Empirical Investigation of the Impact of Corporate Social Responsibility on Tax Avoidance in Nigeria

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Abstract
The impact of corporate social responsibility (CSR) on tax evasion in Nigeria was the main subject of this study. To do this, information was gathered from the annual reports and accounts of banks listed on the Nigerian stock exchange's floor. Based on the analysis completed, it was determined that return on asset had a favorable link with tax evasion. Tax evasion was found to have a beneficial association with CSR. When examined at the 5% threshold of significance, it was also discovered to be non-statistically significant. The final factor, firm size, was discovered to have a bad correlation with tax evasion. However, a 5% level of significance test revealed that it was not statistically significant. Therefore, it was advised that in order for an organization to avoid paying taxes, it must first make the best use of its resources. Due to the significant costs associated with practicing corporate social responsibility, it is one of the main ways that businesses avoid paying taxes. As a result, the tax burden that is owed by a company is reduced. Additionally, the degree of tax avoidance is not greatly influenced by the size of the company.

Keywords*: Tax avoidance, Corporate social responsibility (CSR), Firm size*

Introduction

Research and management literature frequently discuss corporate social responsibility and tax evasion (Hoi, Wu, and Zhang, 2013). However, the link between corporate social responsibility and tax evasion in Nigeria has received little attention. Even yet, each of these topics has been the subject of separate investigation. The significance of socially conscious businesses has greatly expanded. Numerous businesses are now creating more brochures and reports to demonstrate their behavior because it is a current trend that they are involved in socially responsible activities (Sikka, 2010). To lessen their tax obligations, some of these businesses have engaged in reckless behavior like tax avoidance and evasion. According to Nadiah, Wan Nur, Syakirah, Mastora, Rohayu, and Rozainum (2017), they assert to be a public concern organization and are progressively focusing on social and environmental problems. Tax evasion and tax avoidance are sometimes used synonymously, however there is a significant distinction between the two. Utilizing illegal means to avoid paying taxes is known as tax evasion. It is an illegal attempt to use false information about income or the destruction of documents to lower tax liabilities or refundable credits.

Contrarily, tax avoidance occurs inside the legal framework of the tax system and involves people or businesses taking advantage of the tax code and exploiting loopholes, that is, engaging in actions that are lawful but go against the intent of the tax laws. It can be viewed as merely reorganizing tax affairs lawfully so as to pay less tax overall.

The US Treasury projected in 2009 that various tax avoidance and evasion strategies resulted in annual losses of more than $345 billion. The government estimated that between 1998 and 2005, although generating billions in gross revenue, over 66% of domestic major corporations and 68% of large foreign companies did not pay any federal corporate taxes (Sikka, 2010). The majority of the businesses provided justifications by outlining their social responsibility practices, which they said indicated that they had been paying their fair share of corporate taxes. In order to win the public's trust and confidence, many of these organizations actually exploited corporate social responsibility (CSR) as a ruse to conceal their tax-aggressive behaviors (Nadiah, Wan Nur Syakirah, Mastora, Rohayu & Rozainum, 2017). Taxes must be paid in order for public goods to be funded, and failing to do so reduces corporate tax revenue and causes a significant and potentially irreparable loss to society as a whole, which is socially irresponsible (Freise, Link, & Mayer, 2008). The actions of these entities have led the general public and society to doubt their sincerity in pursuing their needs and interests when, in reality, they are engaged in extensive tax evasion. Many corporate decisions are driven by the consequences of corporate taxes, such as when managers direct their actions to minimize corporate taxes through tax avoidance strategies, which is a feature of the corporate landscape that is becoming more and more prevalent globally (Desai & Dharmapala, 2006). According to Freise, Link, and Mayer (2008), the financing of public goods is ensured by the payment of business taxes. Consequently, the society may suffer as a result of tax avoidance strategies (Friedman, 2003; Landloff, 2006). A company is often not seen to be paying its fair share of corporate tax to the government to secure the funding of public goods, which results in a loss in revenue, in addition to when it is thought to be engaging in tax evasion (Freedman, 2003).

In Nigeria, there are few studies on the topic of the connection between corporate social responsibility (CSR) and tax evasion, and there is also little research on how the two are related. However, Mgbame, Chijoke, Yekini, and Yekini (2017) looked into how well a company performs in terms of its corporate social responsibility (CSR). They discovered a strong correlation between CSR effectiveness and tax aggression. They came to the conclusion that depending on their CSR stances and other corporate features, businesses are either more or less prone to participate in tax aggression. Therefore, the purpose of this study is to examine the connection between corporate social responsibility and tax avoidance among Nigerian listed companies, as well as the impact of business characteristics like profitability and size on tax avoidance.

