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Appraisal of Transfer Pricing in Nigeria and its Effect

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Abstract
Transfer pricing can be regarded as an economic and legal tool used by business entities for the optimization of their tax burden. This has become a continuous dilemma in tax revenue collection in the world, and Nigeria is not excluded. The urge to ensure that the tax planning activities of multinationals operating in Nigeria do not escape the country's domestic tax base led to the enactment of the Transfer Pricing Regulations, 2018, in Nigeria. In addition, the new Act, known as the Nigeria Tax Act and Nigerian Tax Administration Act 2025 respectively brought about some changes which aid in regulating TP to ensure that multinationals do not evade tax payment in Nigeria. This paper is aimed at examining the effect of the minimum tax as contained in the old Act and introduction of the Minimum Effective Tax Rate in the new Act on multinational companies. This paper further examined the effect of transfer pricing in Nigeria and the position of law as regards a consistent transfer pricing method as decided in the case of Prime Plastichem Nigeria Limited. The methodology adopted in this work is doctrinal, wherein primary and secondary sources of material were utilized. By way of conclusion, this paper recommends that while the tax authorities need to train and equip their personnel with necessary technology for effective tax administration which will aid in meeting international best practices, it is also paramount that these standards are tailored to fit Nigeria's unique economic and business environment.

Keywords: Transfer Pricing, Tax Avoidance, Regulatory Laws, Multinationals

1. Introduction

Transfer pricing is a technique used by multinational enterprises (MNEs) to shift profits out of the countries of their operation into tax havens. Profit shifting means that MNCs shift income from affiliates in high-tax jurisdictions to those in low-tax jurisdictions to reduce their overall tax liability. Transfer pricing involves transactions that are cross-border and exist between parent company and its subsidiaries or between companies. It is a coherent business practice where interrelated companies transact under the arm's length principle (ALP). The approach involves a multinational company selling to itself goods and or rendering services at an artificially high price. (Ogbaisi & Okeke, 2024, #) (Tax Justice Network, 2004, n.d.) This comes into effect by using its subsidiary in a tax haven to alter and inflate costs from its subsidiary in another country. The motive of this work is centered on the need to unearth how effective transfer pricing regulation has been in curbing tax evasion. Due to corruption and a weak tax system multinational companies have capitalized on it to evade tax payment. This is mostly achieved through mis-invoicing or mispricing practice (ie deliberate falsification of commercial international transactions of goods and services by at least one multinational company with the aim of reducing tax amount). There has been abuse of transfer pricing by foreign investors and a huge amount of money has been lost as a result and this has become worrisome. Because of the susceptibility of developing countries, of which Nigeria is one, multinational companies seize the opportunity to evade tax through transfer pricing. This results in a huge loss of revenue which negatively affects the economy. In a bid to curb TP, arm's length principle was adopted to ensure that profit which should be liable to domestic tax, does not become a gain to another country to which profit is shifted. (Osho et al., 2020, #)

To cure these defects or anomalies, measures were put in place. Part of it is enacting laws and or policies that will eliminate tax mischief. At the international level, OECD recommended five methods of arm's length principle to regulate transfer pricing. Nigeria, on her part, in section 5 of Regulations 2018 adopted and or incorporated the five methods of OECD recommended arm's length principle even though she is not a member of OECD. The key principle of transfer pricing is based on the arm's length rule which means that pricing terms between related firms or companies in the exchange of goods and services should release the same result as if they were unrelated. More so, related companies should act as if they are unrelated. The purpose of this requirement is to ensure that profit which should be liable to domestic tax does not become a gain to another country to which profit is shifted (Obasi, 2015, #). However, one of the major objectives of the Regulations is to ensure that Nigeria can tax on an appropriate taxable basis corresponding to the economic activities deployed by the appropriate taxable persons in Nigeria, including their dealings with related persons (*Transfer Regulation, 2018*, n.d.). The fundamental reason behind the regulation of Transfer Pricing is to fight tax evasion and the risk of economic double taxation (*Transfer Regulation, 2018*, n.d.). In addition, just recently, new laws like the Nigeria Tax Act and the Nigeria Tax Administration Act 2025 respectively were enacted to tighten the loopholes in the law, which give room to tax evasion. The Transfer pricing regulations have contributed to improving tax compliance and brought about an increase in revenue.

