that tax avoidance strategies are applied by large corporations through the intervention of other players such as accountancy firms (that is, the Big 4) and regulatory officials, which result in a drastic reduction in the total revenue accruing to the government, thereby leading to poor economic growth and development in the long-run.

Expediency Theory: This theory asserts that every tax proposal must pass the test of practicality. It must be the only consideration weighing with the authorities in choosing a tax proposal. Economic and social objectives of the state as also the effects of a tax system should be treated irrelevant (Ogbonna & Appah, 2019).

Benefit Received Theory: This theory proceeds on the assumption that there is basically an exchange relationship between tax payers and the state. The state provides certain goods and services to the members of the society and they contribute to the cost of these supplies in proportion to the benefits received (Ogbonna & Appah, 2019). This theory is based on the idea that taxes should be levied in proportion to the benefit received. On the face of it, this approach would seem to be fair. However, in practice, the benefit is difficult to measure. For example, childless couples may not always feel they should contribute to the provision of State education, and yet indirectly they would derive benefit from living in an educated community (Fizou, 2017).

Ability to Pay Theory: Unlike the benefit approach, which would seek to match government expenditure with taxation in proportion to the benefit received, the ability-to-pay approach treats government revenue and expenditures. Taxes are based on taxpayers' ability to pay, there is no quid pro quo. Taxes

separately paid are seen as a sacrifice by taxpayers, which raise the issue of what the sacrifice of each taxpayer should be and how it should be measured.

Equal sacrifice: The total loss of utility as a result of taxation should be equal for all taxpayers (the rich would be taxed more heavily than the poor).

Equal proportional sacrifice: The proportional loss of utility as a result of taxation should be equal for all taxpayers.

Equal marginal sacrifice: The instantaneous loss of utility (as measured by the derivative of the utility function) as a result of taxation should be equal for all taxpayers. This would entail the least aggregate sacrifice (the total sacrifice will be the least). The three types of sacrifices have been demonstrated by Musgrave (2012). This approach is based on the idea that the burden of taxation should be spread in such a way as to give rise to equality of sacrifice among the taxpaying community.

Conceptual Framework
Nature of Tax and Taxation in Nigeria
Anyanwu (2017) defines taxation as the compulsory transfer or payment (or occasionally of goods and services) from private individuals, institutions or groups to the government. The main purpose of tax is to raise revenue to meet government expenditure and to redistribute wealth and management of the economy (Bhartia, 2016). Tax is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society (Appah, 2020). Nzotta (2017) notes that taxes generally have allocation, distributional and stabilization functions. The allocation function of taxes entails the determination of the pattern of production, the goods that should be produced, who produces them, the relationship between the private and public sectors and the point of social balance between the two sectors. The distribution function of taxes relates to the manner in which the effective demand over economic goods is divided, among individuals in the society. Ola (2018) states that taxation is a compulsory financial contribution to government by individuals and corporate bodies. It is a form of withdrawal by government for a particular economic purpose. The Association of National Accountant of Nigeria (ANAN) sees taxation as a levy by public authorities on citizen within their tax jurisdictions, for the purpose of obtaining compulsory payments to meet financial, social and economic goals of the authorities.

Origin of Taxation in Nigeria
The most historic trace of any form of taxation in Nigeria even before the Brim Administration was in

Northern Nigeria. The Northern part had a form of organized central administration under the Emirs unlike the south which except in few places in the west was not as organized. Furthermore, the Muslim religion adhered to by the people approved of taxation as being consistent with the demand of Islam. Thus taxes such as Zakka, Gada, Kindin and Kararat were on agricultural products and livestock. With the coming of the British and their consequent colonization of Nigeria, they took advantage of tax system that existed in the Northern part of the country to introduce direct taxation into the area since that was the only alternative available to them to raise fund to administer the region. In 1904, income tax was first introduced in Nigeria by late Lord Luggard; he later made changes which culminated in the native revenue ordinance of 1917. An amending ordinance that extended the provision of the 1917 ordinance to Nigeria was passed in 1918. During 1918, the native's revenue ordinance of 1917 was grudgingly accepted in the western province of southern Nigeria, around this time, there was still a lot of problem of acceptance. For instance, by 1920, direct taxation had almost been introduced in most parts of the west excluding Asaba and Warri provinces for fear of disturbance, (Nzotta, 2017) The direct taxation ordinance 1904 empowered native authorities to tax Africans in their area of jurisdiction while the income tax ordinance 1943 was for the taxation of non-Africans and companies. These two ordinances were the foundation of our modern taxation.

