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The Impact of Taxation on Transfer Pricing in Nigeria Economy

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Abstract

This study aimed to examine the impact of taxation on transfer pricing in Nigeria economy. To achieve this objective, 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. This time period was considered long enough to establish a causality relationship between the study variables, whereas, the availability of data relevant for the study was also a justification for determining this time period. 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 revealed that company income tax and personal income tax have negative impact on transfer pricing in Nigeria. In addition to this, 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. 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.

1.0. Introduction

Economic growth of every nation depends on the efficient use of tax which is being generated through their citizen taxation is the price which civilized communities pay for the opportunity of remaining civilized Taxation is a one main source of government revenue all over the world and governments use tax revenue to render their social function, promote wellbeing of the masses, such as: the provision of infrastructural facilities across the countries, maintenance of law and order, provision of securities against external aggression, regulation of trade and business to ensure social and economic maintenance (Oyunda, 2015). Taxation a good source of generating income and mobilizes a nation's internal source of income and it lends itself to creating an environment that is conducive for the promotion of economic growth (Dubin, 2004). Therefore, taxation plays a major role in assisting a country to meet its financial obligation and promote self-reliance. The need for tax payments has been a phenomenon of global significance as it affects every economy irrespective of national differences (Fama & French 2014).

Transfer pricing in the general sense is the process of establishment the in-house prices (so-called transfer prices), where goods, services, money and other assets are transferred from one business unit to another, as well as the following calculation of the financial result of each business unit inconsideration of these transfer prices. Sometimes these operations are not carried out directly between units, but via special intermediary units (transfer centres) (Jensen.& Meckling, 2016). At the same time, in economic and legal literature transfer pricing is often defined as distortions of contractual price or distribution of incomes or losses to minimize the tax burden (Jensen et al., 2016; Danies, 2014). Regional aspects of taxation in developed countries and possibilities of their harmonization are represented in a number of scientific works ((Jensen et al., 2016; Danies, 2014).

Transfer pricing are used in transfers between branches of a multinational company whose object is the sell of goods, provision of services, collection of lease incomes and collection of interests resulted from intra-company loans. These issues are administratively settled depending on the economical and fiscal interests of the company.(Claessens & Djankov,2012)

There are several situations that may occur during the transfer pricing set process: the transfer pricing equals the full competition price and the net consolidated profit comes from following the full competition principle; the transfer pricing is set at market price level, so in other words it equals the full competition price, yet the full competition principle is not being followed (Dechow, Sloan., & Sweeney, 2015).

In the case where the multinational company seeks to transfer the profit of the mother company to its branches in order to benefit from a lower taxation that the one in its origin (Danies, 2014). The transfer pricing is then set to breach the full competition principle, thus resulting in fiscal fraud

Transfer pricing can be reasonably considered as an economic and legal tool used by business entities for optimization of their tax burden. Price manipulation may provide significant tax benefits to business entities on condition that it is implemented within the legal framework (Demsetz, 2018). However, the state incurs losses due to tax planning because tax payments do not go into the budget in full. Consequently, the use of transfer pricing results in avoidance of disclosure of their real incomes by taxpayers that undermines financial potential of the national economy. In this regard, Chen, Lee, & Shrestha, (2014) points out that transfer pricing is a method of resources redistribution and taxation optimization that affects distribution of income, profits, risks and quality of life.

Managing transfer pricing is intended to provide better coordination and regulation of relations between economic variables, reducing total costs, increasing employees' motivation. Thus, the contractual freedom principle is the driving source of private legal relations because it grants its participants the right to determine all contractual terms and conditions, including price, at their discretion. Thus, generally, individuals are free to determine the price of goods, works and services. Usually business entities pursuing profit provide market price in the contracts with their contractors. At the same time, through transfer pricing tools the parties may abuse their right to freely determine the price of the contract, deliberately overstating or understating price. The latter is aimed at the base erosion and, consequently, tax avoidance (Chen et al, 2014)

In this regard, it should be admitted that the structure of the tax systems of most countries is largely based on the taxation of the companies' financial results. The amount of income affects the amount of corporate income tax base, value added tax base, capital gains tax base. In turn, the profit is generated based on the amount of income received and the amount of the expenses incurred. The prices, at which transactions are performed, are a key factor affecting the amount of revenues and expenses. Therefore, pricing provides large opportunities for profit distribution between the dependent organizations, and such distribution is carried out in a way that is the most profitable for the holding as a whole (Kato, Ohnuma & Sakurada, 2015).

