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Unveiling tax avoidance strategies of multinational corporations in Delta State

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ABSTRACT

This study titled Unveiling Tax Avoidance Strategies of Multinational Corporations in Delta State investigates different tax avoidance strategies used by MNCs in Delta State , it specifically assessed the impact of transfer pricing on tax liability minimization, it evaluated the frequency of profit shifting activities, and analyzed the influence of digitalization on tax planning. A mixed-methods research design, integrating both qualitative and quantitative approaches, was adopted to provide a comprehensive analysis. The study employed purposive sampling to select key participants, including tax officials, financial managers of MNCs, and tax consultants in Delta State. Data were collected through structured questionnaires and semi-structured interviews, capturing both statistical and in-depth perspectives. Quantitative data were analyzed using descriptive statistics and regression analysis. The key findings revealed that transfer pricing and profit shifting are the predominant tax avoidance strategies used by MNC and Digitalization significantly impacts tax planning and there is a strong relationship between the period of operation and the use of transfer pricing. Recommendations made includes, Strengthening transfer pricing regulations to curb intra-company transaction manipulation, Enhance taxation frameworks to effectively tax digital transactions and intangible assets among others.

Keywords: Digitalization, Multinational Corporations, Profit Shifting, Tax Avoidance, Transfer Pricing.

INTRODUCTION

Tax avoidance by multinational corporations (MNCs) remains a significant issue in Nigeria, undermining the country's fiscal stability and revenue generation efforts. Despite the establishment of several tax regulations and frameworks aimed at curbing these practices, MNCs continue to employ sophisticated methods to minimize their tax liabilities. Transfer pricing, profit shifting, and the exploitation of tax treaties are among the common strategies used by MNCs to avoid paying taxes in Nigeria. This widespread tax avoidance increases the nation's fiscal deficit, limiting the government's ability to fund essential public services and infrastructure projects(Osho et al. 2020).

Several policies have been implemented to tackle tax avoidance, including the introduction of the Transfer Pricing Regulations on 17th august 2017 and the signing of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) (Nigeria Reporting Standard, 2017). Despite these measures, enforcement remains weak due to inadequate resources, lack of expertise among tax officials, and corruption. The Federal Inland Revenue Service (FIRS) has struggled with consistent enforcement and has faced resistance from well-resourced MNCs that exploit loopholes and engage in aggressive tax planning(Lawal 2021).

Delta State, located in the oil-rich Niger Delta region of Nigeria, serves as a critical focus for this research. The state is home to numerous multinational oil corporations, making it a hotbed for tax avoidance activities. The economic activities in Delta State are predominantly driven by the oil and gas sector, contributing significantly to Nigeria's GDP which depends mostly on proceeds from the Oil and Gas sector. However, the region is also plagued by challenges such as environmental degradation, militant activities, and economic instability, which complicate the enforcement of tax regulations. The presence of these challenges makes Delta State a unique case for studying the tax avoidance strategies employed by MNCs.

Delta State's economic landscape is heavily influenced by its rich natural resources, particularly oil and gas. While these resources have attracted significant foreign investment, they have also led to increased incidences of tax avoidance. The current pressing challenges include insufficient tax revenue due to aggressive tax avoidance strategies by MNCs, inadequate regulatory enforcement, and the complexities introduced by digitalization in business operations. These challenges hinder the state's economic development and exacerbate socio-economic disparities.

Given the pervasive nature of tax avoidance and its detrimental impact on Delta State's economy, this study aims to uncover the specific strategies employed by MNCs to avoid taxes. Understanding these strategies is crucial for developing more effective regulatory frameworks and enforcement mechanisms. This research will provide valuable insights into the impact of digitalization on tax planning, the frequency of profit shifting activities, and the significance of transfer pricing in minimizing tax liabilities. The findings will be instrumental in informing policy decisions and enhancing the effectiveness of tax regulations in Delta State and Nigeria at large.

The significance of this study lies in its potential to inform policy reforms and improve the enforcement of tax regulations. By shedding light on the tax avoidance strategies of MNCs, the research will help policymakers understand the loopholes in the current system and develop targeted measures to address them. Additionally, this study will contribute to the

broader discourse on tax justice and economic equity, emphasizing the need for multinational corporations to pay their fair share of taxes.

The study aims to therefore achieve the following objectives:

1. Identify the specific tax avoidance strategies employed by MNCs in Delta State.
2. Assess the impact of transfer pricing on tax liability minimization.
3. Evaluate the frequency of profit shifting activities within organizations.
4. Analyze the influence of digitalization on tax planning strategies.

