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- I. Title page
- II. Abstract (150-250 words)
- III. Keywords (3-5)
- IV. Introduction
- V. Literature Review
- VI. Methodology
- VII. Results and Discussion
- VIII. Conclusion and Recommendations
- IX. References (APA 7th Edition)
- X. Appendices (if necessary)
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EFFECT OF CORPORATE SOCIAL RESPONSIBILITY (CSR) EXPENDITURE ON INCOME TAX COMPLIANCE AMONG LISTED NON- FINANCIAL SERVICES COMPANIES IN NIGERIA

MAHMUD LABARAN

ABSTRACT

This study examines the effect of Corporate Social Responsibility (CSR) expenditure on income tax compliance among listed non-financial services companies in Nigeria. It specifically investigates whether CSR investments and company employment size influence tax compliance behavior. The research adopts a quantitative approach using pooled panel data analysis, which enables the exploration of both cross-sectional and time-series variations across firms. The sample comprises 103 listed non-financial companies, with data spanning 11 years (2012–2022), providing a robust basis for empirical analysis. The study's model incorporates CSR investment and employment size as key independent variables, while firm size and profitability serve as control variables. The findings reveal a significant negative relationship between CSR expenditure and income tax compliance, suggesting that firms with higher CSR spending tend to exhibit lower levels of tax compliance. This raises critical concerns about the potential misuse of CSR initiatives as a strategic tool for tax avoidance, where companies may enhance their public image through CSR while simultaneously reducing their tax obligations. Profitability also shows a negative association with tax compliance, indicating that more profitable firms are less likely to fully adhere to tax regulations.

Conversely, employment size and firm size do not significantly affect tax compliance, implying that these structural characteristics may not be reliable predictors of tax behavior. The presence of heteroskedasticity, as revealed by the Breusch-Pagan test, further suggests variability in the influence of these factors across firms.

The study concludes that while CSR can be a force for social good, it may also be exploited for less altruistic purposes. It recommends stronger regulatory oversight, tax policy reforms, improved corporate governance, and enhanced transparency in CSR and tax reporting to ensure that CSR activities genuinely reflect corporate accountability and do not undermine fiscal responsibilities.

1. INTRODUCTION

In recent years, the incorporation of Corporate Social Responsibility (CSR) into corporate strategies has become imperative for businesses globally (Emamoke & Omodero, 2021; Kaoje, Yabo & Ali, 2019; Rasheed, Arshed, Malik & Mahmood, 2018; Odunayo & Ibidolapo, 2018). CSR signifies a company's dedication to sustainable development and ethical conduct. Globally, CSR has evolved from a merely altruistic initiative to a strategic necessity that impacts various facets of business performance, including regulatory compliance (Onoja & Ashiko, 2020). This shift underscores the importance of understanding the implications of CSR expenditures on income tax compliance.

The relationship between CSR and tax compliance is particularly relevant in emerging economies such as Nigeria, where the regulatory landscape is constantly

evolving (Umobong & Agburuga, 2018). Businesses in such contexts strive to uphold stakeholder trust and corporate integrity while navigating complex tax regimes (Ohiokha & Agbonrha-Oghoye, 2024; Umobong & Agburuga, 2018). The non-financial services sector, a significant contributor to Nigeria's GDP (Appah, 2022), provides an ideal context to explore how CSR investments affect tax compliance. Insights gained from this sector can inform broader business practices and the effectiveness of regulatory frameworks.

Factors contributing to the problem under review include the dynamic and often unpredictable regulatory environment in Nigeria, where laws governing corporate conduct and tax compliance are frequently updated. This complexity can lead to challenges in maintaining consistent compliance, thereby highlighting the need for effective CSR strategies that can bolster regulatory adherence.

Despite the growing interest in CSR, the specific intersection of CSR and tax compliance remains underexplored, particularly within the Nigerian context (Ohiokha & Agbonrha-Oghoye, 2024; Irokwe & John-Akamelu, 2023). The literature on CSR primarily focuses on its impact on firm performance, leaving a significant gap in understanding its effects on tax compliance. This study aims to bridge this gap by examining the relationship between CSR expenditure and income tax compliance among listed non-financial services companies in Nigeria.