Governments, through their tax systems, have a vested interest in ensuring that appropriate profits are reported in their jurisdiction. Government concerns are heightened when one of the parties to a related-party transaction is subject to tax at a rate that is considerably less than that applying in the other related party's country. In addition to tax-rate pressures, other government pressures can be brought to bear on the transfer-pricing decision, including heavy penalties or restrictive measures dealing with related-party transactions" (Kato *et al*, 2015).

Deciding intra-group transfer prices is a complex and difficult process. For deciding transfer prices, MNCs have to take into account a wide range of factors, of which tax and tariff are the most important ones. Although, through various tax and economic reforms, countries across the globe have generally reduced corporate tax rates, differences in international tax rates still persist in international fiscal environment. Multinational organizations are inclined to reduce their total tax burden, by practicing shift of income from highly taxed countries to lightly taxed countries. Shifting of reported income can be attained by manipulation of transfer prices for international transactions. In view of this, this study aimed to examine the impact of taxation on transfer pricing in Nigeria economy.

2.0. Literature Review

2.1.1. Concept of Taxation

Taxation is a tool employed by the government of a nation for generating public funds (Allen & Cebenyan, 2004). It is a required payment imposed by the government on the income, profit or wealth of individuals, group of persons, and corporate organizations. According to Chen, Chen, Cheng and Shevlin (2010), a well-designed tax system can help governments in developing countries prioritize their spending, build stable institutions, and improve democratic accountability.

The main purpose of tax levied on the individual is to assist government to raise fund through the individual to enable public sector finance its activities so as to achieve some nation's economic and social goals. It can also be for the purpose of redistribution of wealth to ensure social justice (Ola, 2001). Therefore, taxes can be used as an instrument for achieving both micro and macroeconomic objectives especially in developing countries such as Nigeria. However, Musgrave and Musgrave (2004) comment that the dwindling level of tax revenue generation in the developing countries makes it difficult to use tax as an instrument of fiscal policy for the achievement of economic development.

2.1.2. The Concept of Company Income Tax (CIT)

Company income tax (occasionally called corporate tax) is a tax levied on the profit of all companies operating within Nigeria. In the 1980s, the tax rate was 45% of the companies' declared profits, but this has now been reduced to 30%. Supporting this, Adereti (2016) and Fama and French (2014) argued that this tax is payable for each year of evaluation of the profits of any corporation at a rate of 30%. It is governed by Company Income Tax Act (CITA) 1979 as amended. Put differently, Company Income Tax Act, 1990 is the current enabling law that governs the collection of taxes on profits made by companies operating in Nigeria. It is relatively easy to collect as a result of government persistence on the submission of tax certificates in respect of any official responsibility from administration by corporations. This tends to promote obedience. However, the administration of companies' income tax in Nigeria does not measure up to appropriate standards. If good old tests of equity, certainty, convenience and administrative efficiency are applied, Nigeria will score low considering the following points: due to poor monitoring, people in the self-employed and unquoted private companies group evade tax. Therefore, company income tax is one of the most important sources of revenue collection for the Government of Nigeria (Hanlon & Slemrod, 2009).

2.1.3. The Concept of Petroleum Profit Tax (PPT)
This is a tax imposed on the profit of oil producing companies in Nigeria. That is, the petroleum profit tax is subject to any occupant or resident company or anyone in charge of a nonresident company who are exploring petroleum or producing it. This also includes any liquidator, recipient, or agent of liquidator or recipient of any corporation carrying on petroleum operations in Nigeria. It is regulated by Petroleum Profit Tax Act (1959) as amended. Yabei and Shifemi (2008) argued that petroleum profit tax is singled out because of the significance of oil in the Nigerian public revenue performance. It is the most significant tax in Nigeria in terms of its share of 95% of government revenue and 70% of total foreign exchange earnings. Therefore, it has become a significant source of revenue because of the extraordinary position which petroleum occupies in the Nigerian economy. The main problem or difficulty of this source of revenue is the variation resulting from price fluctuation of crude oil prices in the international market. This implies that, the basis period for any year of assessment is the same as the accounting period of the company.

