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Transfer Pricing Regulations and Tax Compliance among Nigerian Companies

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Abstract

This study investigates the effectiveness of transfer pricing regulations of 2018 and tax compliance among Nigerian companies. The main objective of the study is to examine how effective is transfer pricing regulations in curbing tax evasion through transfer pricing scheme. The population of the study is the staff of Federal Inland Revenue service in Lagos State who are involved in the operation and implementation of transfer pricing regulations. The sample of the study was 151 staff of Federal Inland Revenue service in Lagos randomly selected from the population. The study adopted survey research design, using a structured questionnaire to obtain primary data. The data were analysed using descriptive and inferential statistical techniques. The descriptive statistics used include percentages, mean, minimum, maximum values and standard deviation. The inferential statistical technique used was One sample t-test. A 5-point measurement scale was used to gauge the effectiveness of the transfer pricing regulations. Inferences were deduced at 5% level of significance. The result of the analysis indicates that transfer pricing regulations is effective in curbing tax evasion perpetrated through transfer pricing scheme. By way of recommendation, it was suggested that tax authorities should continue to reinvigorate their strategies in checkmating loopholes exploited by the taxpayers to perpetrate tax fraud through transfer pricing. Tax authorities must be trained appropriately from time to time on the various dimensions of the strategies used by unscrupulous taxpayers to evade and avoid tax; and how the impact of such strategies could be reduced to the barest minimum.

Key words: Tax authority, Tax evasion, Tax fraud, Tax policy, Transfer pricing.

1. Introduction

The Federal Inland Revenue Service (Amendment) Act, 2007 was enacted to enhance improvements in Nigerian tax system with respect to tax compliance in the country. The Service is saddled with the responsibility to ensure effective tax administration, accounting, and reporting tax matters relating to the Federal Government (Adeyeye, 2013; Akinleye, Olaoye & Fajuyagbe, 2018). Government also introduced tax identification number (TIN) scheme with the aim of establishing tax base that is reliable enough for linking stakeholders together for proper tax administration in Nigeria. The Joint Tax Board (JTB) was also established by Government to address problems of tax policies and its

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implementations; tax collection and taxpayers' compliance; to encourage and ensure uniformity of the operation of tax laws among the State Boards of Internal Revenue in the Nigeria.

Tax liability is usually computed by applying the applicable tax rate to taxable profit. Taxable profits are derived by deducting allowable expenses (including cost of procuring resource inputs/cost of services provided by third parties) from the income of an entity. The cost of procuring resource inputs/cost of services provided by third parties could be a transfer price, especially if the transactions are done transnationally.

The transfer price of such third-party goods and services could be deliberately inflated in order to reduce income chargeable to tax and by extension, the tax liability. Hence, there is a tendency that the transfer price quoted for goods and, or services could be a scheme for tax evasion. As Governments do not have enough funds to execute their statutory security, safety, social and developmental programmes, this may lead to premature death of millions of people in the country. It has therefore, been suggested that the Service should establish reliable and acceptable standard transfer prices by themselves, rather than relying on the prices supplied by companies which might have been manipulated.

In view of the fact that transfer price could be manipulated to minimize tax liability, the Federal Government of Nigeria, through its Tax Administration agency - the Federal Inland Revenue Service (FIRS) has put in place measures and tax policies to checkmate tax evasion through transfer pricing arrangement (FIRS, 2018).

These guidelines are provided for the purpose of assisting relevant taxpayers to prepare records that are adequate for the Service in verifying that pricing of controlled transactions is consistent with the arm's length principle. According to Aka (2022), since the release of the new Transfer Pricing Regulations, there has been a general increase in the compliance level as by the end of December 2018, a sizeable number of non-compliant taxpayers had regularized their records with the tax authorities to avoid being penalized. Furthermore, by the first quarter of 2019, the Federal Inland Revenue Service (FIRS) commenced the issuance of penalty assessments on companies that, despite the exorbitant administrative penalties imposed by the 2018 Regulations, did not comply (Aka, 2022).

Despite the fact that there are various arrangements through which tax liabilities can be minimized using transfer pricing scheme, little is known as to the prevalent forms of tax evasion using transfer pricing methodology. There is likelihood that the implementation of the tax policy on transfer pricing may not be without challenges, it is considered crucial to have insight into the possible challenges, which could serve as valuable input in revising the subsisting policy on transfer pricing. Even though it is acknowledged that it is desirable to evaluate the effectiveness of Nigerian transfer pricing regulations policy in curbing tax evasion through transfer pricing scheme, there is paucity of empirical studies on how transfer pricing arrangements are shaping the tax policy of government in Nigeria. Therefore, in view of the aforementioned explanation, it is imperative to examine the extent of the effectiveness of the 2018 Transfer Pricing Regulations in combating tax evasion through transfer pricing.

The study therefore, aims at examining how effective is the Nigerian transfer pricing regulations in curbing tax evasion through transfer pricing scheme and to proffer possible suggestions that will militate against how transfer pricing is used to avoid and evade payment of the right tax. The specific objectives are to:

(i) Identify the means of evading tax through transfer pricing.
(ii) Investigate the effect of transfer pricing regulation on tax compliance.
(iii) Identify the challenges of implementing transfer pricing regulations of 2018.

The underlisted questions are drafted for achieving the objectives of the study.

(i) What are the means of evading tax through transfer pricing?
(ii) To what extent do the transfer pricing regulations effective in curbing tax evasion through transfer pricing?
(iii) What are the challenges of curbing tax evasion through transfer pricing scheme?

Research questions one and three would not be tested through hypotheses, they will be explained using descriptive analysis. Thus, only research questions two will be tested using the following hypothesis which is stated in the null form.

It is expected that the study will enhance effectiveness of tax policy of government on transfer pricing, enlighten taxpayers on the forms of tax evasion through transfer pricing, and serves as a valuable tool for tax authorities in reviewing tax policies to combat tax evasion and avoidance practices. Taxpayers and tax consultants will also find the study useful in their tax engagement with the tax authorities. Apart from contributing to academic literature, the study will most likely be a reference point for researchers who may need it to expand their knowledge on tax matters.

The study is organised into five sections. Section 1 introduces the study, the review of related literature is presented in section 2, section 3 explains the methodology used, analysis of data, presentation and interpretation of results are presented in section 4; and section 5 provides the conclusion and recommendations.

2. Review of Literature

The Concept of Transfer Pricing

Transfer-price refers to a pre-determined amount of money or prices that is charged for the sales of goods, services rendered and intangibles as they move between economic entities of a MNE, for instance, from a company, division or subsidiary in a group of companies to another company, division or subsidiary within the same group (Mckinley & Owsley, 2003; Cecchini, Leitch & Strobel, 2013).

