AN EMPIRICAL ANALYSIS OF THE ADOPTION AND EXECUTION CHALLENGES OF TRANSFER PRICING REGULATIONS IN NIGERIA

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Abstract

This research aims at empirically analyzing the adoption and execution challenges of transfer pricing regulations in Nigeria. Adopting the descriptive survey technique, structured questionnaires were administered to 114 respondents comprising accountants, auditors, lawyers and tax practitioners spread across accounting firms in South-south Nigeria. The study examined the factors that influence the execution of transfer pricing regulations in Nigeria coupled with the barriers to the effective adoption and execution of transfer pricing regulation in Nigeria. The results indicate a significant positive relationship between transfer pricing regulation and the features of transfer pricing adoption and execution with a correlation coefficient of 0.271 ($p = 0.004$). Also, there exists an inconsequential relationship of 7.6% ($p = 0.432$) between features of transfer pricing adoption and execution and barriers to transfer pricing adoption and execution. Consequently, it is recommended that the Federal Inland Revenue Service (FIRS) in collaboration with the Financial Reporting Council of Nigeria FRCN should fine-tune the existing transfer pricing regulations to address the barriers to its faithful implementation while reinforcing the existing administrative and human capabilities of current policy operations in the country.

Keywords: Transfer Pricing, Transfer Mispricing, Tax revenue, Execution of transfer pricing, Multinational corporations (MNCs).

JEL Classification: F38, M41, M48

1. INTRODUCTION

In a bid to attract Foreign Direct Investments (FDI) and shore up its revenue base, Nigeria as a developing nation within the milieu of globalized economy opened her economy for several Multi-National Companies (hereinafter referred to as MNCs) to transact business. However, such foreign companies doing

business and making profits within the country are required to faithfully pay tax from business profits and remittances (Ebiaghan, Jeroh, & Ideh, 2021*).* Transfer prices hold significant implications for both national tax authorities and MNCs since they affect income and expenses and invariably taxable profits of associated enterprises in different tax jurisdictions where the MNCs operate. Multinational transfer pricing policies can avail a channel for perpetrating tax fraud because entities within the same group but under different tax jurisdictions may decide to underprice or over-price intra-group transactions depending on their intended aim, conversely, these MNCs and their surrogates particularly in the extractive industries (Mining and Petroleum) have exploited transfer pricing policies to short- change government of the much needed Internally Generated Revenue(IGR) (Choe & Hyde, 2007; UNCTAD, 2013). It has been posited that in a globalized economy where MNCs play a prominent role, there is the urgent need for the governments to ensure that taxable profits of MNCs are not artificially transferred out of their jurisdictions and that the tax base reported by MNCs in their host countries reflect the prevailing economic activities undertaken therein. Hence Transfer pricing mechanism has become a primary issue of concern to both tax authorities and MNCs globally (KPMG, 2021; Ernst & Young, 2013 & Lawal, 2008). Furthermore, an estimated 60% of global transactions occur between interconnected entities of MNCs situated in diverse countries (Abu-Serdaneh, Saleh Khalil&Karima, 2008; Choe & Hyde, 2007). The major issue emanating from such transactions relates to the determination of the “prices” at which these transactions are denominated within the subsidiaries of a corporate enterprise (Borkowski, 2010).

These subsidiaries of the same MNCs exchange goods and services within the group and these transactions are exposed to the different market forces between independent enterprises, in the process, some MNCs may tinker with the transfer prices of their transactions with associated subsidiaries in different nations to enhance group profit and minimize tax liability by artificially increasing or lowering prices thereby leading to capital flight from their host country. Sadly, Nigeria is capable of only capturing about 40% of the tax potentials of these businesses hence, Transfer pricing abuse(mispricing) within multinational groups has been recognized as the major reason for tax revenue loss. Suffice it to note that the absence of transfer pricing regulations is likely to avail opportunities for MNCs to take part in transfer mispricing which negatively affects tax revenue of the concerned countries. Bearing this in mind, the tax regulatory agency in Nigeria, the Federal Inland Revenue Service (FIRS) instituted a General Anti-Avoidance Rule (GAAR). As part of Section13 (2) (d) of the Companies Income Tax Act 2004 (as amended) 2007 which empowers the FIRS to modify any transactions between associated entities that they assume to be artificial or fictitious and likely to decrease the taxable income in Nigeria (Akinyele, Olaoye, & Fajuyagbe, 2018).