2.1.4. The Concept of Custom and Excise Duties (CED)
Custom duties are taxes levied on imported items while excise duties are taxes levied on the manufacture of domestic commodities. Put differently, excise duties are taxes imposed on some goods that are manufactured in a country, such as cigarettes, tobacco, furniture, etc. they are imposed to generate money for the government and to discourage the manufacturing and consumption of certain goods deemed harmful to people's health. Custom duties can be used to defend home industries from well-organized industries abroad. Customs duty is based usually on the worth of goods or upon the weight, dimensions, or some other criteria that will be determined by the government. Customs and excise duties are the oldest forms of modern taxation. (Anderson & Reeb, 2003)

2.1.5. Concept of Transfer Pricing

Transfer pricing in the general sense is the process of establishment the in-house prices (so-called transfer prices), where goods, services, money and other assets are transferred from one business unit to another, as well as the following calculation of the financial result of each business unit inconsideration of these transfer prices. Sometimes these operations are not carried out directly between units, but via special intermediary units (transfer centres) (Fields & Mais, 2004)

Because of divergent proliferation of national rules, controversies concerning transfer pricing between fiscal authorities of different countries shall enhance, leading to the unwanted situation of double taxation of multinational companies, which may concern huge amounts of money. Through transfer pricing – used and invoiced prices between the companies within the same multinational company – the multinationals actually determine where they generate value and what the proper amount of taxes is for each of the involved countries. So, fiscal authorities undertake periodical checking to make sure these internal agreements regarding prices are adequate (Kim & Lu, 2011).

2.1.6. Methods of Transfer Pricing
Okoye (2011) grouped transfer pricing methods into three categories: cost-based, market-based and negotiated. Choi and Mueller (1992) identified four categories: comparable uncontrolled, resale, cost-plus and other pricing methods. Meanwhile, Ezejelue (2008) classified two broad groups: traditional transaction methods and profit methods. These methods aim to maximize the profit and optimize the performance of MNC members or transaction enterprises.

2.1.7. The Nigerian Tax Laws on Transfer Pricing
The key principle of transfer pricing is based on the arm's length rule which means that pricing term between related firms or companies in the exchange of goods and services should realise same result as if they are unrelated. Furthermore, related companies must act as if they are unrelated. The purpose of this requirement is to ensure that profit which should be liable to domestic tax does not become a gain

to another country to which profit is shifted. Tax on transaction between related companies is provided in Nigerian tax laws elucidated in section 13 (2) (d) Companies Income Tax Act (CITA) laws of the federation 2004. Similarly, section 11 (2) (d) of the Nigerian Tax Law of 1990 cited in (Onyeukwu, 2007) in a nutshell explains that:

(i) The profits of a foreign company in Nigeria from any trade or business are deemed to be gotten from Nigeria.
(ii) Where transactions between the companies are deemed fictitious, the profit can be adjusted by the tax board to reflect arm's length transaction.

Section 18 of the Nigerian Tax Law of 1990 clarifies on the meaning of artificial transaction as follows:

Where the tax authority is of opinion that a transaction is fictitious or would reduce tax payable by a company, it is required that such disposition should be adjusted and liable to tax as considers appropriate without ostracizing companies involved in the fictitious transaction. This suggests that the tax authority is conferred with the onus of making adjustments where the internal pricing system of the related parties does not reflect the open market prices.

In a nutshell, the implication of the aforementioned sections of the Nigeria laws is that the issue of determining transfer pricing with regards to Nigeria is a subjective judgments by the tax authority and makes adjustment to capture the arm's length treatment of intercompany transactions if it will instigate threats of taxation. In Nigeria, some factors which can trigger recognition of transactions between companies as being at variance with arm's length principle and may in turn forces tax authority to subjective judgments.