Tax Structures in Nigeria

The Nigerian tax system has undergone significant changes in recent times. However, the tax system is basically structured in such a way as to contribute to economic growth through income generation. On the basis of incidence, taxes can be structured into direct and indirect. There are different components of direct taxation. These include the personal income tax (PIT), petroleum profit tax (PPT), company income tax (CIT), education tax (ET). The PIT is currently regulated under the Personal Income Tax Act of 2004. The PPT is regulated by the Petroleum Profit Tax Act [PPTA) of 1940, wherein PPT is charged on the profit of a petroleum company in the upstream sector of the industry. Companies in Nigeria are taxed under the Companies Income Tax Act introduced in 1961 with modifications in 2007 add 2011. The administration of the CITA is vested on the Federal Inland Revenue Service. Education tax in Nigeria is under the regulation of the Education Tax Act No. 7 that was promulgated in 1993. The tax is payable by all companies at the rate of 2 percent of the assessable profit defined in the Company Income Tax Act. Therefore, assessment of education tax and company

income tax are done concurrently. The different prominent components of indirect taxation in Nigeria include Value Added Tax (VAT] and Custom and Excise Duty (CED). VAT is regulated by the Value Added Tax (VAT) Act of 2007. The Nigerian VAT system is destination-based, which means the tax is levied on goods and services consumed within the tax jurisdiction. The implication of this is that VAT imposition is designed to stimulate export growth. In Nigeria, the tax rate chargeable is 5 percent on goods and services purchased but the tax payer can claim credit for input tax when such goods are sold. The CED is regulated by the Custom and Excise Management Act of 1990, The duty is chargeable on all goods and services imported into Nigeria. The tax is administered by the Nigeria Custom Services and is also referred to as import duties. Currently, the duties range between 2.5 percent to 100 percent depending on the product.

Problems of Taxation

There are two major problems; they are tax evasion and tax avoidance. Tax evasion and taxpayer can achieve the same goal of reducing his tax liability while tax evasion is considered illegal by nature all taxes exert an income in that they compulsorily withdraw revenue from the private sector. Also as indirect taxes are levied on goods, people tend to shift from the purchase of one goods to another, this is the substitution effect to tax. A good tax system is one which does not result in either income effect or substitution effect. However, this is not attainable in the real world, hence the application of this rule is to achieve the highest possible neutrality from the imposition of tax system.

Tax evasion: It is a deliberate act on the part of the taxpayer not to pay tax due. This is considered as a criminal offence on the part of the taxpayer. The relevant tax authority may take such steps as it deems fit to recover any such tax and the taxpayer penalized if found guilty. Tax evasion can be partial or total and its degree varies from company to company. There is partial evasion when a company under-declares its profits for tax purposes and total evasion of income tax occurs when a company which is already qualified to pay tax refuses to get its name registered in the tax roll. From the foregoing therefore, evasion of income tax is a serious problem in Nigeria, more so as there is a big gap between actual and potential tax collections by the various levels of government. The criminal act in Nigeria is perpetrated through these medium: total ignorance of the law, lack of faith in the ability of the government to use the money well, high tax rate which makes evasion more attractive and economical, absence of visible benefits accruing to the tax payers,

outright unwillingness to contribute towards the development of the society, and the ridiculous low penalties prescribed in the laws for late payment of tax.