According to Omirigbe and Ibrahim (2020), Transfer pricing is a profit allocation method used to attribute a Multi-National Enterprises (MNEs) net income (profit or loss) to the tax jurisdictions where it operates its subsidiary controlled foreign corporations (CFCs). Seth (2022) describes transfer pricing as an accounting and taxation practice that allows for pricing transactions internally within businesses and between subsidiaries that operate under common control or ownership. The transfer pricing practice extends to cross-border transactions as well as domestic ones. A transfer price is used to determine the cost to charge another division, subsidiary or holding company for services rendered. Typically, transfer prices are reflective of the going market price for that good or service, that is, a transfer price is usually based on market prices in charging another division, subsidiary, or holding company for goods sold or services rendered. Transfer pricing can also be applied to intellectual property such as research, patents, and royalties (Seth, 2022).

According to Cecchini *et al*. (2013), transfer pricing policy is particularly difficult for a MNE because they need to not only determine a transfer price that is in the best interest of the organisation and the individual entities in the value chain, but also one that will satisfy the regulatory requirements of host countries where foreign divisions are located. This problem is compounded by the decision of where to locate worldwide resources in order to exploit market imperfections and maximize the organisation's value chain. These decisions will be determined by the nature of the product created, market structure, environmental factors including tax policies, relative power and dependence among entities, governance procedures, socio-economic and geo-political risks, transaction risk, and the nature of the resources used to create value (Cecchini *et al*., 2013).

Tax Evasion through Transfer Prices

Legally, multinational companies (MNCs) are allowed to apportion their profits among the subsidiaries companies and affiliates that belong to the same parent company by using transfer pricing method (Seth, 2022). However, according to Taylor, Richardson and Lanis (2015), transfer pricing has been used by companies to reduce the tax burden of the parent company in inter-company transactions. Thus, companies may charge a higher price to divisions in high-tax countries (to reduce profit) while charging a lower price for divisions in low-tax countries (to increase profits). Earlier Cecchini *et al*. (2013) remarked that transfer pricing could lead to tax savings for corporations but this claim may be contested by the tax authorities. In the same vein, the United Nations (2013) posits that transfer pricing is a normal incident of MNE operations as it allows MNE to determine which parts of the group are profit or loss-making. However, if the method used to determine the price of such transactions, for whatever reason, does not reflect their true value, profits might effectively be shifted to low-tax or no-tax jurisdictions and losses and deductions to high-tax jurisdictions (United Nations, 2013).

The arm's length principle is the basis of the tax transfer pricing rules in most countries and is used to determine an arm's length transfer price: the price that would be used if the same transaction were undertaken by unrelated third parties (Rogers & Oats, 2022). If documentations are well prepared, it will give the tax authorities some assurance that the taxpayers have complied with the laid down rules and guidelines in respect of transfer pricing (Sikka, 2010). There are specialists who are experienced and knowledgeable in transfer pricing regulations. Spence, Dambrin, Carter, Husillos and Archel (2015) argued that transfer pricing specialists occupy transnational space apart from being local professionals. In the same vein, Picciotto (2015) remarked that these experts possess practical experience that enables them to apply the relevant transfer pricing tax rules and procedures to determine and demonstrate whether or not there has been compliance with them and with the arm's length principle. Thus, according to Rogers and Oats (2022), transfer pricing has become a sub-specialism within tax practice which is increasingly significant and requires specialist expertise relating to different jurisdictions.

Transfer pricing has strict rules through various tax policies on transfer pricing which the tax authorities apply in an attempt to prevent companies from using it to avoid taxes. Tax authorities expect that the same transfer pricing be applicable to transactions between inter-company as it will apply if the transactions are carried out with another company that is not a member of their parent company. Because a lot of documentations are involved in inter-company transactions, if there are discrepancies in computing the transfer price or not correctly or appropriately done, there may be a need to restate the financial statements and appropriate penalties paid, if the need be. Thus, regulating

transfer pricing ensures that arm's length rules relating to connected persons are strictly adhered to and closely monitored by the tax authority.

Legal and Regulatory Framework for Transfer Pricing

Prior to the promulgation of Transfer Pricing Regulations of 2012 (now repealed), there had been various provisions in the tax statutes that give directions on how Artificial or fictitious (connected taxable persons) transactions should be treated. For instance, the provisions of Section 17 of the Personal Income Tax Act, CAP. P8 LFN, 2004; Section 22 of the Companies Income Tax Act, CAP. C21 LFN, 2004 (as amended); Section 15 of the Petroleum Profits Tax Act, CAP. P13 LFN, 2004 (as amended); and Section 20 of the Capital Gains Tax Act, CAP. C1 LFN, 2004 gives the Federal Inland Revenue Service ("FIRS" or "the Service") the power to reject any returns or carry out adjustments deemed necessary if it is suspected that the business relations between two or more companies that belong to the same holding company appear to be artificial or fictitious - that is, not done at arm's length.

For effective implementation of the aforementioned provisions, the Income Tax (Transfer Pricing) Regulations, 2018 (the 2018 Regulation) was published by the Service in pursuance to section 61 of the Federal Inland Revenue Service (Establishment) Act No. 13 of 2007 (Federal Inland Revenue Service, 2018). Thus, the 2018 Regulations effectively repeals and replaces the Income Tax (Transfer Pricing) Regulations of 2012. According to Omirigbe and Ibrahim (2020), the 2018 Regulations fairly incorporate the current international trends in the regulation of transfer pricing and is designed to guarantee greater compliance with the transfer pricing regime in Nigeria. This would in turn increase Nigeria's tax revenue and reduce tax evasion occasioned through the underpricing or overpricing of related party transactions.

Connected Taxable Person

It is noteworthy that the provisions of Regulation 3(1) of the 2018 Regulations applies to both local and foreign controlled transactions between connected taxable persons. Furthermore, under Regulation 12(1) the 2018 Regulations, what constitute "connected taxable persons" is so wide to the effect that where one person can control and/or influence the financial, operational, or commercial decisions of another person, they would be deemed to be connected persons. Regulation 12(2)(a) - (d) of the 2018 Regulations provides that, any third person who can influence and/or control the financial, commercial, or operational decisions of the two connected persons, would also be deemed to be connected with them. In addition, Regulation 12(2)(e) & (f) of the 2018 Regulations stipulate that any person deemed to be connected to another under the federal tax legislations in Nigeria, or under the model tax convention and transfer pricing guidelines of the United Nations (UN) or the Organization for Economic Co-operation and Development (OECD), or under any double tax treaty executed between Nigeria and another country, shall be deemed to be connected persons (Federal Republic of Nigeria Official Gazette, 2018).