2.1.8. Impact of Taxation on Transfer Pricing and the Host Country

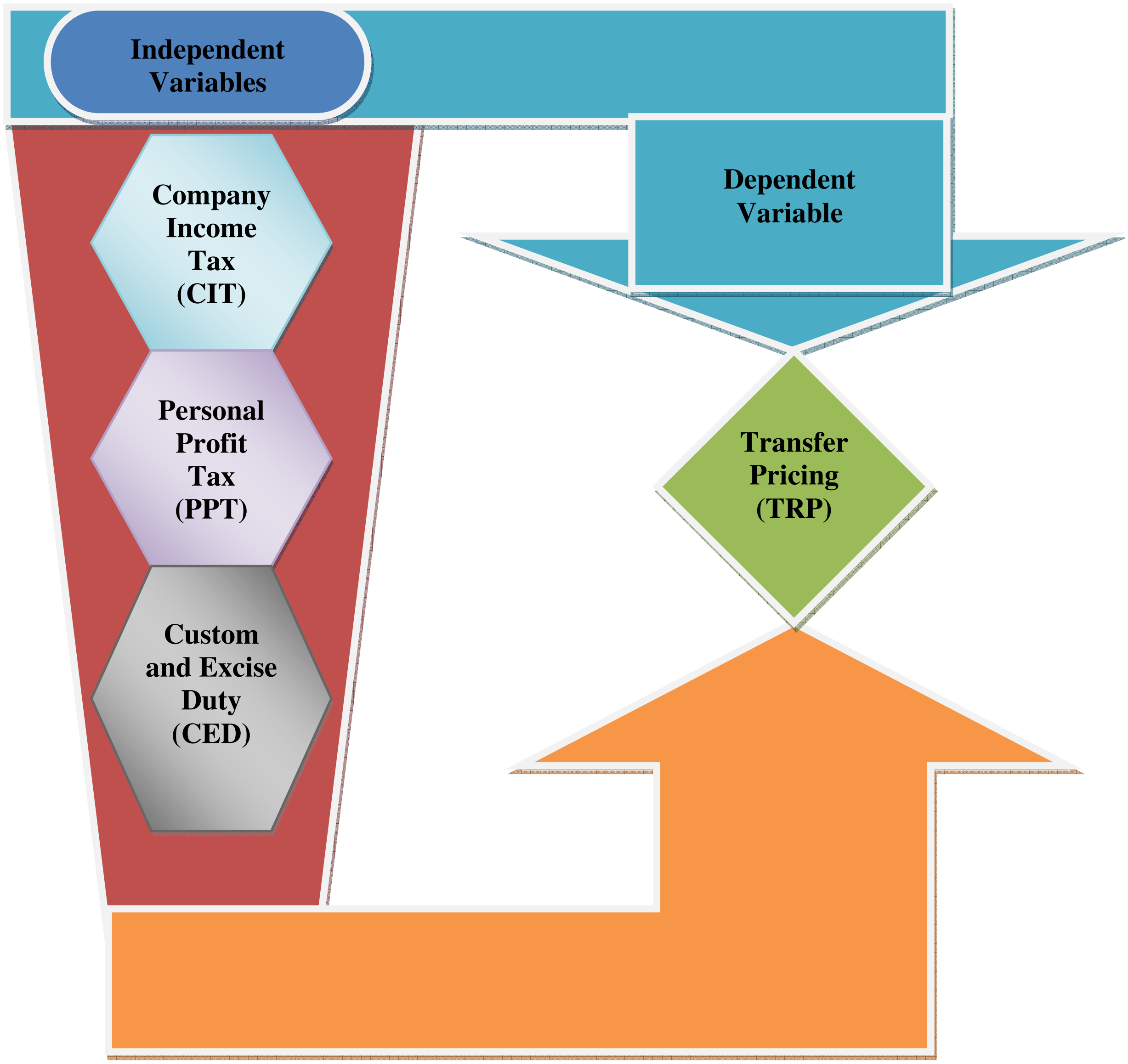
Many papers study the impacts of transfer pricing on the economy. Obaji (2005) concluded that transfer pricing has an important role in Multinational companies activities, which helps minimize the negative impact of inflation and fluctuation of foreign exchange rates; it also helps to achieve the long-term target of MNCs because it relates to many activities such as taxation, production, marketing, and finance policies. Pantzalis (2015), studied transfer pricing in France and discovered that transfer pricing activities caused a decrease in export value (0.7%) and an increase in import value (0.5%); this event reduced the national income tax by approximately US$ 8 billion in 2008, and this reduction grew through the 2000s. Thus, Tax system reduce the risk of dual tax declared income is lower than their actual income. Through taxation and transfer pricing, especially divisions of MNCs, aim to lower their income tax and usually use the transactions between the divisions of MNCs or transactions the parent company to do so.