Hypothesis HO: There is no significant relationship between the period of operation in Delta State and the significance of the transfer pricing strategy in minimizing tax liability.

LITERATURE REVIEW

Tax Avoidance Strategies Employed by Multinational Corporations (MNCs)

Tax avoidance, distinct from tax evasion, involves legally minimizing tax liabilities through various strategies within the bounds of the law. However, these practices often exploit loopholes and ambiguities in the tax regulations, leading to significant revenue losses for governments. Multinational corporations (MNCs), with their complex structures and extensive resources, are particularly adept at employing sophisticated tax avoidance strategies. Tax evasion is the illegal non-payment or underpayment of taxes, typically involving deceit or concealment. Although not a form of tax avoidance, it is important to differentiate between the two. Tax avoidance is legal, often ethically questionable, whereas tax evasion is unequivocally illegal. Understanding this distinction is important as it frames the discussion around the legality and ethicality of MNCs' practices. Studies show that while tax evasion directly violates tax laws, tax avoidance exploits gaps and inconsistencies within legal frameworks (Duhoon, 2023).

Tax planning involves structuring financial affairs to minimize tax liabilities within the bounds of the law. For MNCs, this can include strategic decisions about where to locate operations, how to structure transactions, and when to recognize income and expenses. Effective tax planning can significantly reduce a corporation's tax burden, but it often treads a fine line between acceptable and aggressive tax avoidance. Research indicates that sophisticated tax planning can lead to substantial tax savings for MNCs, sometimes resulting in effective tax rates significantly lower than statutory rates (Cooper & Nguyen 2020).

Transfer pricing refers to the prices charged for goods, services, or intellectual property transferred within an MNC's subsidiaries. By setting transfer prices strategically, MNCs can shift profits from high-tax jurisdictions to low-tax ones, thereby reducing overall tax liabilities. This practice is highly scrutinized and regulated, yet remains a common and effective tax avoidance strategy. The Organization for Economic Co-operation and Development (**OECD)** has established guidelines to ensure that transfer pricing reflects market conditions, but enforcement varies widely across countries, leading to significant tax base erosion (OECD, 2013).Profit shifting involves reallocating profits from high-tax jurisdictions to low-tax or no-tax jurisdictions through various means, including transfer pricing, inter-company loans, and the strategic location of intellectual property. This strategy exploits differences in tax rates and regulatory environments across countries reducing the taxable income reported in high-tax jurisdictions, contributing to the global tax gap (Laffitte, & Toubal,2022).

Tax treaties between countries are designed to prevent double taxation and encourage cross-border trade and investment. However, MNCs often exploit these treaties to reduce tax liabilities, a practice known as "treaty shopping." By routing transactions through jurisdictions with favorable treaties, MNCs can minimize withholding taxes and other tax burdens. Studies highlight that treaty shopping undermines the intent of tax treaties and leads to substantial revenue losses for countries(Rolland, 2020). Tax havens are jurisdictions with low or zero tax rates, often coupled with secrecy laws that shield financial information from foreign tax authorities. MNCs use tax havens to store profits and avoid taxes in higher-tax jurisdictions. The use of tax havens is a contentious issue, as it significantly erodes the tax base of countries where economic activities actually take place. Research shows that a significant portion of global FDI flows through tax havens, reflecting the scale of this tax avoidance strategy (Driffield et al. 2021).

Transfer Pricing and Tax Liability Minimization

Transfer pricing refers to the pricing of goods, services, and intangible assets exchanged between related entities within a multinational corporation (MNC). It is a crucial aspect of international business operations, determining the allocation of income and expenses among different jurisdictions. The legal framework governing transfer pricing is designed to ensure that these intra-company transactions are conducted at arm's length, meaning the prices should reflect those that would be charged between independent parties under similar conditions. This principle aims to prevent MNCs from manipulating prices to shift profits to low-tax jurisdictions, thereby minimizing their overall tax liabilities(Devi & Suryarini 2020).