Omirigbe and Ibrahim (2020) remark that this wide definition of connected person may have some unintended consequences for the providers of credit. It is common place to have overbearing lenders who exercise a great deal of influence and/or control over the financial, commercial and operational decisions of those to whom they have advanced credit. Whilst it is unclear whether the FIRS intended to import the "potential lender shadow-director liability" into the transfer pricing regime and to treat such creditors as connected persons; it is advised that business people deal at arm's length with persons to whom they have advanced credit, to avoid possible liabilities under the new transfer pricing regime (Omirigbe & Ibrahim, 2020).

Provision of Relevant Transfer pricing Records

Connected taxable persons are required to provide sufficient records, information or data with an analysis of such information and data by virtue of Regulation 16 of the Income Tax (Transfer Pricing) Regulations 2018, in writing or on any other electronic device or medium, to ascertain and confirm that controlled transactions are priced in accordance with the arm's length principles. These guidelines are provided to assist the general public, particularly the relevant taxpayers in the preparation of records that are adequate for the Service in verifying that controlled transactions are priced in a manner consistent with the principles of arm's length.

The Federal Inland Revenue Service (FIRS) guideline on transfer pricing was aimed at providing guidance on Transfer Pricing Documentation requirements to the general public, connected taxable persons or parties, taxpayers' representatives, advisers, relevant stakeholders and tax officers in Nigeria. According to the Organisation for Economic Co-operation and Development (OECD), if transfer pricing documentation is well prepared, tax administrations will be given some assurance that the taxpayer has to a large extent complied with the requirements stipulated for the purpose of achieving consistent transfer pricing position (OECD, 2010). In consonance with OECD (2010), Korol, Nykyforuk,

Pelekh, Barabash and Romashko (2022) stated that the role of quality transfer pricing documentation is to mitigate the negative consequences of undesirable events for the global economic system.

Documentation Requirements for Transfer Pricing

The objectives of maintaining transfer pricing documentations in respect of connected taxable persons are to:

(a) ensure that the taxpayers give appropriate consideration to the requirements for transfer pricing in determining prices and other conditions for transactions between related companies, and how the income derived from such transactions reported in their tax returns;

(b) ensure that necessary information is provided to tax authorities in order to conduct an informed transfer pricing risk assessment; and

(c) make sure that useful information is provided to tax authorities in order to carry out necessary audit exercise of the entities in respect of the transfer pricing practices subject to their tax jurisdiction. It may also be expedient to provide additional information to compliment the documentations already submitted if the need be (Federal Inland Revenue Service, 2018).

The FIRS considered the above objectives in developing the transfer pricing guidelines. Therefore, taxpayers are required to evaluate their compliance with the Transfer Pricing Regulations prior to filing tax returns. The purpose of the Guideline is to cover the broad issues relating to the form and manner of transfer pricing documentation which connected taxable persons should maintain to demonstrate that controlled transactions are priced in accordance with the arm's length principles.

Preparation of Documentation for Transfer Pricing

The duty to maintain documentation for transfer pricing is imposed on the taxpayer notwithstanding the fact that services of agent (s) or advisers may be procured at any point in the process of delivery. Therefore, liabilities arising for non-compliance, inadequacies, defects or misstatements are to be borne by the taxpayer. Taxpayers are advised not to procure the services of any person in permanent or pensionable employment of the FIRS to develop, record, correct or submit transfer pricing documentation on their behalf. To ensure proper documentation, a standardized approach to documentation is required (Federal Inland Revenue Service, 2018).

Consequently, in accordance with the Regulations for Transfer Pricing, it is compulsory for relevant taxpayers to adopt a three-tier structure of Transfer Pricing documentation which are: (i) Master file; (ii) Local file; and (iii) Country-by-Country reports. Generally, the master file provides a top-level view of the multinational entity (MNE) group's transfer pricing practices in their global economic, legal, financial and tax context. This should also consist a detailed description of the Group's legal and ownership structure, geographical location of operating entities, service arrangements between members, sources of business profit, turnover, intangibles owned, all policies relating to transfer of Research and Development (R&D) among members of the group, financing arrangements, annual consolidated financial statements and tax rulings on income allocation by jurisdiction.

The local file contains the detailed description of transactions between the local entity and an associated enterprise such as the local entity's organisation structure, financial status, business description, tangible and intangible transfers, relationships between related-party, controlled transactions details, business arrangements, and analysis functions of the related parties. The Country-by-Country Report (CBCR) which is to be produced annually, provides the aggregate information by tax jurisdiction and it shows the MNE's apportionment of income, income tax paid, retained earnings, number of employees, stated capital, tangible assets and certain indicators of the location of economic activity among tax jurisdictions in which the MNE group operates. These pieces of information will assist the tax administration in carrying out high-level risk assessment of transfer pricing.

Key Compliance Documentation Requirements

The guideline specifies that taxpayers should take into account the volume and complexity of their business and transactions in determining the nature and extent of documentation appropriate to their particular circumstances. In order to ensure the acceptability of the contemporaneous transfer pricing documentation, reasonable efforts must be made to:

(a) undertake a transfer pricing analysis to ascertain that transfer prices comply with the arm's length principle and reflect commercially realistic outcomes for all controlled transactions.

(b) maintain documents that are applicable to the circumstances; and the taxpayer must be prepared to provide additional information or documentation not previously provided, but which may be considered relevant for the determination of the arm's length price.

(c) implement, review and redesign the arm's length transfer pricing policy to accommodate any changes in the business environment.
(d) ensure that the factual economic and empirical representations in transfer pricing documentation should be group, company, product and market specific.
(e) ensure that transfer pricing documentation should be accurate, precise, and matches the accounting, financial and benchmarked data or comparable data (Federal Inland Revenue Service, 2018):

Theoretical Framework

This study is anchored on the "theory of planned behaviour" (TPB). The TPB is an improvement to the "theory of reasoned action" (Ajzen & Fishbein, 1980). The theory of planned behaviour was propounded by Ajzen (1991) as a result of the limitations in the original model of the theory of reasoned action which does not allow for behaviour where people do not have complete volitional control. The central factor in the TPB is the intention of individual to perform a given behaviour. Intentions are indications of how hard people are willing to try and how much effort they are planning to exert in order to perform the behaviour. Generally, as rule, if the intention to engage in a behaviour is strong, then it is more likely that the behaviour would be performed. However, behavioural intention would only be possible if the behaviour in question is under volitional control, i.e., if the decision maker has the liberty to perform or not perform the behaviour.