In many countries, governments accept these transactions, but enterprises must respect the Arm's-Length Principle (ALP). The ALP is a principle of the OECD to control the price of goods and services of transaction partners. Transfer pricing may cause an enterprise's reported to be lower than its true value. In host countries, governments usually aim to attract MNCs to develop the economy and issue policies to attract foreign investment while maintaining acceptable side effects. However, the tax authorities of many countries usually blame FDI enterprises for tax losses that directly affect the national budget. Many critics accuse MNCs

of changing the structure of national capital, causing difficulty in macroeconomic management. Transfer pricing triggers unfair competition and inequality among the same business enterprises of host countries. In fact, FDI enterprises, especially MNCs, have changed their policies to adapt to new competitive environments. Currently, transfer pricing is not a good way to increase profits if enterprises have a smart vision for the future.

2.1.9. Conceptual Framework of Taxation on Transfer Pricing in Nigeria Economy

Figure 1:



Source: Researchers' Impact of Taxation on Transfer Pricing in Nigeria Economy Model, 2020

2.2. Theoretical Review

This work is based on the following principles: principle of taxpayer ability to pay, principle of benefit or utility approach and the arm's length principle which are provided as follows:

2.2.1. Principle of Ability-to-Pay

According to this theory, the taxes should be levied according to a person's ability to pay base on his or her earnings. It focused on the income of the tax payer to meet up the tax payable and that entity or individual with higher tax base should be subjected to higher tax payment than an entity or individual with lower tax base The economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay (Naiyeju, 1996 as cited by Osho, Omotayo & Ayorinde, 2018; Osho, Olemija & Falade, 2019). It is widely known that income generated by the government should be expected from those that have and not from those who have not. This principle has in existence since the sixteenth century. This principle of ability to pay is definitely the best equitable tax system, and this has been widely practice in industrialized nations. The common and most maintained reasoning of ability to pay is on the bases of sacrifice by one party to another. The disbursement of taxes is regarded as a dispossession to the taxpayer; this is because taxpayers submitted taken amount to the government which instead he may have utilize for another personals benefits. Conversely, there is no adequate and compacted method to the measure the fairness of sacrifice in this concept, as the case may be evaluating the absolute, marginal or proportional terms.

2.2.2. Principle of Benefit or Utility Approach

Theory profess and advocate that there should be equity or fairness in taxation stresses that an individuals would be asked to submit a tax proportion to the welfares he receive in turn from the services provided by the government. The ethical appeal of the benefit principle is rather obscure. If we grant that an agent's tax should be related to the benefit he receives from public goods and services, important questions remain: exactly what should this relationship be and does vertical equity obtain from benefit taxation (Jon, 2000)? Despite the theory is viewed as interchange relationship between taxpayer and the government, many challenges was sighted in applying the theory. The most serious problems facing this principle of utility or benefit approach is how to quantify and measure the received (enjoyed) benefit by taxpayer from the services provided by the government. The theory can only be applied in a situation where the beneficiaries are easily and clearly traceable. Therefore, the benefit principle is more easily defended on efficiency grounds. Also principle of benefit approach can be applied to the workers who have a network of social security program (Jon, 2000). According to Nwankwo, (1992) as cited by Osho, Omotayo and Ayorinde (2018) and Osho, Olemija and Falade (2019), this theory states that the more benefits a person derives from the activities of the state, the more he should pay to the government. Therefore, this principle can only rendered restricted solution to the issue of equity and fairness in the domain of Taxation.

