

INTERNATIONAL TRANSFER PRICING AND TAX DISCLOSURE ON MULTICULTURAL COMPANIES IN NIGERIA

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ABSTRACT

The study examines the effect of transfer pricing on tax consideration of multicultural companies in Nigeria. It specifically examined the effect of tax expenses, tunneling incentive as well as foreign exchange exposure on tax disclosure of Multicultural companies in Nigeria. The study adopted an ex-post-facto research design and secondary data was gathered to analyze the relationship between the variables. Purposive sampling technique was used to select 76 Multicultural companies in Nigeria. Data for the study were gathered from annual reports of selected firms for the period of 11 years (2010-2020) and analyzed using Generalized Method of Moments (GMM) estimator. Panel data was used which consists of 760 observations analyzed using multiple regression model. Robust regression model was employed to test the effect of transfer pricing and tax consideration. The Hausman test result revealed that tax expenses and tunneling incentives have positive and significant effect on tax disclosure with coefficient of 0.0352 and 0.1282 which is significant at 5% ($p=0.005, 0.039$) respectively, foreign exchange exposure has negative and significant effect on tax disclosure with coefficient of -0.0935 which is significant at 5% ($p=0.248$). The study therefore, concluded that transfer pricing have strong statistical relationship with tax consideration of selected multicultural companies in Nigeria. The study recommends that non-controlling interest, foreign exposure and debt ratio are important variables to consider when the management of selected multicultural companies in Nigeria decides on tax disclosure.

Keywords: Transfer Pricing, Tunnelling Incentive, Bonus Mechanism, Foreign Exchange Expenses

INTRODUCTION

The phrase "transfer pricing" is used to refer to the cost structure of the exchange of products and services between two affiliated businesses. An instance of this is when a

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subsidiary company makes a sale of items to its parent company. When a company's parent foots the bill for an item, that sum represents the transfer price. Companies and their divisions that are eventually entirely or mostly owned by the parent business are considered to be part of the same legal entity. Also, if there is a familial connection between two companies' boards of directors, the two companies are regarded to be under shared ownership. An international company's pretax profit or loss may be split across the countries in which it operates via transfer pricing (Hartati & Azlina, 2014)

As a consequence, transfer pricing leads to the establishment of prices across subsidiaries or business units within the same company. While there is a financial benefit to using transfer pricing on a global scale, doing so is prohibited by tax authorities who see such maneuvers as a means of dodging tax obligations. This means that a business may take advantage of the potentially lower tax rate in a foreign nation by booking earnings from the sale of products and services there. However, in a linked business transaction, they may sometimes escape tariff on products and services transferred abroad. In a recent study Salaudeen and Eze (2018), arm's length principle audits of financial statements are overseen by the OECD and local auditing companies across the world. The Arm's Length Principle is addressed in detail in Article 9 of the OECD Model Tax Convention (ALP). As per the notion, companies should treat their subsidiaries as separate entities when negotiating transfer pricing. The OECD Transfer Pricing Guidelines provide forth a framework for determining what constitutes an arm's length price between related parties. Transfer prices demonstrate that the ALP is grounded in actual markets, and they offer governments and MNCs with a universal benchmark for contracts that enable for revenue to be collected by several countries at once without causing the MNCs to face double taxation. (Rodrigues, 2014)

Shipping products into high tariff nations with modest transfer rates helps reduce duty expenditures since the tax base associated with these transactions is low. By transferring production to locations in nations with a lower effective tax rate, companies may avoid paying as much in local income taxes. (Ribeiro, 2015)

As a result of this increased anxiety, multicultural firms have been looking at tax-related strategies to lessen the negative effect they have on transfer pricing (Adam & Drtina, 2010). Because of this, there has been an uptick in studies evaluating transfer prices (Hassnain et al., 2018). Abbas and Eksandy (2020) suggest, however, that managers' consideration of their own interests while exercising managerial judgment on transfer price reporting means that transfer pricing does not always serve the interest of the users. So, the reporting gap has widened even more. Therefore, a number of elements, such as tax rate, tunneling incentives, bonus, exchange rate, non-controlling interest, and other transfer pricing assessment criteria, are likely to have a role in determining whether or not particular transfer pricing information is disclosed (Cristea & Nguyen, 2013; Indriaswari & Aprilia, 2017).

As a result of what has been said above, multicultural firms' tax disclosure are affected by transfer pricing evaluation (Augustine, 2011; Anisa & Amire, 2018). Therefore, it can be said that tax disclosure is an integral aspect of a thorough transfer price analysis. Increased tax collection by pursuing corporate objectivity is consistent with transfer pricing analysis, as stated by Rego (2007). This suggests that there is a need for tax disclosure and transfer pricing examination to converge in order to provide higher-quality reports.