Existing studies suggest that CSR can enhance company reputation and generate community support, both of which positively impact financial performance (Binaebi, 2024; Adu, Muah, Asiedu, Pobbi, & Gidisu, 2018). However, there is limited empirical evidence on how CSR spending influences tax compliance, especially in sectors outside of oil and gas. This study will extend the scope of CSR research by focusing on non-financial services firms, providing new insights into how CSR initiatives can influence regulatory compliance. There is a critical need to understand the impact of CSR expenditure on income tax compliance in Nigeria's non-financial services sector. This understanding is vital for formulating policies that enhance corporate governance and fiscal responsibility.

Objectives of the Study

- i. To examine the effect of CSR investment on income tax compliance among listed non-financial services companies in Nigeria.
- ii. To investigate the effect of company employment size on income tax compliance among listed non-financial services companies in Nigeria.

Hypotheses

H₀₁: CSR investment does not have a significant effect on income tax compliance among listed non-financial services companies in Nigeria.

H₀₂: Company employment size does not have a significant effect on income tax compliance among listed non-financial services companies in Nigeria.

This study makes several contributions to the literature. First, it substantiates the relationship between CSR and tax compliance, a relatively underexplored area. Second, it shifts the focus of CSR research from firm performance to regulatory compliance, providing a new dimension to the understanding of CSR's impact. By proposing a model that illustrates the relationship between CSR and tax compliance, the study offers a mechanism through which CSR can affect regulatory adherence. These insights are expected to inform both regulatory frameworks and corporate strategies, promoting more efficient and ethical business operations.

2. REVIEW OF RELATED LITERATURE

Conceptual Framework

In emerging nations like Nigeria, Corporate Social

Responsibility (CSR) has become a pivotal aspect of corporate success (Nwaiwu, 2018). Research examining the interplay among CSR, tax compliance, and corporate performance in Nigerian listed non-financial enterprises is extensive (Nwaiwu, 2018; Okoye & Ezejiofor, 2014). This review of literature delves into existing studies to provide a comprehensive understanding of these interactions.

CSR refers to the moral obligation of businesses to positively impact society and the environment beyond their legal and financial duties. In Nigeria, CSR initiatives often focus on environmental sustainability, healthcare, education, and community development.

The reliability of CSR's effect on corporate performance has produced mixed empirical results. For instance, Osemene (2012) asserts that CSR positively correlates with financial success in Nigerian companies. This view is supported by Uadiale and Fagbemi (2012), who argue that CSR initiatives enhance corporate reputation and lead to better financial outcomes. Conversely, Nwaiwu and Oluka (2018) suggest that the relationship between CSR and financial performance may not be straightforward and could depend on other moderating variables.

In Nigeria, CSR practices are influenced by legislative frameworks and socioeconomic challenges. Amaeshi et al. (2006) state that Nigerian companies engage in CSR primarily to address social issues like education and poverty. Additionally, the Nigerian government has been encouraging CSR through various policies and incentives aimed at leveraging private sector resources for public benefits (Osemene, 2012).

A critical aspect of CSR is the extent of its disclosure. Adeyemi and Ayanlola (2014) note that companies with higher levels of CSR disclosure tend to perform better, as transparency in CSR activities can enhance stakeholder trust and corporate reputation.

Tax compliance refers to the degree to which taxpayers adhere to tax laws and regulations, accurately reporting their income, deductions, and credits to determine their tax liability. Ensuring compliance involves a comprehensive process where firms must meticulously disclose their revenues, allowable deductions, and credits to correctly assess the taxes owed.

The relationship between Corporate Social Responsibility (CSR) and tax compliance has garnered significant scholarly attention in recent years. Companies engaged in CSR activities tend to exhibit higher levels of adherence to tax laws, driven by a commitment to ethical behavior and societal norms. Lanis and Richardson (2012) argue that firms with robust CSR programs are more likely to comply

with tax regulations, reflecting their broader commitment to ethical conduct and social responsibility. Supporting this view, Okoye and Ezejiofor (2014) found that Nigerian companies with substantial CSR initiatives demonstrate higher rates of tax compliance, suggesting a positive correlation between CSR activities and tax adherence.