MNCs often exploit transfer pricing to reduce their tax burdens by setting prices for intra-company transactions that do not reflect market realities. For example, an MNC might sell goods or services from a subsidiary in a high-tax country to a subsidiary in a low-tax country at artificially low prices. This practice shifts profits from the high-tax jurisdiction to the low-tax one, reducing the overall tax liability. Similarly, MNCs may allocate a significant portion of their profits to subsidiaries in tax havens by charging exorbitant prices for intellectual property or other intangible assets. These strategies enable MNCs to legally reduce their taxable income in higher-tax jurisdictions and concentrate their profits where tax rates are minimal or nonexistent (Mashiri et al. 2021).

In response to the widespread manipulation of transfer pricing, regulatory bodies and international organizations have developed guidelines and regulations to curb these practices. The Organisation for Economic Co-operation and Development (OECD) has been at the forefront of these efforts, providing comprehensive guidelines under the Base Erosion and Profit Shifting (BEPS) framework. The OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations set out principles for determining arm's length prices and emphasize documentation requirements to ensure transparency and compliance.(OECD,2013)

In Nigeria, the Federal Inland Revenue Service (FIRS) has implemented transfer pricing regulations to align with international standards and combat profit shifting. The Nigerian Transfer Pricing Regulations mandate that MNCs must conduct intra-company transactions at arm's length prices and provide detailed documentation to support their pricing strategies. These regulations aim to enhance the capacity of tax authorities to audit and challenge transfer pricing arrangements that do not reflect economic realities (Oguttu, 2020).

Profit shifting activities within organizations.

Profit shifting among multinational corporations (MNCs) involves strategies aimed at reallocating profits from high-tax jurisdictions to low-tax or tax-free jurisdictions through various means such as transfer pricing, intra-group loans, and strategic intellectual property management. These activities exploit differences in tax rates and regulatory environments across countries. Studies indicate that profit shifting is pervasive among MNCs globally, with significant variations in frequency depending on industry and jurisdictional characteristics (Klassen & Laplante 2012)..

The economic and fiscal impacts of profit shifting are profound. It reduces the taxable income reported in high-tax jurisdictions, thereby diminishing tax revenues that could support public services and infrastructure development. (Igbinenikaro & Adewusi 2024)..This practice exacerbates global tax competition and heightens economic inequalities between countries.

Case studies illustrate the widespread use of profit shifting across sectors. For example, technology and pharmaceutical companies often employ complex intellectual property strategies to channel profits to low-tax jurisdictions. Such practices not only reduce tax liabilities but also distort market competition and hinder fair taxation principles (Acosta et al .2024)

In regions similar to Delta State, where extractive industries dominate, profit shifting can significantly impact national revenue streams derived from natural resources. Understanding the mechanisms and implications of profit shifting is crucial for policymakers to devise effective regulatory frameworks and international cooperation mechanisms to combat these practices and ensure equitable taxation globally.

Influence of Digitalization on Tax Planning Strategies

The role of the digital economy in modern tax avoidance has significantly transformed the landscape of international taxation. Digitalization enables multinational corporations (MNCs) to conduct business activities across borders with ease, often exploiting digital platforms and intangible assets to minimize tax liabilities. This phenomenon challenges traditional tax regulations, which struggle to capture and tax digital transactions effectively (Tsindeliani et al. I. 2021),(Igbinenikaro & Adewusi,2024).

Challenges posed by digitalization for traditional tax regulations include jurisdictional issues and the difficulty in determining the source of income in a digital economy. MNCs leverage these challenges by establishing their digital operations in low-tax jurisdictions or countries with favorable tax incentives. For instance, tech giants may centralize their intellectual property rights in tax havens to reduce their global tax burden(Sharman, 2006);(Aslam, & Shah,2021).

Strategies used by MNCs in the digital sector to avoid taxes include profit allocation through digital intangibles, where income is attributed to jurisdictions with minimal tax rates (Lowry, 2019). Additionally, complex corporate structures and intra-company transactions involving digital assets allow MNCs to shift profits to subsidiaries in low-tax jurisdictions, thereby minimizing taxable income in higher-tax countries.

Policy responses to digital economy taxation have evolved to address these challenges. The Base Erosion and Profit Shifting (BEPS) initiative by the OECD aims to modernize international tax rules and prevent tax avoidance strategies facilitated by digitalization. This

includes proposals for digital services taxes, which seek to tax revenues generated from digital services in countries where users are located, regardless of physical presence (OECD, 2019).

Theoretical Review

The Base Erosion and Profit Shifting (BEPS) initiative is championed by the Organisation for Economic Co-operation and Development (OECD) and the G20 countries. Its proposition centers on addressing tax avoidance strategies used by multinational corporations (MNCs) to shift profits from higher-tax jurisdictions to lower-tax or no-tax jurisdictions through legal loopholes and mismatches in tax rules.