2. Conceptual Clarification

Transfer Pricing: It is a useful tool in moving profits from one company to another through a third company and can result in reduced potential state revenue from the tax Sector of a country because companies tend to shift their tax obligations from countries that have high tax rates to countries that apply low tax rates (Agada, 2025, #) (Septiani & Kutiawan, 2021, #). For example see the case of Google. Google runs a regional headquarters in Singapore and a subsidiary in Australia. The Australian subsidiary provides sales and marketing support services to users and Australian companies. The Australian subsidiary also provides research services to Google worldwide. In FY 2012-13, Google Australia earned around $46 million as profit on revenues of $358 million. The corporate tax payment was estimated at AU$7.1 million, after claiming a tax credit of $4.5 million.

When asked about why Google did not pay more taxes in Australia, Ms. Maile Carnegie, the former chief of Google Australia, replied that Singapore's share in taxes was already paid in the country where they were headquartered. Google reported total tax payments of US $3.3 billion against revenues of $66 billion. The effective tax rates come to 19%, which is less than the statutory corporate tax rate of 35% in the US. Transfer pricing is seen as legitimate business opportunity by transnational corporations. It is often used to misrepresent financial success and evade taxation. This has recently instigated many fiscal agencies and governments to take more draconian measures than ever before to protect national financial interests (Mehafdi, 2000, #). According to Barker and Brickman, transfer pricing is the price at which entities within a group trade. Multi-National Companies are born when an entity moves beyond its borders and acquires another company to create a competitive edge. Market advantage is attained by reducing cost of production, efficiency in management and operations (Barker & Brickman, n.d., #). These functional business transactions are regarded as controlled transactions as distinct from uncontrolled transactions between companies that are not related and can be assumed to operate independently in terms of transactions.

TP is not restricted to taxation but when used in the perspective of international tax, it signifies the artificial maneuvering of internal prices within a multinational group to create a tax advantage. On the other hand, Sheppard (Sheppard, 2012, #) affirms that TP is not illegal; what is abusive is transfer mispricing (Miller & Oats, 2012, #) (Ogidiaka et al., 2022, #).

International transfer pricing, therefore, involves the prices at which a company undertakes cross-border transactions with associated enterprises. By so doing, international transfer pricing determines how the income of a multinational enterprise is shared among countries (host country and country of origin) for income tax purposes as a result of transactions within the firm(Ogbaisi & Okeke, 2024, #) . According to Seth et al., transfer pricing allows for the establishment of prices for the goods and services exchanged between subsidiaries, affiliates or commonly controlled companies that constitute part of the same larger enterprises. Transfer pricing is a tax-saving means for MNEs, although such claims might be contested by tax authorities (Seth et al., 2024, #).

Transfer pricing, in general, is a component of corporate tax avoidance. Several factors influence multinational transfer pricing. They include; Transfer pricing as a tool to minimize worldwide taxes, duties and tariffs; Avoidance of financial restrictions on profit repatriation imposed by the government; Avoidance of divisional conflicts; General goal congruence, and Inflation (Cristea & Nguyen, n.d., #).

Terminologies such as transfer mispricing, transfer pricing abuse, profit shifting, profit splitting, income splitting, earnings stripping, and tax base erosion, all refer to various acts of manipulating financial transactions in multinational enterprises with the view to reducing the amount of corporate income tax these enterprises should pay. While most of the activities involved in transfer mispricing are not illegal, they are unethical, and have been criticized as irresponsible corporate practices (Addo, n.d., #).

TP is important to all the parties involved (the taxpayers and tax authorities) because it affects the income and expenses as well as the taxable profits in the different tax areas in which the entity operates. It is often used to boost the overall profit of the head office which is at a disadvantage to the associate companies which operate in other countries with different tax jurisdictions. For example, a head office located in Ireland with a tax rate of 12.5% and its subsidiary in Nigeria with a tax rate of 30%. When the Nigeria subsidiary sells goods to the Ireland Company the subsidiary taxable profit is reduced and the tax paid is completely eroded. This leads to a loss of revenue for the country. Whereas, the sales will increase the taxable profit of the head office, which will be taxed at 12.5%, which is low as compared to 30%.