Although studies in developed nations have largely dominated research on transfer pricing evaluation and tax disclosure in light of the increasing demand for such revenue (Baldenius et al., 2013; Graham, 2017; Anisa & Amrie, 2018), this is not the case in developing nations like Nigeria, where the majority of studies have focused solely on transfer pricing rather than the impact of transfer pricing evaluation on tax disclosure (Omoye & Okafor, 2014; Adeniran, 2016).

The difficulties of transfer pricing are their own unique beast. When it comes to determining the nature of transfer rules, disagreements often arise among the managers of different departments within a company. Time and resources invested in developing an appropriate accounting system and carrying out transfer pricing can add up to a hefty

sum. Due of the immeasurable nature of services, it might be difficult to determine the optimal price scheme. Managers of individual departments may also exhibit dysfunctional conduct. Transfer pricing is another area of worry since it is so intricate and time-consuming for huge multicultural corporations. As a result of the distinct roles they play, the buyer and the seller are exposed to various risks. One example is that the vendor could or might not provide a guarantee on the item. However, this disparity would have a role in the final purchase price.

In addition, most Nigerian studies to far have neglected the significance of non-controlling interest, foreign currency exposure, and debt ratio while focusing on a limited set of transfer pricing assessment factors (such as tax expenditures, tunneling incentives, bonus mechanism).

Therefore, there is a deficiency because of inadequate transfer price analysis. In light of these issues, the primary goal of the research was to determine whether there is a statistically significant correlation between transfer pricing analysis and tax disclosure for listed MNCs in Nigeria. This will be accomplished by analyzing the impact of transfer pricing on tax, tunneling incentive, and bonus structures. Which is regarded biased in the discussion of transfer pricing when non-controlling interests, foreign currency exposure, and debt ratio are taken into account.

LITERATURE REVIEW

Conceptual Review

Transfer Pricing

Transfer pricing is the method used to equitably divide profits and losses among a parent company and its subsidiaries, affiliates, and joint ventures, has recently emerged as a hot topic among businesspeople everywhere. It is essential that firms make sound transfer pricing decisions in order to improve goal congruence, performance assessment, degree of autonomy, and to encourage different stakeholders in regaining their trust and luring potential investors to increase the firm's worth (Awodiran, 2018). When businesses within

the same organization or between affiliated businesses in different countries engage in transactions with one another, they engage in what is known as "transfer pricing." Transfer pricing was defined differently by academic authority and in reality. Transfer pricing was first established by Ernst & Young (2020) and describes an organization's internal pricing strategy for intra-firm cross-border transactions including the transfer of products and services. Transfer pricing is a kind of price structure for the transfer of physical and intangible goods between related parties (ICAN, 2014). Transfer pricing, as defined by Omoye and Okafor (2004), is "a value put on goods and services traded among divisions under the same central management." In Burns's (2020) opinion, transfer pricing is an expensive method for the exchange of products and services between affiliated businesses.

For shareholders to be able to exercise their rights of ownership and increase the value of their shares and maximize their wealth, management has to maximize profit, minimize tax burden, reduce takeover risk, secure appropriate cash flow, and maintain cordial relationships with third parties, all of which are examples of transfer pricing procedures highlighted in the works of (Suandy, 2011; Deloitte, 2017; Anisa & Amrie, 2018). Shareholders and regulatory institutions all over the world have been paying closer attention to transfer pricing by multicultural corporations ever since the early 2000s, when high-profile cases of tax fraud, information asymmetry, and insider trading occurred at companies like Enron, Parmalat, Xerox, Tyco, and WorldCom (Adeniji, 2012). Both emerging and established nations have passed laws and regulations to enhance transfer pricing standards in an effort to stem the tide of tax fraud and insider trading.

Tax Disclosure

Tax disclosure, basically refers to the action of making all relevant tax information about a business available to the public. It is an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms: a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate (s), disclosing also the basis on which the

applicable tax rate (s) is (are) computed. According to Francois (2012), tax disclosures (TD) have been defined as a term utilized to depict two separate situations: “The first is the legal requirement to provide current taxation information to the other party. The second is related to transactions that may be viewed as tax sheltering that must be disclosed to the government when filing income taxes”. The information regarding the position needs to be “appropriately disclosed” and this disclosure should include a description of the position being taken, the amount of tax involved, and the basis for the position. Therefore, disclosures require companies to disclose greater tax-related detail. As known in the majority of countries, companies’ tax disclosure regulation does not supply policymakers and other users with enough information to inform and motivate tax reform (FAST FACTS, 2007).