However, maintaining tax compliance in Nigeria presents several challenges. Issues such as tax evasion, insufficient enforcement mechanisms, and a lack of transparency significantly hinder effective tax administration. Kiabel and Nwokah (2009) highlight that administrative inefficiencies and pervasive corruption exacerbate these challenges, potentially undermining the positive impact of CSR on tax compliance. These systemic problems create an environment where even well-intentioned CSR activities may struggle to achieve their full potential in promoting tax compliance.

The interplay between CSR and tax compliance in Nigeria is thus complex and multifaceted. While CSR initiatives can foster a culture of ethical behavior and compliance, the effectiveness of these efforts is often diminished by broader systemic issues within the tax administration framework. Addressing these challenges requires a holistic approach, combining robust CSR practices with significant improvements in administrative efficiency, transparency, and anti-corruption measures to ensure that the potential benefits of CSR on tax compliance are fully realized.

Empirical Review

Adeyanju (2012) assessed the impact of corporate social responsibility on Nigerian society using a sample of 50 listed companies. Employing descriptive statistics and regression analysis on data from annual reports and disclosures, the study found a positive relationship between CSR activities and company performance. Firms engaging in CSR reported higher profitability and enhanced stakeholder relations. The study recommended that companies should integrate CSR into their core business strategies to improve overall performance and maintain a positive public image. However, this study does not delve into the specific mechanisms through which CSR influences tax compliance, leaving a gap in understanding the direct impact on fiscal behavior.

Fagbemi, Uadiale, et al. (2010) examined the ethics of tax evasion in Nigeria through survey questionnaires from 120 respondents across various sectors. Analyzing the data with descriptive statistics and chi-square tests, the study revealed low tax compliance due to inadequate tax administration and lack of taxpayer awareness. Ethical considerations were found to play a role in tax compliance decisions. Although this study highlights the ethical dimension of tax compliance, it does not explicitly link CSR

activities to tax behavior, thereby missing the opportunity to explore how CSR initiatives could address the identified gaps in tax compliance.

Uwuigbe, Uwuigbe, et al. (2014) studied corporate social responsibility disclosures in Nigeria using content analysis and regression analysis based on data from annual reports and websites. The findings showed that firms with higher CSR disclosures tended to have better financial performance and were more compliant with tax regulations. CSR was seen as a mechanism to build corporate reputation and stakeholder trust. Despite these insights, the study falls short of explaining how specific CSR activities translate into improved tax compliance, thus presenting a research gap in the operational pathways connecting CSR to fiscal behavior.

Egbunike and Okoro (2018) investigated the relationship between corporate social responsibility and financial performance of Nigerian firms using a quantitative approach with panel data techniques (ordinary least squares). Analyzing data from financial statements and CSR reports of 45 manufacturing firms, the study showed a significant positive relationship between CSR practices and financial performance. Firms actively engaged in CSR were more likely to comply with tax regulations due to increased stakeholder scrutiny. This study, while informative, does not sufficiently address the role of different types of CSR activities in enhancing tax compliance, indicating a need for more granular research in this area.

Nwagbara and Reid (2013) examined CSR and the management of stakeholder relationships in Nigerian companies using qualitative analysis and thematic coding. The study found that effective CSR practices led to better management of stakeholder relationships, which in turn improved compliance with regulatory requirements, including tax laws. While this study underscores the importance of stakeholder management, it does not provide quantitative evidence on the strength and nature of the relationship between CSR and tax compliance, highlighting a gap for future empirical research.

Oladipupo and Obazee (2016) studied tax knowledge, penalties, and tax compliance in small and medium-scale enterprises in Nigeria, revealing a connection between CSR and tax compliance. Using descriptive statistics and regression analysis, the study highlighted that increased tax knowledge and the imposition of penalties were significant determinants of tax compliance. Ethical business practices influenced by CSR also played a role in compliance behavior. This study, however, does not distinguish between different CSR activities and their specific impacts on tax compliance, suggesting an area for further detailed investigation.

Several gaps remain unaddressed in the literature. Many studies do not explore the specific mechanisms through which CSR influences tax compliance, such as the role of different types of CSR activities (e.g., CSR investment and employment size initiatives) in promoting tax adherence.