BEPS is highly relevant to the study of tax avoidance as it provides a comprehensive framework to combat profit shifting practices. It emphasizes the need for coordinated international efforts to update tax rules and prevent erosion of national tax bases, particularly in an era of digitalization where intangible assets and cross-border transactions play significant roles.

Despite its comprehensive approach, BEPS faces challenges in implementation and enforcement across different jurisdictions. Variations in national priorities, capacity constraints of tax administrations, and evolving MNC strategies pose ongoing challenges to achieving consistent and effective outcomes in combating tax avoidance globally. While BEPS represents a crucial step forward in addressing tax avoidance by MNCs, ongoing efforts are needed to strengthen international cooperation and ensure the effectiveness of regulatory measures in a rapidly changing global economic landscape.

Empirical Review

Tax avoidance by multinational corporations (MNCs) is a pressing issue that affects both developed and developing economies, including Delta State. MNCs employ various strategies to minimize their tax liabilities, often exploiting gaps and loopholes in tax regulations. Driffield et al. (2021) provides a comprehensive review of literature on multinational corporate income tax avoidance. They highlight that while MNCs do pay substantial taxes, there is considerable evidence of tax avoidance through cross-jurisdictional income shifting. The location of real activities such as investment, debt, and employment is sensitive to taxation, and in some cases, tax avoidance necessitates changes to these real activities. The literature is not settled on the extent of income shifting, but it is clear that financial accounting and reputational incentives play a significant role in MNCs' tax strategies. Recent changes in tax regimes have prompted early research into their effects, suggesting ongoing adaptation and evolution in different tax avoidance practices.

Transfer pricing is a common strategy used by MNCs to shift profits to low-tax jurisdictions, thereby minimizing their overall tax burden. Nurwati, Prastio, and Kalbuana (2021) investigate the factors influencing transfer pricing in the automotive manufacturing sector. Their study finds that profitability and tax burden significantly impact transfer pricing practices. Specifically, firms with higher profitability and greater tax burdens are more likely to engage in transfer pricing to reduce their tax liabilities. In contrast, firm size and exchange rate do not show a significant effect on transfer pricing. These findings suggest that robust regulations and vigilant monitoring are essential to curb such practices in Delta State.

Bilicka and Scur (2021) explore the relationship between organizational capacity and profit shifting. Their research indicates that MNE subsidiaries with better organizational capacity

report significantly lower profits in high-tax countries, a clear indication of profit shifting. These subsidiaries exhibit higher incidences of profit bunching around zero, which is not observed in low-tax jurisdictions. The study also finds that firms with superior organizational capacity are more responsive to changes in corporate tax rates, adjusting their profit reporting to optimize tax outcomes. This behavior emphasizes the need for Delta State to improve on its capacity to monitor and regulate MNCs' financial practices effectively.

The digital economy presents new challenges for tax authorities, as traditional tax frameworks struggle to capture the economic activities of MNCs operating in cyberspace. Igbinenikaro and Adewusi (2024) examine the impact of global digital tax reforms on international taxation. They highlight the challenges and potential loopholes associated with these reforms, noting that tax havens continue to facilitate aggressive tax planning strategies. MNCs adapt their tax planning strategies in response to digital tax measures, often restructuring their business models and investment flows to exploit remaining gaps in the regulatory framework. The study emphasizes the disproportionate impact on developing countries, including those in Delta State, which suffer significant revenue losses due to profit shifting to tax havens.

METHODOLOGY

A mixed-methods research design was used, integrating both qualitative and quantitative approaches to provide a comprehensive analysis. This mixed-methods approach ensured a thorough examination of the tax avoidance strategies and their implications. Quantitative data provided statistical insights, while qualitative data offered in-depth perspectives. This study employed purposive sampling to select key participants, including tax officials, financial managers of MNCs, and tax consultants in Delta State. This strategy ensured that the sample included individuals with relevant expertise and experience in tax matters.

Data were collected through structured questionnaires and semi-structured interviews. The questionnaires captured quantitative data on the prevalence and types of tax avoidance strategies, while interviews provided qualitative insights into the motivations and challenges related to tax avoidance. A pilot test was carried out to identify key components in developing the questionnaire. The independent variable was the regulatory framework and tax policies in Delta State, while the dependent variable was the extent and nature of tax avoidance by MNCs. Measures included the frequency of use of specific tax avoidance strategies, compliance levels, and the perceived effectiveness of tax regulations.