The information regarding the position needs to be “appropriately disclosed”, and this disclosure should include a description of the position being taken, the amount of tax involved, and the basis for the position. Disclosure of companies’ information about income tax return decreases aggressive tax avoidance and outright evasion for two reasons (Lenter et al., 2003). Blank (2011) posited that boosted disclosed facts approximately tax could supply tax payers with each an proposal and a street map to lower their non-public tax, even as hindering the ability of governments to maintain a photo of the tax scheme and presenting a balanced device for the guideline of thumb of regulation. Furthermore, those in favour of extra tax transparency (disclosure) argued that the disclosure of tax will increase has little impact on compliance (Kornhauser, 2005; Mazza, 2003). A reveal in with higher detection may also deliver a useful resource of facts for requisite analysis, but the contemporary-day overt discourse thru tax transparency proposes that the shortage of empirical proof will now no longer impede powerful guide on both aspect (Christians, 2013).

Transfer Pricing Evaluation and Tax Disclosure

Transfer pricing evaluation entails several issues in connection with the tax disclosure are discussed briefly below:

Tax Expenses: Expenses are the amount that taxpayers (including individuals and businesses) must pay to the government as a contribution or tax on their taxable income. According to the National Tax Policy (NTP) of 2016, tax payments are seen as the obligatory contribution of the public, both individuals and businesses, to the revenue authority without receiving any rewards in return, but fully utilized for the purposes of economic growth and development, including the provision of social amenities and the social welfare of its citizens. Finance experts analyze tax payments as a means of shifting wealth from the private to the public sector. According to the opinions of Ibadin and Eiya (2013), tax rates vary from one nation to the next. Since tax rates vary from country to country, MNCs are able to engage in worldwide commerce and search for legal means to reduce their tax burden. By creating associated firms in countries with lower tax rates, multicultural enterprises will have an incentive to engage in transfer pricing. In conclusion, Kaur (2013) found that a higher effective corporate tax rate results in a greater tax obligation burden for multicultural corporations, which in turn reduces the incentive for such corporations to engage in transfer pricing. Existing works often use an effective tax rate to calculate tax costs. (ETR) (Kaur, 2013; Anisa & Amirie, 2018).

Tunneling Incentive: According to Hartati (2014), "tunneling incentive" refers to the practice whereby dominant owners siphon off the company's assets and earnings at the expense of minority shareholders by instituting uniform fees for all shareholders. Two types of tunneling incentives were found by Aruomoaghe and Kingsley (2010). The first is the complete transfer of firm resources, while the second is the rise in the majority shareholder's stake of the company via linked transactions that do not include the transfer of assets.

One may have a scattered ownership structure or a concentrated ownership structure, as defined by Mutamimah (2009). One kind of ownership structure, known as "dispersed ownership," places the management and the shareholders on equal footing, while the other type, known as "concentrated ownership," places more emphasis on control and cash flow. There may be a conflict of interest between the foreign controlling shareholder and the management and the non-controlling shareholder if that party is related to the

controlling shareholder in any way (whether by blood or via government). As a result, the controlling shareholder will likely engage in self-serving conduct via tunneling through related party transactions in order to increase his own wealth. The more shares a foreign entity has in a corporation, the more influence it has over management decisions, including the strategy for establishing transfer prices..

Bonus Mechanism: Members of the board of directors who are deemed to have excellent performance annually and when the business generates a profit are eligible to receive a bonus payment, the amount of which is determined by the firm's owner or shareholders at the Shareholders General Meeting. The directors will strive to limit net profit and other factors that affect profit thanks to the bonus structure that is tied to the amount of profit made.

The most common method for the business owner to reward his directors is via a bonus system that is dependent on the amount of profit. Since the company's owner evaluates the board's performance based on the company's total profits, the board has an incentive to boost those earnings by any means possible, including transfer pricing, in order to maximize the bonus they would get. One division of the corporation will suffer as a consequence of this deal. Directors are more likely to strive to maximize their incentives via transfer pricing when the owner of the firm sets high profit targets.

Foreign Exchange Exposure: To put it simply, a company's foreign exchange exposure is its susceptibility to fluctuations in the value of its cash flows, assets, liabilities, and operational earnings measured in local currency due to unforeseeable shifts in exchange rates. Banking institutions may face significant risk from fluctuations in foreign currency rates. Large losses in foreign currency might, in the worst instance, cause banks to collapse. Foreign currency losses might have significant effects on banks' profits even in a relatively benign environment. (Kalir, 2013). It has long been of interest to risk management experts, academics, and central banks to quantify banks' foreign currency exposure because of the significant impact it may have on risk management and banking sector stability. Assets, liabilities, and cash flows denominated in a foreign currency may

