Effect of Corporate Social Responsibility Practices on Corporate Income Tax Payment by Telecommunication Companies in Nigeria

BY

Gbadegesin Babatunde ADEYEYE*
Telephone Number: +2348037192416
E-mail: gadeyeye@unilag.edu.ng
Department of Accounting, Faculty of Management Sciences,
University of Lagos, Nigeria

Angela Chilotam NNAMANI
Department of Accounting, Faculty of Management Sciences,
University of Lagos, Nigeria
Telephone Number: +2348063583756
E-mail: chiloangel@yahoo.co.uk

Kayode Mohammed AJAPE
Department of Accounting, Faculty of Management Sciences,
University of Lagos, Nigeria
Telephone Number: +2348065095598
E-mail: majape@unilag.edu.ng
&
Adeyemi Mobolaji ADEYEYE
Telephone Number: +2347035455601
E-mail: ay_mj@yahoo.com
Department of Accounting, Faculty of Management Sciences,
University of Lagos, Nigeria

***Corresponding Author:**
Gbadegesin Babatunde ADEYEYE
E-mail: gadeyeye@unilag.edu.ng

Abstract
This paper examined the effect of corporate social responsibility (CSR) practices on corporate income tax payment by telecommunication companies in Nigeria. The population for the study comprises unlisted telecommunication companies operating in Nigeria. The samples for the purpose of this study are firms chosen from the Nigerian multinational telecommunication sector not listed on the Nigeria Stock Exchange. Annual reports of selected firms formed the source of the secondary data collection for the period 2010 to 2017. A panel logistic regression model was developed to evaluate the influence of CSR on the corporate tax payment. Analysis was conducted with the aid of E-view. The study found that CSR exerted significant influence on the effective tax rate paid by the telecommunication companies in Nigeria. The study recommends that tax authority should properly probe all CSR expenses of telecommunication companies to checkmate inclusion of non-allowable expenses that would reduce tax revenue accruable to the government.

Keywords: Corporate Social Responsibility, Corporate Income Tax, Effective Tax Rate, Nigeria

JEL Classification: H21

Introduction

The downturn in Nigeria's economy has given rise to the need for government to accentuate on diversification of the economy for a sustainable source of revenue. Nigeria has persistently maintained low tax revenue to GDP ratio and presently has one of the lowest in the world (Adeosun, 2017). Although, Government is beginning to emphasize on the need to expand non-oil tax revenue considering the decline in oil price globally, the contribution of corporate income tax has not met its expectation.

Corporate income tax is a compulsory levy imposed by a government on the profit of a corporate entity. The corporate income tax rate applied on a company's total assessable profit in Nigeria is currently 30%. Nigeria like every other economies of the world experiences revenue loss from aggressive tax planning strategies perpetrated by multinational companies (MNCs) (Otusanya, 2011; Kim, & Zhang, 2016; Gribnau & Jallai, 2017; Hillenbrand, Money, Brooks & Tovstiga, 2019; Narotzki, 2017). Many MNCs utilise the technicalities in the tax system or mismatches between two or more tax systems for the purpose of reducing significantly its effective tax rate when compared with the statutory rate prescribed by the law (Narotzki, 2017). This has also been compounded by the engagement of MNCs in various corporate social responsibility activities.

Corporate social responsibility entails the practice whereby corporate entities voluntarily integrate both social and environmental upliftment in their business philosophy and operations (Amole, Adebiyi & Awolaja, 2012; Mgbame, Chijoke-Mgbame, Yekini & Yekini, 2017).

Although it is argued that many stakeholders have different views regarding the concept of corporate social responsibility (CSR) and corporate income tax payment (CITP), there are mixed evidences of the importance of CITP in the CSR perspective. MNCs, despite their claims of engagement in CSR, also engage in certain aggressive tax planning strategies which are contrary to their claims of CSR (Amaeshi, Adi, Ogbechie, & Amao, 2006; Sikka, 2010; Avi-Yonah, 2014; Narotzki, 2017). Narotzki (2017) highlighted that the next evolution in CSR development will be "tax fairness", meaning that corporation would begin to experience the pressure to be socially responsible by paying a fair and reasonable tax rate. Recent research suggests different views on the relationship between CSR and CITP (Lanis & Richardson, 2012; Avi-Yonah, 2014; Davis, Guenther, Krull & Williams, 2016; Preuß & Preuß, 2017; Umobong & Agburuga, 2018). Also other studies in CSR and corporate tax research in Nigeria are largely focused on firms listed on the Nigeria stock exchange (Umobong & Agburuga, 2018; Mgbame, *et al*, 2017). There is however, dearth of empirical evidence for CSR Practice and CITP in Nigeria with reference to operations of MNCs not listed on the Nigeria stock exchange. The telecommunication sector plays a critical role in generating a significant proportion of the Non-oil tax revenue in Nigeria. The big 3 telecommunication companies in Nigeria (MTN, Airtel Nigeria and 9Mobile) are multinational companies not listed on the Nigeria stock exchange which are selected for this study. Therefore, it becomes necessary to examine the effect of CSR practice on CITP in the multinational telecommunication companies in Nigeria.

Aim and Objectives of the Study

The aim of this study is to examine the effect of CSR practice on CITP of multinational telecommunication companies in Nigeria. Specifically, this study examines the effect of corporate social responsibility expenses on the effective income tax rate of the multinational telecommunication companies in Nigeria.

Research Question

To what extent do corporate responsibility expenses affect the effective tax rate of multinational telecommunication companies in Nigeria?

Research Hypothesis

H_0: Corporate social responsibility expenses have no effect on the effective income tax rate of

multinational telecommunication companies in Nigeria.