In keeping with this, the study's main goal is to investigate the connection between corporate social responsibility (CSR) and tax evasion in Nigeria. Determine the link between corporate social responsibility and tax evasion, among other specific goals; Analyze the impact of firm profitability on the quantity of tax avoidance in Nigeria, and establish the impact of firm size on the quantity of tax avoidance in Nigeria.

The research evaluated firms that were listed between 2014 and 2022 on the Nigerian stock exchange. The period's audited financial reports were used to generate pertinent data. The availability of financial statements and the rise in CSR awareness during this time period were key factors in choosing this period.

Literature Review

Concept of Tax Avoidance

Simply put, tax avoidance can be defined as the careful planning of one's affairs to take advantage of gaps in the tax law provisions in order to reduce or minimize one's tax liability. Paying less to the tax authority than what is required of him is an intentional conduct on the part of the taxpayer. Tax avoidance, according to Alm and Martinez-Vazquez (2001), is the legal decrease of tax liabilities using strategies that fully use the tax system, such as income splitting, tax deferral, and tax arbitrage between incomes that are subject to several tax treatment regimes.

When a taxpayer sets up their finances in a way that assures they pay the least amount of tax possible, this is referred to as tax avoidance. It is a phrase used to describe the many strategies employed to reduce taxes and protect the income of the taxpayer from higher obligations that would have otherwise been imposed (Kiabel, 2001). Strategic tax planning, where financial matters are organized to minimize tax liabilities by employing tax deductions or utilizing credits, is an example of tax avoidance. It could also be viewed as a method by which taxpayers minimize or escape their liability. The taxpayer aims to utilize all legal tax breaks and benefits, including all exemptions, deductions, concessions, rebates, and allowances. Economic analysts Brooks and Head (1997) described tax avoidance as "having the primary focus clearly on contrived and artificial schemes, which do not change the substantive character of an activity or transaction but may nonetheless serve to bring the activity within some tax-exempt or more tax-favorable legal category."

Concept of Corporate social Responsibility (CSR)

CSR has been strategically significant over the past few decades for businesses seeking to become good corporate citizens, which is now regarded as a necessary trait for a company hoping to survive and accomplish its objectives. (2009) Vonwil and Wreshnoik. According to Dillard & Murray (2013), corporate social responsibility (CSR) is a type of self-regulation that addresses issues related to "sustainability, sustainable development, environmental management, business ethics, philanthropy and community investment, workers' rights, welfare, and human rights, corporate governance, and animal rights." The current notion of CSR was first presented by Bowen (1953) in his book "Social Responsibility of the Businessman" as the "duty of businessmen to pursue desirable policies in the context of societal objectives and values, and make decisions or carry out operations in accordance with them.

According to (Abigail & Donald, 2000), corporate social responsibility is also known as corporate conscience, corporate citizenship, social performance, or suitable responsible business. It is an action taken by a corporation to adopt a particular standard of self-regulation that a corporation cannot be forced to adopt and does not result in any immediate financial gain. Although there are many different viewpoints on CSR, they can all be summed up as company operations that serve societal ideals and objectives that go beyond profit. The four components of

CSR, according to Caroll (1979), are economic, legal, ethical, and philanthropic responsibilities. Based on these four components, a firm should aim to make a profit, satisfy consumer needs, fulfill its economic mission within a legal framework, and adhere to all laws. The last responsibility refers to businesses that are not required by law but are expected by stakeholders as a demonstration of good citizenship, for example, investing in local social enterprises or offering training to employees. Ethically responsible businesses have an obligation to uphold moral rules defining appropriate behavior in society.

Corporate Social Responsibility and Tax Avoidance

Using a sample of 1,148 publicly traded Korean companies on the Korean Stock Exchange (KSE), Park (2017) investigated the relationship between corporate social responsibility (CSR) activities and tax avoidance using residual book tax difference (BTD). He discovered that firms with higher CSR activities are less likely to avoid paying taxes, regardless of the tax avoidance proxy used. Using a sample of 50 companies for the years 2007 to 2013, Mgbame et al. (2017) evaluated the impact of CSR performance on tax aggressiveness of listed enterprises in Nigeria. The results showed a negative association between tax aggression and CSR success in Nigeria, which suggests that the more CSR performance there is, the less aggressive tax practices are.

In their 2014 analysis of the connection between CSR and tax avoidance, Khan, Yousaf, Khan, and Yasir sought to determine if organizations that participate in tax avoidance methods view themselves as socially responsible businesses.

According to their investigation, businesses that don't engage in CSR are more likely to evade taxes and have a more aggressive behavior than those who do. On the basis of 408 publicly listed Australian firms for the years 2008–2009, Lanis and Richardson (2012) investigated the relationship between corporate social responsibility (CSR) and corporate tax aggression. According to the findings, there is a direct and statistically significant correlation between tax aggression and a corporation's level of CSR disclosure. The higher the amount of CSR disclosure, the lower the level of tax aggressiveness.