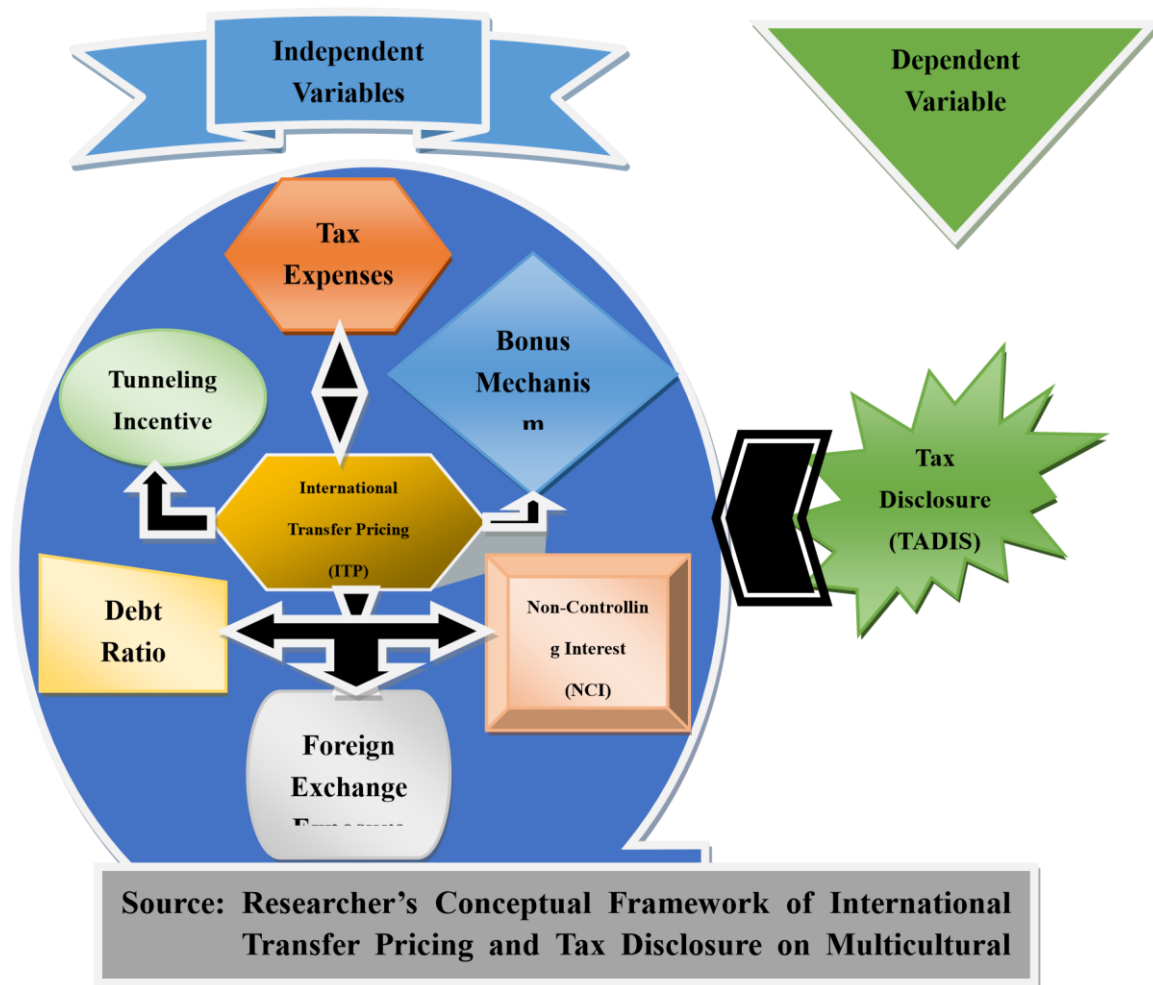
be vulnerable to foreign exchange rate risk if the value of such assets, liabilities, and cash flows in local currency fluctuates. Changes in the domestic currency values of foreign assets, liabilities, and cash flows should offset changes in exchange rates under ideal market conditions, so that there is no foreign exchange exposure. This assumes that parity conditions in the foreign exchange market (purchasing power and interest rate) hold. Exposure to fluctuations in currency rates is a major risk for most commercial banks due to market frictions and non-rational expectations (Merliyan & Saodan, 2019).