Tax Evasion/Avoidance: Tax evasion is the illegal, non-payment or under payment of tax, usually by deliberately making false declaration or no declaration to the tax authorities such as by declaring less income, profit or gains than the amount actually earned or by outstating deductions. It entails criminal or civil penalties (Transparency International, n.d., #) (Whitfield Hayes, 1936, #)

Tax avoidance implies the legal utilization of tax laws to minimize tax liability (Umenweke, 2024, #). According to Harris, tax avoidance involves using tax exemptions, deductions, and credits to reduce tax payments (Haris, 2019, #). Tax avoidance is different from tax evasion, which involves illegal activities to evade tax. As noted by James and Nobes, (James & Nobes, 2017, #) Tax avoidance is the use of tax laws to reduce tax payments, whereas tax evasion is the illegal non-payment of taxes. In the words of Harris, Tax avoidance is the legal exploitation of tax loopholes to minimize tax liability.

UK Court gave recognition to tax avoidance while discussing avoidance of liability to tax by means of transfer of assets to persons abroad - sole purpose of transfer avoidance of British Death Duties. In 1931, appellant who was ordinarily resident and domiciled in the United Kingdom created a Swiss company to which he and wife transferred certain investments. It was admitted that the appellant and wife had power to enjoy the income of the Swiss Company within the meaning of section 18 of Finance Act 1936. Assessments to Income tax were made upon the appellant to include income of the Swiss company. On Appeal against the assessments, the commissioner accepted evidence that the sole purpose was the avoidance of death duties but held contrary to the contention of the appellant that the word ‘taxation’ in section 18(1) of the Act included British Income Tax and British Death Duties and that the appellant was accordingly not entitled to benefit of the proviso. Refer to the case of *Sassoon v Inland Revenue Commissioner* (*25 Tax Cas 154 CA*, n.d., #).

The Arm’s Length principle as defined in the case of Lola Austin v Indiana Family and Social Services (2011), refers to transactions between parties who are not related and are not in a confidential relationship and are also presumed to have roughly equal bargaining power (Chinonyerem, 2014, #) (*Lola Austin V Indiana Family and Social Services Administration (2011) 947 NE 2d 979*, n.d., #).

3. The Legal Framework of Transfer Pricing in Nigeria

Prior to the promulgation of Transfer Pricing Regulations of 2012 (now repealed), there had been various provisions in the tax statutes that gave directions on how artificial or fictitious (connected taxable persons) transactions should be treated. For instance, the provisions of Section 17 of the Personal Income Tax Act CAP P8 LFN, 2004, Section 22 of the Companies Income Tax Act CAP. C21 LFN, 2004 (as amended), Section 15 of the Petroleum Profits Tax Act CAP P13 LFN 2004 (as amended) and Section 20 of the Capital Gains Tax Act, CAP C1 LFN 2004 now have been consolidated in Nigeria Tax Act 2025. During the period, the General Anti-Avoidance Rules (GAARs) were included in Nigeria's income tax laws as a means of curbing tax avoidance. Tax authorities relied on GAARs to assess and regulate the pricing of inter-group transactions where such transactions appeared to be artificial or sham arrangements. The main purpose of these regulations is to eliminate transfer mispricing among the interrelated companies within and outside Nigeria. However, new approaches and techniques to arrive at the appropriate transfer price from the perspective of one or more actors in the system are constantly being evolved (Agada, 2025, #).

Furthermore, due to no clear guidelines and parameters for application of GAAR it became ineffective. However, the TP Regulations 2012, provided a more structured approach but because low compliance Transfer Pricing Regulations, 2018 were introduced. This was done to implement OECD BEPS project recommendations. The establishment of TPRs marked a significant step towards aligning the country's tax system with international standards. The Regulations 2018 were introduced to replace the 2012 Regulations. This is done to reflect the evolving nature of international business and the challenges associated with transfer pricing practices. The aim of the Regulations is to curb tax evasion by enforcing compliance with the arm's length principle, which is a guideline that ensures that intra-company transactions are priced comparably to those conducted between independent entities (OECD, 2010, n.d., #). Article 9 of the OECD Model Tax Convention describes the rules for the Arm's Length Principle. It states that transfer prices between two commonly controlled entities must be treated as if they are two independent entities, and therefore negotiated at arm's length. It is a recognized approach used in regulating transfer pricing of two related parties or enterprises to ensure fairness and transparency in intercompany transactions. It helps to ensure that companies do not manipulate transactions within their corporate groups to avoid taxes. This is to ensure that the government prevents profit shifting and tax avoidance in cross-border transactions. The Regulations however, conferred supremacy to relevant domestic law where the UN Practical Manual on Transfer Pricing and the OECD Model Tax Convention is inconsistent with it. (section 19 *Transfer Regulation, 2018*, n.d.)