Quantitative data were analyzed using descriptive statistics and regression analysis to identify trends and correlations. Qualitative data were analyzed through thematic analysis to extract key themes and insights. The research adhered to ethical standards by obtaining informed consent from all participants, ensuring confidentiality, and avoiding any conflicts of interest. Ethical approval was sought from relevant institutional review boards before commencing the study.This methodology provided a robust framework for investigating tax avoidance strategies and their implications in Delta State, facilitating the development of effective policy recommendations.

RESULTS AND DISCUSSION

Presentation of Findings:

Table 1

Demographic Summary of Respondents

Demographic Variable	Category	Count	Percentage(%)
Job Category	Tax Officials	34	23
	financial Staff/ finance Mangers of MNCs	64	44
	Tax Consultants	49	33
	Subtotal	**147**	**100**
Years of experience	1-5 years	19	13
	5-10years	69	47
	above 10 years	59	40
	Subtotal	**147**	**100**
Industry Sector	Oil and Gas	64	44
	Manufacturing	22	15
	Construction	12	8
	Telecommunications	10	7
	Financial	28	19
	Others	11	7
	Subtotal	**147**	**100**
Years of Operation	Below 20 years	8	6
	20-40years	19	13
	41-60 years	37	25
	61-80years	83	56
	Subtotal	**147**	**100**

Objective 1: To identify and analyze the specific tax avoidance strategies employed by MNCs in Delta State

Table 2

Descriptive Statistics to summarize the frequency and percentage of each tax avoidance strategy used by corporations.(Count in percentage)

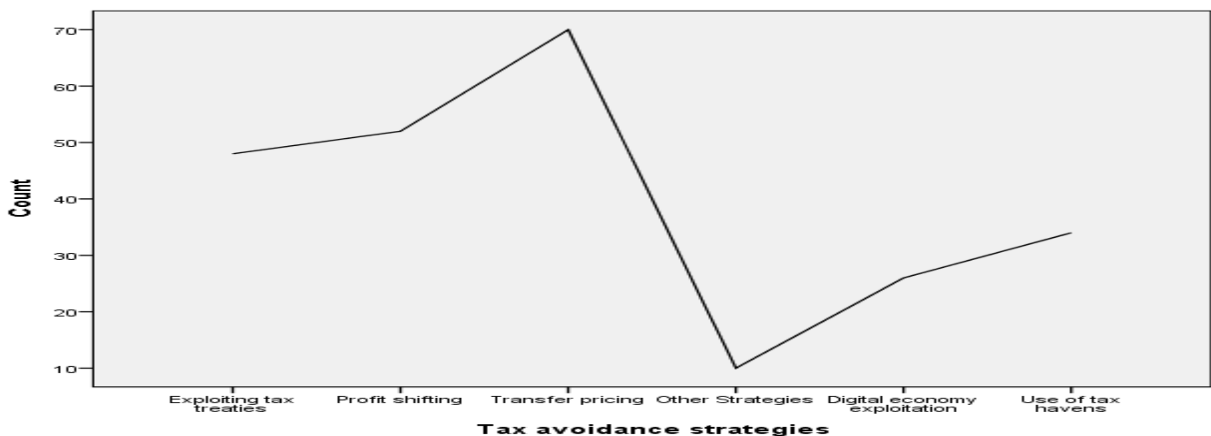

Table 3

Likert Scale Analysis: To measure the significance of transfer pricing , the impact of digitalization on tax planning strategies, and frequency of engagement in profit shifting

Research Question	**Level of Significance** Not Significant	Slightly Significant	Moderately Significant	Significant	Extrmely Significant	Mean	St. Deviation	Comment
How significantly does transfer pricing help your organization minimize tax liabilities?	7(5)	15(10)	37(25)	44(30)	44(30)	3.5	1.87	Significant
	Level of Impact							
	Minimal Impact	Low Impact	Moderate Impact	High Impact	Significant Impact	Mean	St. Deviation	Comment
What is the impact of digitalization on your tax planning strategies?	7(5)	22(15)	74(50)	29(20)	15(10)	3.1	0.96	Significant
	Level of frequency							
	Never	Rarely	Occasionally	Frequency	Very Frequency	Mean	St. Deviation	Comment
How frequently does your organization engage in profit shifting	15(10)	22(15)	51(35)	37(25)	22(15)	3.2	1.2	Significant

From table 1,A comprehensive survey was conducted among 147 respondents, including tax officials (23%), financial staff and finance managers of MNCs (44%), and tax consultants (33%). The respondents were well-experienced, with 47% having 5-10 years and 40% having more than 10 years of experience in their respective fields. The industries represented in the survey included Oil and Gas (44%), Financial (19%), and Manufacturing (15%), reflecting a diverse cross-section of sectors prevalent in Delta State.