Non-Controlling Interest: A non-controlling interest is a stake in the holding company's subsidiaries that does not provide the parent firm voting rights over the holding company's management or operations. Holding firm does not possess any non-controlling interests, either directly or via any subsidiary stake. The reserves and earnings of a subsidiary firm, as well as any shares of capital belonging to shareholders from outside the controlling group, make up the non-controlling interest. If an investor owns less than 50% of a company's stock, they have a "non-controlling interest," or NCI, and they have very little say in the day-to-day operations of the business. An NCI is calculated by looking at the percentage of voting rights held by each investment. To cite (Rohaya et al., 2008). The term "minority interest" may be used to describe this form of investment as well. The term "non-controlling interest" is also used in the context of a parent company's subsidiaries in which outside investors own equity interests rather than the parent. When an investor owns less than fifty percent of a company's voting stock, they have what is known as a "minority interest." A shareholder may possess just 49% of a firm, but if they also control the board of directors, they have the ability to guide the company's choices. Since most publicly listed corporations have several owners, the vast majority of those shareholders possess what is called "non-controlling interests." Unless an investor owns between 5 and 10 percent of the company's outstanding shares, they will not have enough voting power to demand a seat on the board or substantially influence voting at shareholders' meetings. In a recent study (Salaudeen & Eze, 2018),

Debt Ratio: A debt ratio is a monetary ratio used to assess the level of debt carried by an organization. The debt ratio is the total debt divided by the total assets, represented as a

decimal or a percentage. It's the amount of debt relative to total assets for a certain firm. When the ratio is higher than 1, it indicates that debt is being used to finance a significant portion of the company's assets. In the event of an unexpected increase in interest rates, a high ratio suggests a corporation may be unable to repay its debt. According to research (Mourikis, 2015),

Conceptual Framework of International Transfer Pricing and Tax Disclosure on Multicultural Companies in Nigeria



Theoretical Underpinned

Stakeholders Theory

Stakeholder theory offers an incentive for organizations to conduct thorough transfer pricing evaluations in order to satisfy stakeholder expectations for financial success. The idea is also widely used in the accounting literature as a solid explanation for transfer pricing assessment and financial performance (Abbas & Eksandy, 2020). This is due to the fact that stakeholders have significant influence over the company's resources and take an interest in the company's operations (Merliyana & Saodah, 2019). Stakeholder theory also offers methods for accommodating several parties with competing agendas.

Managers need to use financial reporting, especially the annual financial statement, to update stakeholders and mitigate these tensions (Hassnain et al, 2018).

In conclusion, according to stakeholder theory, a company's financial success is an important tool for influencing its constituents and winning their consent of its continuous operation (Adams and Drtina, 2010). Fama and Jensen (1983) found, however, that stakeholders inside big organizations might employ 'expert boards' to delegate decision management tasks and internal agents while still maintaining control over the agents. The board is given the authority to oversee strategic initiatives, make key personnel appointments and terminations, and determine executive remuneration. The key tenet of stakeholder theory is that managers are prompted to voluntarily disclose information on transfer pricing decisions because financial reporting acts as a tool to organize their production (Okwoma, 2014). Management must provide more information on transfer pricing to prevent conflicts of interest and lessen the impact of information asymmetry. (Gevoian, 2013).

Signaling Theory

Financial statement reporting is explained in terms of signaling theory, which explains it as a tool for minimizing information asymmetry and fostering an efficient capital market as a result of the separation of ownership and management (Cristea & Nguyen, 2013). When two entities (investors or organizations) have access to dissimilar information, signaling theory is utilized to characterize their interactions (Veres, 2011). The concept of information asymmetry is also fundamental to the theory (Gupta, 2012). Assumptions upon which signal theory rests include, first, that managers have more accurate information about a company's status than outsiders do. Second, managers have the option of disclosing transfer pricing information to stakeholders as a means of communicating the firm's stance to them.

For the purpose of informing investors and analysts of a company's financial health, financial statements serve as a signaling device (KPMG, 2010). According to signaling theory, companies with high profits, extensive expertise, and a huge size will be more

forthcoming with transfer pricing data to reassure their stakeholders (Mckinley & Owsley, 2013). According to Omirigbe and Ibrahim (2018), MNCs should be ready to provide investors all the data they need to make informed investment decisions.

METHODS

Sample and Data Collection

The study employed *expost-facto* research design because data needed for the study already exists in line with (Osho et al, 2021). Data for seventy-six firms listed on the Nigerian Group Exchange as shown in Table 1 for eleven years (2010-2020) were utilized to achieve the objective of the study. The period was chosen because the latest issue of the corporate governance code in Nigeria was issued in 2018, and in order to capture the COVID-19 pandemic period of 2019 and 2020. The study used Generalized Method of Moments (GMM) estimator to analyze data collected.