However, it has been argued that this provision is restrictive and insufficient to control MNCs and their affiliates in Nigeria (Akhidime, 2011). Consequently, in a bid to strengthen and broaden the Nigerian Tax base, the

Federal Government of Nigeria through the FIRS, introduced a regulatory framework in form of subsidiary legislation which is titled the Income Tax Transfer Pricing Regulations, 2012.

1.1 RATIONALE OF THE STUDY

To address the transfer pricing issues several countries instituted appropriate transfer pricing regulations (KPMG, 2021; Borkowski, 2003, Eden & Kudrle, 2005). Notably, these regulations are principally established in line with the arm's length principle (OECD 2012, 2022). This principle is regarded as a transnational norm for transfer pricing regulations which is implemented through domestic laws that regulate transfer pricing for taxation (Eden & Kudrle, 2005). Presently, over 60 nations across the globe have adopted and domesticated transfer pricing regulations (Choe & Hyde 2007, KPMG, 2021). Several of these countries are developed, namely the US, UK and Canada. Despite the assertions that most developing nations are losing millions of dollars due to transfer mispricing as only a handful of African countries have instituted specific transfer pricing regulations to mitigate such sharp practice.(Ashley, 2011). For example, out of the 54 African countries, only South Africa, Ghana, Tanzania and Kenya have adopted specific transfer pricing regulations (Dean, Feucht, & Smith, 2008), while others are still contemplating its adoption and execution within their various domains. (Clausing, 2003; Ernst & Young, 2013 & Cravens, 1997). The extant literature on transfer pricing is replete with several types of research conducted in developed economies (Sikka & Wilmot, 2010; Borkowski, 2010; Eden, Dacin, & Wan, 2001; Borkowski 2012, 2000; Cravens 1997, Eden & Kurdle, 2005). And quite a few studies have been conducted in developing countries equally the quantum of empirical research on transfer pricing in African countries are few (Akhidime, 2011; Akinyele, Olaoye, & Fajuyagbe, 2018) and majorly focused on the tax implications of transfer pricing implementation. Therefore, this study aims to bridge this gap in the literature by analyzing the adoption and implementation challenges of transfer pricing in Nigeria. Specifically, the research will address the following questions:

(i) What are the features of transfer pricing regulations in Nigeria?
(ii) What are the factors that influence the execution of transfer pricing regulations in Nigeria?
(iii) What are the barriers to the effective adoption and execution of transfer pricing regulation in Nigeria?

2. LITERATURE REVIEW

2.1 TRANSFER PRICING

Transfer pricing involves the determination of prices at which goods (tangible or intangible) and services are exchanged amongst departments of the same entity or between diverse entities that are under mutual control. At times, the entities are situated in the same tax jurisdiction (nation); whereas, on the other hand, tax considerations become a major issue when they are situated in different

tax regions (OECD, 2012, 2022). With special emphasis on MNCs, Transfer pricing is an instrument utilized by multinationals to allocate goods and services amongst their interconnected companies globally. Transfer pricing explains the procedure for pegging the prices at which associated entities transfer intangible property, physical products or services amongst each other (Deloitte, 2012). The price charged for products or services supplied by one division of an entity to another division can be referred to as a transfer price. Hence transfer pricing entails a method of allocating profit by attributing an entity's net profit or loss before tax to relevant tax authorities. Therefore, transfer pricing represents the charges made amongst associated legal entities within the same group. Equally, it is the broad term for pricing intra-firm transactions and cross-border transfers between related parties. These transactions are classified as "controlled" transactions, as different from "uncontrolled" transactions between firms that, for example, are not related and can be presumed to operate independently ("on an arm's length basis").