Tax Avoidance: It is generally considered as a way of identifying the loophole in the tax laws and then taking advantage of such a loophole to reduce the tax payable (Ojo, 2003). For instance, a taxpayer may invest in qualifying capital expenditures that he would ordinarily not invest in because of the advantage therefrom. Because of this, tax avoidance is not considered as an offence. A tax avoidance practices benefit the tax payers at the expense of the state. The major loophole in the tax law is the area where companies exploit capital allowances on their qualified capital expenditure. Capital allowance would be claimed on qualifying capital expenditures in use for the purpose of a trade or business. Capital allowance is claimed in replacement for depreciation charge, which is treated as an inadmissible expense for tax purpose. The tax benefits help them to have retained funds in the system to grow their businesses. Tax avoidance is legal. According to Sani (2005), tax avoider is simply one who agrees to his duties in such a way that he pays little or no tax. A tax system offers itself as one of the most effective means of mobilizing nation's internal resources when it lends itself to creating an environment conducive to the promotion of economic growth (Ogbonna & Ebimobowei, 2019). Tax avoidance arises in a situation where the taxpayer arranges his financial affairs in a way that would make him pay the least possible amount of tax without infringing the legal rules. In short, it is a term used to denote those various devices which have been opted with the aim of saving tax and thus sheltering the taxpayers' income from greater liability which would have been otherwise incurred (Kiabel, 2001). Ogbonnah and Ebimobowei (2019) describe tax avoidance as follows: the taxpayer knowing what the law is decide not to be caught by it, arranges his business in such a way as to escape tax liability partially or entirely. It is a lawful trick or manipulation to avoid the payment of tax. The meaning of tax avoidance is vividly captured in the case involving Ayrshire Pullman Motor Services and David M. Ritchin Vs Commissioner of Inland Revenue when the Lord President Lord Clyde held that: No man in this country is under the smallest obligation moral or otherwise so to arrange his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow and quite rightly to take every advantage, which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket and the taxpayer is in

like manner entitled to be astute to prevent so far as he honestly can the depletion of his means by the Revenue. Thus, it is clear that tax avoidance is legal or at least not illegal since one is mostly probably using the tax laws to limit his tax liability under the same laws. Examples of tax avoidance include: Seeking professional advice; Reducing one's income by submitting claims for expenses in earning the income; Increasing the number of one's children (in Nigeria the maximum allowable is four); Taking additional life assurance policies. Tax avoidance is thus considered to be a "matter of being sensible. While the law regards tax avoidance as a legitimate game tax evasion is seen as immoral and illegal" (Adebisi & Gbegi, 2016).

Causes of Tax Avoidance in Nigeria

The causes of tax avoidance are universal, as it is applicable in any country that tax is imposed. Some are peculiar to different areas, however. In Nigeria, some of these causes as identified by Onuigbo (2016) include: The Absence of a "Quid Pro Quo" The average human being abhors the payment of tax. He sees taxation as a discredited imposition and evidently obnoxious. This stems mainly from the absence of a "quid pro quo", that is, something of value given in return by the Government for the taxes paid. It is commonly argued that taxes should not be paid as the authority does not provide amenities which are in any way commensurate with the taxes paid. There is no guaranteed compensatory benefit or inequitable distribution of amenities. In many parts of Nigeria, citizens are opposed to the payment of any form of taxes and rates on the ground that government had been unfair in the distribution of amenities and other good things of life. This thinking is often a root cause of most civil disturbances in parts of the country.

Misuse or Mismanagement of Collections Made: More often than not, there are reports in the news media of how government functionaries misuse taxpayers' money. Evidence of wastage of public funds abound in the form of inflated contract prices, in unexecuted but paid contracts or in the criminal acts of using diverse methods and loopholes to exhaust funds voted for ministries and governmental departments before the financial year runs out. The cumulative effect thereby produced is the resolve of many honest taxpayers never to pay.