While empirical studies by Waddock and Graves (1997), Udayasankar (2008), Sweeney (2009), Fombrun and Shanley (1990), and Roberts (1992) establish a robust link between firm size and CSR activities, gaps remain in understanding the nuanced relationship between CSR investment, employment size as proxies for CSR, and their effects on income tax compliance, particularly in the context of listed non-financial companies in Nigeria. These studies primarily focus on general CSR engagement and disclosure, often overlooking how specific CSR investments translate into fiscal behaviors such as tax compliance. Furthermore, while larger firms are shown to have more resources and incentives to engage in CSR, the direct impact There is also a lack of sector-specific analyses that could reveal variations in CSR and tax compliance dynamics across different industries. Moreover, the causal relationship between CSR and tax compliance is often implied but not rigorously tested, necessitating studies that can establish causation rather than mere correlation. By addressing these gaps, future studies can provide a more comprehensive understanding of how CSR initiatives can be effectively leveraged to enhance tax compliance and overall corporate governance.

Theoretical Review

In exploring the effect of Corporate Social Responsibility (CSR) expenditure on income tax compliance among listed non-financial services companies in Nigeria, several theoretical frameworks provide valuable insights. The most relevant theories for this study include Stakeholder Theory, Legitimacy Theory, Institutional Theory, and the Ability-to-Pay Principle.

Stakeholder Theory

Stakeholder Theory, developed by Freeman (1984), posits that companies should be accountable to all stakeholders, not just shareholders. This theory emphasizes the importance of balancing the interests of various stakeholders, including employees, customers, suppliers, and the broader community. Within the context of CSR, Stakeholder Theory suggests that companies engage in socially responsible activities to meet the expectations of their stakeholders, which can lead to enhanced reputation, customer loyalty, and ultimately, better financial performance. The theory supports the idea that firms with strong CSR initiatives are more likely to comply with tax regulations as part of their broader commitment to ethical conduct and stakeholder satisfaction.

Legitimacy Theory

Legitimacy Theory, as proposed by Suchman (1995), argues that companies seek to operate within the bounds of societal norms and values to gain legitimacy. This theory suggests that firms engage in CSR activities to demonstrate their conformity to social expectations, thereby securing their legitimacy and continued operation. In terms of tax compliance, companies might adhere to tax laws and regulations to avoid negative publicity and maintain their legitimate status within society. Legitimacy Theory supports the notion that CSR activities can enhance a company's image and align it with societal norms, thus promoting tax compliance.

Institutional Theory

Institutional Theory, articulated by DiMaggio and Powell (1983), focuses on the influence of institutional environments on organizational behavior. It posits that companies adopt certain practices, including CSR activities, to gain legitimacy and support from influential institutions, such as governments, regulatory bodies, and the public. This theory underscores the role of external pressures in shaping corporate behavior, suggesting that firms may engage in CSR and comply with tax regulations to align with institutional expectations and norms. Institutional Theory provides a framework for understanding how regulatory and societal pressures drive companies to adopt CSR practices and ensure tax compliance.

Ability-to-Pay Principle

The Ability-to-Pay Principle, originally articulated by Adam Smith in "The Wealth of Nations" (1776), asserts that individuals and entities should be taxed based on their ability to bear the tax burden. In the context of CSR, this principle implies that companies with greater financial capacity, often larger firms, should contribute more to societal welfare through taxes and CSR activities. This theory aligns with the idea that larger firms, due to their greater resources, are more capable of engaging in extensive CSR activities and complying with tax obligations.

Among the theories reviewed, Stakeholder Theory and Legitimacy Theory are particularly relevant for explaining the relationship between CSR expenditure and income tax compliance in Nigerian non-financial companies. However, Stakeholder Theory emerges as the most comprehensive framework for this study.

Stakeholder Theory best explains the study variables because it integrates the interests of various stakeholders, which are central to understanding CSR activities. It underscores the importance of meeting stakeholder expectations through ethical practices, including tax compliance. By aligning CSR activities with the interests of stakeholders, companies can enhance their reputation, build trust, and achieve

better financial performance, which are critical for sustainable business operations. Moreover, Stakeholder Theory accounts for the diverse pressures from different stakeholder groups, making it a robust framework for analyzing the impact of CSR on tax compliance.