Additionally, transfer pricing involves the pricing and structuring of transactions amongst entities of the same controlled group. Normally, the issues related to cross-border trade deals where expenses and income are allocated among taxpayers in diverse jurisdictions. Conversely, several countries including Nigeria consider domestic transactions amongst associates. Transactions amongst related parties make up the scope from the sales of tangible products, licensing of intellectual property to the rendering services and financing credit. Mostly, Transfer Pricing Policy is aimed at: (1) The evaluation of the financial performance of diverse commercial units (profit centers) of a parent company, and (2) Transfer earnings from a high tax territory to a low-tax territory. Tax authorities generally disapprove of transfer pricing intended at tax avoidance and maintain that each internal division of the entity transacts with the other at 'arm's length' because Prices charged by an entity is directly proportional to the profit declared.

The manipulation of any variables implies that the profit declared is fictitious. Thereby orchestrating a reverse shifting of income/gains from one state or country to another, which will result in a significant reduction in tax payable, cases of tax evasion has been on the increase occasioned by transfer pricing manipulation.

2.1.1. TAX IMPLICATIONS OF MULTINATIONAL TRANSFER PRICING

Transfer pricing impacts the profits declared which is the basis on which entities are taxed. Given that related enterprises carry out transactions amongst themselves, events outside market conditions occasionally spells out the prices at which products and services are transferred within the group. Thereby resulting in profit shifting from countries in which they arise to regions that are more suitable to the MNCs (Ernst & Young, 2014). MNCs may adopt Transfer Pricing techniques that allow them to shift profits to low tax regions, thereby reducing their aggregate tax burdens (Clausing 2003, Dean, Feucht & Smith, 2008). Furthermore, Transfer Pricing has implications for custom duties paid for exports and imports.

For instance, assuming the transfer prices declared on imports into a nation are reduced, the import tariffs and other duties consequent on the value declared will correspondingly be reduced. Another knotty scenario is where the head offices of the MNCs incur expenses that were jointly benefited by several members of the group, allocating the joint costs to the group will affect their profits and taxes. Similarly, Management fees constitute one of the several ways that MNCs are adopting to reduce taxable incomes in African countries. Ordinarily, these fees have no connection with the actual cost of availing of any management services. The holding company can equally levy extreme charges on its foreign affiliates or subsidiaries with regards to the provision of intangibles such as trademarks, patents and licenses and use these channels to siphon funds to tax havens with favorable tax requirements.

For instance, when a Nigerian subsidiary remits royalties to its parent company located in another country for the license to produce the company's products in Nigeria, the taxable profits of the subsidiary will be reduced by the number of royalties paid to the parent company. If the royalties paid by the Nigerian subsidiaries are too high, the corresponding taxable profits and liabilities in Nigeria would be lowered Transfer Pricing impacts the profits declared which is the basis on which entities are taxed. Given that related enterprises carry out transactions amongst themselves, events outside market conditions occasionally spells out the prices at which products and services are transferred within the group. Thereby resulting in profit shifting from countries in which they arise to regions that are more suitable to the MNCs, and MNCs may adopt Transfer Pricing techniques that allow them to shift profits to low tax regions, thereby reducing their aggregate tax burdens (Choe & Hyde, 2007; Clausing 2003; UNDP, 2011; Ebiaghan, Jeroh & Ideh, 2021).

