TAX AGGRESSIVENESS AND CORPORATE SOCIAL RESPONSIBILITY IN THE NIGERIAN MANUFACTURING SECTOR

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Abstract

The objective of this study is to ascertain the relationship between corporate social responsibility and aggressive tax behaviour of Nigerian firms. The study was restricted to the manufacturing sub-sector with the time scope of eleven years (2007-2017). A sample of thirty firms was selected using random sampling technique. The study employed the Least Square statistical technique to ascertain the relationship between the dependent and independent variables. The result shows that there is a positive relationship between corporate social responsibility and aggressive tax behaviour of the Nigerian manufacturing firms. This study recommended that researchers that intend to veer in this area of study should examine the impact of CSR on tax aggressiveness in the presence of earnings manipulation.

Keywords: *Tax Aggressiveness, Risk Management Strategy theory, Corporate Social Responsibility*

INTRODUCTION

The primary motive for carrying out any business organization is to make a profit and to achieve this motive managers strategically lookout for ways to minimize cost in order to maximize profit. One area that managers strategically reduce cost is an area of taxation. Klassen, Lisowsky and Mescall (2016) document that managers in recent times have marshalled out legal means to whittle down cost via reduction of tax expenses. One among many mechanisms that managers can use to reduce tax expenses is aggressive tax mechanism. França, Moraes and Martinez (2015) report that tax aggressiveness is an integral part of the overall business plan which is geared toward the reduction of tax expenses.

An aggressive firm will always go for an option that permits minimal tax burden when transactions are made. Lanis, Richardson and Taylor (2017) opined that when structuring transactions, managers always look for the forms and alternatives that guarantee the greatest tax savings. In certain clans, this conduct is assumed to be legally dubious. However prior studies have shown that tax aggressiveness can be used as a tax-saving vehicle for cutting costs in order increase shareholders' wealth (Graham & Tucker, 2006; Hanlon & Heitzman, 2010; Hanlon & Slemrod, 2009).

The determinants of aggressive tax behaviour are not certain. Various factors have been suggested by different researchers in extant literature to be responsible for aggressive tax behaviour. Some scholars (Desai & Dharmapala, 2006, 2009; Dyreng, Hanlon & Maydew, 2008) suggest that firm characteristics are the major determinants of tax aggressive behavior of managers while on the contrary other scholars (Kubick, Lynch, Mayberry & Omer, 2015; Huang,Lobo, Wang, & Xie, 2016; McGuire, Omer & Wilde, 2014) argue that the attributes of firms' operating environment (environmental factors like product market competition, customer concentration and the set of investment opportunities) are key determinants of managers' aggressive tax behaviour. The modality school of thought (Brown & Drake, 2013; Cheng, Huang, Yinghua Li & Stanfield, 2012; McGuire, Omer & Wang, 2012; Klassen et al., 2016; Khan,Srinivasan ,2017) argues that some gatekeepers, such as corporate networks industry expert accounts activities hedge funds and institutional investors facilitate or inhibit aggressive tax behaviour in certain settings.

Logical reasoning suggests that there is a link between aggressive tax behaviours and Corporate Social Responsibility (CSR). However, prior studies have not been able to establish the relationship between tax aggressiveness and CSR. Some authors suggest that CSR impacts tax aggressiveness while others argued that aggressive tax aggressiveness impacts CSR. Some studies suggest that firms use CSR as tax shelters while other scholars argue that firms that take advantage of tax shelter are socially irresponsible (Erle, 2008; Schön, 2008; Lanis & Richardson, 2012). The argument that is brought to the fore is that tax shelter reduces tax revenue which in turn result to lower the provision for public goods by government. Very few works have done on the relationship between Corporate Social and tax aggressiveness in the Nigerian content. Against this backdrop, this study is aimed at ascertaining the relationship between CSR and tax aggressiveness in the Nigerian Manufacturing sector.