Transfer Pricing

Transfer pricing involves determining the prices for sales between different entities within a multinational. It is estimated that more than 60% of international trade is now intra-firm trade between subsidiaries of the same multinational (Sunny, 2019) Transfer

pricing has been defined as the process by which subsidiaries of multinational corporations deal with each other for the purpose of determining the income of each of the entities. According to Edward (2020), transfer pricing means the 'setting, analysis, documentation and adjustment of charges made between related parties for goods, services, or use of property (including intangible property). While it is lawful for prudent multinational corporations to determine the prices of goods and services sold within a group structure, what is wrong is abusive transfer pricing, often referred to as 'transfer mispricing' which is the determination of prices goods and services sold within related firms outside arm's length transaction between un-related entities. It has been said that transfer pricing is the leading edge of what is wrong with international tax; the reason is that transfer pricing is a potent strategy with far-reaching effect of depriving host governments of revenue due to them as a result of the allocation of profits from high-tax jurisdictions to low-tax jurisdictions (Lee, 2019).

Empirical Review

Saratu (2015) examined the impact of competition on tax avoidance activities among Nigerian Deposit Money Banks. The study used panel regression model to analyze the data obtained from the financial statements of 15 banks operating on the Nigerian Exchange Group for a period of 10 years. The result of the random effect revealed that competition has a positive and an insignificant impact on tax avoidance. Akinleye and Ogunmakin (2016) examined the effect of tax avoidance on government budget implementation in Southwest Nigeria. Descriptive and inferential statistics were used to analyze the data, as well as panel regression model was used. Secondary data on value added tax (VAT), pay as you earn (PAYE), capital gain tax (CGT) and withholding tax (WIT) were gathered from office of Budget and Economic Planning, Research Department and Internal Revenue office of sampled Southwest states. The result showed that the level of tax avoidance through implementation of tax laws and policies in Southwest Nigeria revealed negative performance of government budget implementation and as such affected the development of the economies of sampled states. The study concluded that there is a linear relationship among three out of the four independent variables considered (VAT, CGT and WIT) and budget implementation in South-West Nigeria. Adebisi and Gbegi (2017) examined the effect of tax avoidance and tax evasion on personal income tax administration in Nigeria. The sample size was derived statistically using Taro Yamane formula. The sample size consisted of three hundred and five

(305) employees of Federal Inland Revenue Service Abuja. The study utilized primary and secondary data. Tables and percentages were used for the analysis. The Analysis of Variance (ANOVA) was used to test the hypotheses. The research findings disclosed that enlightenment and adequate utilization of tax revenue on public goods would discourage tax avoidance and tax evasion, high tax rates encourage tax avoidance and tax evasion, personal income tax generation has not been impressive and personal income tax rates are too high. The study therefore concluded that there is a direct and positive relationship between tax avoidance, tax evasion, tax rates and personal income tax administration in Nigeria. Lefebvre, Pestleau, Riedl and Villeval (2017) conducted study in Netherlands, France and Belgium (Flanders and Wallonia) while examining the behaviour of people. He compared the behaviour of people regarding welfare dodging and tax evasion. Results indicated that people adopt less evaded behaviour in tax treatment than in welfare treatment; and people evade more tax in Netherlands and France but tax evasion is more in Flemish than Walloons. Bushra, Hakeem and Hassnain (2018) investigated the role of tax havens in the tax revenue development and its reflection on the public revenues of the developing countries: An empirical study in Iraq between 2004 and 2014. Descriptive statistics were employed as the analysis techniques. It is revealed that the importance of structure analysis of public revenues is connected with tax haven.

METHODOLOGY

This study adopted the cross-sectional field survey of quasi-experimental research design. The survey design was adopted because of the need to gather enough discriminative data across a wide range of the study subjects that further enhanced the generation of our findings. Data used in this study was mainly collected from primary and secondary sources. The statistical and mathematical tools used include percentages, frequencies, tabulation and descriptive statistics while multiple regression analysis was used to test the question generated. The multiple regression model was adopted to guide the linear model designed.

The functional form expression of the model is presented as
$$Y = F(X_1, X, X_1)$$

Where:
Y, represent the dependent variable,
F is the function.
X-Xy represent the independent variables.