Firm Profitability and Tax Avoidance

Zhu et al. (2019) used information from annual reports and financial statements of companies registered on the Ghana Stock Exchange (GSE) to investigate whether corporate tax avoidance boosts a firm's value or profitability. They used an ordinary least squares regression to test their hypothesis and discovered a negative correlation between the tax evasion measure (ETR) and the profitability measure (ROA). A low ETR suggests a company is avoiding corporate taxes more than average, which suggests that avoiding corporate taxes does really increase a company's worth and profitability. Using proxies for profitability, leverage, and size, Rani, Susetyo, and Faudah (2018) explored the influence of corporate characteristics on tax evasion. Using the cluster random sampling technique, the study chose 49 manufacturing companies during the period of 2012 to 2016 that were listed on the Indonesian stock exchange as samples. The outcome demonstrated that tax evasion is significantly influenced by profitability. The inverse link between profitability and tax avoidance suggests that as profitability increases, the value of ETR decreases, indicating an increase in tax avoidance practices within the organization. In order to ascertain the impact of the profitability and size of the companies listed on the Indonesian stock exchange, Masanwaty (2019) conducted research. The findings demonstrated that, in industrial companies listed on the Indonesian stock exchange, profitability has a significant bearing on the occurrence of evidence of tax evasion. This is consistent with the findings of Mgbame et al. (2017), who found a negative correlation between financial performance and tax aggressiveness and that enterprises that are underperforming may be more tax aggressive.

Firm Size and Tax Avoidance

According to Yuniarwati, Ardana, Dewi, and Tarumanagara's (2017) investigation into the subject, firm size has little bearing on tax evasion. Due to the fact that paying taxes is a corporate obligation that must be fulfilled without exception, they came to the conclusion that firm size has no bearing on the growth of tax avoidance.

The tax authorities will always be concerned about the fulfillment of their tax duties, regardless of how big or little the company is. A contrary finding was made by Octavaniana, Titisari, and Chomsatu (2018). There is a considerable number of businesses that will engage in tax avoidance, and large businesses will be more inclined to do so since they are burdened with paying more taxes, according to studies on the impact of firm size on tax avoidance. This is consistent with Putri's (2017) research, which demonstrated a substantial association between firm size and tax evasion. As company size grows, so does tax evasion, and vice versa. The likelihood of tax avoidance increases with corporate size. Research was conducted by Rani, Susetyo, and Faudah (2018) on 49 manufacturing firms that were listed on the Indonesian stock exchange from 2012 to 2016. Samples were chosen using the cluster random sampling technique. The outcome demonstrated that firm size has a considerable impact on tax avoidance, i.e., the bigger the company, the more tax avoidance tactics are used. According to Mgbame et al. (2017), there is a substantial link between firm size and tax aggressiveness, and depending on how tax aggressiveness is measured, firm size may have either a positive or negative impact. The proof was contradictory.

Methodology

The data and research techniques used to test the research hypothesis are developed and explained in this part. This section outlines the data collection and research methodology pertinent to the study's goals and association hypothesis, which examines how CSR affects tax evasion in Nigeria.

This section first gives an overview of the research strategy, target population, method of data collecting, time frame, variables measured, and lastly data analysis.

Research Design

For this study, causal research design was used.

Model Specification and analysis

This study has four variables, three independent variables and one dependent variable. The dependent variable is tax avoidance and the independent variables are corporate social responsibility, firm profitability and firm size.

The model below is specified for this study.

$ETRt=\alpha 0 + \beta 1CSRit + \beta 2ROA\ it + \beta 3Fsizw\ it + \mathcal{E}\ it$ (1)

Where:

ETR = Effective tax rate

CSR = Corporate social responsibility

ROS = Return on asset

Fsize = Firm size

Data Presentation and Analysis

This section dwells on the presentation, analysis and interpretation of the data collected for this research work. It forms the basis for drawing conclusion and recommendation about the estimating parameters.
A quantitative analysis of the models specified in the previous chapter is examined empirically. The preliminary analysis of the data where first conducted (descriptive analysis) and next the regression assumption analysis test for variables. Thereafter, the regression analysis test was conducted using the panel regression analysis which encompasses the fixed effect and random effect model. Model selection for the variables where carried out using the Hausman Test to ascertain which model is more suitable for drawing conclusion about the study. The regression was carried out taking in to account the impact of corporate social responsibility on tax avoidance in Nigeria.