Theoretical Framework

Stakeholders Theory

There are many theories that can be and have been used to explain CSR. Among the widely used theories are; stakeholders theory, legitimacy theory, institutional theory, social contract theory, CSR theory (Lanis & Richardson, 2012; Watson, 2015; Hillenbrand et al, 2017; Mgbame, *et al*, 2017; Preuß & Preuß, 2017; Umobong & Agburuga, 2018). This study however, adopts the stakeholders' theory to explain its phenomenon. Stakeholders' theory suggests that the essence of business primarily lies in building relationships and creating value for all its stakeholders (Freeman & Dmytriyev, 2017). Freeman (1984) proposes that there are several stakeholders of a firm and they are identified based on their interests in the firm. These stakeholders include shareholders, suppliers, customers, employees, government and even the public. Organisations are not solely responsible to their immediate shareholders but are also responsible to its other stakeholders (Umobong & Agburuga, 2018; Mgbame, *et al*., 2017) hence the needs of shareholders and other stakeholders of an organisation should be met side by side with consideration being given to both sides. The stakeholder theory proposes an integrative social contract between the external and internal parties to a firm (Mgbame, *et al*., 2017). While it is argued that for a firm to be socially responsible, it must assess decisions in the context of its obligations and how it affects both its primary and secondary stakeholders. Some researchers also argued that stakeholders approach to CSR will encourage violation of a business obligation to its shareholders as it ought to function on the principles promoted by traditional economic theory where resources are allocated to common CSR actions only to the extent that it maximizes shareholders' wealth (Umobong & Agburuga, 2018; Preuß & Preuß, 2017; Freeman & Dmytriyev, 2017; Scholes, Wolfson, Erickson, Hanlon, Maydew, & Shevlin, 2015). According to Freeman and Dmytriyev (2017), all stakeholders are equally important hence any trade off among the stakeholders should be avoided. This study suggests that firm's responsibility to the government especially with respect to its tax obligations should be upheld as much as its obligations to the shareholders as strategies adopted to aggressively reduce their tax payment would have overarching effect on the social and economic development of the economy. Hence a firm can be seen to be socially responsible towards the government by ensuring that it pays a fair

share of its taxes rather than engaging in other aggressive strategies that deprives it of the required revenue for provision of public amenities.

Conceptual Review

Corporate Social Responsibility

The concept of CSR has been defined from various perspectives by different stakeholders. The practice is framed as an evolving field, with various actors contributing in different ways to the ongoing transformation of corporate practice. CSR is perceived as a philanthropic act by some researchers and corporations while some have criticized the practice of CSR on several fronts. From Stakeholders perspective of CSR, Aupperle, Carroll, and Hatfield (1985) acknowledged the economic and legal goals of business, but identified two additional domains that socially responsible firms must consider: ethical and discretionary (philanthropic). A firm's commitment to CSR is found in the importance it places on the three non-economic components compared to the economic. Carroll (1991) suggested that corporations are a part of the "social contract" and are therefore expected to pursue their economic missions within the framework of the law. Moreover, above the economic and legal layers, Carroll (1991) sees the ethical and philanthropic layers. Ethical responsibilities of a company go beyond the law and profit making, and embody those standards, norms or expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair, just or moral.

The European Union's Green paper on CSR defined CSR as a "concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (Green paper promoting a European Framework for Corporate Social Responsibility, 2001). Furthermore, International Organization for Standardization (2010) explains that Social responsibility in business, also known as corporate social responsibility (CSR), pertains to people and organizations behaving and conducting business ethically and with sensitivity towards social, cultural, economic, and environmental issues. Striving for social responsibility helps individuals, organisations, and governments have a positive impact on development, business, and society.

International Organization for Standardization (2010) remarked that smart business decisions are not just a matter of counting short-term dollars and cents. Wise decision makers consider the

future impact of today's choices on people, on the community, and on customers and their opinions.

While business results, investment, free enterprise, and other traditional economic forces continue to drive industry, organisations' reputations and their ability to compete effectively around the world depend on them integrating social responsibility efforts into decision making and performance improvement (International Organization for Standardization, 2010).

Corporate social responsibility is a strategic agenda adopted by firms and other legal entities to solve economic, social and environmental problems, to mitigate cost and optimize gains towards the satisfaction of diverse stakeholders (Umobong & Agburuga, 2018; Jitaree, 2015). According to the United Nations Industrial Development Organization (UNIDO) (2018), Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line- Approach"), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that. In the same vein, World Bank (2013) states that Corporate Social Responsibility (CSR) is often defined as corporate responsibility, corporate citizenship, social enterprise, sustainable development, triple-bottom line, corporate ethics, and in some cases, corporate governance. What binds these terms together is the expectation that corporates (private and public enterprises alike) behave ethically vis-à-vis a broad group of stakeholders - workers and their families, communities and the wider society.

For the purpose of this study, CSR is defined as a practice adopted by a corporate entity to stabilise the economic, social and environmental challenges with consideration to its operation towards minimising the effects and maximising the gains it offers to the satisfaction of its stakeholders. Based on this definition, payment of fair share of Corporate Income Tax constitute a crucial obligation whereby an entity contributes to government operations hence contributing its quota towards the provision of public amenities for social and economic development.