2.1.2 CONSEQUENCES OF TRANSFER MISPRICING ON TAX REVENUE

Transfer mispricing is synonymous with transfer pricing abuse or manipulation which manifests in the form of tax evasion, avoidance or fraud. Where the pricing is within the statute to reduce tax, it is classified tax avoidance deemed legal, conversely, when the transactions are fraught with artificial price manipulation it is deemed as tax evasion or scam which is illegal (Eden, Dacin, & Wan, 2011; Sikka, & Willmott, 2010). Transfer pricing results in abusive tax avoidance when subsidiaries falsely increase or lower the monetary value of the products and services to shift profits or expenses among their associates for tax avoidance (Osei, 2010). Additionally, transfer pricing also eases capital flight and permit MNCs to shift profit, in most cases from host nations to tax havens (high tax to low tax jurisdiction) (Christian, 2011). This they achieve by financing projects of subsidiaries with loans advanced from allied foreign entities as debt rather than equity. Another variant of income shifting relates to the price at which products and services are exchanged within the firm in their international transactions (Bartelsman & Beetsma, 2000). Transfer pricing manipulations usually ensue in

just about all kinds of transactions and these can be classified into different varieties such as intangibles, contracts, management services, trade or cost-sharing.

The headache of several tax officials concerns the possible loss of tax revenue due to the global spread of businesses and the likelihood of MNCs artificially manipulating the transfer prices to achieve their objectives to the detriment of the host government (Anandarajan, Mcghee & Curatola, 2007). During the last decade, MNCs have been accused of manipulating transfer pricing transactions amongst their subsidiaries within a company thereby negatively impacting tax revenue and hampering economic development of their host nation (Plasschaert, & Dunning, 1994).

Statistics by Global Financial Integrity (GFI) indicates that developing countries lost an estimated $8.44 trillion over the decade penultimate 2009 due to illegal financial outflows and 54% of this amount resulted from transfer pricing abuse. Hollingshead (2010) pointed out that in 2006 alone losses in tax revenue arising from MNCs transfer mispricing ranged from $125 billion to $135 billion. This figure nearly doubled that of 2002 which ranged from $64 billion and $68 billion (Hollingshead, 2010; Scott, 2013; UN, 2013). Christian (2011) assessed that developing nations were losing about $160 billion annually due to MNCs tax dodging and further opined two variants of tax dodging includes: abusive transfer pricing and false invoicing. Furthermore, several reports have shown that among these developing countries, Nigeria losses the highest tax revenue due to transfer mispricing.

2.2. THEORETICAL FRAMEWORK

This research is anchored on the institutional theory. According to Scott (2005) Institutional theory as a concept considers the procedures by which elements of structure such as norms, rules, schemas and routines are established to arrive at convincing rules for social behavior. He further added that it is also utilized to probe how these variables are initiated, accepted, dispersed and modified over time (Scott, 2005) further stated that institutions formulate the rules of the game in a society. Institutions are “humanly devised constraints that shape human interaction”. An institution is defined as a system of beliefs, norms rules and organization that collectively make a social regularity of behavior. In this wise the principal requirements of OECD’s 2022 transfer pricing guidelines which represents the fundamental international standard for regulating transfer pricing is appraised.

Notably, the 2022 OECD Transfer Pricing Guidelines (TPG) proposes specific accounting treatment to some transactions like financial guarantees, treasury activities and captive insurance companies. Financial guarantee necessitates the guarantor to satisfy detailed financial commitments should the guaranteed party defaults. The accounting treatment for financial guarantees within the transfer pricing context requires an in-depth understanding of the nature and magnitude of the guaranteed obligation coupled with the penalties for all parties. In

deciding the arm's length price of guarantees, the 2022 OECD TPG outlines five methods viz: (1) the Valuation of Expected Loss method; (2) the Capital Support Method (3) the Cost method; (4) the Comparable Uncontrolled Price (CUP) Method; and (5) the Yield method.