The Regulations were made to ensure that transactions between related entities reflect the arm's length standard. This standard is widely accepted in international tax law. It requires that the terms and conditions of transactions between related parties are consistent with those that would have prevailed had the parties been independent entities dealing at arm's length (Organisation for Economic Co-operation and Development (OECD), 2017, n.d., #). It is of utmost important to apply this principle in order to prevent profit shifting and tax base erosion, common concerns in multinational operations (Akinrinde, 2025, #).

The body saddled with responsibility of administering and enforcing transfer pricing regulations in Nigeria is FIRS. (Pls note that with the new Act ie is Nigeria Tax Act and Nigeria Revenue Establishment Act 2025, FIRS is now renamed as NRS (Nigeria Revenue Service) and this name takes effect from Ist January, 2026 to replace FIRS). The duties include conducting transfer pricing audits, ensuring compliance with documentation requirements, and resolving disputes related to transfer pricing adjustments. The FIRS has been actively building its capacity to handle the complexities of transfer pricing, though challenges remain in terms of resources and expertise (Akande & Adesina, 2020, #).

The methods of transfer pricing in Nigeria are largely in line with OECD guidelines (Organisation for Economic Co-operation and Development (OECD), 2017, n.d., #). These methods include the Comparable Uncontrolled Price (CUP) method, the Resale Price Method (RPM), the Cost Plus Method (CPM), the Transactional Net Margin Method (TNMM), and the Profit Split Method (PSM). Each of these methods has its advantages and limitations, and the choice of method depends on the nature of the transaction and the availability of reliable data for comparables. In addition, the applicability of these methods in the Nigerian context, particularly in sectors where comparables are scarce, poses significant challenges (Adediran & Alade, (2019), #).

Under the Nigerian Transfer Pricing Regulations, requirements for documentation are cumbersome. Part of the requirements is that companies should maintain and furnish detailed documentation that reveals their compliance with the arm's length principle. This includes information on the nature of the relationships between related parties, the nature and terms of transactions, the method selected for determining transfer prices, and the rationale for that selection. Despite the rigorous procedures for assessment, the FIRS is authorized to request for additional information and conduct audits where necessary. Recently, the new tax regime looked beyond the limitation period of six years just as a measure put in place to eliminate tax evasion. It expanded the year of relevant assessment. Section 36(2) of the Act (*Nigeria Tax Administration Act 2025*, n.d.) provides thus:

> The six-year limitation period stipulated in subsection (1) shall not preclude the relevant tax authority from continuing with a tax audit and from raising additional assessment where the tax audit commenced before the expiration of the six-year limit.

Section 36(4) of the Act now empowers the FIRS to extend beyond the six-year limit where there is a deliberate misstatement by a taxable person with respect to extant tax laws. This implies that where there is evidence of deliberate misstatement by the taxpayer, the FIRS is authorized to exceed the stipulated period of six years.

The TPRs in Nigeria which provide for arm's length principle (*Section 5 of the Regulation 2018*, n.d., #) are the recognized standard for transfer pricing, and it aligns with international best practices. However, because in the Nigerian market comparable data may not be readily available, determining arm's length price becomes challenging. It therefore becomes paramount that while trying to adopt an internationally recognized policy or standard, it should be mindful that Nigeria falls under developing countries. Thus, should adopt a more practical approach that compliments and or considers economic reality of a developing country like ours.

3.1. Removal of Minimum Tax and Introduction of Minimum Effective Tax

The new Act (*Nigeria Tax Administration Act 2025*, n.d.) has abolished the old minimum tax regime for companies and introduced a new concept called 'Minimum Effective Tax' (MET), set as 15% (*Nigeria Tax Act 2025, Section 57*, n.d., #) . The old regime required all companies including those that made profit or not to pay a minimum tax of 0.5% of gross turnover. However, with the introduction of the new regime, profit making companies were liable to pay higher.