Concept of Corporate Income Tax:

Tax is a mandatory or compulsory financial charge or levy imposed on the income or on the production and consumption of goods and services of individual or other legal entity, by a government in order to fund public expenditures. Companies Income Tax (CIT) in Nigeria is levied on total profit of corporate entities at the rate of 30%. Corporate entities resident in Nigeria are liable to CIT on their worldwide income while non-resident entities are subjected to tax on the Nigeria-source income. Taxation of Companies Income in Nigeria is governed by Companies Income Tax Act Cap C21, LFN 2007 (as amended). The administration of CIT is the responsibility of the Federal Inland Revenue Service (FIRS). All Corporate entities including those granted exemptions are required to file self-assessment returns to FIRS in a prescribed form and pay their tax liability within the due date of assessment. In addition to other tax types, Companies income tax provides sustainable sources of revenue to the government for achieving economic policy and providing public amenities. We therefore define tax for the purpose of this study as a mandatory charge or levy imposed on the income or on the production and consumption of goods and services of individuals and profit of legal entities to provide sustainable sources of revenue for the government towards achieving economic policy and provision of public amenities.

The Relationship between CSR and Companies Income Tax (CIT) Compliance

The question relating to CSR and companies income tax is a center of debate amongst researchers which no consensus has been reached (Alabede, 2011; Lanis & Richardson, 2012; Watson, 2015; Davis, *et al*, 2016; Preuß & Preuß, 2017; Umobong & Agburuga, 2018). The voluntary adoption of the practice of CSR contrasts with the compulsory levy of Companies Income Tax by the Government (Babalola, 2012; Mordi, Opeyemi, Tonbara, & Ojo, 2012; Aransiola, 2013; Knuutinen, 2014; Muller, & Kolk, 2015; Mgbame, *et al,* 2017; Narotzki, 2017; Umobong & Agburuga, 2018). However, the relationship between CSR and CIT can be exposed in the understanding of the Carroll's (1991) pyramid of CSR which is the root of the various definitions of the concept. It is of the view that corporations have the economic responsibility to be profitable, legal responsibility to obey the laws of the society, ethical responsibility to do what is right even when the company is not compelled to do so by the law and philanthropic responsibility to contribute resources towards educational, social and cultural development.

According to Yunis, Jamali and Hashim (2018), most MNC executives understand CSR in narrow philanthropic and ethical terms and ignore the legal and economic aspects. Compliance to Income tax is embedded in the legal responsibility of CSR as it is a provision of the tax law which every responsible entity is required to comply with; with respect to the ethical responsibility, it can be said that tax compliance is morally right as it provides a sustainable source of revenue for government operations hence maximising the social welfare; with respect to the philanthropic responsibility, non-payment of a fair share of income tax would deprive government resources for provision of public amenities such as water, health facilities, education, which the poor segment of the society may not afford on their own. The empirical review below highlighted the relationship between CSR and CIT as shown by recent studies.

CSR in Nigeria Telecommunication Companies

An examination of the CSR activities undertaken by the telecommunication companies in Nigeria with reference to the samples of the studies showed that the telecommunication companies engage more in poverty alleviation programmes than environmental remediation activities (Osemene, 2012; Umobong & Agburuga, 2018). This is shown in Table 1 (Appendix A).

Empirical Review

Existing studies have found different results on the relationship that exist between CSR and CIT. While some empirical studies suggest either positive or negative relationship, others suggest a mixed relationship between the concepts. A number of studies also reviewed CSR in the context of taxation and the corporate view. Lanis and Richardson (2012) studied the relationship between corporate social responsibility (CSR) and corporate tax aggressiveness. Based on a sample of 408 publicly listed Australian corporations from 2008 to 2009 financial years, the results of their analysis showed that the higher the level of CSR disclosure of a corporation, the lower is the level of corporate tax aggressiveness. The findings showed a negative and statistically significant association between CSR disclosure and tax aggressiveness, thus they opined that more socially responsible corporations are likely to be less tax aggressive in nature (see also, Lanis & Richardson, 2013). In addition, Hoi, Wu, and Zhang (2013) examined the link between corporate social responsibility (CSR) and tax avoidance. They used a sample of Australian companies and their own broad based disclosure index for the measurement of CSR. From an additional examination, which separates their CSR disclosure proxy into different constituents,

they showed that the social investment responsibility and corporate CSR policy of a corporation are significant components of CSR activities that have a negative impact on tax aggressiveness.

Avi-Yonah (2014) addressed the question of whether publicly traded U.S. corporations owe a duty to their shareholders to minimise their corporate tax burden through any legal means, or if instead, strategic behaviours like aggressive tax-motivated transactions are inconsistent with corporate social responsibility (CSR). He argued that the latter holds true, regardless of one's view of the corporation. Under the "artificial entity" view, a firm is a creation of the state and exists because of the state hence is vested certain rights and privileges by the state while in turn it owes the state certain basic responsibilities. The legitimacy of the firm is derived from the state and the actions of the firm towards fulfilling its responsibilities to the state are desirable. To the extent that the corporation is free to pursue purely for-profit activities, as long as those do not impose a burden on the state, the state is left with the obligation to carry the weight of social responsibility on its own but this means that the state needs resources, and a major way of obtaining these resources is to impose taxes, including the corporate tax (Avi-Yonah, 2014). Corporations have an affirmative obligation not to engage in aggressive tax planning designed to reduce their tax burden. The implication of this is that taxation is a firm's obligation to the state and a CSR function which should be incorporated in the corporate culture.

Under the real entity view, the corporation is similar to an individual separate from both the state and from its shareholders. CSR activities that are unrelated to the corporation, but which are beneficial to society at large should not be legally required, but is praiseworthy and should be encouraged when it happens. Tax law is not different from other laws as a modern state cannot exist unless most citizens could be expected to comply with the law most of the time. The corporation is expected to comply with the tax law to the best of its ability. Thus, it is legitimate for corporations to try to minimise taxes paid on ordinary business transactions, but it is not legitimate to deliberately engage in strategic tax behaviour designed solely to minimise its taxes as such behaviour runs contrary to the normal obligation of citizens to comply with the law.