Treasury function entails the practice of ensuring the efficient financing of the group's economic activities. By serving as a clearing house for external borrowing. Accordingly, the treasury function basically serves as a support service to the core value-creating operation. When assessing the transfer pricing issues associated with treasury activities, the OECD upholds the desire to identify the actual transactions and determine precisely what course of financing option the entity wishes to adopt. Some of the options specified in the guideline include cash pooling, intra-group loans and hedging.

Conclusively, the 2022 OECD TPG on financial transactions addresses captive insurance coupled with reinsurance. Captive insurance entails policies undertaken to provide risk cover the subsidiaries within the group. Just like in other transactions, precise delimitation crucial for captive insurance and reinsurance. It is important to recognize the commercial nexus between the subsidiaries within the group coupled the peculiar economic circumstances they operate in when pricing intra-group transactions involving captive insurance and reinsurance. Several techniques may be considered as most appropriate viz: (1) an examination on the profit accruing from agency sales. (2) An inquiry of the group cooperation advantage; (3) a joint method that considers the cost-effectiveness of return on capital and claims; and (4) the CUP Method.

2.3 EMPIRICAL REVIEW

Several studies have been conducted on transfer pricing in Nigeria for example, Akinyele, Olaoye & Fajuyagbe (2018) examines the effects of transfer-pricing regulation and compliance on tax administration in Nigeria. Adopting a descriptive survey design. The questionnaire was used to elicit responses and analyzed with ordered logit regression, Pearson product-moment correlation, variance inflation factor (VIF) and white heteroscedasticity test ordered logit regression revealed a significantly positive relationship between transfer-pricing regulation and tax administration while transfer-pricing compliance was negatively correlated to tax administration in Nigeria. implies that transfer pricing and its compliance can improve the effectiveness and efficiency of tax administration in Nigeria. Sikka & Willmot (2010) affirmed that engaging transfer-pricing towards reducing tax avoidance and evasion is open to regulatory authorities more than the public because detecting tax avoidance and evasion using other means is more difficult and less economical for regulatory authorities to detect. And this makes it a complex game that involves numerous bodies–corporations.

Tanzi (2001) in his research for the Russian economy noted that some enterprises are in the practice of manipulating prices in a bid to retract profits from areas of high tax to areas of low rates. Trans-pricing rules and the arm's length

model were first introduced in Russia in 1999. Some of the issues have been given visibility by the trade in oil and gas as major contributors to the Russian economy. In early 2004, a World Bank report stated that the country's oil and gas exports accounted for 25% of the country's Gross Domestic Product (GDP) rather than 9% reported in the official data. According to Ahrend (2004), the reasons for the discrepancy in transfer pricing include among other things the fact that corporations objectively harness the loopholes in the tax system.

Mutua (2012) examined transfer-pricing management strategies by MNCs and concluded that there is an increased level of tax compliance enforcement, where Nigeria would be forced to conduct transfer pricing audits and assessments on MNCs that fail to comply with the rules. He observed that Nigeria has not imposed penalties on companies without transfer pricing policies and recommended that there is a need for MNCs to understand what transfer pricing means and that enlightenment should be carried out on the effects of the levels of intercompany transactions with related companies. It was recommended that there should need to establish how performance management is measured in MNCs, whether it depends on the levels of sales or otherwise.

KPMG (2021) indicated that Nigeria is currently requesting transfer pricing documentation from all taxpayers with cross-border-related-party businesses intending to assess their risk profile for transfer-pricing audits. They recommended that multinationals should pay more attention to transfer pricing maintain properly documented transfer-pricing policies. Nigeria Government may be losing billions of dollars through well-connected dodgy tax deals involving multinational corporations through transfer-pricing, the foreign firms avoid taxes, denying the country the much-needed revenues for development.

3. METHODOLOGY

3.1. RESEARCH DESIGN AND DATA SOURCE

This study adopted Cross-sectional survey design with the aid of structured questionnaires to elicit primary data from a population. Cutting across Public Sector Accountants, auditors, lawyers and tax practitioners spread across accounting firms, MNCs, tax authorities and civil society organizations interested in tax-related matters from all the six states in the South- south geographical region of Nigeria. However, 120 respondents were purposively sampled for the study and administered the questionnaires.