Under the TPB, perceived behavioural control together with behavioural intention can be used directly to predict behavioural achievement. The theory proposes that people's behaviours are guided by three considerations which are behavioural beliefs, normative beliefs and control beliefs. Behavioural beliefs refer to the beliefs about the likely consequences of the behaviour adoption. Normative beliefs are the beliefs about the expectations of others from the actor or individual. Control beliefs are beliefs about the presence of factors that may facilitate or impede performance of behaviour adoption (Oyewo & Adeyeye, 2018).

TPB is used to explain how tax policy on transfer pricing by tax authorities could curb tax evasion through transfer pricing schemes. It is believed by tax authorities that the adoption of tax policy on transfer pricing can curb tax evasion through transfer pricing (Behavioural beliefs). With the coming into effect of tax policy on transfer pricing, tax authorities would expect multinational companies to discontinue the practice of using of transfer pricing to evade tax and comply with the provisions of the tax policy (Normative beliefs). Since the various measures implemented by tax authorities effectively curbs transfer pricing tax fraud, would-be multinationals contemplating tax evasion through transfer pricing would be discouraged from carrying on such fraudulent practices (control beliefs). In essence, tax policies on transfer pricing is expected to curb the practice of tax fraud through transfer pricing by multinational companies. The theory has been found to be well supported by empirical evidence. The theory suggests that intentions to perform behaviours of different kinds can be predicted with high accuracy from attitudes toward the behaviour, subjective norms and PBC; and these intentions together with perceptions of behavioural control, account for considerable variance in actual behaviour (Ajzen, 1991). Ajzen (1991) posits that attitudes, subjective norms, and PBC are shown to be related to appropriate sets of salient behavioural, normative and control beliefs about the behaviour, but the exact nature of these relations is still uncertain.

Empirical Review

It has been argued that secrecy, complex organisational structures, tax havens and profit hungry accountancy firms are the key ingredients of the biggest tax avoidance and tax evasion scheme known as transfer pricing (Huizinga & Laeven, 2008; Grubert & Mutti, 2017; Merle, Al-Gamrh & Ahsan, 2019). The aim is to shift profits to low tax jurisdictions and avoid taxes in countries where corporations have substantial trading operations (Sikka, 2009; Jacob, 2016).

Uyar (2014) in his study, analysed via literature and case study, how companies transfer profit through transfer pricing and the effect of such on taxation. In order to make the study more concrete, the conceptual framework was revealed in the light of previous literature and accordingly a scenario was developed. The information in the scenario developed indicated first, how transfer pricing was conducted, and then a recommendation was stated in the accounting records required to be conducted for improvement by the entities. He then determined the tax effect of the present case before and after adjustment. The outcome of the study suggests that related parties of transfer pricing should follow a record process considering simultaneous movement form and off-balance sheet accounts in adjustment transactions (Uyar, 2014).

Similarly, Omirigbe & Ibrahim (2020) conducted a study on the prospect, challenges and the way forward for the concept of transfer pricing in Nigeria, using the doctrinal research methodology. They observed that many governments are utilising transfer pricing audits to increase tax revenues to offset economic reduction and that transfer pricing has

linkages with global stability, revenue generation, economic growth, trans-border activities and international trade. Rogers and Oats (2022) carried out a qualitative study based on Bourdieusian concepts. The focus of the study is on the view of senior transfer pricing professionals relating to the UK and the US and consider how their views and transfer pricing practices have changed over a period of field disruption. They considered this to be important because calls for transformation of the field need to be cognizant of the extent to which the existing practices are firmly embedded and thereby resilient to change. The findings of their study indicate that over the period of their longitudinal study, the senior transfer pricing professionals show a degree of adaptability to the use of the arm's length principle, which continues to dominate.

In like manner, Sebele-Mpofu, Mashiri and Warima (2022) in their study on transfer pricing employed a qualitative research approach through a scoping review. Through a comprehensive review of literature, the nature and extent of possible solutions to curb illicit financial flows through transfer pricing was identified, assessed and evaluated for applicability. Their findings revealed that solution can be grouped into three categories, which are politically oriented, legislative focused and administrative recommendations. They concluded that it was evident that there is need for political commitment by governments, improvements to the current legislation as well as enhanced administrative capacities of revenue authorities in order to reduce transfer pricing abuse.

Korol *et al.* (2022) conducted a study in order to assess and analyse the impact of globalisation and regional optimisation on the activities of economic entities that are required to prepare transfer pricing documentation.

The main focus of their study is on the analysis of the causes of global economic risks and the role of transfer pricing documentation, whose quality will help mitigate the negative consequences of undesirable events for the global economic system. The study found that not all countries apply the international instrument, such as Multilateral Instrument (MLI) - Multilateral Convention to Implement Tax Treatment Related Measures to Prevent Base Erosion and Profit Shifting (BEPS). Many countries that have started to use MLI reporting, have no uniform standardized rules for the preparation of transfer pricing documentation. The legislation only defines the list of information to be submitted by taxpayers, provided that the results of their business activities meet certain criteria.

They therefore, suggest the development of a unified methodology for valuing financial assets for tax purposes and preventing their use in illegal financial transactions. According to them, these are the promising areas for further research (Korol *et al.*, 2022).

The results of study by Grubert and Mutti (2017) using the United States based cross-sectional panel data suggested that the United States MNCs tend to import and export more from their affiliates in low-tax jurisdictions where its investment was also greater. In their study, Dudar, Spengel and Voget (2015) empirically observed a negative relationship of royalty flows on taxation. This clearly suggests tax evasion through transfer pricing scheme.

In the same vein, Grubert, Goodspeed, and Swenson (2013) earlier conducted a study on tax evasion through transfer pricing arrangement. The outcome of their study showed that MNEs use transfer pricing for income shifting to tax haven countries. The result of the study conducted by Huizinga and Laeven's (2008) indicated that MNEs use research and development cost to erode taxable income and by so doing evade tax. They argued that transfer pricing tax fraud is difficult to curb when it involved intangible assets that are highly valuable unlike common goods for which managers involved in transfer pricing can make use of public data or private data bases that can easily be compared with data from other source(s) (Huizinga & Laeven, 2008). This is corroborated by study carried out by Dischinger and Riedel (2011) on the evading tax liability through transfer pricing schemes which indicated that there is positive association between intangible assets and transfer pricing intensity.

A number of studies have shown that tax authorities believe that multinationals manipulate the import and export prices to avoid taxes (Sikka, 2009; Gravelle, 2010; Grubert *et al.*, 2013; Grubert & Mutti, 2017). It has been noted that transfer pricing fraud are perpetrated through large volume of sales with small profit, or huge profit with small number of employees within a particular area of operation, and transfer of assets and liabilities at a price that hides the true commercial values (Hines & Rice, 1994). Based on his investigation of tax evasion, Sikka (2009) estimates that more than US$160bn of tax revenues may be lost in a year by developing countries, essentially as a result of strategies adopted for transfer pricing.