LITERATURE REVIEW

Conceptual Framework

Corporate Social Responsibility

The EU (2016) sees corporate social responsibility a situation whereby companies voluntarily go beyond what is required by the law to achieve the social and environmental objective in the course of carrying out their daily business activities. Knuutinen (2016) document that the concept CSR refers to the operations or actions of companies that are above or independent of the limit or minimum requirement set by legislation Society expects companies to act in socially responsible ways. In other words, society sets the expectation for business to reflect its ethical norms. McWilliams and Siegel (2001) define CSR as actions that appear to further some social good beyond the interests of the firm and that which is required by law. The World Business Council for Sustainable Development (2000) defines CSR as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and the society at large.

Tax Aggressiveness

Chen et al (2010) define tax aggressiveness as the effort of the company to minimize tax payments using aggressive tax planning activities and tax avoidance. Fran et al (2009) describe aggressive tax as the manipulation to lower tax income using tax planning that can be considered as tax management. Bruce at al (2007) report that the tax aggressiveness is a fervent action taken by companies to reduce their public debts from shaping and affecting their financial strategy scheme. Aggressive tax represents different handling activities to lower taxable income that can be legal or illegal. Desai and Dharmapal (2006) indicate that tax aggressive activities are characterized by complexity and obfuscation, which are practically difficult to detect. In fact, the most significant goal is to increase the net income of the company which creates a positive signal to foreign investors. Blouin (2014) explains that the lack of a definitive measure of tax aggressiveness is because there is little consensus as to how to define tax aggressiveness. She further explains how various types of tax planning have differing levels of risk, and argues that only tax planning .beyond acceptable, legislated or “known” tax deductions should constitute aggressive tax planning. This perspective stems from the observation that, in general, any innovative tax planning that capitalizes on uncertainty in the tax code could be deemed risky until it survives challenges by the tax authorities and/or the courts.

THEORETICAL FRAMEWORK

Risk Management Strategy Theory

Risk management strategy theory believes that CSR activities can enhance a firm's reputation for social responsibility to avoid risks of anti-political, regulatory and social sanctions. Godfrey (2005) argues that a positive social reputation is important when there is a negative event in business. This reputation helps to improve sanctions on the company's business, thus providing a degree of insurance coverage. Some schools of thought argue that tax aggressive behaviour can lead to negative sanctions such as loss of corporate reputation, increased political pressure, penalty imposed by tax bureaus and even consumer boycotts. They further report that smart manager use provision of CSR to hedge the negative effects of these sanctions.

Review of Empirical Studies

Lanis and Richardson (2012) carried out a study in Austral to determine the relationship between CSR and tax aggressiveness employing a cross-industry sample of 408 listed Australian. Their result reveals that higher levels of CSR activities are associated with lower tax aggressiveness; while for the disaggregate CSR components, corporate strategy and social investment items have negative and significant relationship with tax aggressiveness.

Hoi et al. (2013) carry out a study to find out the correlation between corporate social responsibility (CSR) and tax aggressiveness using quoted companies on the Australian stock market. Their result shows that showed CSR activities have a negative impact on tax aggressiveness. Landry, Deslandes and Fortin (2013) investigate the relationship between CSR and tax aggressiveness using archival data for 2004–2008 on panel data of Canadian firms. Their results reveal that family firms are less tax aggressive than non-family firms. Their findings suggest that tax behaviours are not necessarily aligned with corporate social responsibility. The findings underscore the importance of considering corporate social responsibility dimensions separately when investigating the relationship between tax aggressiveness and corporate social responsibility. Laguir et al. (2015) researched how different activities of social responsibility of a company influence the tax aggressiveness of the company. The results showed that tax aggressiveness of a company depends on the nature of socially responsible activities of the company. More extensive are the activities of the social dimension of a socially responsible company, lower is the level of tax aggressiveness.