From table 2 on the Line chart, findings revealed a variety of tax avoidance strategies employed by MNCs. Transfer pricing emerged as the most prevalent strategy, used by 70% of corporations. Profit shifting was reported by 55% of the respondents, while 45% of corporations exploited tax treaties. Additionally, 35% of the companies used tax havens, and 25% took advantage of the digital economy for tax planning. Other strategies were noted by 10% of the corporations, indicating a broad spectrum of methods used to minimize tax liabilities.

From Table 3, Using a Likert scale, the study assessed the significance of transfer pricing, the impact of digitalization on tax planning, and the frequency of profit shifting activities. Transfer pricing was found to be significant in minimizing tax liabilities, with a mean score of 3.5 and a standard deviation of 1.87. This suggests that a majority of respondents (60%) consider it either significant or extremely significant.

Digitalization also showed a notable impact on tax planning strategies, with a mean score of 3.1 and a standard deviation of 0.96. This indicates that while opinions varied, the overall impact of digitalization on tax strategies is recognized as significant. The frequency of profit shifting was another critical aspect, with a mean score of 3.2 and a standard deviation of 1.2, indicating that profit shifting is a common practice among MNCs, with 35% engaging occasionally and 40% frequently or very frequently.

The hypothesis that there is no significant relationship between the period of operation in Delta State and the significance of transfer pricing in minimizing tax liability was tested using regression analysis. The results were compelling, showing a significant relationship ($F = 298.808$, $p < 0.001$) between years of operation and the use of transfer pricing strategies. This finding rejects the null hypothesis and underscores the importance of the duration of operation in shaping tax avoidance strategies.

Discussion of Findings

The predominance of transfer pricing as a tax avoidance strategy, used by 70% of the surveyed MNCs, can be attributed to its flexibility and complexity, making it difficult for tax authorities to detect and challenge. Transfer pricing allows MNCs to shift profits to low-tax jurisdictions by manipulating prices of intra-company transactions. This method's popularity aligns with the global trend of MNCs leveraging transfer pricing to minimize tax liabilities. Profit shifting, reported by 55% of the respondents, is another common strategy due to its effectiveness in reducing taxable income in high-tax countries. By reallocating profits to subsidiaries in low-tax or no-tax jurisdictions, MNCs significantly lower their overall tax burden. The exploitation of tax treaties (45%) and the use of tax havens (35%) further facilitate these strategies by providing legal avenues to minimize taxes. The impact of digitalization on tax planning strategies, with a significant mean score of 3.1, reflects the increasing role of digital technologies in modern business operations. Digitalization enables more sophisticated and less transparent tax avoidance mechanisms, such as e-commerce and intangible assets management, which are harder for tax authorities to track.

Findings have implications for tax policy and regulation in Delta State and Nigeria at large. The significant reliance on transfer pricing and profit shifting underscores the need for more robust transfer pricing regulations and international cooperation to combat tax base erosion. Strengthening transfer pricing rules and improving the capacity of tax authorities to audit complex intra-company transactions are important steps. The significant impact of digitalization on tax planning highlights the need for updated tax regulations that address the challenges posed by the digital economy. Traditional tax rules are often inadequate for taxing digital transactions, necessitating the development of new frameworks that ensure fair taxation in the digital age. The relationship between the period of operation and the significance of transfer pricing indicates that long-established MNCs are more adept at utilizing sophisticated tax avoidance strategies. This suggests that tax authorities should pay particular attention to older MNCs and continuously update their audit techniques to keep

pace with evolving strategies. The regression analysis revealed a significant relationship between years of operation in Delta State and the significance of transfer pricing in minimizing tax liability for multinational corporations (MNCs). This suggests that longer-established MNCs may employ more sophisticated tax avoidance strategies. These findings align with previous studies indicating that MNCs adapt strategies over time to optimize tax efficiencies, yet nuances in local regulations and economic conditions may contribute to variations in outcomes.