The Service may adopt a system of "formulary apportionment". Using this approach, the most important fact and ideas relating to the economic operations and revenue of the companies in its geographical area of activity are considered before being taxed instead of allocating costs arbitrarily. However, according to Sikka (2009), many tax authorities do not have the required resources to combat the tax avoidance industry. For instance, over 900 professionals were employed by Ernst & Young alone, to vet transfer pricing schemes, about 500 full-time inspectors were employed by the US tax authorities to deal with transfer pricing issues, while Kenya can only afford between three and five tax investigators for the whole country (Sikka, 2009). In view of these anomalies, Grubert and Mutti (2017)

recommended that mandatorily, companies should publish the analysis of their transactions with respect to sales, purchases, profits, assets, liabilities, taxes and employees in each of the countries where they carry on their business operations. Thus, the singular hypothesis which this study intends to test is stated as follows
H_0: Transfer pricing Regulations put in place are not significantly effective in curbing tax evasion

3. Research Methods

Research Design
Survey research design was adopted by the study, this involves getting responses from respondents using questionnaire (Blumberg, Cooper & Schindler, 2005). Such data can be analysed using quantitative methods. The collection and analysis of responses from various respondents also enhances generalization of results. The method is considered suitable to be used for the quantitative analysis of data which is required to depict associations between variables in a sample (Creswell, 2013). The study used primary data because data in respect of assessing the effectiveness of transfer pricing regulations in curbing tax evasion through transfer pricing scheme cannot be gauged from secondary data.

Population of the Study
The officials of the FIRS in Nigeria constitutes the population of this study. At the end of 2020 there were 6,980 permanent staff working in Revenue (FIRS Annual Reports, 2020). Officials of the FIRS who are involved in the administration of transfer pricing scheme were used as they are in the position to know how effective is the Transfer Pricing Regulations of 2018. Consideration was given to proximity and easy accessibility of data in choosing Federal tax offices in Lagos and for the fact that, the same tax laws are applicable throughout Nigeria. Furthermore, Lagos State is designated the ideal study area since Lagos is a cosmopolitan state, economic, commercial and industrial hub of Nigeria (Lagos State Ministry of Commerce and Industries, 2011; Olokesusi, 2011; Adeyeye, 2013; Lagos State Government BudgIT Research, 2018).
Sample Size and Sampling Technique

The Taro Yamane (1967) formula stated below was used for the study to derive the sample size.

$$n = \frac{N}{1 + Ne^2}$$

Where:
The sample size = n; population size = N; and sampling error = e.
The total staff is 6,980 (i. e. population). Therefore, N = 6,980, e = 0.05 (i.e. 95% level of confidence). The sample size is as calculated below:

$$n = \frac{6{,}980}{1 + 6{,}980(0.05^2)}$$

$n = 378$ (Approximately)
The sample size based on the computation above is three hundred and seventy-eight staff. However, three hundred and eighty staff of the Federal tax offices who are involved in tax administration for transfer pricing of multinational companies in Lagos State are used. The study made use of purposive sampling technique to select the sample size. Out of the three hundred and eighty copies of the questionnaire sent out, only two hundred and fifty-two were returned (approx. 66%), out of which only one hundred and fifty-one copies (approx. 60%) were usable and thus, used for this study.

Data Collection Instrument and Measurement of Variables
A structured questionnaire was used in gathering data as it has been remarked that it is a common and appropriate technique for collection of data (Creswell, 2013). The instrument had sections (A and B). Section A focused on respondents' biodata. Section B was subdivided into three parts. Subsection B1 covered issues on the forms of tax evasion using transfer pricing scheme, consisting of 9 items; Subsection B2 covered issues on the effectiveness of measures put in place to curb tax evasion through transfer pricing, consisting of 7 items; while Subsection B3 focused on challenges of curbing tax evasion through transfer pricing scheme, consisting of 7 items.

Validity and Reliability
Content validity of the instrument used for the collection of data for this study was carried out to ensure that the instrument measures what it is meant to measure. The questionnaire was given to two experts for objective criticisms

and correction. Cronbach Alpha test was conducted to ensure the reliability (internal consistency) of the questionnaire (Baridam, 2008). The Cronbach Alpha test results are shown in Table 3.1.

Table 3.1: Results of Reliability Test

Variable	No. of items	Cronbach Alpha
Forms of Tax Evasion Using Transfer Pricing Scheme (Section B1)	9	.723
Effectiveness of Measures put in place to Curb Tax Evasion Through Transfer Pricing (Section B2)	7	.782
Challenges of Curbing Tax Evasion Through Transfer Pricing Scheme (Section B3)	7	.803

Source: Authors' Field Survey (2021)

Table 3.1 shows that the Cronbach alpha for all the items of: Forms of Tax Evasion Using Transfer Pricing Scheme, Effectiveness of Measures put in place to Curb Tax Evasion Through Transfer Pricing and Challenges of Curbing Tax Evasion Through Transfer Pricing Scheme are 0.723, 0.782 and 0.803 respectively. This indicates that the questionnaire is reliable. It has been said that a Cronbach alpha coefficient value of 0.7 and above is reliable with the sample and or has a reliable internal consistency (Bryman, 1989; Pallant, 2001; Baridam, 2008).

4. Analysis and Results

This section focuses on the analysis of data, presentation as well as the interpretation of results. Descriptive and inferential statistical techniques were used to analyse the data. The descriptive statistics applied are percentages, mean and standard deviation, while one sample t-test was used as the inferential statistical technique. 380 copies of questionnaire were administered, 252 copies were returned, but only 151 copies out of the 252 copies representing approximately 60% response rate were found to be usable and thus, used for this study.

Table 4.1 Presentation of the respondents' demographic data

Variable	Response Label	Frequency	Percentage	Cumulative Percentage
Gender	Male	120	79.5	79.5
	Female	31	20.5	100
Total		**151**	**100**	
Academic Qualification				
	B.Sc./HND	60	39.74	39.74
	M.Sc./MBA	79	52.32	96.06
	M.Phil/Ph.D.	12	7.94	100
Total		**151**	**100.00**	
Working Experience				
	Less than 3 years	15	9.92	9.92
	3-6 years	13	8.62	18.54
	7-10 years	39	25.83	44.37
	Above 10 years	84	55.63	100
Total		**151**	**100**	

Source: Authors' Field Survey (2021)

As shown in Table 4.1, 120 (79.5%) are male respondents and 31 (20.5%) are Female. This implies that more male participated in the survey than females. Table 4.1 also shows that 60 (39.74%) hold a first degree or Higher National Diploma Certificate, more than half of the number of respondents hold a second degree, M.Sc./MBA, 79 (52.32%). The remaining 12 (7.94%) hold a third degree (e.g., M.Phil/Ph.D). This suggests that the respondents have requisite academic qualifications. More than half of the respondents, 84 (55.63%) have above 10 years work experience, 39 (25.83%) have 7-10 years work experience, 13 (8.62%) have 3-6 years work experience while 15 (9.92%) of the respondents have less than 3 years work experience.