3.2. MODEL SPECIFICATION

The model for this research was formulated based on the functional relationship between transfer pricing regulation, adoption and execution and barriers to transfer pricing adoption and execution:

$$TPR = \beta + a1\ FTPAE + a2\ BTPAE + \mu$$

Where:
TPR *= Transfer Pricing Regulation.*
FTPAE *= Factor affecting transfer pricing adoption and execution*
BTPAE *=Barriers to transfer pricing adoption and execution*
a_1 *and* a_2 *coefficients* μ *= error term*

3.3. ESTIMATION TECHNIQUE

Explicitly, data gathered from the research instrument were analyzed using the correlation analysis and ordered logit regression in addition to post-estimation tests such as the White Heteroskedasticity test and Variance inflation factor (VIF).

Table 1.*Measurement of Variables and Probable Relationships*

Variables	Codes	Unit of Measurement	Apriori expectation
Dependent variable Transfer Pricing Regulation	TPR	(1-5 Likert Scale) Ordinal	
Independent variables			
Factors affecting Transfer Pricing adoption and execution	FTPAE	(1-5 Likert Scale) Ordinal	+Positive
Barriers to Transfer Pricing adoption and execution	BTPAE	(1-5 Likert Scale) Ordinal	-Negative

Source: *Authors Conceptualizations 2022*

4. DATA PRESENTATION AND ANALYSIS OF RESULTS

As can be deduced from Table 2 below, a total of 120 questionnaires were administered to respondents but only 114 were returned thereby making the response rate 95% which represents a good estimate of the sampled population of interest. With regards to gender, 63 were males, representing 55.3% were sampled while 51 were females, representing 44.7% of respondents that participated in the study. The age brackets of respondents ranged from 21 years to 55 years and above. The age range was evenly distributed with age bracket 21-30 (21.9%), 31-40 years (27.2%), 41-55 years, (30.7%) and above 55 years constituting about 20.2%. Obviously, majority of the respondents are still in their prime or active working age with a cumulative number of 21-55 at 91 respondents. In terms of educational qualification, 27 respondents representing 23.7% possess high school certificate while 58 representing 50.9% were university graduates. In addition, 22 (19.3%) had master’s degrees and only 7 (6.1%) had doctorate degrees. With this, we infer that the respondents are adequately educated and had working knowledge of the subject matter being investigated. With regards to primary occupation 24 (21.1%) are tax officials, 18 (15.8%) are auditors, 51 (44.7%) are accountants while 21 (18.4%) are lawyers. The number of respondents based on job experiences produced frequencies within the range of 0-5 years (21.1%), 6-10 years (26.3%), 11-15 years (36.8 %) and respondent above 15 years constituted 15.8%. Thus, we conclude that the respondents possess enough on the job experience to proffer well informed professional responses that will enhance the findings of the study.

Table 2. *Respondents Demographic Characteristics*

Characteristic	**Frequency**	**Percentage %**
Gender :		
Male	63	55.3
Female	51	44.7
Age Bracket :		
21-30	25	21.9
31-40	31	27.2
41-55	35	30.7
Above 55	23	20.2
Education Qualification :		
High school	27	23.7
University graduate	58	50.9
Master's degree	22	19.3
Doctoral Degree	7	6.1
Primary occupation :		
Tax official	24	21.1
Auditor	18	15.8
Accountant	51	44.7
Lawyer	21	18.4
Working Experience:		
0-5 years	24	21.1
6-10 years	30	26.3
11-15 years	42	36.8
Above 15 years	18	15.8

Source: *Authors Fieldwork, 2021*

4.1. MODEL ESTIMATION AND INTERPRETATION OF FINDINGS

This section expresses the correlation of the features of the variables comprising Pearson correlation matrix, ordered logit regression, variance inflation factor (VIF) and White Heteroskedasticity test. Note that with correlation results, the direction and strength of relationship among variables can be ascertained. Also, where the coefficients obtained are beyond or above threshold of 0.80 between pairs of predictor variables, signs of collinearity problems are deemed to possibly abound (see Jeroh & Okoye, 2015; Jeroh, 2016; Ukolobi & Jeroh, 2020; Jeroh, 2020a).