Driffield et al. (2021) provide a comprehensive review of the literature on multinational corporate income tax avoidance. They highlight that while MNCs do pay substantial taxes, there is considerable evidence of tax avoidance through cross-jurisdictional income shifting. The location of real activities such as investment, debt, and employment is sensitive to taxation, and in some cases, tax avoidance necessitates changes to these real activities. The literature is not settled on the extent of income shifting, but it is clear that financial accounting and reputational incentives play a significant role in MNCs' tax strategies. Recent changes in tax regimes have prompted early research into their effects, suggesting ongoing adaptation and evolution in tax avoidance practices. The predominance of transfer pricing, utilized by 70% of surveyed MNCs, aligns with previous studies that highlight its widespread use due to its flexibility and complexity. Nurwati et al. (2021) demonstrate that profitability and tax burden significantly influence transfer pricing practices. These findings are consistent with global trends reported by Driffield et al. (2021), where MNCs use transfer pricing to shift profits to low-tax jurisdictions by manipulating intra-company transaction prices. The complexity of transfer pricing makes it a preferred strategy for MNCs, as it is challenging for tax authorities to detect and challenge.

Profit shifting, reported by 55% of the respondents, effectively reduces taxable income in high-tax countries. This involves reallocating profits to subsidiaries in low-tax jurisdictions. Bilicka and Scur (2021) show that MNC subsidiaries with better organizational capacity report significantly lower profits in high-tax countries, indicating profit shifting. The exploitation of tax treaties (45%) and the use of tax havens (35%) facilitate these strategies by providing legal avenues for minimizing taxes. These findings resonate with Driffield et al. (2021), who note the sensitivity of real activities such as investment and employment to taxation, adjusted to facilitate profit shifting. The significant mean score of 3.1 for digitalization's impact on tax planning reflects the increasing role of digital technologies in modern business operations. Igbinenikaro and Adewusi (2024) discuss the challenges posed by digitalization, such as e-commerce and intangible assets management, which create sophisticated and less transparent tax avoidance mechanisms. This highlights the need for updated tax regulations to address the digital economy's unique challenges. The significant reliance on transfer pricing and profit shifting underscores the need for more robust regulations and international cooperation to combat tax base erosion. This aligns with Driffield et al. (2021), suggesting that changes in tax regimes and increased international collaboration are essential. Strengthening transfer pricing rules and improving tax authorities' capacity to audit complex transactions are crucial steps recommended by both current and past research.

While the empirical studies reviewed suggest that organizational capacity significantly impacts profit shifting (Bilicka and Scur, 2021), the discussion of findings indicates that

digitalization has a more profound effect on tax planning strategies, which is not explicitly detailed in the empirical review. Furthermore, the empirical review by Nurwati, Prastio, and Kalbuana (2021) did not find firm size and exchange rate significant in influencing transfer pricing, differing from the broader context where these factors are generally considered impactful.

CONCLUSION.

This study aimed to uncover the tax avoidance strategies employed by multinational corporations (MNCs) in Delta State, focusing on specific tactics, the impact of transfer pricing on tax liability, the frequency of profit shifting, and the influence of digitalization on tax planning strategies. The key findings revealed that transfer pricing (70%) and profit shifting (55%) are the predominant strategies, with digitalization playing a significant role in modern tax planning. The study also identified a significant relationship between the period of operation and the use of transfer pricing.

Recommendations

1. Strengthen Transfer Pricing Regulations: Enhance rules and enforcement mechanisms to curb the manipulation of intra-company transactions, ensuring transactions reflect fair market values to prevent profit shifting.
2. Enhance Digital Economy Taxation: Develop and implement frameworks to effectively capture and tax digital transactions and intangible assets. This includes introducing digital services taxes and updating tax policies to keep pace with technological advancements.
3. Increase Audit Capacities: Invest in training and resources for tax authorities to enhance their capabilities in detecting and challenging complex tax avoidance strategies employed by multinational corporations (MNCs).
4. Promote International Cooperation: Collaborate with international bodies such as the OECD to address cross-border tax avoidance effectively. Harmonizing tax policies and sharing information internationally can reduce loopholes and improve tax compliance.
5. Focus on Long-Established MNCs: Pay particular attention to older MNCs that have been operating in Delta State for extended periods. These corporations are more likely to employ sophisticated tax avoidance techniques, necessitating targeted audits and stringent enforcement of tax regulations.

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