2.2.3. The Arm's Length Principle

Transfer pricing is governed by section 482 of the Internal Revenue Code. Section 482 highlights the "Arm's Length" principle as follows:

In determining the true taxable income of a controlled taxpayer, the standard to be applied in every case is that of a taxpayer dealing at arm's length with an uncontrolled taxpayer. A controlled transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if uncontrolled taxpayers had engaged in the same transaction under the same circumstances (arm's length result).

John (2001), transfer Pricing Guidelines provide a framework for settling such matters by providing considerable detail as to how to apply the arm's length principle. In the hypothetical French-Dutch bicycle case, the French MNE could ask the two tax authorities to try to reach agreement on what the arm's length transfer price of the bicycles is and avoid double taxation. It is likely that the original transfer price set by the MNE was wrong because it left all the profit with the manufacturer, while the Dutch proposal erred on the other side by wanting to transfer all the profit to the distributor. Revenue and expenses must be priced at a market price. The fact that two parties are under common control must not change the substance of the transaction to be one that is different from a transaction involving normal market conditions. Further, since pairs of transactions are hardly ever perfectly identical, taxpayers must use the "best method rule", which dictates using comparable transactions and circumstances in determining prices for transactions between related parties.

The application of the "Arm's-Length" principle can be quite straightforward for the tax authorities and other regulatory agencies when the transactions in question are for basic goods and services. This means that the fair market prices of those transactions are readily available to other market players, and thus, it is easy to determine if related party transactions are in compliance.

3.0. Methodology

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. This time period was considered long enough to establish a causality relationship between the study variables, whereas, the availability of data relevant for the study was also a justification for determining this time period. Data was collected on the study variables (CIT, PPT, CED and TRP).The scope of this study through the annual time series spanned from 2009-2018, a nine-year period. 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). This source of data is considered reliable and dependable.

The model examined the Impact of Taxation and Transfer pricing in Nigeria, where by Company income tax (CIT), Petroleum Profit Tax (PPT) and Custom Excise Duty (CED) being the independent , proxy for Taxation, as a function of Transfer Pricing (PT), the dependent variables**.**

3.1. Model Specification

To achieve the objectives of this study and test the hypotheses the following Structural Vector Autoregressive model was developed to capture the causality relationship between CIT, PPT, CED and TRP:

$TRP = f\ (CIT, PPT, CED)$

The above model was translated into a specific regression equation as stated below:

$TRP = \beta_0 + \beta_1 (CIT) + \beta_2 (PIT) + \beta_3 (CED) + e$

Where

TRP = Transfer Pricing

CIT = Company Income Tax, one of the independent variable PPT = Personal Profit Tax, the second independent variable

CED = Custom and Excise Duty, third independent Variable

β_0 = is the constant term β1,

β_2, = are the coefficients of the independent variables

e = is the error term of the equation

Table 3.1: Measurements of Variables and Expected Associations with Taxation

Variables	Symbols	Unit of Measurement	Expected Signs (Apriori Expectation)
Dependent Variable			
Transfer Pricing	TRP	(1-5Likert Scale) Ordinal	
Independent Variables			
Company Income Tax	CIT	(1-5Likert Scale) Ordinal	+(high company income tax regulation, high transfer pricing)
Petroleum Profit Tax	PPT	(1-5Likert Scale) Ordinal	+ (Petroleum Profit Tax compliance, high transfer pricing)
Custom Excise Duty	CED	(1-5Likert Scale) Ordinal	(high custom excise duty tax compliance , high transfer pricing)

Source: Authors' desk report, 2020

3.2. Estimation Technique

Unit Root

Time series data are mostly non stationary and to solve this problem, this study employed 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.

4.0. Results and Discussion

4.1. Stationary Test

The study performed the Augmented Dickey Fuller (ADF) and Philip Perron (PP) unit root test to ascertain the stationery of the time series variables in other to avoid spurious result from modeling non stationary variables. The result of the test is presented in Table 1.