In conclusion, Stakeholder Theory provides a comprehensive explanation for the relationship between CSR expenditure and income tax compliance. It emphasizes the role of ethical conduct and stakeholder engagement in driving corporate behaviors, including adherence to tax regulations. This theory will guide the study in understanding how CSR activities influence tax compliance among listed non-financial services companies in Nigeria, addressing the research gaps and contributing to the ongoing dialogue in corporate governance and fiscal responsibility.

3. METHODOLOGY

The study adopts a quantitative research design utilizing pooled panel data analysis. This design is appropriate for examining the effect of Corporate Social Responsibility (CSR) expenditure on income tax compliance over a period, allowing for the control of individual heterogeneity and capturing both cross-sectional and time-series variations. Panel data analysis is suitable for this study as it provides more informative data, more variability, less collinearity among variables, more degrees of freedom, and greater efficiency. This approach helps in understanding the dynamics of CSR activities and their impact on income tax compliance across different firms and over time.

The population for this study comprises all listed non-financial firms in Nigeria. The sample includes 103 listed non-financial companies with a maximum of 11 years of data, from 2012 to 2022. This sample size is chosen to ensure a comprehensive analysis while maintaining data manageability. The non-financial sector is selected because it significantly contributes to Nigeria's GDP and provides a diverse set of firms varying in size and CSR practices.

The study model investigates the relationship between CSR investment, employment size, and income tax compliance, with firm size and profitability as control variables. The model can be expressed as follows:

$$ITCR_{it} = \beta_0 + \beta_1 CSRINV_{it} + \beta_2 CSREMSIZE_{it} + \beta_3 FSIZE_{it} + \beta_4 PROF_{it} + \epsilon_{it}$$

where:

- $ITCR_{it}$ is the income tax compliance ratio for firm i at time t .
- $CSRINV_{it}$ is the CSR investment for firm i at time t .
- $CSREMSIZE_{it}$ is the employment size for firm i at time t .
- $FSIZE_{it}$ is the firm size for firm i at time t .
- $PROF_{it}$ is the profitability for firm i at time t .

- ϵ_{it} is the error term.

Variable Measurement

b) Independent Variables:

CSR Investment (CSRINV)

Measurement: $CSRINV = (CSR \text{ Expenses} / \text{Revenue}) \times 100$

Justification: This measure reflects the proportion of a firm's revenue allocated to CSR activities, indicating the firm's commitment to social responsibility. Studies like Waddock and Graves (1997) and Uadiale and Fagbemi (2012) have used similar metrics to quantify CSR investments.

Employment Size (CSREMSIZE)

Measurement: $CSREMSIZE = \ln(\text{Number of Employees})$

Justification: The logarithm of the number of employees is used to normalize the data and reduce skewness. Larger firms with more employees are typically expected to engage more in CSR activities due to greater resources and stakeholder pressures, as indicated by Udayasankar (2008) and Roberts (1992).

c) Control Variables

Firm Size (FSIZE)

Measurement: $FSIZE = \ln(\text{Total Assets})$

Justification: Firm size is measured as the natural logarithm of total assets to account for the wide variation in firm sizes and to normalize the distribution. Larger firms are often more scrutinized and have more resources to allocate to CSR and compliance activities (Fombrun and Shanley, 1990).

Profitability (PROF)

Measurement: $PROF = \text{Profit After Tax} / \text{Total Assets}$

Justification: Profitability is measured as the return on assets, which indicates the firm's efficiency in generating profits from its assets. Studies like Egbunike and Okoro (2018) have used similar measures to assess the financial performance related to CSR activities.

This methodology outlines a robust framework for analyzing the effect of CSR expenditure on income tax compliance among listed non-financial companies in Nigeria. By employing a quantitative research design and utilizing panel data analysis, the study aims to provide comprehensive insights into how CSR investments and employment size influence tax compliance, considering firm size and profitability as control variables. The selected measurements for each variable are grounded in empirical literature, ensuring the validity and reliability of the study's findings.

4. RESULTS AND DISCUSSION

Descriptive Analysis

The descriptive statistics for the variables under study are presented in Table 1. The Income Tax Compliance

Ratio (ITCR) has a mean value of -0.0133, indicating a slight negative average across the firms, with a standard deviation of 0.0352, suggesting variability in tax compliance practices. The minimum and

maximum values range from -0.3112 to 0.2119, highlighting significant differences in compliance levels.