This suggests that respondents should have experiential knowledge on the subject, which should help in eliciting valid response. The information on the profile of the respondents with respect to length of work experience and job title suggest that the concentration of respondents on the higher cadre of position in the FIRS implies that the views of well-experienced persons were obtained, as respondents are senior officials in the FIRS. Thus, they are expected to provide an objective assessment of the issues raised in the questionnaire used.

Analysis of the Research Constructs

The study used the five-point Likert scale rating as follows: For the Table 4.2, the calibrations are as follows: Not Applicable = 1, Low extent = 2, Moderate extent = 3, High extent = 4, Very High extent = 5. Thus, mean score below '3'

implies Not applicable or Low extent while any mean score above '3' implies High extent, or Very High extent. For the Table 4.3, the calibrations are as follows: Not effective = 1, Some what effective = 2, Moderately effective = 3, Effective = 4 and Very effective = 5. Thus, mean score below '3' implies a Not effective or somewhat effective while any mean score above '3' implies Effective, or Very effective. For the Table 4.4, the calibrations are as follows: Strongly Disagree = 1, Disagree = 2, Undecided = 3, Agree = 4 and Strongly Agree = 5. Thus, mean score below '3' implies a Strongly Disagree or Disagree while any mean score above '3' implies Agree or Strongly Agree.

Table 4.2 shows that all the variables have mean scores above '3' which is in line with the acceptance criterion stated above. Table 4.2 reveals that the most prevalent forms of tax evasion using transfer pricing scheme are Overstating purchase price for transfer of goods and services (M = 3.99), followed by Transferring intellectual property to low-tax havens globally (M = 3.85), Transferring liabilities at overstated price to increase charges to the income statement thereby reducing tax liabilities (M = 3.84), and Transferring tangible assets outside the country to a subsidiary at overstated price to claim tax depreciation (M = 3.81). These four items each has Mean score above 3.80 on the 5-point measurement scale representing 76%. In addition, the standard deviation scores of each of these four items are below 1.0, implying a strong consensus among respondents that these are the most popular ways multinational organisations evade tax.

In addition, other notable strategies for tax evasion under the transfer pricing scheme are Accepting liabilities at a high rate to reduce tax liabilities (M = 3.75), Transferring intangible assets (such as royalties, intellectual properties at inflated price) to increase capital allowance charges and reduce tax liabilities (M = 3.75), Understating income from other sources aside sales revenue (M = 3.71), Transferring of expenses on an annual basis (e.g., transfer pricing of a royalty agreement) (M = 3.68), and Understating sales proceeds/revenue (M = 3.66). In essence, each of the items in Table 4.2 has Mean scores above 3.60 (equivalent to 72% on the 5-point scale). Thus, from the findings in Table 4.2, the study concludes that the most prevalent forms of tax evasion under the transfer pricing scheme are Overstating purchase price for transfer of goods and services, Transferring intellectual property to low-tax havens globally, Transferring liabilities at overstated price to increase charges to the income statement thereby reducing tax liabilities, and Transferring tangible assets outside the country to a subsidiary at overstated price to claim tax depreciation.

Table 4.2: Forms of Tax Evasion Using Transfer Pricing Scheme

S/N	Items	Mean	Std. Deviation
1	Overstating purchase price for transfer of goods and services	3.99	0.949
2	Understating sales proceeds/ revenue	3.66	1.149
3	Understating income from other sources aside sales revenue	3.71	1.074
4	Transferring tangible assets outside the country to a subsidiary at overstated price to claim tax depreciation	3.81	0.998
5	Transferring intellectual property to low-tax havens globally	3.85	0.985
6	Transferring intangible assets (such as royalties, intellectual properties at inflated price) to increase capital allowance charges and reduce tax liabilities	3.75	1.052
7	Accepting liabilities at a high rate to reduce tax liabilities	3.75	1.052
8	Transferring liabilities at overstated price to increase charges to the income statement thereby reducing tax liabilities	3.84	0.910
9	Transferring of expenses on an annual basis (e.g., transfer pricing of a royalty agreement)	3.68	.882

Source: Authors' Field Survey (2021)

Table 4.3: Effectiveness of Transfer Pricing Regulations Put in Place to Curb Tax Evasion through Transfer Pricing

S/N	Items	Mean	Std. Deviation
1	Maintaining proper records of transaction to ensure arm's length transactions	3.85	1.029
2	Back duty investigation	3.98	.913
3	Re-calculation of tax liabilities to reclaim tax income due to the government	3.99	.852
4	Imposition of penalties on multinational companies leveraging on transfer pricing schemes to reduce tax liabilities	3.81	1.016
5	Imposition of interests on underpaid tax	3.88	1.000
6	Suing of defaulters to tax courts	3.52	1.119
7	Seeking out-of-court settlement for tax evasion through transfer pricing offence	3.00	1.114

Source: Authors' Field Survey (2021)

Table 4.3 shows the breakdown of the opinion of the respondents on various measures and policies put in place to checkmate tax evasion through transfer pricing. It could be seen that majority of the variables have mean scores above '3' which is in line with the acceptance criterion stated above. Table 4.3 reveals that the most effective measure is Re-calculation of tax liabilities to reclaim tax income due to tax authorities (M = 3.99), followed by Back duty investigation (M = 3.98), Imposition of interests on underpaid tax (M = 3.88), Maintaining proper records of transaction to ensure arm's length transactions (M = 3.85), and Imposition of penalties on multinational companies leveraging on transfer pricing schemes to reduce tax liabilities (M = 3.81). Each of these five measures has a Mean score above 3.81, implying that they are popular strategies for discouraging tax evasion under transfer pricing scheme. While suing of defaulters to tax courts (M = 3.52) also appears to be a popular strategy, it appears seeking out-of-court settlement for tax evasion through transfer pricing offence (M = 3.00) is a less effective method for discouraging tax evasion in transfer pricing regime.