Table 4.1: Augmented Dickey Fuller (ADF) and Philip Perron (PP) Unit Root Test

Variables	ADF Test	Critical Value 5%	Integration	Pp test Statistic Value	Critical Value 5%	Integration	Remark
TRP	-3.682178	-3.544284	1(1)**	-5.424892	-3.544284	1(1)**	Stationary
CIT	-5.532458	-3.544284	1(1)**	-7.055084	-3.544284	1(1)**	Stationary
PPT	-3.554147	-3.544284	1(1)**	-3.644592	-3.544284	1(1)**	Stationary
CED	-4.1054147	-3.544284	1(1)**	3.697875	-3.544284	1(1)**	Stationary

Note (**) represent the level of significance at 5%
Source: Authors' Computation 2020

The unit root test in Table 1 showed that all the variables were stationary at 5 per cent level of significance. The Transfer Pricing, Company income tax, petroleum profit tax and Custom excise duty were all stationary at fist difference .The reason behind this is that the Augmented Dickey Filler (ADF) and Philip Peron (PP) test statistics of each of the taxation variables was greater than 5 per cent critical value of each of taxation variables in absolute term, This results implies that there is relationship between both dependent and independent variables

4.2. Structural Vector Autoregressive (SVAR)

To examine the impact of taxation on transfer pricing in Nigeria, Structural Vector Autoregressive (SVAR) was used. The estimated result is presented in Table 2.

Table 4.2: Auto egression results Dependent variable = TRP

Variable	Coefficient	Std. Error	t-statistic	Prob
Const.	22861.40	22360.03	-2.445310	0.5133
CIT← TRP	44431.32	14590.30	-3.115262	0.0146
PPT← TRP	33431.20	33590.09	-3.665290	0.0072
CED←TRP	29301.80	2931.357	4.096541	0.0064

Squared	0.842150	Mean dependent var	48063.73
Adjusted R-Squared	0.533424	S. D. dependent var	27548.52
S. E. or regression	10929.23	Akaike info criterion	32.71733
Sum squared resid	7.17E+08	Schwarz criterion	27.44848
Log likelihood	-104.6272	Durbin-Watson stat	1.874493

Source*:* Authors' computation 2020

The result in table 2 revealed the statistical and theoretical significance of the estimated parameters of the regression result that is, the correlation between CIT, PIT and TRP. It is found that all the independent variables are significant and positively related to TRP. The result of this study supports the research findings of (Jensen et al., 2016; Danies, 2014, Darussalam, & Septriadi, 2015).

The explanatory power of the model as given by the R^2 0.90 or 90 per cent is statistically significant given the high value of the adjusted R^2 value of 0.85 or 85 per cent. This also means the independent variables jointly and adequately explained or accounted for changes in the dependent variable. The calculated Durbin Watson (DW) value is 1.874493 which is less than 2.0 indicated that there was no autocorrelation between the independent variables.

The structural Autoregressive model demonstrates a good fit given that about 85 per cent of the variation in the dependent variable (TRP) is jointly explained by changes in the behaviour of CIT, PPT and CED. The relatively high adjusted R^2 of 0.85 or 85 percent showed that the model is a good fit.

CIT have statistically reflected a positive significant relationship with TRP, this is given the fact the Prob. value of CIT is , and this 0.00146 is less than the critical value of 0.05.PPT had statistically positive significant relationship with TRP given the Prob. value of 0.007 and less than critical value of 0.05.while CED had statistically positive significant relationship with TRP given the Prob. value of 0.006 and less than critical value of 0.05. This means that CIT, PPT and CED have positive effect on TRP. The results of the study analysis have shown that company income tax and personal income tax have negative impact on transfer pricing.

5.0. Conclusion

The result of this study suggests that the taxation is negatively associated with transfer pricing decision because an increase in income tax will definitely lead to an increase transfer pricing. The result is also in line with the result of research conducted by (Kim & Lu, 2011). in China, which suggested that the tax expense has a negative effect on transfer pricing decisions. Differences in tax rates in two or more countries where companies position are mutually related the main gateways for the company to open up opportunities for profit transfer through the transfer pricing mechanism- differences in tax rates and tax facilities applied to a country impact on the tax expenses borne by the company. Through this difference, the company conducts tax savings by minimizing the tax expense globally. Companies could take efforts in a diversion of profits — companies with high tax expense transfer profit to companies with the lower tax expense. Thus, the profits of the company would be reduced if the company has a higher tax expense so that the tax expense paid becomes smaller.