Table 1: Descriptive Analysis

variable	Obs	Mean	Std. Dev.	Min	Max
ITCR	1017	-0.01331	0.035181	-0.3111781	0.211934
CSRINV	920	4.21556	5.926077	-2.302585	15.14867
CSREMSIZE	826	5.68949	1.592179	0.6931472	11.05089
FSIZE	1018	16.29942	2.042907	10.95583	21.72243
PROF	1017	0.010846	0.274817	-2.556887	6.174312

Source: Authors Computation using STATA 14.0

CSR Investment (CSRINV) shows a mean of 4.2156, with a high standard deviation of 5.9261, indicating considerable disparity in CSR spending among the firms. The negative minimum value suggests that some firms reported losses or reductions in CSR expenses relative to their revenue. The variable CSREMSIZE, representing the employment size, has a mean of 5.6895, with a standard deviation of 1.5922, indicating moderate variability. The values range from 0.6931 to 11.0509, reflecting a wide range of firm sizes.

The mean Firm Size (FSIZE), measured as the natural logarithm of total assets, is 16.2994, with a standard deviation of 2.0429, indicating varied firm sizes within the sample. The profitability (PROF) shows a

mean of 0.0108 and a standard deviation of 0.2748, with values ranging from -2.5569 to 6.1743, demonstrating a broad spectrum of profitability across the firms.

Correlation Analysis

Table 2 presents the correlation matrix. ITCR is negatively correlated with CSRINV (-0.1375), CSREMSIZE (-0.0676), FSIZE (-0.0402), and PROF (-0.2726). The negative correlation between ITCR and CSRINV suggests that higher CSR investment may be associated with lower income tax compliance. Notably, PROF has the strongest negative correlation with ITCR, indicating that more profitable firms may be less compliant with tax obligations.

Table 2: Correlation Matrix

	ITCR	CSRINV	CSREMSIZE	FSIZE	PROF
ITCR	1.00000				
CSRINV	-0.13750	1.00000			
CSREMSIZE	-0.06760	0.45670	1.00000		
FSIZE	-0.04020	0.46230	0.76350	1.00000	
PROF	-0.27260	0.16650	0.18110	0.17840	1.00000

Source: Authors Computation using STATA 14.0

The positive correlations among CSRINV, CSREMSIZE, and FSIZE suggest that larger firms with more employees tend to invest more in CSR activities. The correlation between PROF and the other variables is relatively weak, indicating a lesser degree of association with these factors.

Regression Analysis

The results of the pooled regression model, as shown in Table 3, reveal significant relationships between the dependent and independent variables. The model explains 28.65% of the variance in ITCR, as indicated by the R-squared value, with an adjusted R-squared of 28.17%. The F-statistic is 18.03, with a p-value of 0.0000, indicating the overall significance of the model.

Table 3: Pooled Regression Model

Linear Regression		Number of obs =		766		
		F (4, 761) =		7.08		
		Prob > F =		0.0000		
		R-squared =		0.2865		
		Root MSE =		0.0357		
ITCR	Coef.	Robust Std. Err	t	P> t	[95% Conf. Interval]	
CSRINV	-0.00075	0.000244	-3.08	0.002	-0.0012317	-0.00027
CSREMSIZE	-0.00072	0.001149	-0.62	0.534	-0.0029706	0.00154
FSIZE	0.001572	0.00108	1.46	0.146	-0.0005479	0.003692
PROF	-0.05927	0.018419	-3.22	0.001	-0.095432	-0.02312
_cons	-0.03203	0.013934	-2.3	0.022	-0.0593855	-0.00468

Source: Authors Computation using STATA 14.0

CSR Investment (CSRINV) has a negative coefficient (-0.0007523, $p=0.002$), suggesting that higher CSR investment is associated with lower tax compliance. This finding may imply that firms engaging more in CSR might leverage these activities for tax avoidance or minimization strategies, possibly viewing CSR expenditures as a substitute for tax payments.

CSREMSIZE shows a negative but non-significant coefficient (-0.0007151, $p=0.534$), indicating that employment size does not significantly impact tax compliance. **FSIZE** has a positive but non-significant coefficient (0.0015718, $p=0.146$), suggesting that larger firms are not necessarily more compliant with tax regulations.

