Environmental Disclosure and Tax Avoidance in Developing Economies: Moderating Role of Audit Firm Type in Nigeria's Manufacturing Sector

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Abstract

As a result of the social and economic consequences of tax avoidance, the past few decades have witnessed increased attention on tax avoidance. Thus, this study examined the effect of environmental disclosure on tax avoidance. Data from 31 listed manufacturing firms from 2013 to 2022 were aggregated, and the generalised method of moments was explored. We find that firms disclosing environmental information are more likely to engage in tax avoidance, as evidenced by the negative nexus between environmental disclosure and effective tax rate. This suggests that environmental disclosure serves as an opportunistic tool for engaging in unethical practices such as tax avoidance. However, further finding shows that external audit firm type exposes environmentally disclosing firms to a high effective tax rate, suggesting that Big Four audit firms may critically evaluate the quality of environmental disclosure towards ensuring that it is not designed to engage in unethical tax avoidance behavior. The study concludes that environmental disclosure serves as an impetus for engaging in tax avoidance, but that audit firm type helps in curtailing this tendency, most especially when firms are audited by one of the Big Four. It is recommended that the government should take appropriate policy measures through reducing loopholes in the tax system to reduce tax avoidance, particularly in environmentally disclosing firms. It is also recommended that the government should give more tax incentives to environmentally disclosing firms to reduce their engagement in tax avoidance.

Keywords: Effective tax rate, environmental disclosure and tax avoidance

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