Under the aggregate view, the sole legitimate function of the corporation is shareholder profit maximisation, and any CSR activity that is not related to long-term profit maximisation is an illegitimate "tax" imposed by management on the shareholders, without the accompanying democratic accountability. Most CSR activities are illegitimate. This necessarily means that the

responsibilities devolve upon the state hence solving social problems is the exclusive responsibility of the government which is supposed to use its legitimate taxing function to raise money to fulfill these obligations. Where corporations engage in strategic tax behaviour, the state probably will not be able to raise sufficient money to fulfill its exclusive social responsibility functions (Avi-Yonah, 2014).

Lanis and Richardson (2015) examined whether corporate social responsibility performance is associated with corporate tax avoidance. The study employed a matched sample of 434 firm-year observations (i.e., 217 tax-avoidant and 217 non-tax-avoidant firm-year observations) from the Kinder, Lydenberg, and Domini database over the period 2003–2009. The logit regression results showed that the higher the level of CSR performance of a firm, the lower the likelihood of tax avoidance which indicates that more socially responsible firms are likely to display less tax avoidance. Knuutinen (2015) examined CSR in the context of taxation. He raised the following questions to enable him examine CSR with respect to taxation: is CSR of any significance and importance in the context of tax law and especially income taxation? Does CSR set limits on the tax planning of companies, or is there an obligation to pay any more taxes than what has to be paid according to the law and the tax treaties? Attitudes towards taxes are often contradictory, on the one hand, as taxes are like other costs for a company, but on the other hand, they are an economic contribution to the society in which the business is conducted. The study suggested that taking a purely technical approach to tax planning is unlikely to protect companies from charges of irresponsibility and associated reputational damage. Aggressive tax planning is not a legal concept so there is no legal definition for it. Instead, the question is more or less about where to draw the line of moral acceptability, which runs on the inside of the tax planning area. From the CSR point of view, aggressive tax planning can be defined as actions taken by taxpayers which are in the line of requirements of tax law, but which do not meet the reasonable and justified expectations and requirements of the stakeholders (Knuutinen, 2015).

Davis, Guenther, Krull and Williams (2016) investigated the relationship between corporate tax payments and corporate social responsibility to determine whether the two activities act as complements or substitutes. The study estimated the relationship between measures of corporate social responsibility and (i) the amount of corporate taxes paid; and (ii) the amount invested in tax lobbying activities using both ordinary least squares and a system of simultaneous equations. The study found consistent evidence that corporate social responsibility is negatively related to

five-year cash effective tax rates and positively related to tax lobbying expenditures. It suggested that, on the average, corporate social responsibility and tax payments act as substitutes.

Kim and Im (2017) studied Corporate Social Responsibility (CSR) by focusing on tax avoidance and financial ratios analysis. This study was an attempt to find a causal relationship between financial ratios and tax avoidance. The study conjectured that aside from direct financial responsibilities, firms that avoid taxes will also face indirect negative financial repercussions, such as degradation of their reputation in the investment market. Corporate social responsibility activities are reflected in the market as firms make a commitment to society, and investors perceive a positive value in an investment in such firms. The study sought between the two contradictory drivers, tax avoidance and CSR activities, to establish their interplaying relationship with financial ratios. The study found that CSR activities deter tax avoidance, specifically, in firms that are actively engaged in CSR. On the other hand, passive involvement in CSR does not have any influence on tax avoidance. Also, the current asset turnover, the labour-to-equipment ratio, the non-current liabilities ratio, and the net income-to-equity ratio all have a positive and significant influence on corporate tax avoidance, common equity growth has been shown to be negatively related with corporate tax avoidance. The study suggests that there can be a voluntary method to reduce corporate tax avoidance in firms, which is by encouraging them to engage in CSR activities (Kim & Im, 2017).

Gribnau and Jallai (2017) provided an ethical reflection on the current debate on Multinational corporations' tax practices, being accused of not paying their fair share of taxes. The study addressed the relationship among society, morality and taxes. In moral terms, aggressive tax planning may imply loss of integrity and trust which may entail certain costs for businesses, such as reputation damage. It was argued that in order to improve corporate reputation and (moral) leadership, corporate social responsibility, endorsed by many corporations around the globe, is a helpful tool. Tax planning in the context of CSR, entails that good tax governance should foster a moral mind set and enhance accountability and transparency as taxes are contributions to the society and paying a fair amount of taxes is taking the values of reciprocity and solidarity seriously. The study suggested that when it comes to tax planning, the notion of "going beyond the compliance" consists of two layers, one procedural and the other substantive and good socially responsible tax governance entails both. With regard to the substantive layer, based on Carroll's CSR Pyramid, socially responsible companies need to take into account ethical

considerations in addition to legal and economic ones when defining and implementing a business strategy and taking tax-related decisions as acting within the limits set by law is not sufficient to qualify as morally responsible behaviour anymore. The procedural layer involves the principle of transparency, a beyond compliance with legal reporting obligations (Gribnau & Jallai, 2017).

Hillenbrand, Money, Brooks and Tovstiga (2017) explored stakeholder expectations of corporate tax in the context of UK business. The study conducted a qualitative analysis of in-depth interviews with representatives of community groups (NGOs/think tanks and special interest groups), as well as interviews with those representing business groups (business leaders and industry representatives). The study identified eight themes that together describe ''what'' companies need to do, ''how'' they need to do it, and ''why'' they need to do it, if they wish to appeal to a wide group of interested parties. The findings from this study suggest that stakeholders from different networks need to start communicating with each other, through listening, inclusive debate, and transparency, also corporate tax approaches supported by stakeholders require companies to re-think not just their actions, but importantly, to be aware of how their motivations and intentions are perceived and whether credible and meaningful exchanges with stakeholders are being formed (Hillenbrand, Money, Brooks & Tovstiga (2017).