Table 1. List of Selected Multicultural Companies for the Study

Sectors	Population	Sample	Percentage %
Agriculture	5	4	80
Conglomerates	5	5	100
Construction & Real Estate	9	2	22
Consumer goods	20	16	80
Healthcare	10	6	60
ICT	9	4	44
Industrial goods	15	10	67
Natural Resources	4	4	100
Oil & gas	11	8	73
Services	25	17	68
Total	113	76	

Source: Authors' Compilation, (2022)

Table 2: Description of proxies for variables of the study

S/N	VARIABLES	SYMBOL	MEASUREMENT	PREVIOUS STUDIES
	Dependent Variable			
1	Tax Disclosure	TADIS	Taxable income minus tax deduction equal gross tax liability	Kalir, (2013)
	Independent Variables			
1	Tax Expenses	TEXP	measured by the proportion of tax expenses on the income before tax	Hassnain, et al, (2018) Indriaswari, and Aprilia, (2017)
2	Tunneling Incentive	TINC	Natural log of Dividend paid	Femandez and Martinez, (2011)
3	Bonus Mechanism	BUMEC	measured by the proportion of current net profit to the increase in net Profit i.e. net profit trend	Augustine (2011), Adams and Drtina (2010)
4	Non-controlling Interest	NCI	Accrued interest made on the cross-boarding business	Abas and Eksandt, (2020)
5	Foreign Exchange Exposure	FXE	Natural log of foreign exchange	Al-Najjar & Kilincaslan (2017), Alaeto, (2020)
6	Debt Ratio	DBR	Total Debt/shareholder's equity	Alaeto, (2020), Dewasiri <i>et al</i> , (2018)

Source: Authors' Compilation, (2022)

The study adopted a similar regression model from the study of Osho et al., (2021) which was modified to capture the relevant variables supported with conceptual and theoretical evidence. This model aided in the testing of the study's stated hypothesis as well as the

achievement of the stated objective. The model's functional specification is written as follows:

$$TIDAS = f(\text{TEXP} + \text{TINC} + \text{BUMEC} + \text{NCI} + \text{FXR} + \text{DBR})$$

The econometric specification is as follows:

$$(\text{TIDAS})_{it} = b_0 + b_1(\text{TEXP})_{it} + b_2(\text{TINC})_{it} + b_3(\text{BUMEC})_{it} + b_4(\text{NCI})_{it} + b_5(\text{FXR})_{it} + b_6(\text{DBR})_{it} + \epsilon_{it}$$

Where:

TIDAS = Tax Disclosure, TEXP = Tax Expenses, TINC = Tunnelling Incentive, BUMEC = Bonus Mechanism, NCI = Non-Controlling Interest, FXR = Foreign Exchange Exposure = Debt Ratio β_0 = Constant, $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$, = Slope of the regression of the explanatory variables

YEAR= Dummy variable of the time under study, ϵ

= Error Term.

For the examination of data from 2010 to 2020, the study used both descriptive and inferential statistics. Correlation and regression analysis were used as inferential statistics in this investigation. The degree of association between the variables under investigation was measured using Pearson correlation, and the hypothesis was tested using the panel data regression approach to assess the relationship between explanatory variables and transfer pricing.

RESULTS

Descriptive Statistics

The analysis covered selected multicultural companies in Nigeria selected based on the availability of data. Table 2 presents the descriptive statistics of the variables used in this study.

Table 2: Descriptive Statistics for the selected multinational companies

Variables	No of Observations	Mean	Standard Deviation	Minimum	Maximum
Tax Disclosure	760	0.5362	0.4771	0.0002	1.9800
Tax expenses	760	0.0367	0.2041	-0.6400	1.6200
Tunneling Incentive ratio	760	7.8567	0.6326	5.9700	8.9700
Bonus Mechanism	760	41.6400	12.6668	11.9100	70.1000
Foreign Exchange Exposure	760	0.3249	0.6442	-0.7200	3.9400
Non-controlling interest	760	0.8401	0.3821	0.2100	2.6400
Debt ratio	760	1.1011	0.9362	0.2100	9.4900
Valid N (Listwise)	760				

Source: Authors' Compilation, (2022)

Table 2 shows that the average tax disclosure of multicultural companies in Nigeria is 42.51 per cent, with a minimum of 0.02 per cent and a maximum of 198.00 per cent, and a standard deviation of 47.71per cent, indicating that the tax disclosure deviates significantly from the mean on both sides by 47.71 per cent among multicultural companies in Nigeria.

Tax expense, tunneling incentive, bonus mechanism, foreign exchange, non-controlling interest and Debt ratio have mean values ranging from 3.67 per cent to 45.98 per cent, with standard deviations of 0.2041, 0.6326, 12.6668, 0.6442, 0.3821 and 0.9362 respectively. This indicates a wide variation in the measures of transfer pricing among the selected multicultural firms.

Correlation Analysis

Table 3 presents the correlation matrix for the variables, which was used to investigate the association between nine explanatory variables and the tax disclosure (dependent variable), as well as between explanatory variables.