Mgbame, Mgbame and Yekini, (2017) investigated the effect of corporate social responsibility (CSR) performance on tax aggressiveness of quoted Nigerian firms using cross-sectional research design. They used a sample of 50 companies for the period of 2007 to 2013. Their findings reveal that there is a negative relationship between CSR performance and tax aggressiveness in Nigeria. Agundu and Siyanbola (2017) perform a study in Nigeria to ascertain the relationship between CSR and tax aggressiveness employing Ordinary Least Square technique. Their results establish that tax aggressiveness has a positive relationship with CSR focal components (environmental enhancement and community involvement).

METHODOLOGY

This study applied a simple random sampling technique to select 30 manufacturing firms quoted on the floor of the Nigerian stock exchange market as at 31st December 2017. The researcher extracted information from the financial report of selected companies. This study adopted the modified version of Hanlonand and Heitzman (2010) to express the relationship between the dependent variable and the independent variable and it is written below:

$$TAGit = \beta_0 + \beta_1 FSZ_{it} + \beta_2 LEV_{it} + \beta_3 CSR_{it} + ?_{it} \quad \ldots \quad \ldots \quad \ldots \quad (1)$$

where:

TAG = Tax Aggressiveness
CSR = Corporate Social Responsibility.
FSIZE = Firm size (proxy by natural logarithm of total assets),
LEV = Leverage
$?_{it}$ = Error Term,
$\beta_0, \beta_1, \beta_2, \beta_3$= coefficients. A Prior expectation = $\beta_0, \beta_1, \beta_2$, and β_3>0.

Operation and Measurement of Variables

Variable	*Variable Label*	*Measurement*	*Source*	*Expected sign*
Dependent				
Tax Aggressiveness	**TAG**	*Effective Tax Rate*	Chen et al., (2010); Hanlon & Heitzman, (2010); Lanis & Richardson (2012).	
Independent				
Corporate Social Responsibility	***CSR***	*Donations made by the firm.*	Dabor and Dabor (2016)	**-**
Control variables				
Leverage	**LEV**	is measured as long-term debt scaled by asset	Ferguson, Pinnuck, & Skinner, (2013)	+
Firm Size	**FISIZE**	*Log of total asset*	Ferguson, Pinnuck, & Skinner, (2013)	+

Source: Researcher's Computation (2018)

PRESENTATION OF RESULT

Table 4.1: Descriptive Statistics

	Mean	*Max*	*Min*	*Stv.dev*	*JB*	*Prob*	*Kurtosis*	*Obs*
TAG	0.2229	1.97	-1.99	0.37	920.2	0.000	16.45	120
CSR	21471990	1.03E	215000	25062098	73.95	0.000	5.104	120
FSZ	7558.6	24528	160.0	6708.3	16.56	0.000	2.611	120
LEV	1.27	16.57	-4.1500	3.06	1092.2	0.000	15.90	120

Source: Researcher's Computation (2018)

Table 4.1 presents the descriptive statistics of the explanatory and dependent variables in the sample firms. The mean and standard deviation of TAG is 0.22 (22.20%) and the standard deviation of 0.37 showing that the tax aggressiveness as depicted by the effective tax rate of the sample is under the statutory tax rate of 30%. The low average effective tax rate by firms in the manufacturing sector implies they are have high aggressive tax behaviour the nature of payment of taxes in this sector fail to signify the statutory tax rates displayed by the government. The average amount expended on CSR is ₦215000 by firms within the period understudied. This implies that most manufacturing firms are committed to CSR activities. . However, the mean of firm size and leverage are 7558.6 and 1.27.