In the same vein, Mgbame, Chijoke-Mgbame, Yekini & Yekini (2017) examined the effect of corporate social responsibility (CSR) performance on tax aggressiveness of listed firms in Nigeria. The study made use of a cross-sectional research design and data were collected from the published annual reports. Using a sample of 50 companies for the period of 2007 to 2013, the findings of the study revealed that there is a negative relationship between CSR performance and tax aggressiveness in Nigeria. A significant relationship was also found between firm size and tax aggressiveness, though with mixed positive and negative results. The study revealed a negative and significant relationship between firm performance and tax aggressiveness, and the extent of tax aggressiveness is reinforcing and concluded that firms are more or less likely to engage in tax aggressiveness depending on their CSR standpoints and dimension and other corporate characteristics. Furthermore, Preuß & Preuß (2017) investigated whether corporate social responsibility and corporate tax payments act as substitutes or complements. The study analysed the relationship using a linear unobserved effects panel model for data set of 95 European public firms with 695 firm-year observations for the years 2010 through 2016. The

findings suggest that corporate social responsibility is negatively associated with corporate tax payment which is in line with the risk management view that corporate tax payments and corporate social responsibility of European public firms act as substitutes.

Narotzki (2017) noted that although the Multinational corporations ("MNCs") in the United States of America face the highest corporate tax rate in the world, with a marginal corporate federal tax rate of 35%, which is raised to 40% when state corporate tax rates are included, they utilize various tax credits, exemptions, and other benefits, thus the effective tax rate is significantly less than the statutory rate prescribed by law. It is important to consider the effect that unprofitable companies have on an ETR because losses from unprofitable corporations greatly reduce the denominator in measuring the average ETR. Even with the unprofitable filers, the average ETR for U.S.A companies was still 12% below the statutory rate. The Citizens for Tax Justice and the Institute on Taxation and Economic Policy conducted a relatively recent study, which found that from the 280 profitable Fortune 500 companies, the average ETR was only 18.5% from 2008 to 2010. Several of the companies this study highlighted are companies that are encountered every day and include FedEx Corporation ("Fedex") and Amazon.com, Inc. ("Amazon"), which paid only 0.9% and 7.9% in taxes respectively. Furthermore, the report also found that Pepco Holdings Inc. ("Pepco Holdings") paid an astounding -57.6% between 2008 and 2010, as a result of profit shifting into other countries in order to avoid paying U.S.A taxes. MNCs have used the arbitrage opportunities the differing national regulatory contexts of the states in which they operate and their national and global economic dominance to dramatically minimise their tax payments (Elbra & Mikler, 2016).

These examples of low tax-paying corporations raise several questions about how companies approach their tax liabilities and what their objectives are with regard to their shareholders (Narotzki, 2017).

Narotzki (2017) argued that corporation is in the business of making money, with the aim of promoting the most economic benefit for its shareholders' wealth and welfare. Although this business approach seems to exclude other stakeholders in a corporation, most companies appear to uphold greater responsibilities towards clients, customers, employees, and suppliers. MNCs are increasing their efforts and spending more money to keep other stakeholders happy, which in the short-run may decrease profitability. This short-run position does not align with a

corporation’s main objective to make money for its shareholders, but in the long-term there may be increases in profitability and brand loyalty. He stated that a corporation should not be used as a vehicle to protect individuals from committing wrongdoings and avoids social responsibility while imposing negative externalities on society, but rather it should be used to protect individuals who maintain ethical and legal business relationships. Corporations therefore, have to meet the public’s expectations by using their increasing amount of power to be more responsible and accountable for others through what is referred to today as the Corporate Social Responsibility (CSR) Theory (see also Zakari, 2017).

According to Narotzki (2017), a historical look into CSR reveals that corporate activities previously viewed as generous and socially responsible, such as ensuring humane working conditions, providing decent housing or health cares, and donating to charity, are now corporate standards that we cannot imagine the world without. He therefore suggests that the next evolution in CSR development will be “Tax Fairness,” meaning that corporations will soon experience the pressure to be socially responsible by paying a fair and reasonable tax rate as taxes are the most basic way in which corporations can positively engage in society. He remarked further that the public’s opinion about whether or not a corporation is socially responsible is a powerful criterion that has a direct result on positive or negative financial performance. The public needs to become more informed on corporate tax haven involvement, jurisdictions, amount of income generated in each jurisdiction, tax benefits received, ETR in each jurisdiction, and, finally, the company’s worldwide average ETR. Once the public can easily interpret the material, they will be able to support companies that do not explicitly participate in aggressive tax practices and taxation (Narotzki, 2017).

Umobong and Agburuga (2018) examined whether corporate tax (CT) is a substitute of and mutually exclusive to corporate social responsibility (CSR), or a complement thereof, using secondary data obtained from firms listed on the Nigeria Stock Exchange and also sought to determine the nature of CSR practiced in Nigeria. Result confirmed that CT is positively and complementarily related to CSR of firms that practice environmental remediation, and is negatively related to, mutually exclusive and a substitute to CSR of firms that embark on poverty alleviation and enhancement of educational development. This later inverse relationship implies that such firms have the potential to indulge in aggressive tax planning behaviours. Also, firms that practice poverty alleviation as a form of CSR activity are more dominant in Nigeria with the

mean of such firms higher than that of firms practicing environmental remediation. Interestingly, the sizes of firms are positively and significantly related to CSR for firms practicing environmental remediation implying the larger the size, the more investment in CSR activities. Also, size is negatively and not significantly related to CSR for firms practicing poverty alleviation CSR activities implying that size does not influence such firms' decision on whether to invest on CSR and avoid tax or whether to pay tax and mitigate investment in CSR.