Table 1. Descriptive Statistics

	TA	ROA	ETR	FSIZE
Mean	2.923611	0.053611	0.345895	7.619738
Median	2.833330	0.010000	0.115602	7.245611
Maximum	5.666670	1.170000	7.970000	12.32769
Minimum	1.833330	0.000000	0.000000	4.877377
Std. Dev.	0.684582	0.146944	1.213223	1.768723
Skewness	1.082080	6.367857	5.658699	0.480407
Kurtosis	5.616524	47.82991	33.78834	2.652400
Jarque-Bera	34.58936	6515.758	3228.016	3.131969
Probability	0.000000	0.000000	0.000000	0.208882

Source: Researcher's compilation, 2023

From the result of the descriptive statistics carried out, it was observed that tax avoidance was found to have a mean value of 2.92 with a standard deviation of 0.68 and a jarque Bera value of 34.5 with an associated probability value of 0.00 therefore indicating the absence of an outlier in the data set. Return on asset was found to have a mean value of 0.05, the standard deviation value measuring the spread of the distribution stood at 0.14 while the jarque bera statistics measuring the normality of the distribution was found to have a probability value which stood at a value of 0.00 which was less than the probability value of 0.05 therefore indicating that the variables are normally distributed. Tax avoidance which was measured using effective tax rate was found to have a value of 0.34 the standard deviation measuring the spread of the distribution stood at a value of 1.21 while the Jarque Bera which measures the normality of the distribution stood at a probability value of 0.00. Firm size was found to have a mean value of 7.6 the standard deviation measuring the spread of the distribution stood at a value of 1.76 while the Jarque bera statistics which accounts for the normality of the distribution stood at a value of 0.20. This was the only variable that was not found to be normally distributed when tested at 5% level of significance.

Table 2. Regression Result

Variable	**coefficient**	**Std. error**	**t-statistics**	**Prob.**
ROA	-0.381604	0.174685	-2.184524	0 .0348
CSR	0.002131	0.002154	0.988986	0.3286

FSIZE	-0.007673	0.020740	-0.369935	0.7134
C	1.123986	0.163331	6.881629	0.0000

R-squared 0.495169
Adjusted R-squared 0.293237
F-statistic 2.452155
Durbin-Watson stat 2.307383
Prob (F-statistic) 0.010934
Source: *Eviews, 8.0*

Signs, coefficients and significance of variables

From the regression result it was observed that return on asset was found to have a positive relationship with tax avoidance. It was also found to be statistically significant when tested at 5% level of significance.
CSR was found to have a positive relationship with tax avoidance. It was also found to be non-statistically significant when tested at 5% level of significance. The last variable which is firm size was found to have a negative relationship with tax avoidance. It was however not found to be statistically significant when tested at 5% level of significance.

Coefficient of Determination and F-Statistics

Furthermore, an examination of the coefficient of determination depicted as R2 it was found to have a value of 0.49. This therefore implies that on the average the model account for 49% of the systematic variation exhibited by the dependent variable. While the remaining 52% left on accounted for is been captured by the stochastic error term.
The F-statistic measuring the overall significance of the model stood at a value of 2.4 therefore indicating that the model is jointly statistically significant. The Durbin Watson statistics measuring the presence of autocorrelation was found to have a value of 2.3 this therefore implies that on the average the presence of autocorrelation does not exist in this model.

Conclusion and Recommendations

Conclusion

Taxpayers set up their financial affairs in a way that assures they pay the least amount of tax while abiding by the law, this is referred to as tax avoidance. It is a phrase used to describe the many strategies employed to reduce taxes and protect the income of the taxpayer from higher obligations that would have otherwise been imposed (Kiabel, 2001). Strategic tax planning, where financial matters are organized to minimize tax liabilities by employing tax deductions or utilizing credits, is an example of tax avoidance. It could also be viewed as a method by which taxpayers minimize or escape their liability. The taxpayer aims to utilize all legal tax breaks and benefits, including all exemptions, deductions, concessions, rebates, and allowances.
Economic analysts Brooks and Head (1997) described tax avoidance as "having the primary focus clearly on contrived and artificial schemes, which do not change the substantive character of an activity or transaction but may nonetheless serve to bring the activity within some tax-exempt or more tax-favorable legal category."

Recommendations

1. It was discovered that return on asset had a favorable link with tax evasion.
Therefore, it is advised that if an organization wishes to avoid taxes, it must first make the best use of its resources.
2. CSR and tax evasion were found to be positively correlated. As a result, it is advised that corporate social responsibility (CSR) be used as a primary method of avoiding taxes due to the high costs associated with CSR, which reduces the tax burden that is owed by an organization.
3. Tax evasion was found to have a bad association with firm size. Therefore, it is advised that the degree of tax evasion should not be greatly influenced by the size of the firm.

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