Profitability (PROF) exhibits a significant negative relationship with ITCR (-0.059274, $p=0.001$), indicating that more profitable firms are less compliant with tax obligations. This outcome might reflect the propensity of profitable firms to engage in tax planning or avoidance strategies to maximize shareholder value.

The constant term is also significant (-0.0320323, $p=0.022$), implying that factors not captured by the model contribute to the variation in tax compliance.

Heteroskedasticity and Multicollinearity Tests

The Breusch-Pagan test for heteroskedasticity yielded a chi-square value of 230.72 with a p -value of 0.000, indicating the presence of heteroskedasticity in the model. This result suggests that the variance of the error terms varies across observations, potentially biasing the standard errors and test statistics. This led to the robust regression model in Table 3.

The Variance Inflation Factor (VIF) values for the independent variables are all below 2.5, with a mean VIF of 1.84, indicating that multicollinearity is not a severe concern in this model.

Discussion

The findings reveal a complex relationship between CSR activities and tax compliance among listed non-financial firms in Nigeria. The significant negative association between CSR investment and tax compliance raises concerns about the potential misuse of CSR as a tool for tax avoidance. This observation aligns with previous research suggesting that firms may engage in CSR to mask aggressive tax practices.

The lack of significant effects for employment size and firm size on tax compliance suggests that other factors, such as corporate governance and regulatory oversight, may play more crucial roles in influencing tax behaviors. The significant negative impact of profitability on tax compliance highlights the need for regulatory frameworks to ensure that profitable firms contribute their fair share of taxes.

Overall, this study underscores the importance of scrutinizing the motives behind CSR activities and ensuring that they do not detract from the firms' fiscal responsibilities. Further research could explore the role of regulatory frameworks in balancing CSR and tax compliance, particularly in developing economies.

1. CONCLUSION AND RECOMMENDATIONS

Conclusion

This study aimed to explore the relationship between Corporate Social Responsibility (CSR) investment and income tax compliance among listed non-financial firms in Nigeria. Utilizing a quantitative research design and panel data analysis, the study investigated the impact of CSR investment, employment size, firm size, and profitability on tax compliance over an 11-year period.

The findings indicate a significant negative relationship between CSR investment and income tax compliance, suggesting that higher CSR expenditures are associated with lower tax compliance. This result

raises concerns about the potential use of CSR activities as a mechanism for tax avoidance, where firms might engage in CSR to enhance their public image while simultaneously reducing their tax obligations. Additionally, the study found a significant negative relationship between profitability and tax compliance, implying that more profitable firms are less likely to comply fully with tax regulations.

On the other hand, the study did not find significant effects of employment size and firm size on tax compliance. These results suggest that the size of a firm and its workforce do not necessarily influence its tax compliance behavior. The presence of heteroskedasticity, as detected by the Breusch-Pagan test, suggests variability in the influence of these factors across different firms.

Overall, the study highlights the complex interplay between CSR activities and tax compliance, underscoring the need for a more nuanced understanding of the motives behind CSR investments. The findings suggest that while CSR can be a positive force for social good, it may also be exploited for less altruistic purposes, such as tax minimization.

Recommendations

Based on the study's findings, the following recommendations are proposed:

1. **Regulatory Oversight and Policy Development:** Regulatory bodies in Nigeria should enhance oversight mechanisms to ensure that CSR activities are not used as a cover for tax avoidance. Policymakers should consider developing clear guidelines that delineate acceptable CSR practices and ensure transparency in CSR reporting.
2. **Tax Policy Reforms:** There is a need for reforms in tax policies to close loopholes that allow for aggressive tax planning and avoidance strategies. Implementing stricter penalties for tax evasion and improving the clarity and enforcement of tax laws can help enhance compliance.
3. **Corporate Governance Improvements:** Companies should strengthen their corporate governance frameworks to align CSR activities with genuine social contributions rather than mere compliance with legal or fiscal obligations. Boards of directors should be encouraged to oversee CSR initiatives and ensure that they are not used to undermine tax responsibilities.
4. **Public Disclosure and Transparency:** Firms should be required to disclose their CSR expenditures and tax payments in a transparent manner. Enhanced public disclosure can help stakeholders assess the true impact of a firm's CSR activities and their adherence to tax laws.

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