The econometric model is expressed below:
$$ECG\text{-}BO + pTHV + pTRP + \mu \ldots (2)$$

Where:
ECG-Economic Growth (dependent variable)
TH-Tax Havens and Off-shore Financial Centers
TP= Transfer pricing
Stochastic Disturbance (Error Term)

f=Functional Relationship
Bo= Intercept of relationship in the model/ constant
B-By-coefficients of each of the independent variables

DATA PRESENTATION
Descriptive Statistics

For analyzing the basic features of given data set, the descriptive statistics were performed for each variable of the study. Table 1 shows the descriptive of gross domestic product (representing economic growth), profit shift to tax havens and offshore financial center and transfer pricing. The SPSS generated values for the descriptive include mean, median, maximum and minimum value of the study and standard deviation.

TABLE 1

	N	Minimum	Maximum	Mean	Std. Deviation
GDP	11	6766	52264	2.47E4	16221.706
PSTHO	11	612	1098	905.86	138.704
TP	11	48	53	50.61	1.491
OTHER V	11	41	48	44.60	3.557
Valid N (listwise)	11				

Table 1 shows that gross domestic product of Nigeria has a minimum value of US $ 6766 billion and maximum value of US $ 52264 in the time frame of ten years. The mean value of gross domestic product for Nigerian economy is US $ 24721.8 billion and this value has a US $ 16221.706 deviation from mean value in the selected economy. The descriptive value of profit shifting to tax havens (PSTHO) and offshore financing center, shown US $1098 as highest level in terms of GDP. The lowest value during the period is US $612. The mean value of PSTHO in Nigeria is US $905. However, this value has shown a standard deviation of US $138.704 from the mean.

Correlation Analysis: The results of correlation of profit shifting to tax havens and off shore financial center and transfer pricing as dependent variables of the study and independent variable, that is GDP are calculated in SPSS by using pair wise Pearson correlation analysis. These results are tabulated in Table 2 as a symmetrical matrix showing the relationship among the variables selected for the study.

Table 2: Correlation Analysis

		GDP	income	Life	Poverty
GDP	Pearson Correlation	1	.892**	.910**	-.588
	Sig. (2-tailed)		.000	.000	.057
	N	11	11	11	11
PSTHO	Pearson Correlation	.892**	1	.972**	-.524
	Sig. (2-tailed)	.000		.000	.098
	N	11	11	11	11
TP	Pearson Correlation	.910**	.972**	1	-.485
	Sig. (2-tailed)	.000	.000		.131
	N	11	11	11	11
OTHER	Pearson Correlation	-.588	-.524	-.485	1
	Sig. (2-tailed)	.057	.098	.131	
	N	11	11	11	11

**. Correlation is significant at the 0.01 level (2-tailed).

The results of Pearson pair wise correlation calculated for GDP in Nigeria shows that gross domestic product of Nigerian economy holds a significant and positive relationship with the variables of PSTHO. The positive value of 0.892 shows that the GDP is strongly and positively correlated with the level of economy. This relationship is significant at 0.01 level of significance. Increase in growth of economy is associated with an increase in the level of PSTHO in the Nigerian economy. The value of .910 with the significance level of 0.01 also shows a strong and positive correlation among the GDP and transfer pricing (TP). The values show that growth in an economy leads to increase in TP of Nigerian companies. However, a negative value of -0.588 between other variables and GDP shows an insignificant and weak relationship among these variables.

The regression model with life expectancy as a dependent variable

Ho₁: Profit shifting to tax havens and off-shore financial centers has no significant relationship with economic growth in Nigeria.

Table 3: Coefficientsᵃ

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	48.538	.370		131.093	.000
	GDP	8.367E-5	.000	.910	6.590	.000

a. Dependent Variable: PSTHO

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.910ᵃ	.828	.809	.651

Predictors: (Constant), GDP

ANOVA summary

Table 5: ANOVAᵇ

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	18.420	1	18.420	43.422	.000ᵃ
	Residual	3.818	9	.424		
	Total	22.238	10			

a. Predictors: (Constant), GDP

b. Dependent Variable: PSTHO

The model of the impact of economic growth on the dependent variable profit shifting to tax havens and off shore financial centers in Nigeria shows that R square of the model is 0.910. the value of R square tabulated in the table above, shows that 91.0% of variations in the dependent variable that is explained by the independent variable selected for the model. The remaining 10.0% of the variations in the results of model are unexplained by the gross domestic product in relation to the Nigerian economy. These remaining variations of 10.0% could be attributed to the error term of the model. The values of F- Statistics presented in the table shows that F-statistics is 43.42 with significance at 0.000 or 1% level of significance. These estimated significant values of F-Statistics confirm the stability as well as reliability of the model presented for the Nigerian economy.