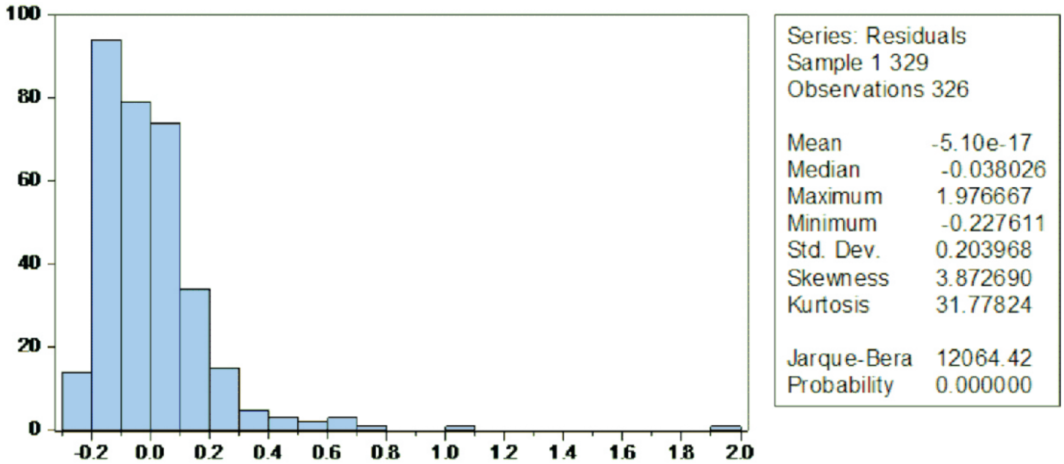
Table 4.2 Pearson Correlation Results

	TAG	CSR	FSZ	LEV
TAG	1.0000			
CSR	0.0799	1.000		
FSZ	0.0208	0.2365	1.000	
LEV	-0.1024	-0.0159	-0.1834	1.000

Source: Researcher's Computation (2018)

Table 4.2 reveals a correlation matrix of variables. The result shows that there is a positive relationship between CSR and effective tax rate as depicted by a correlation coefficient of 0.08. In the same vein firm size exhibit a positive correlation with an effective tax rate as depicted by a correlation coefficient of 0.02. However, leverage exhibits a negative correlation with aggressiveness tax as depicted by -0.10. Furthermore, CSR exhibits a positive correlation with firm size with CSR as depicted by a correlation coefficient of 0.237. This implies that corporate responsibility is a function of the firm size. Finally, the result shows that leverage has negative correlation with firm size and CSR as depicted by a correlation coefficient of -0.015 and -0.183 respectively.

Normality Histogram



Source: Researcher's Computation (2018) using e-views 9

The further strengthened the Jarque–Bera statistics reported in table 1. The result reported in figure 1 signifies a bell–shape histogram with mean of -5.10e and Jarque-Bera value of 12064.0 and associated probability value of 0.000000 which signifies normal distribution of the regression variables.

Table 4.3 Regression Result

Dependent Variable: TAG				
Variable	**Coefficient**		**t-Stat**	**Prob**
C	0.2656		22.851	0.000
CSR	1.68E		6.169	0.000
FSZ	-7.98E		-1.790	0.074
LEV	-0.083		-12.135	0.000
R-squared	0.65	F-Stat		81.00
Adjusted R-squared	0.64	Prob		1.94

Source: Researcher's Computation (2018)

From the regression table 4.3, the R-square of 0.65 indicates that the independent variables explain 65%of the changes in the tax aggressive behaviour. The result shows that CSR has a positive relationship with tax aggressiveness at 5% level of significance. The positive sign of the coefficient of the CSR implies that more firms spend on CSR activities the lower their tax aggressive behaviour. The significant coefficient of the control variable, leverage relates to the opinion that the high debt ratio lowers the aggressive tax behaviour of firms. Furthermore, the result shows that firm size is also not significant, this indicates that tax aggressive behaviour is not a function of firm size.

CONCLUSION AND RECOMMENDATION

Tax is one of the furthermost corporate expenses expended by corporate entities. Thus, managers have financial inducements to exhibit aggressive tax behaviour. Suffices to say that aggressive tax behaviour can undesirably tarnish the corporate image of a firm. The argument over the years is that paying taxes is an integral part of corporate social responsibility. Socially responsible firms go the extra mile to preserve their good reputation by been less tax aggressive. This study examines if socially responsible firms are less tax aggressive. The result shows that socially responsible firms are less tax aggressive. This study recommends that researchers that intend to veer in this area of study should examine the impact of CSR of tax aggressiveness in the presence of earning manipulation.