This approach ensured that all companies, including those declaring little or no profit, contributed public revenue (*Nigeria Tax Act 2025, Section 33*, n.d., #). This is to ensure fairness and increase in revenue. This is in compliance with pillar 2 of Global Anti-base Erosion (GLOBE) Rules made by OECD. This aids in tackling base erosion and profit shifting. The new Act replaces this blanket system with a new more targeted approach. The Minimum Effective Tax requires certain profit-making companies to ensure their effective tax rate is at least 15%. If after applying tax incentives or deductions, a qualifying company's tax liability falls below this threshold, it must pay the difference as a top-up tax. Though Nigeria has not adopted the Organization For Economic Cooperation and Development's (OECD's) Base Erosion and Profit Shifting (BEPS) Pillar, however this top-up tax aligns with its global minimum principle ensuring profits in low–tax jurisdictions are adequately taxed.

This minimum effective tax is only applicable in 2 instances

a) Multinational Enterprises (MNEs): Where a foreign subsidiary of a Nigerian parent company pays less than 15% (*Nigeria Tax Act 2025, Section 6(3)*, n.d., #) tax in its country of residence, the Nigerian parent is required to pay the difference to bring the total tax on that income up to 15%. This mirrors OECD BEPS Pillar- 2 'top-up tax concept, which seeks to reduce tax avoidance through low-tax jurisdictions.

b) Large Nigerian companies: Where a Nigerian company with an aggregate turnover of ₦20 billion or more in a given assessment year has an effective tax rate below 15%, it must also pay an additional tax to bring the rate up to 15% (*Nigeria Tax Act 2025, Section 57(1) and (2)*, n.d., #). The precise method for calculating the effective tax rate and the top-up tax amount is expected to be set out in regulations to be issued by the Nigerian Revenue Service.

The Act also introduced a rule known as Controlled Foreign Corporation (CFC). Under section 6 of the Nigerian Tax Act, certain undistributed profits of foreign subsidiaries are deemed to be declared and taxable in the hands of the Nigerian Parent Company. This is to ensure that such profits cannot be deferred from Nigeria taxation simply by being retained abroad (KPMG, 2025, #).

3.2. Effect of Transfer Pricing Regulations on the Tax

Most governments and or nations have limited the extent of transfer mispricing by implementing transfer pricing regulations (TPRs). The regulations would describe the methods allowed to determine arm's-length prices, prescribe documentation requirements, set penalties in case of non-compliance, and determine the probability of a transfer price adjustment. Regulation of transfer pricing can raise the effective tax burden on MNCs, thereby accords protection to domestic revenue and leveling the playing field vis-á-vis domestic companies (From the perspective of the MNC, TPR may also increase tax uncertainty (IMF and OECD, 2017). TPRs may be consequential on multinational entities but on the other hand, increase the revenue of the concerned state or nation. This is because there will no longer be room for profit shifting.

To limit transfer mispricing, several countries have introduced transfer pricing regulations (TPRs). These offer guidance in the implementation of the arm's length principle and often include various specific requirements. In other words, TPRs could affect multinational entities in various forms. It could be through (i) a reduction in total investment due to a higher cost of capital for the entire MNC company group; or (ii) a relocation of investment to other affiliates of the same MNC group. Both investment responses reduce output in the host country in similar ways. Thus, they have very different economic implications for the rest of the world. Where the multinational company invests little or low it would unambiguously reduce global output, and where there is a reallocation of investments across countries, it would imply a shift of production toward countries that enjoy an inflow of investment. Global output might still decline due to production inefficiency, but is smaller under the second scenario (Mooij & Liu, n.d., #). Research has revealed that the effect of transfer pricing regulation on the government is positive. It can be concluded that the greater the tax borne by the company, the greater the transfer pricing (Komarudin et al., n.d., #). Transfer pricing regulations have significantly impacted the tax-to-GDP ratio by curbing tax avoidance strategies like profit shifting, which erodes the domestic tax base. These rules ensure that multinational corporations (MNCs) align intra-group transactions with economic activities in the host country, thereby enhancing revenue collection (Beer et al., 2020, #). However, enforcement challenges, including administrative capacity and transaction complexity, limit effectiveness. Addressing these issues through improved regulatory frameworks and capacity-building for tax authorities can maximize the benefits of transfer pricing regulations, ensuring better revenue outcomes and a higher tax-to-GDP ratio (United Nations Conference on Trade and Development (UNCTAD), 2020, #) (KPMG, 2021, #).