Table 3. *Pearson Correlation Matrix*

Correlations			
	Transfer pricing	**Features of transfer pricing**	**Barriers to transfer pricing**

		regulation	**adoption and execution**	**adoption and execution**
Transfer pricing regulation	Pearson correlation	1	.271**	.076
	Sig.(2-tailed)		.004	.423
	N	114	114	114
Features of transfer pricing adoption and execution	Pearson correlation	.271**	1	.273**
	Sig.(2-tailed)	.004		.003
	N	114	114	114
Barriers to transfer pricing adoption and execution	Pearson correlation	.080	.273**	1
	Sig.(2-tailed)	.423	.003	
	N	114	114	114
. Correlation is significant at the 0.01 level (2-tailed).				

***Source:** Regression output, 2022*

The results as presented in Table 3 revealed that there exists a significant positive relationship between Transfer pricing regulation – features of transfer pricing adoption and execution, with a correlation coefficient of 0*.271 (p=0.004),* which infers that the magnitude of the relationship between the pair is about 27.1% even though the correlation is weak. Also, there exists an inconsequential relationship of 7.6% *(p=0.432)* between features of transfer pricing adoption and execution. On the barriers to transfer pricing adoption and execution, we obtained a weak correlation. This weak relationship can be explained by the weak implementation of transfer- pricing laws in the Nigeria tax administration system, despite spirited attempts by the Federal Inland Revenue Service (FIRS) to mitigate perceived capital flight by MNCs out of the country, this results corroborates our *apriori* expectation that transfer- pricing regulation and features of transfer pricing adoption and implementation are positively correlated.

***Table 4:** Ordered Logit Regression Analysis*
Ordered Logit using observations 1-27
Dependent Variable: PR
Standard Errors based on Hessian

	Coefficient	**Std error**	**Z**	**P-Value**	
FTPAI	0.332128	0.111607	2.8913	0.00382	***
BTPAI	0.0160457	0.120102	0.1353	0.89793	
Cut 1	6.63616	3.4292	1.9100	0.06297	*
Cut 2	9.3349	3.44942	2.527	0.00572	***

Mean Dependent Var	4.300784		**S.D Dependent Var**	0.628256
Log-likelihood	-102.4229		**Akaike criterion**	310.6648
Schwarz criterion	221.5508		**Hannan–Quinn**	216.0645

Number of cases correctly predicted =55(48.2%)
Likelihood test ratio: Chi square (2)= 26.8712(0.0000)

***Source:** Regression output, 2022*

Based on table 4 above, below is the ordered logit regression equation

TPR=+0.332*FTPAE+0.0160*BTPAE +6.67*Cut1+9.33*cut2

(0.112)(0.120)(3.43)(3.45)

T=114 Log likelihood = -102.