Table 3: Correlation Matrix of all variables (2006-2020)

	TADIS	TEXP	TINC	BUMEC	FXE	NCI	DBR
TADIS	1.0000						
TEXP	0.0878	1.0000					
TINC	0.1064	-0.0634	1.0000				
BUMEC	0.3979	0.1304	0.4829	1.0000			
FXE	0.0299	0.0414	-0.1796	-0.2913	1.0000		
NCI	0.1096	-0.2861	0.0185	0.0112	-0.1542	1.0000	
DBR	0.0861	0.0815	-0.1079	-0.0710	0.0748	-0.0466	1.0000

Source: Authors' Compilation (2022)

The explanatory variables' correlation coefficients range from -29.13 per cent to 48.29 per cent, indicating the relative strength of the linear association between them. Multicollinearity, according to Gujarati (2004), is only a problem if the pair-wise correlation coefficient among regressors is more than 0.80. Table 3 shows that the majority of cross-correlation terms for the explanatory variables are modest, indicating that there is minimal basis for concern regarding multicollinearity among the explanatory variables.

Multicollinearity Test

When utilizing the panel least square estimate method, one of the implicit assumptions is that the exogenous variables are not fully or nearly perfectly associated with one another. The explanatory variables are said to be orthogonal to one another if they have no relationship with one another. Table 4 uses the variance inflation factor to show the relationship between the independent variables (VIF). The VIF of each variable is less than

10, indicating that there is no concern about multicollinearity among them. The average VIF is similarly less than 10.

Table 4: Variance Inflation Factor

Variable	VIF	I/VIF
TEXP	1.18	0.8510
TINC	1.45	0.6932
BUMEC	1.83	0.5535
FXE	1.13	0.8899
NCI	1.44	0.6974
DBR	1.30	0.7713
Mean VIF	1.32	

Source: Authors' Computations, (2022)

Heteroskedasticity Tests

An attempt was equally made in this study to test for violation of the assumption of homoscedasticity (constant variance) of disturbances using Breusch-Pagan/Cook-Weisberg test for heteroskedasticity, the chi result of 1.13 with p-value of 0.2949 confirmed the constant variance of the data set.

Regression Analysis

The standard procedure for regression analysis is to run the pooled ordinary least square (OLS) model, fixed effect (FE) model, and random effect (RE) model, and then decide which of these models is best for this study. The choice of whether to use the random effects (RE) or fixed effects (FE) model for this investigation was made based on whether the individual effects were fixed or random. Between fixed effects and random effects, the Hausman test was used to determine which model was most suited. As evidenced by

prob (0.0055) less than 5% threshold of significance, the Hausman test suggests that the fixed-effects model is suitable.

Therefore, Table 5 displays the results of the pool OLS, fixed-effects, and random-effects models for the effect of transfer pricing on tax disclosure of the sampled selected multicultural companies in Nigeria. The R² value of 0.2552 (26 per cent) indicates that the sample regression line showed roughly 26% fitness. Furthermore, the explanatory variables (TEXP, TINC, BUMEC, FXE, NCI and DBR) together explain about 26% of the total variation in the tax disclosure of the examined selected multicultural companies. The F-statistic = 1.76 and P-value 0.0334 suggest substantial statistical significance at the 0.05 level of significance, implying that the model is reliable and valid. The following is an explanation of each explanatory variable in relation to the explained variable (TADIS).

Table 5: Regression Result for Effect of Transfer pricing on Tax Disclosure of Selected multicultural companies in Nigeria.

Table 5: Regression Result for Effect of Transfer pricing on Tax consideration of Selected Multicultural Companies in Nigeria.

Variable	Pooled OLS	Fixed Effect Model	Random Effect Model
Constant	-0.2188 (0.754)	1.5997 (0.031)	-0.2188 (0.864)
TEXP	0.2001 (0.487)	0.0352 (0.005)*	0.1119 (0.495)
TINC	0.0329 (0.819)	0.1282 (0.039)*	0.0329 (0.818)
BUMEC	0.0236 (0.003)*	0.0059 (0.420)	0.0236 (0.012)*
FXE	0.1517 (0.083)	-0.0935* (0.248)	0.1518 (0.071)
NCI	0.2792 (0.187)	-0.1292* 0.501)	0.2792 (0.185)
DBR	0.0811 (0.112)	-0.0953* (0.025)*	0.0811 (0.109)

F-statistic	3.78 (0.0016)*	1.76 (0.0334)*	
R-square		0.2552	
Wald X²			33.03 (0.0002)*
Hausman Test		24.84 (0.0055)*	

*denotes 5% level of significance.

() denotes Prob., while the denotes coefficients of the variables.