On the other hand, firms with lower tax expenses earn additional profits from the transfer of profits, so that the company's profits become larger. The tax expense paid by the company is indeed larger. However, the diversion of profits must have been through a careful calculation. The additional tax expense is paid by a company that receives a transfer of profit is less than a reduction in the tax expense enjoyed by the company that diverts the earnings. In fact, in extreme cases, companies transfer profit to a related company that is losing or has a fiscal loss compensation facility. Accordingly, the company that receives a profit transfer is virtually unnecessary to pay the additional taxes paid on the transfer of such profits. The difference between the tax expenses paid globally is the tax savings for the company. Through these mechanisms, it is clear that the country that bears the risk of profit shifting is a country with higher taxation jurisdiction. As a country with tax revenues as the biggest support of the state budget, the risks resulting from the diversion of profits could certainly threaten the state's fiscal balance.

The transfer of profit, in this case, could be conducted through the transfer pricing mechanism. The company set the transfer price outside the fair price in conducting transactions to related parties. When a company intends to make a profit transfer into the company, the company sets a higher price when conducting transactions with related parties. Thus, the company's earnings could be higher than if the company conducts transactions with non-relations parties. The transfer pricing mechanism is used to transfer earnings into a company is usually conducted by a company domiciled in a country with a lower or under-taxation jurisdiction in a loss condition.

Similarly, when the company intends to make a diversion of profits outside the company, the company sets a lower price when conducting transactions with related parties. Thus, the company's earnings could be lower than if the company made transactions with non-relations parties. The transfer pricing mechanism is used to transfer earnings outside the company is usually done by companies domiciled in countries with higher tax jurisdictions. The country ends up losing the tax base and enduring the potential loss of tax revenue due to transfer pricing. This is evident from the result of this study, which shows that the tax expense has a negative effect on transfer pricing. The negative direction in the result of this study means that when a company's tax expense is lower, then the transfer pricing rate is higher. Increased transfer pricing is due to more and more profits are transferred to the company. For countries with lower tax jurisdictions, this may indeed be an additional tax base and increase revenues from the tax sector even though these additions are much smaller than the potential loss of tax revenues from countries with higher tax jurisdictions. However, it recalled that the transfer of profits through the transfer pricing mechanism is common to take advantage of the condition of a losing related company. Accordingly, additional earnings transfers do not result in additional taxes payable to companies receiving income transfers. In other words, countries with lower tax jurisdictions may not necessarily benefit from the transfer of profits through the transfer pricing mechanism. The result of this study could be a consideration for the Indonesian government to participate in the tariff war. The certain countries are willing to lower tax rates to a minimum to increase investor appeal.

On the one hand, the position of tax rates in Nigeria is high enough to bring the risk of losing tax revenue due to the practice of profit transfer through the transfer pricing mechanism. On the other hand, the tariff reduction does not necessarily eliminate the risk. It is precisely the other risks such as the decline in tax revenue that become the state budget directly accepted due to the reduction of tax rates.

Besides the influence and direction of the research result proving that the tax expense has a negative effect on the transfer pricing, one more thing that needs to be observed from the result of this study is the value of the variable coefficient of the tax expense. The result of this study indicates that any increase/decrease of 1 basis points of the tax expense would result in the possibility of companies making a transfer of profit through transfer pricing decreased or increased. This high coefficient value indicates that the impact or influence of variable tax expense is very sensitive to transfer pricing. The result of this study provides attention (warning) for the government to be more careful in every tax policy that affects the tax expense of companies in Nigeria. Such policies may include the establishment of a tax rate, a tax reduction rate facility, and a fiscal loss compensation policy although the determination of these policies must have been through a mature calculation and done to achieve certain goals, such as increasing the attractiveness of investors, giving space for companies in certain industries to grow, and others. However, 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 which implies that an increase in the level of the tax automatically reflect on transfer pricing. The consistency of the result of this study corroborates evidence that over time, in different samples, even by different measurements, the tax expense has a negative effect on transfer pricing.

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