The regression model with transfer pricing as a dependent variable

Ho 2: Transfer pricing has no significant relationship with Economic growth in Nigeria

Table 6: Coefficientsᵃ

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	717.260	37.532		19.110	.000
	GDP	.008	.001	.892	5.927	.000

a. Dependent Variable: transfer pricing

Table 7: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892ᵃ	.796	.773	66.024

a. Predictors: (Constant), GDP

ANOVA summary

Table 8: ANOVAᵇ

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	153154.245	1	153154.245	35.134	.000ᵃ
	Residual	39232.375	9	4359.153		
	Total	192386.620	10			

a. Predictors: (Constant), GDP

b. Dependent Variable: transfer Pricing

The model of the impact of economic growth on the dependent variable Transfer Pricing in Nigeria shows that R square of the model is 0.828. the value of R square tabulated in the table above, shows that 82.8% of variations in the dependent variable that is explained by the independent variable selected for the model. The remaining 14.3% of the variations in the results of model are unexplained by the gross domestic product in relation to the Nigerian economy. These remaining variations of 14.3% could be attributed to the error term of the model. The values of F- Statistics presented in the table shows that F- statistics is 35.134 with significance at 0.000 or 1% level of significance. These estimated significant values of F- Statistics confirm the stability as well as reliability of the model presented for the Nigerian economy.

CONCLUSION

This study examined the effect of tax avoidance on economic growth in Nigeria and emphases were laid on such tax avoidance strategies as profit shifting to tax havens and off-shore financial centers (PSTHOs) and transfer pricing TP. A sample of some selected respondents was considered, and these respondents included tax payers and tax officials. We applied the descriptive analysis technique and multiple regression technique to evaluate the perceptions of all respondents. The result from the descriptive analysis revealed that tax payers perceived transfer pricing strategy mean is 135-3.50; profit sharing to tax haves and off-shore financial centers 3.89 (i.e. mean 3.89350), transfer pricing with a mean of 3:39 (mean 3.59-3.50) was ranked as 3, while profit shifting to tax havens and off-shore financial centers (OFCs) with a mean of 3.52 (mean 3.52-3.50). Furthermore, the multiple regression test result reveals that profit shifting to tax havens and transfer pricing strategies have significant inverse relationship with economic growth in Nigeria, but in the case of tax officials, the relationship was positive and significant.

Following the result obtained from the test of hypotheses carried out and a critical review of past literatures, it is pertinent to state in conclusion of this study that tax avoidance significantly affects economic growth in Nigeria. Specifically, the dark practices of multinational corporations (MNCs) in form of profit shifting to tax havens and off-shore financial centers (OFCs), transfer pricing, are used by firms to secure minimum tax liability in high tax jurisdictions like Nigeria, and transfer the excesses to areas of low tax jurisdictions (that is, tax havens and OFCs). This is achieved through the establishment of complex structures and fictitious entities that are interrelated for the purpose of transfers and profit shifting between jurisdictions.

Therefore, on the basis of the findings of this study, the following recommendations are made:

There is need for a critical review of the Nigerian tax laws. The current tax laws have suffered a lot of shortcomings or loopholes that have been explored to the disadvantage of the government by large corporations over the years. Furthermore, the penalties for defaulters of tax legislations are very minimal in the Nigerian law, and in most cases, it is a cost that larger firms can afford to incur if convicted for tax avoidance. Tax regulators (especially the tax officials and institutions) should be well funded and highly independent. This is necessary for ensuring that tax law defaulters are clearly dealt with by the tax authority to avoid intervention by corrupt tax officials who are ready to waive certain rules or play cover-ups in the prosecution process.

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