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The role of multinational companies in tax evasion and tax avoidance: The case of Nigeria

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Abstract

Tax evasion and tax avoidance reduce government revenues. This has a significant detrimental effect on the provision of infrastructures, public services and public utilities. Multinational companies (MNCs) in the oil, gas, and manufacturing sectors have used various tax schemes, ranging from off-shore intermediary companies to claiming recharges, royalties or technical fees and under-reporting of profit, to avoid paying tax in Nigeria. This paper locates the role of MNC tax practice within the broader dynamics of globalisation and the pursuit of profits, to argue that the drive of MNCs for higher profits can enrich our understanding of why some MNCs engage in tax evasion and avoidance at almost any cost. Stimulated by profitability, and intense competition and pressure to increase earnings, capitalist enterprises constantly seek new ways of boosting their earnings by developing complex structures and novel ways of increasing their profits by exploiting ambiguities in the law. The evidence shows that tax havens and offshore financial centres, shaped by globalisation, are major structures facilitating the anti-social tax practices of MNCs. The findings also suggest that the local business elite and local professionals are key actors in facilitating these anti-social tax practices in Nigeria for their own financial gain. These MNC practices also shift the tax burden to less mobile capital and less well-off citizens, and thereby undermine the Nigerian social fabric. This paper therefore argues that tax reforms are needed to reduce the problems created by MNCs and their affiliates operating in Nigeria.

Keywords

Tax evasion

Tax avoidance

Globalisation

Multinational companies

Pursuit of profits

Professionals

Tax havens

Offshore financial centres