In summary, based on the result in Table 4.3, the study concludes that the prominent measures put in place to checkmate tax evasion through transfer pricing are Re-calculation of tax liabilities to reclaim tax income due to the government, Back duty investigation, Imposition of interests on underpaid tax, Maintaining proper records of transaction to ensure arm's length transactions, and Imposition of penalties on multinational companies leveraging on transfer pricing schemes to reduce tax liabilities.

Table: 4.4 Challenges of Curbing Tax Evasion through Transfer Pricing Regulations

S/N	Items	Mean	Std. Deviation
1	The level of awareness on tax policies to curb tax evasion through transfer pricing is low among multinational companies operating in Nigeria	2.98	1.175
2	The level of awareness on the tax policies to curb tax evasion through transfer pricing is low among tax officials in Nigeria	3.31	1.121
3	The Transfer Pricing Documentation requires a lot of paper work which may become cumbersome to maintain and keep track of	3.58	1.074
4	The cost of maintaining various degree of documentation may outweigh the benefits	2.91	1.113
5	Multinational companies may deliberately not maintain proper and required records to stall/frustrate the process of ascertaining transactions done at arm's length by tax authorities	3.70	1.031
6	Information necessary to conduct an informed transfer pricing risk assessment may not be readily available to tax authorities	3.68	1.049
7	Corrupt tax officials may deliberately shield multinational companies from paying tax liabilities arising from transfer pricing in return for financial gratification	3.22	1.280

Source: Authors' Field Survey (2021)

Results in Table 4.4 show that the severest challenges of curbing tax evasion through transfer pricing scheme are that Multinational companies may deliberately not maintain proper and required records to stall/frustrate the process of ascertaining transactions done at arm's length by tax authorities (M = 3.70), Information necessary to conduct an informed transfer pricing risk assessment may not be readily available to tax authorities (M = 3.68), and The Transfer Pricing Documentation requires a lot of paper work which may become cumbersome to maintain and keep track of (M = 3.58).

The Mean score for each of the three items is above 3.50 (i.e. 70% on the 5-point scale). Other noteworthy challenges are that the level of awareness on the tax policies to curb tax evasion through transfer pricing is low among tax officials in Nigeria (M = 3.31) and Corrupt tax officials may deliberately shield multinational companies from paying tax liabilities arising from transfer pricing in return for financial gratification (M = 3.22).
However, it appears that other challenges are less severe, considering that their Mean scores are below 3.00, such as: the level of awareness on the tax policies to curb tax evasion through transfer pricing is low among multinational companies operating in Nigeria (M = 2.98), and the cost of maintaining various degree of documentation may outweigh the benefits (M = 2.91).

Test of Hypothesis
H_0: Transfer pricing Regulations put in place are not significantly effective in curbing tax evasion through transfer pricing.

Table 4.5: One sample statistics and test for individual Transfer Pricing Regulation put in place in curbing tax evasion through transfer pricing

One sample statistic				One sample test					
				Test Value = 3					
								95% Confidence Interval of the Difference	
Variables	Mean	Std. Deviation	Std. Error Mean	t	df	Sig. 2-tailed	Mean Difference	Lower	Upper
Maintaining proper records of transaction to ensure arm's length transactions	3.85	1.029	.084	10.203	150	0.000	0.854	0.69	1.02
Back duty investigation	3.98	.913	.074	13.197	150	0.000	0.98	0.83	1.13
Re-calculation of tax liabilities to reclaim tax income due to tax authorities	3.99	.852	.069	14.32	150	0.000	0.993	0.86	1.13
Imposition of penalties on multinational companies leveraging on transfer pricing schemes to reduce tax liabilities	3.81	1.016	.083	9.853	150	0.000	0.815	0.65	0.98
Imposition of interests on underpaid tax	3.88	1.000	.081	10.829	150	0.000	0.881	0.72	1.04
Suing of defaulters to tax courts	3.52	1.119	.091	5.748	150	0.000	0.523	0.34	0.7
Seeking out-of-court settlement for tax evasion through transfer pricing offence	3.00	1.114	.091	0	150	1.000	0	-0.18	0.18

Source: Authors' Field Survey (2021)

Table 4.5 shows that all the tax policies put in place are significantly effective in curbing tax evasion through transfer pricing as ($p<0.05$), except for seeking out-of-court settlement for tax evasion through transfer pricing offence which is not significant ($p>0.05$).

Table 4.6: One sample statistics and test for overall Transfer Pricing Regulations put in place in curbing tax evasion through transfer pricing

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Transfer pricing regulations put in place in curbing tax evasion through transfer pricing	151	3.7209	.70089	.05704

One-Sample T-Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	T	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Transfer pricing regulations put in place in curbing tax evasion through transfer pricing	12.639	150	.000	.72091	.6082	.8336

Source: Authors' Field Survey (2021)

It is evident from the result in Table 4.6 that the mean score (M = 3.72, SD = 0.70) is significant with mean difference of 0.72, 95%, Confidence Interval (CI) [0.61 to 0.83], t (150) = 12.64, p = .000). Therefore, the null hypothesis will be rejected and it is concluded that tax policies put in place are significantly effective in curbing tax evasion through transfer pricing.

Discussion of Findings

The study examined the effectiveness of transfer pricing regulations in curbing tax evasion through transfer pricing scheme. The study provided some background literature into the effectiveness of transfer pricing regulations in curbing tax evasion through transfer pricing scheme allowing the researchers to understand the extant literature on the topic and make comparisons with the findings from this current study. A number of objectives were set out for the purpose of achieving the aim of the study:

The findings show that most prevalent forms of tax evasion under the transfer pricing scheme are overstating purchase price for transfer of goods and services; transferring intellectual property to low-tax havens globally; transferring liabilities at overstated price to increase charges to the income statement thereby reducing tax liabilities; and transferring tangible assets outside the country to a subsidiary at overstated price to claim tax depreciation. This is in consonant to the study by Grubert and Mutti (2017) which suggested that the United States MNCs tend to import and export more from their affiliates in low-tax jurisdictions where its investment was also greater.

In addition, findings show that the prominent measures put in place to curb tax evasion through transfer pricing are re-calculation of tax liabilities to reclaim tax income due to tax authorities; back duty investigation; imposition of interests on underpaid tax; maintaining proper records of transaction to ensure arm's length transactions; and imposition of penalties on multinational companies leveraging on transfer pricing schemes to reduce tax liabilities. The result of the current study based on the aboveobjective accords substantially with the study by Dudar, Spengel and Voget (2015) that empirically observed a negative relationship of royalty flows on taxation. This clearly suggests tax evasion through transfer pricing scheme and therefore, multinational companies should be appropriately sanctioned for this tax fraud through transfer pricing.