3.3. Effect of Manipulation on Tax Revenue

Tax evasion, tax avoidance, or tax fraud are examples of transfer pricing abuse or manipulation, which is similar to transfer mispricing. In situations where pricing is done in accordance with the law to minimize taxes, it is seen as legal tax avoidance; on the other hand, they are regarded as illegal tax evasion or scams when transactions involve artificial price manipulation (Eden & Kudrle, (2021), #) (Sikka & Wilmott, n.d., #). Statistics made by Global Financial Integrity (GFI) revealed that illicit financial outflows caused developing nations to lose an estimated $8.44 trillion between the decades prior to the end of 2009; of this total, 54% was attributable to transfer pricing abuse. According to Hollingshead, the amount of tax revenue lost in 2006 as a result of MNCs transfer mispricing varied between $125 billion and $135 billion. This amount almost doubled the $64 billion to $68 billion range from 2002 (Hollinghead, 2010, #) ; Christian (Christian, 2011, #) stated that tax dodging by multinational corporations (MNCs) costs developing countries approximately $160 billion a year. He also suggested that there are two types of tax dodging: abusive transfer pricing and false invoicing. Furthermore, a number of studies have revealed that transfer mispricing causes Nigeria to lose the most tax revenue from various countries (Muhammed & Alhassan, 2024, #).

3.4. Examining Transfer Pricing in Line with the Decision of Tax Appeal Tribunal

There has been a question on whether multinational companies can adopt and or use more than one method in a transaction. In the case between *Prime Plastichem Nigeria Limited v. Federal Inland Revenue Service* (Appeal no: TAT/LZ/CIT/015/2017, n.d., #) (Advocaat Law Practice, 2020, #), the Tax Appeal Tribunal (TAT) was called upon to determine the method that is best suited for the Transfer Pricing.

Brief Facts

The Appellant is a private limited liability company that engages in the business of trading in imported plastics and petrochemicals. On the strength of the commencement of the Income Tax (Transfer Pricing Regulations No.1 2012) Regulation, the Appellant filed its Transfer Pricing Documentation (TPD) for 2013 and 2014. In 2013, the Appellant adopted the Comparable Uncontrolled Price (CUP) Transfer Pricing Method in determining whether the pricing of its transactions with a related company, Vinmar Overseas Limited (VOL) was at arm's length. However, in 2014, the Appellant was unable to adopt CUP due to lack of comparable information as such adopted the Transactional Net Margin Method (TNMM). The Respondent in its review of the Appellant TPD stated that "the only controlled transaction that was disclosed by your company is the purchase of petrochemicals from VOL, a connected person" and that the Appellant's methodology for testing the pricing "was in accordance with the arm's length principle". The sole issue in the contest was the appropriateness of using Net Profit or EBIT/Operating Revenue as Profit Level Indicator (PLI) or Gross Profit/Operating Revenue for the purpose of TNMM. The Appellant used Net Profit/Operating Revenue while the Respondent used Gross Profit/Operating Revenue. The Respondent thereafter served the Appellant with additional assessment of N1,738,481,875.33 (One Billion, Seven Hundred and Thirty Eight Million, Four Hundred and Eighty One Thousand, Eight Hundred and Seventy Five Naira, Thirty Three kobo) based on its own assessment of the Appellant's TPD. The Appellant objected to the additional assessment and appealed to the Tax Appeal Tribunal (TAT). In its decision, the TAT dismissed the Appellant's appeal and held that the use of Gross Profit Margin (GPM) is in line with best practices and the most appropriate PLI to use in similar situations.

The standard is that the party has to be consistent in the adopted method or mode. The Regulations 2018 provide for different methods to be adopted. However, one is not allowed to vary in the adopted method. Sticking to this will help both the company involved and the tax authority to have a smooth and unambiguous result. Considering the position of court in this case, it is therefore advisable that the companies comply with the Regulations especially now that the tax net has been expanded to accommodate top up tax system and additional assessment beyond six years. The position in this case is in line with OECD guidelines which requires MNE's to adopt one method for a given transaction or set of transactions that are appropriately aggregated. (Tax gain, n.d., #).