From the results in table 4, the likelihood ratio test: Chi-square(2)= 26.8712 [0.0000] infers that the overall model is significant at 5% level, which implies that the variables (features of transfer pricing adoption and execution FTPAE- Barriers to transfer pricing adoption and execution -BTPAE) identified are significant in explaining the variation in transfer pricing regulation- TPR in Nigeria. cut1 and cut2 are mutually significant. The result of the z-values indicates that features of transfer pricing adoption and execution exhibits a propensity to considerably influence transfer pricing regulation since their calculated z-values of 2.8913*(p=0.00382)* is greater than the critical z-value of at 5% level of significance, which implies that an increase in the scope of features of transfer pricing adoption and execution will result to 32.21%. Which corroborates the findings of Akinyele, *et al.* that the promulgation of Income Tax (Transfer Pricing) Regulations 2014 will help tackle evasion and possible loss of tax revenue from multinational companies. Barriers to transfer pricing adoption and implementation Transfer- depicted an inconsequential impact of 0.016 on transfer pricing regulation in the country with z values of 0.1353*(p=0.89793),* this weak impact can be explained by the various barriers as specified in the questionnaires instrument viz: ineffective judicial system to address tax manipulations, insufficient information to address arm's length transfer prices, lack of access to reliable databases, and poor technical expertise, among others. The results above corroborate the a priori expectation that Barriers to transfer pricing adoption and execution negatively impact transfer-pricing regulation and its compliance in Nigeria.

4.2. DIAGNOSTICS TESTS

The following Diagnostic test; variance inflation factor (VIF) and White Heteroskedasticity test were conducted in other to ensure reliability and validity of the above results. The results of the diagnostic test were thus presented below:

Table 5. *Variance inflation Factor Test*

Coefficients			
		Collinearity Statistics	
		Tolerance	**VIF**
1	**FTPAE**	.935	1.083
2	**BTPAE**	.935	1.83

Source: *Regression output, 2022*

Noteworthy, the threshold of average VIF score is 10 for independent variables (see Ezinando & Jeroh, 2017; Odjaremu & Jeroh, 2019; Jeroh, 2020b;

Ideh, Jeroh & Ebiaghan, 2021). Based on the results in table 5, all the variables (features of transfer pricing adoption and execution- FTPAE and Barriers to transfer pricing adoption and execution -BTPAE) are relevant to the explanation transfer- pricing with regards to tax administration since the VIF factors are all below the benchmark of 10, this is in accordance with the earlier result in table 3 which is the likelihood ratio test: Chi-square(2)= 26.8712(0.0000) indicating that the overall model is significant at 5% level. With this assertion, it is confirmed that there is an absence of multicollinearity in the model.

Table 6. *Heteroskedasticity Test*

White Heteroskedasticity Test	
F-statistic	1.729276
Unadjusted R-squared	0.015263
P(Chi-square(5) >1.738276)	0.87342

Source: *Regression output, 2022*

Table 6 shows that the F-statistic and Unadjusted R-squared values of 1.729276 and 0.015263 with a p-value of 0.87342 respectively indicate the presence of no heteroskedasticity in the model since the F-statistic and Unadjusted R-squared have a p-value greater than the critical values at a 5% level of significance. Thus, it is concluded that there is no heteroskedasticity in the model.

5. CONCLUSION AND RECOMMENDATIONS

Arising from the findings of this study, a principal feature of transfer pricing regulation in Nigeria is the arm's length principle as enshrined in the 2022 OECD TPG which specifies the accounting treatment of returns between subsidiaries which is aimed at preventing mispricing of transactions which will adversely affect tax revenue. Equally highlighted in the study are some of the factors impacting on the execution of transfer pricing execution in Nigeria among which include the fact that there is no provision for arbitration and dispute resolution in the Nigerian tax laws also tax authorities are not obligated to make public result of dispute resolution, thus impeding the transparency of the process. Lastly among the barriers to the effective execution of transfer pricing identified in the study include growing overhead cost, unstable business environment, insufficient information on similar transactions between subsidiaries and multiple taxation.

Arising from the fore-going, we can conveniently conclude that transfer-pricing regulations in Nigeria is plagued by teething problems occasioned by inherent barriers to its faithful execution. Consequently, it is recommended that the Federal Inland Revenue Service FIRS in collaboration with the Financial Reporting Council of Nigeria FRCN should fine-tune the existing transfer pricing regulatory frame work to address the barriers to its effective execution while reinforcing and improving upon the existing administrative and human capabilities of currents policy operations in the country.

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