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APPENDICES

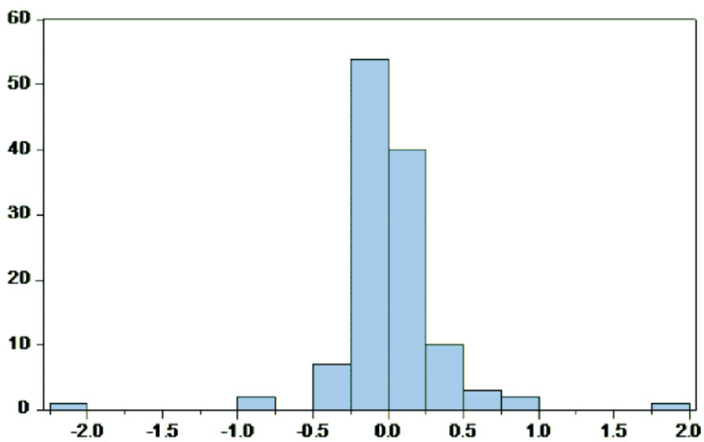
Appendix 1: *Descriptive Statistics*

	TAG	*CSR*	*FSIZE*	*LEV*
Mean	0.188037	13659092	10548.38	0.601503
Median	0.150000	7190124.	6000.000	0.590000
Maximum	2.160000	1.03E+08	132000.0	4.930000
Minimum	0.000000	215000.0	308.0000	-0.870000
Std. Dev.	0.204458	18397511	14203.74	0.488561
Skewness	3.846769	2.505298	4.850317	2.752477
Kurtosis	31.31323	9.611115	37.12972	24.26042
Jarque-Bera	11692.93	934.7087	17100.60	6551.378
Probability	0.000000	0.000000	0.000000	0.000000
Sum	61.30000	4.45E+09	3438773.	196.0900
Sum Sq. Dev.	13.58594	1.10E+17	6.56E+10	77.57476
Observations	326	326	326	326

Appendix 2: *Correlation Results*

	TAG	**CSR**	**FSIZE**	**LEV**
TAG	1.000000	0.078914	0.020841	-0.102460
CSR	0.078914	1.000000	0.236524	-0.015901
FSIZE	0.020841	0.236524	1.000000	-0.183453
LEV	-0.102460	-0.015901	-0.183453	1.000000

Appendix 3: *Normality Test*



Series: Residuals	
Sample 1 120	
Observations 120	
Mean	-2.41e-17
Median	-0.017741
Maximum	1.755013
Minimum	-2.221342
Std. Dev.	0.370522
Skewness	-0.861248
Kurtosis	16.85832
Jarque-Bera	975.0998
Probability	0.000000

Appendix 4: *Regression Results*

Dependent Variable: TAG
Method: Panel EGLS (Cross-section SUR)
Date: 07/20/18   Time: 10:54
Sample: 2007 2017
Periods included: 12
Cross-sections included: 11
Total panel (balanced) observations: 132
Linear estimation after one-step weighting matrix

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	0.265697	0.011627	22.85176	0.0000
CSR	1.68E-09	2.72E-10	6.169100	0.0000
FSIZE	-7.98E-07	4.43E-07	-1.799698	0.0743
LEV	-0.083452	0.006877	-12.13545	0.0000
		Weighted Statistics		
R-squared	0.655013	Mean dependent var		5.564418
Adjusted R-squared	0.646928	S.D. dependent var		7.048333
S.E. of regression	1.005155	Sum squared resid		129.3231
F-statistic	81.00955	Durbin-Watson stat		1.948026
Prob(F-statistic)	0.000000			
		Unweighted Statistics		
R-squared	0.073451	Mean dependent var		0.225000
Sum squared resid	3.355869	Durbin-Watson stat		1.517995