Research Methods

The ex-post-facto research design was adopted in order to achieve the aim of this study. Annual report provided the Secondary data in examining the relationship between corporate social responsibility practices and the corporate income tax payment of multinational telecommunication companies in Nigeria. The data spanning a period of seven years were gathered from the annual reports of the selected companies from the Nigerian telecommunication sector. Three major multinational telecommunication companies in Nigeria, MTN, Airtel and 9Mobile were selected as the sample for the study using judgmental sampling technique. The companies were selected considering the fact that they have domination of the telecommunication sector over the years in Nigeria in terms of their subscriber base, not listed on the Nigeria stock exchange and would provide a broad view of the sector with respect to the subject of study. The change of ownership structure of Etisalat to 9mobile affected the availability of the annual report of the company for 2015 to 2017. The data for those three years were estimated based on the previous years' financial performance.

Model Specification and Measurement of Variables

Dependent Variable

Based on measures of corporate tax payment, tax avoidance and tax aggressiveness from past studies, this study made use of effective tax rate as dependent variable (see Lanis & Richardson, 2012; Osemene, 2012; Davis, *et al*, 2016; Mgbame, *et al*, 2017; Preuß & Preuß, 2017; Umobong & Agburuga, 2018), Effective tax rate (ETR) generally indicates the average rate at which a firm is taxed on its pre-tax profit. It simplifies comparisons among taxpayers and provides a more accurate reflection of a company's tax liability. The higher the effective tax rate, the more obligated a firm is in terms of payment of tax liability to the state. The proportion of income tax

expense to operating cash flow has been identified as one of the ways to measure the tax burden of a firm (Salihu, Obid & Annuar, 2013). Salihu, Obid and Annuar, (2013) argued that the substitution of accounting earnings with operating cash flow helps to reflect the actual tax burden of a firm as it excludes the effects of accrual accounting procedures. While this measure overcomes the problem of using accrual accounting item as the denominator, the inclusion of the accounting income tax expense also suffers the effects of accrual basis. For the purpose of this study, we modify this by using the actual current year income tax liability for determination of the effective tax rate. This is usually disclosed in the Notes to the Account of a firm's financial statements. Thus ETR = actual current year tax expense/ operating cash flow

Independent Variables

TCSREPP = Total corporate social responsibility expenses to Pre-tax profit ratio.
This means the ratio of corporate social responsibility expenses covered by the firm's profit before tax for a given period. It shows relatively what part of the firm's profit before tax was spent on the voluntary corporate social responsibility activities carried out by the firm.

TPCPP = Total personnel cost to Pre-tax profit
This means the ratio of personnel cost covered by the firm's profit before tax. It shows relatively the part the firm's profit before tax spent on the employees of the organisation.

TETA = Total Equity to total Asset ratio
This ratio measures the firm's Shareholders' stake in relation to its asset base. It reveals the corporate risk navigation of the firm to the investors.

Model Specifications

ETR = (TCSREPP, TETA, TPCPP)…………………………………i

The above Model in its functional mode is stated below:

$ETR = \alpha_0 + \alpha_1 TCSREPP + \alpha_2 TETA + \alpha_3 TPCPP + \mu$…………………ii

Data Analysis and Interpretation

This section reveals analysis of the data collected and its interpretations. It begins with the descriptive statistics such as mean, standard deviation, minimum and maximum values. This is followed by results of the panel least square regression model.

Descriptive Statistics

In Table 2, the descriptive statistics relating to each of the study's variables is presented. The average effective tax rate (ETR) in the sampled telecommunication companies is about 7% (S.D = 0.063), total CSR expenditure to pre-tax profit (TCSREPP) is -1.4% (S.D = 0.076), total personnel cost to pre-tax profit (TPCPP) is -3.99 (S.D = 18.54) while total equity to total assets is -39% (S.D = 0.996). Further, the three telecommunication companies paid maximum of 18% in ETR, about 1% of the pre-tax profit were expended on CSR activities. The maximum ratio of total equity to total asset is 1:1. The maximum ratio of TPCPP is about 21%.

Table 2: Descriptive Statistics

	ETR	TCSREPP	TETA	TPCPP
Mean	0.069184	-0.014007	-0.388068	-3.992292
Median	0.059903	-0.000565	0.027173	-0.101776
Maximum	0.183908	0.008016	1.000000	0.207342
Minimum	0.000000	-0.369068	-2.276608	-91.00219
Std. Dev.	0.063186	0.075725	0.996133	18.53951
Skewness	0.273216	-4.567890	-0.966200	-4.582123
Kurtosis	1.709053	21.93075	2.816000	22.01283
Jarque-Bera	1.965132	441.8358	3.768029	445.4712
Probability	0.374349	0.000000	0.151979	0.000000
Sum	1.660408	-0.336166	-9.313634	-95.81500
Sum Sq. Dev.	0.091826	0.131890	22.82245	7905.408
Observations	24	24	24	24

Source: Authors' Data Analysis (2019)

Effect of the Independent Variables on ETR

The effect of the independent variables on effective tax rate is shown in Table 3. The relationship between corporate income tax expenses (represented by the effective tax rate-ETR) and corporate social responsibility expense was explored using panel least square regression analysis. The appropriateness of this tool was determined by the log likelihood value which is large and positive (49.588). This is further buttressed by the Durbin Watson value, which is above unity (1.566). Overall, the co-efficient of determination revealed positive relationship between income tax and corporate social responsibility. About 75.45% change in the effective income tax paid by the telecommunication companies in Nigeria could be explained by their investment in corporate social responsibility activities ($R^2 = 0.75446$). This relationship is significant ($F = 20.48473$, $p < 0.05$). By implication, other factors would explain the remaining 25% of the variation in effective tax rate.