Source: Author’s Computations, (2022)

The effect of tax expenses on tax disclosure is positive (0.0352) and statistically significant (P-value of 0.005 at 5% level of significance) when using the fixed-effect model as evidenced by the Hausman test result. This means that tax expenses will have a favorable impact on the tax disclosure. The result suggests that a 1% increase in transfer pricing measured by tax expenses will result in a 3.52 per cent increase in the tax disclosure of the chosen firms. The relationship is predicated on the assumption that profitable companies are better positioned to meet tax obligation instead of hiding under transfer pricing as a means of invading tax , while still having sufficient resources to pay their incentives rather than companies that are experiencing loses. This finding is in agreement with the findings of Hassnain et al., (2018), Santoso (2004), Kalir (2013), Indriaswari ,Aprilia, (2017). Janssen et al., (2005), KPMG (2010). Ribeiro (2015).and Kraft, (2014)., who also established positive relationship between profitability and tax disclosure.

The marginal impact coefficient (0.1282) with p-value (0.039) at the 5% level of significance indicates that tunneling incentive has a positive and significant effect on tax consideration of the selected companies, according to the OLS model. This means that for every 1% rise in tunneling incentive, the tax disclosure of the selected firms will grow by 12.82 per cent.

The reason for this is that small companies can afford to pay low incentives due to the significant transaction expenses they are likely to incur when raising capital from outside sources. Large companies have a competitive advantage over small companies because they are well-known in the capital market, have a high credit rating, and can readily manage external finance at a low cost as well as meeting up to their tax obligation. This finding is congruent with those of Rodriguess, and Arias, (2014), Rohaya et al,(2010) and Rohaya, et al. (2008), who found a statistically significant positive association between business size and tax disclosure.

The results also reveal that bonus mechanism has a positive and substantial impact on tax disclosure of the selected firms, as evidenced by the marginal effect coefficient (0.0953) and p value (0.025) at the 5% level of significance. This shows that act of paying bonus of the selected firms will have a positive impact on their tax disclosure, with a 1% increase in bonus mechanism resulting in a 9.53 per cent rise in the tax disclosure of the selected firms. The finding supports the hypothesis that firms with strong bonus mechanisms are more likely to disclose their tax rate than firms with no bonus package. In a similar line, the study agrees with Jensen (1986), who believes that firms should share part of their profit by issue incentive to limit the funds available for managers to benefit themselves in order to mitigate the consequences of agency problems. The findings of this study correspond with those of Manos (2003) and Alaeto (2020), who both said that a firm's non-controlling interest has a statistically significant association with tax disclosure behavior.

The marginal effect coefficient (-0.0935,-0.1292,-0.0953) with p-value (0.248,0.501,0.025) at the 5% level of significance demonstrates that foreign exchange exposure, non-controlling interest and debt ratio has a negative but statistically significant association with tax disclosure of the selected firms, as shown in table 4.4. The finding implies that a high level of foreign exchange exposure, non-controlling interest and debt ratio will have a detrimental impact on the selected firms' tax disclosure. This means that a 1% rise in foreign exchange exposure, non-controlling interest and debt ratio will result in a 49.36 percent reduction in the tax disclosure of the chosen companies.

The findings support the idea that having a higher proportion of foreign exchange exposure, non controlling interest and debt ratio reduces the proportion of tax disclosure, lowering the borrowing capacity of companies whose primary source of debt is short-term bank loans. This will require such companies to employ more internally generated capital, reducing tax avoidance. More specifically, the effect of tax expenses, tunneling incentive and bonus mechanism on tax disclosure of the sampled multicultural oil and gas firms is positive (0.1282),(0.0428),(0.0935) with statistically significant (P-values of 0.005,0.039,0.420 at the 5% level of significance). Although bonus mechanism, growth rate, foreign exchange exposure and non-controlling interest are good for explaining the behavior of sampled firms' tax disclosure, the findings of this study suggest that they are not critical factors to consider when disclosing tax of the selected multicultural companies studied.

Conclusion

Several studies have been undertaken on factors affecting behavior of tax disclosure in Nigeria. Most of these studies were conducted examining fewer measures of transfer pricing without combining other measures (such as non-controlling interest, foreign exchange exposure, and debt ratio etc.) as determinants of tax consideration in Nigeria. This is exactly what this study attempted by investigating the relationship that exists between transfer pricing and tax disclosure of selected multicultural companies in Nigeria. A number of logical inferences were drawn based on the empirical evidence and findings of this investigation.

The study therefore, concluded that transfer pricing have strong statistical relationship with the tax disclosure of selected multicultural companies in Nigeria. This viewpoint was established using inference statistics, which confirmed the existence of a significant effect with a p-value less than 5% threshold of significance. The study recommends that non-controlling interest, foreign exposure and debt ratio are important variables to consider when the management of selected multicultural companies in Nigeria decides on tax disclosure.

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