In the same vein, Osho, Efuntade & Jemiseye-Dav (2020) carried out a study aimed at examining the impact of taxation on transfer pricing in Nigeria economy. The study used Augmented Dickey Fuller (ADF) Unit root test and Johansen co-integration econometric tools to determine the order integration and the long run relationship among the variables. The data were sourced from the of Central Bank of Nigeria (CBN), Statistical Bulletin Office of the Federal Inland Revenue Services (FIRS), Federal Inland Revenue Service (FIRS), World Bank Statistical Bulletin and Annual Abstract of Statistics from the National Bureau of Statistics (NBS). Findings from the study revealed that company income tax and personal income tax have negative impact on transfer pricing in Nigeria. 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. Based on their findings, it was recommended that, the tangible benefits should be greater than the risk received, given that any slight increase/decrease in tax expense could have a considerable effect on the decline/increase in transfer pricing rates in Nigeria.

Also, findings of the study indicates that the challenges of curbing tax evasion through transfer pricing scheme are low level of awareness on tax policies in relation to transfer pricing regulations to curb tax evasion through transfer pricing among tax officials; transfer pricing documentation requires a lot of paper work which may become

cumbersome to maintain and keep track of; multinational companies may deliberately not maintain proper and required records to stall/frustrate the process of ascertaining transactions done at arm's length by tax authorities; information necessary to conduct an informed transfer pricing risk assessment may not be readily available to tax authorities; and corrupt tax officials may deliberately shield multinational companies from paying tax liabilities arising from transfer pricing in return for financial gratification.

The outcome of this current study is in consonant with the study earlier conducted by Grubert, Goodspeed, and Swenson (2013) on tax evasion through transfer pricing arrangement. The results of their study showed that MNEs use transfer pricing for income shifting to tax haven countries. Furthermore, the result of the study conducted by Korol *et al.* (2022) to assess and analyse the impact of globalisation and regional optimisation on the activities of economic entities that are required to prepare transfer pricing documentation and also to analyse the causes of global economic risks and the role of transfer pricing documentation suggests negative consequences of undesirable events for the global economic system. The study found that not all countries apply the international instrument, such as Multilateral Instrument (MLI) - Multilateral Convention to Implement Tax Treatment Related Measures to Prevent Base Erosion and Profit Shifting (BEPS). Many countries that have started to use MLI reporting, have no uniform standardized rules for the preparation of transfer pricing documentation. These are clearly some of the challenges usually face by the tax authorities.

5. Conclusion and Recommendations

This study investigated the effectiveness of Transfer Pricing Regulations of 2018 in curbing tax evasion through transfer pricing scheme. This was against the backdrop that whilst there are various arrangements through which tax liabilities can be minimized using transfer pricing scheme, little is also known as to the prevalent forms of tax evasion using transfer pricing methodology. Given that the implementation of the tax policy on transfer pricing may not be without challenges, it is considered crucial to have insight into the challenges, which could serve as valuable input in revising the subsisting policy on transfer pricing. In essence, whereas it is desirable that the effectiveness of transfer pricing regulations in curbing tax evasion through transfer pricing scheme should be examined, there is little empirical evidence in the literature on how transfer pricing arrangements are shaping the tax policy of government. Thus, the motivation to undertake this study is based on the aforementioned considerations.

The objectives of the study were to: (i) identify the means of evading tax through transfer pricing; (ii) investigate the effect of transfer pricing regulations on tax compliance; and (iii) identify the challenges of implementing transfer pricing regulations in Nigeria. Survey research design was adopted by the study while structured questionnaire was used to gather data for the study. The utilization of primary data to address the research questions was because data in respect of assessing the effectiveness of transfer pricing regulations in curbing tax evasion through transfer pricing scheme cannot be gauged from secondary data. Thus, data collection instrument was developed to measure and gather data in respect of these issues.

The population of this study consists of the officials of the FIRS offices involved in tax administration for transfer pricing of multinational companies with presence in Lagos State, Nigeria. As it is not all tax officials that are involved in tax administration for transfer pricing of multinational companies in Nigeria, purposive sampling technique was used to select a total of two hundred tax officials involved in tax administration for transfer pricing. Both descriptive and inferential statistical techniques were used in analysing the data.

Based on the study, it is concluded that the most prevalent forms of tax evasion under the transfer pricing scheme are overstating purchase price for transfer of goods and services, transferring intellectual property to low-tax havens globally, transferring liabilities at overstated price to increase charges to the income statement thereby reducing tax liabilities, and transferring tangible assets outside the country to a subsidiary at overstated price to claim tax depreciation.

The prominent measures put in place to curb tax evasion through transfer pricing are Re-calculation of tax liabilities to reclaim tax income due to the government, Back duty investigation, Imposition of interests on underpaid tax, maintaining proper records of transaction to ensure arm's length transactions, and Imposition of penalties on multinational companies leveraging on transfer pricing schemes to reduce tax liabilities and suing of defaulters to tax courts are effective in curbing tax evasion through transfer pricing. However, seeking out-of-court settlement for tax evasion through transfer pricing offence is not an effective strategy for curbing tax evasion through transfer pricing.

The severest challenges of curbing tax evasion through transfer pricing scheme are that multinational companies may deliberately not maintain proper and required records to stall or frustrate the process of ascertaining transactions done at arm's length by tax authorities. In addition, it may be difficult for the tax authorities to obtain the necessary

information to conduct an informed transfer pricing risk assessment as the transfer pricing documentation requires a lot of paper work which may become cumbersome to maintain and keep track of

Based on the findings of the study, the following recommendations are proffered.

(i) Tax authorities should continue to reinvigorate their strategies in checkmating loopholes exploited by taxpayers to perpetrate tax fraud through transfer pricing scheme.

(ii) Tax officials should be appropriately trained from time to time on the various dimensions that these strategies can be re-invented by the taxpayers to evade and avoid tax through transfer pricing scheme.

(iii) Interests must be imposed on underpaid taxes as a result of wrong or inappropriate calculation of tax liabilities under the transfer pricing arrangement.

(iv) There must be strict enforcement of maintenance of proper records of transactions to ensure that the arm's length principle is adhere to.

(v) Tax authorities should impose stiffer penalty on defaulters to enforce compliance with appropriate measures such as deliberately not maintaining proper books and required records to stall/frustrate the process of ascertaining transactions done at arm's length.

(vi) Imposition of stiffer penalties on multinational companies leveraging on transfer pricing schemes to reduce tax liabilities is strongly suggested. This should be varied and revised from time to time to maintain their potency in checkmating transfer pricing fraud.

(vii) As transfer Pricing Documentation requires lots of paper work which may become

cumbersome to maintain and keep track of, it is imperative to embark on effective automation of the tax administration to ease the process of checkmating transfer pricing scheme fraud.

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