Further analysis revealed individual effect of each of the components of CSR. The coefficient of TCSREPP is positive ($\alpha_1 = 12.93656$) with significant t-statistics ($t = 5.666427$, $p < 0.05$). This implies that CSR expenditure of telecommunication companies has significant influence on their

corporate tax expense. The result suggests that telecommunication companies, in order to influence their yearly corporate tax, would invest stupendously in some form of CSR activities. Also, the co-efficient of TETA is positive (α_2= 0.017577) and has significant t-value ($t = 2.226964$, $p < 0.05$). TETA shows how much of the equity of the telecommunication companies are invested in income generating resources. Thus, the more the part of the pre-tax profit ploughed back into the business, especially to acquire assets, the more likely it is that the effective tax rate would be affected. However, the co-efficient of TPCPP is negative ($\alpha_3 = -0.052582$) with significant t-statistics ($t = -5.637973$, $p < 0.05$). This suggests that as telecommunication companies incur more of other welfare costs other than salary, the lower the part of their corporate profit available for tax. Thus, the overall influence exerted by CSR activities on the corporate tax is reflected in the predictive model shown below.

$$ETR_{i,t}= 0.047283+ 12.93656TCSREPP + 0.017577TETA-0.052582TPCPP + \mu$$

Dependent Variable: ETR
Method: Least Squares
Date: 04/10/19 Time: 19:34
Sample: 124
Included observations: 24

Table 3: Effect of the Independent Variables on ETR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TCSREPP	12.93656	2.283020	5.666427	0.0000
TETA	0.017577	0.007893	2.226964	0.0376
TPCPP	-0.052582	0.009326	-5.637973	0.0000
C	0.047283	0.010032	4.713357	0.0001

R-squared	0.754463	Mean dependent var.	0.069184
Adjusted R-squared	0.717633	S.D. dependent var.	0.063186
S.E. of regression	0.033576	Akaike info criterion	-3.799009
Sum squared res.	0.022547	Schwarz criterion	-3.602667
Log likelihood	49.58811	Hannan-Quinn criterion.	-3.746919
F-statistic	20.48473	Durbin-Watson stat.	1.566133
Prob. (F-statistic)	0.000003		

Source: ***Authors' Data Analysis (2019)***

Conclusion and Recommendations

Conclusion

This study has explored the possible deterministic effect of corporate social responsibility expenses incurred by telecommunication companies in Nigeria on their corporate tax. The study decomposed the CSR into three sub-components which are CSR expenses, investment in assets

and other personnel costs incurred. Results from this study indicate that CSR expenses exert significant influence on corporate effective tax rate. This suggests that telecommunication companies in Nigeria do engage in some form of CSR activities targeted at reducing their overall corporate tax paid.

Recommendation

This outcome portends some implications for both tax authorities and telecommunication companies in Nigeria. As the major goal of tax authorities is to ensure generation of tax revenue sufficient enough to aid government in achieving its multifarious objectives, their search light should be refocused on the CSR activities of the telecommunication companies to forestall using same as avenue for aggressive tax planning that would reduce tax revenue. On the other hand, telecommunication companies stand on a privileged pedestal to grossly reduce the corporate tax payable through incurrence of CSR expenses.

References

Adeosun, K. (2017). "Nigeria's tax to GDP ratio unacceptably low", *The Punch*, May 2, available on-line at http://punchng.com/nigeria-tax-to-gdp-ratio-unacceptably-low-Adeosun/ on 18/9/2018.

Alabede, J. O. (2011). Tax implication of corporate social responsibility sponsorship and donations. *The Nigerian Accountant*, 44(3), 22-27.

Amaeshi, K., Adi, B., Ogbechie, C. & Amao, O. (2006). Corporate social responsibility in Nigeria: Western mimicry or indigenous practices? *Research Paper Series, International Centre for Corporate Social Responsibility*, ISSN 1479-5124, No. 39-2006 ICCSR.

Amole, B. B., Adebiyi, S. O. & Awolaja, A. M. (2012). "Corporate social responsibility and profitability in Nigeria banks: A causal relationship", *Research Journal of Finance and Accounting*, 3(1), 6-17.

Aupperle, K., Carroll, A. & Hatfield, J. (1985). "An empirical investigation of the relationship between corporate social responsibility and profitability", *Academy of Management Journal* 28()2, 446–463.

Aransiola, S. Y. (2013). Corporate tax and investment decision in quoted manufacturing industries
in Nigeria. *Open Journal of Industrial and Business Management*, 2(1), 11-24.

Avi-Yonah, R. S. (2014). *Corporate Taxation and Corporate Social Responsibility*. University of Michigan Law School Scholarship Repository.

Babalola, Y. A. (2012). The impact of corporate social responsibility on firms' profitability in Nigeria. *European Journal of Economics, Finance and Administrative Sciences*, 45(4), 50-75.

Carroll, A. B. (1991). The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders. *Business Horizons*, 34(4), 39-48.

Davis, A. K., Guenther, D. A., Krull, L. K. & Williams, B. M. (2016). Do socially responsible firms pay more taxes? *The Accounting Review*, 91(1), 47–68.

Commission of the European Communities (2001). Green Paper Promoting a European framework for Corporate Social Responsibility, presented by the Commission in Brussels on 18 July, DOC/01/9: 1-37.

Elbra, A. & Mikler, J. (2016). Paying a 'fair share': Multinational corporations' perspectives on taxation. *Global Policy*, 1-10. doi: 10.1111/1758-5899.12379.

Freeman, J. (1984). Tax and corporate responsibility. *Tax Journals*, 695(2), 1-4.