4. Nigeria and International Tax Compliance

Nigeria's zeal towards aligning with international tax standards is evidenced by its proactive engagement in the BEPS project. The OECD's BEPS initiative, aimed at preventing strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations, has been a key global response to the challenges posed by the digitization of the economy and globalization (OECD/G20, 2020). Nigeria, recognizing the importance of this initiative, has been an active participant, implementing several of the BEPS action points. This commitment is reflected in the amendments to its tax laws and the introduction of new regulations aimed at curbing profit shifting and tax avoidance by multinational enterprises (MNEs) (Ikpefan & Achugamonu, 2019, #).

Furthermore, Nigeria's involvement in partaking in the global conversation on tax matter created avenue to contribute to and learn from global best practices in tax policy and administration (Adegoke, (2021), #). However, aligning with the international standards does not come without its challenges. One of the primary issues faced by Nigeria is the legal and administrative hurdles involved in implementing these standards. The process of amending existing laws and regulations to conform to BEPS actions and other international norms is complex and often time-consuming. This complexity is compounded by the need to ensure that these changes are compatible with domestic legal frameworks and economic policies.

In addition to legal challenges, Nigeria also grapples with capacity and resource constraints in its quest to adhere to international tax standards. Implementing BEPS actions, for instance, requires a high level of expertise in international taxation, as well as adequate technological and administrative resources. The Federal Inland Revenue Service (FIRS), while making commendable efforts to build its capacity, still faces limitations in terms of trained personnel and the necessary technology to effectively administer and enforce complex international tax rules. While identifying the legal challenges, L.I Jinyan in his book (Jinyan, 2003, #), stated that thus:

> A fundamental tension underlying the whole international tax system is that MNEs [multinational enterprises] operate on a global basis, whereas tax authorities operate on a national basis. The reality of the contemporary world is that separate national governments are not in a position to adequately monitor intra-firm transactions. When tax administrators everywhere do their best to get a "fair" share from an MNE's global income, the absence of effective international coordination is bound to give rise to over-taxation or under-taxation of the MNE's income.

Nigeria needs to find the balance between adopting international standards and considering local economic realities. It has been argued by the critics that though alignment with global standards is important, it is also pertinent to ensure that these standards fit Nigeria's unique economic and business environment. For instance, some of the BEPS actions may not be directly applicable or may require adaptation to be effective in the Nigerian context.

5. Conclusion

Transfer pricing has a negative impact on tax revenue generation. It is capable of causing labour distortion. This study has analyzed how transfer pricing negatively affects tax revenue generation. This was evidenced in the recent press release made by Tax Justice Network with headline '$475bn lost to US-backed global gag order shielding corporate tax cheaters' it states that US-backed global gag order preventing governments from revealing the names of multinational corporations found shifting billions into tax havens has caused countries to miss out on over US$475 billion in corporate tax from 2016 to 2021. According to them, the tax lost is far more than the amount urgently needed for the $300 billion climate finance fund that countries committed to in 2024 (Mansour, 2025, #) (Mansour, 2025, #). This shows that profit shifting is a global issue and if the relevant body continues to tolerate this most countries will continue to be poor while the beneficiary will continue to enrich themselves.

However, the Nigerian government has newly put measures in place through the new tax regime enacted to bring to an end tax dishonesty by multinational companies. A deeper analysis of the effects highlights that tax dodging perpetuates extreme poverty and creates serious economic distortions that hinder sound investment decisions in economies where the practice is predominant. The government should try to go beyond the arm's length method of checking transfer pricing and adopt other methods such as reduction in: ad valorem tariff, capital gain tax, petroleum profit tax and company tax to curtail foreign direct investment engagement in transfer pricing. This in effect will act as an incentive to investment and increase economic growth in Nigeria (Ibitoye, n.d., #) (Osho, 2020, #).

6. Recommendations

1. It is a welcome development that new laws have been enacted to lock the loopholes in the law that aids evasion of tax, however, it is recommended that while automated software as now prescribed by the law is used to capture all transactions of the companies, an agency should be created to monitor it to ensure total and absolute compliance is achieved.
2. There will be a need for tax authorities and companies to have a forum where intra-group transactions are updated and assessed.

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