Freeman, R. E. & Dmytriyev, S. (2017). Corporate social responsibility and stakeholder theory: Learning from each other. SYMPHONYA *Emerging Issues in Management,* 1(1), 7-15.

Global Financial Integrity (2017). Retrieved from www.gfintegrity.org on 18/2/2018.

Gribnau, H. J. & Jallai, A. (2017). Good tax governance: A matter of moral responsibility and transparency. *Nordic Tax Journal*, 1(1), 70-88.

Hanlon, M. & Heitzman, S, (2010). Review of tax research. *Journal of Accounting and Economics*, 50(1), 127-178.

Hillenbrand, C., Money, K., Brooks, C. & Tovstiga, N. (2019). Corporate tax: What do stakeholders expect? *Journal of Business Ethics*, 158(2), 403-426.

Hoi, C, Wu, Q. & Zhang, H. (2013). Is corporate social responsibility associated with tax avoidance? Evidence from irresponsible CSR activities. *Accounting Review*, 88(6): 2025-2059.

International Organization for Standardization (2010). *ISO 26000-2010: Guidance on Social Responsibility*, available on-line at https://asq.org/quality-resources/social-responsibility on 28/7/2018.

Jitaree, W. (2015). *Corporate social responsibility disclosure practice and financial performance:Evidence from Thailand*. Doctoral Thesis submitted to School of Accounting, Economics and Finance, University of Wollongong.

Kim, J. & Im, C. (2017). Study on corporate social responsibility (CSR): Focus on tax avoidance and financial ratio analysis. *Sustainability,* 9(10), 1710, available at https://doi.*org*/10.3390/su9101710 on 30/5/3018.

Kim, C. F. & Zhang, L. (2016). Corporate political connections and tax aggressiveness. *Contemporary Accounting Resources,* 33(1), 78-114.

Knuutinen, R. (2015). Corporate Social Responsibility, Taxation and Aggressive Tax Planning, *Nordic Tax Journal,* 1(1), 36-75.

Lanis, R. & Richardson, G. (2015). Is corporate social responsibility performance associated with tax avoidance? *Journal of Business Ethics,* 127(2), 439-457.

Lanis, R. & Richardson, G. (2013). Corporate social responsibility and tax aggressiveness: A test of legitimacy theory. *Accounting and Audit Journal*, 26(1), 75-100.

Lanis, R. & Richardson, G. (2012). Corporate social responsibility and tax aggressiveness: An empirical analysis. *Journal of Accounting & Public Policy,* 31(1), 86-108.

Mgbame, C. O., Chijoke-Mgbame, M. A., Yekini, S. & Yekini C. K. (2017). Corporate social responsibility performance and tax aggressiveness. *Journals of Accounting and Taxation*, 9(8), 101-108.

Mordi, C., Opeyemi, I. S., Tonbara, M. & Ojo, S. (2012). Corporate social responsibility and the legal regulation in Nigeria. *Economic Insights – Trends and Challenges*, 9(4). 1-8.

Muller, A. & Kolk, A. (2015). Responsible tax as corporate social responsibility: The case of multinational enterprises and effective tax in India. *Business and Sociology*, 54(4), 435-463.

Narotzki, D. (2017). Corporate social responsibility and taxation: A chance to develop the theory. *Western New England Law Review*. 39(4/5), 539-556.

Osemene, O. F. (2012). Corporate social responsibility practices in mobile telecommunications industry in Nigeria. *European Journal of Business and Management*, 4(8), 149-159.

Otusanya, O. J. (2011). The role of multinational companies in tax evasion and tax avoidance: The case of Nigeria. *Critical Perspectives on Accounting*, 1(1), 22-29.

Preuß, A. & Preuß, B. (2017). Corporate Tax Payments and Corporate Social Responsibility: Complements or Substitutes? Empirical Evidence from Europe, *Business Economic journal,* 8, 326. doi: 10.4172/2151-6219.1000326.

Salihu, I. A., Obid, S. S. & Annuar, H. A. (2013). Measures of Corporate tax avoidance: Empirical evidence from an emerging economy. *International Journal of Business and Society*, 14(3), 412-427.

Scholes, M. S., Wolfson, M. A., Erickson, M., Hanlon, M., Maydew, E. L. & Shevlin, T. (2015). *Taxes and Business Strategy: A Planning Approach,* (5th Edition). Boston: Pearson.

Sikka, P. (2010). Smoke and mirrors: Corporate social responsibility and tax avoidance. Accounting Forum, *Journal of Business Ethics.* 2(3), 15–29.

Umobong, A. A. & Agburuga, U. (2018). Corporate tax and corporate social responsibility of firms in Nigeria, *Research Journal of Finance and Accounting*. 9(10), 8-25.

United Nations Industrial Development Organization (2018). What is CSR? Available on-line at https://www.unido.org/our-focus/advancing-economic-competitiveness/competitive-trade-capaci -ties-and-corporate-responsibility/cor on 16/6/2018.

Watson, L. (2015). Corporate social responsibility, tax avoidance, and earnings performance. *Journal of the American Taxation Association*, 37(2), 1-21.

World Bank (2013). India: Corporate Social Responsibility. Available on-line at https://www.worldbank.org/en/news/feature/2013/08/27/india-corporate-social-responsibility on 18/9/2018.

Yunis, M. S., Jamali, D. & Hashim, H. (2018). Multinationals in a developing country context: Insights from Pakistan. *Sustainability, 10*, 1-20. doi:10.3390/su1010351.

Zakari, M. (2017). The relationship between corporate social responsibility and profitability: The case of Dangote Cement Plc. *Journal of Finance and Accounting*, 5(4), 171-176.