

CORPORATE GOVERNANCE MECHANISM AND TAX PLANNING IN NIGERIA

UCHENDU, ODOEMELA

Department of Accounting,
Faculty of Management Sciences,
University of Port Harcourt,
Rivers State, Nigeria.

Uchenduodoemela@yahoo.com

Phone: +234-8038986066

DR. U.I. IRONKWE

Department of Accounting,
Faculty of Management Sciences,
University of Port Harcourt,
Rivers State, Nigeria.

DR. J.N NWAIWU

Department of Accounting,
Faculty of Management Sciences,
University of Port Harcourt,
Rivers State, Nigeria.

ABSTRACT

The investigation was undertaken to empirically look at the association flanked by “Corporate Governance Mechanism and Tax Planning; Evidence from Nigeria”. The investigation made use of documentary data from the audited financial statement of banks quoted in Nigerian Stock Exchange from 1994 to 2014. The Central Bank of Nigeria bulletin also provided relevant records. The data were analyzed with the help of Econometric View (E-view statistical package). The finding of study reveals that there is no significant effect between Board Size and Tax savings of Firms in Nigeria. The study recommends that Audit committee of firms should be encumbered with the obligation of appraising tax assessment and returns in order to minimize any form of strategic tax behavior by management. Furthermore, the study recommends that any institution that violate the provisions of tax laws in the act of tax planning should be properly investigated and prosecuted.

Keywords: Corporate Governance Mechanism, Board Size, Tax Savings, Nigeria.

INTRODUCTION

Statement of Problem

Corporate governance is the managerial control of an organization aimed at improving the organization's performance. Necessity is laid on management to function in utmost good faith and discharge their responsibility in a way the shareholders (owners) would have done so as to enhance the market value of the firm. According to Sanusi (2002), respectable corporate governance is an imperative phase towards establishing sound assurance in addition to inspiring steady, long-standing global investment streams into an economy. Managerial control is therefore intended to shield shareholders from any act of expropriation by the board and management team thereby enhancing their confidence in the enterprise. It involves creativity and innovation.

A review of extant literature such as Avi-Yonah (2005), Ribstein (2006), Averbach (2006), and Oyerinde (2010), revealed that the utmost interest of shareholders is wealth maximization, and one reliable means of achieving this is through cost minimization. Okoye & Akenbor (2010) claimed that one of costs of doing business and therefore constitutes a serious barrier to wealth maximization is taxation. Taxation is an obligatory payment charged by government on the profits of individuals and businesses. For tax burden of a business concern to be minimized, tax planning becomes imperative for management. Tax planning is an effort to apply lawful hitches to circumvent recompensing or minimize the payment of tax. However, when this is achieved through some illegal means, acts or procedures, it is seen as a deceit or fraud and so criminal. According to Kiabel & Nwikipasi (2001), tax planning is the planning and operation of business activities within the context of existing legislation in such a way that the business realizes the optimal or best tax position while achieving its set goal. In other words, tax planning include not only the strategies aimed at minimizing tax liability of a business but also considers the cash flow effect on the business in terms of when it is most advantageous for a business to settle its tax liability without incurring any penalty. In a nutshell, tax planning is an act of transferring value from the state to the firm.

In order to promote corporate governance in business by increasing shareholders' wealth, tax planning plays a very significant role. This of course is the crux of the matter.

Aim and Objective of the Study

The major aim of this research is to study the effect of corporate governance on tax planning of firms in Nigeria. Other specific objective includes, to:

- ❖ Determine the impact of Board size on Tax savings of firms in Nigeria.

Research Question

Based on the specific purpose of the study, the resulting research questions include:

- ❖ To what extent does Board size affects Tax savings of firms in Nigeria?

Research Hypothesis

The Hypothesis formulated in the null form in this study includes:

H₀₁: There is no significant effect between Board size and Tax savings of firms in Nigeria.

Significance of the Study

The importance of this dissertation rests on its expected theoretical and practical implications. Theoretically, that the study augments the literature on association between corporate governance and tax planning in a developing country like Nigeria. Over a decade ago following the introduction of tax planning, (Nwaiwu, (2015) observed the dearth of empirical analysis of the phenomenon in Nigeria. This study is a responsorial theoretical cum empirical attempt at documenting the economic consequences of Corporate Governance as regards tax planning in Nigeria.

The findings of this study may evoke policy dialogue within accounting profession with respect to the unbridled acceptance of economic activities cum significance of corporate governance.

Methodology

Population of the Study

The population of this study covers the 23 common banks in Nigeria as at 2015. The period studied was 1994 to 2014. This 20 years duration, though lengthier than most works of this kind, permits a significant average amongst banks overtime, Listed in the 2014 fact Book of the Nigerian stock Exchange constituted the population.

Data Sources and Collection Method

The data used for this study were secondary data derived from the audited financial statements of the banks listed in the Nigerian Stock Exchange (NSE) between the year's period of 1990 and 2014. This study also made use of books and other related materials especially the Central Bank of Nigeria bullions and the Nigerian Stock Exchange Fact Book (2014). Some of the annual reports that were not available in the NSE fact book were either collected from the business place of work of selected banks or downloaded from the internet and annual financial reports.

Model Specification

The analytical model to consider in this study takes board size, and audit committee independence as predictor and tax savings, tax avoidance rate, and tax allowance as criterion variables. The study specifies the model in an attempt to determine the influence of corporate governance on tax saving of quoted companies in Nigeria as follows:

$$TS_{it} = \beta_0 + \beta_1 B_{St} + \beta_2 ACI + e_{it} \quad (1)$$

$$TA_{it} = \beta_0 + \beta_1 B_{St} + \beta_2 ACI + e_{it} \quad (2)$$

Where

TP = Tax Planning

Bs = Board Size

ACI= Audit Committee Independence

CG = Corporate Governance

TA = Tax Avoidance

Ts = Tax Savings

$\beta_0, \beta_1 \beta_2$ = Correlation coefficient

it = constant

e = error margin

• **Apriori Expectation**

Based on theories and empirical studies, the predictor variables have varying relationship with the dependent criterion variables which is therefore mathematically stated as:
 $\beta_1, \beta_2 > 0$.

The above signifies a positive relationship and movement of exogenous variables and the endogenous variables.

Results and Discussion

Table 1: Board Size (Bs), Audit Committee Independence (ACI), Tax Avoidance (TA) and Tax Savings (Ts). 1994 – 2014.

Year	Board Size	Audit Committee Independence	Tax Savings	Tax Avoidance
1994	12.67	1.00	53,934,647.00	5,581,066.00
1995	13.67	1.00	164,319,220.00	4,093,008.00
1996	15	1.00	1,282,647.00	1,057,670.00
1997	12.67	0.83	59,530,956.00	41,086,858.00
1998	17	1.00	180,706,420.00	16,376,400.00
1999	14	1.00	2,606,283.00	202,708.00
2000	16	1.00	3,129,277.00	303,008.00
2001	15	0.95	462,772,752.00	13,108,895.00
2002	11	0.95	130,139.00	13,475.00
2003	13.33	1.00	29,604,080.00	9,599,000.00
2004	15	1.00	113,918,747.00	9,762,240.00
2005	12	1.00	51,075,000.00	43,745,006.00
2006	9.67	1.00	142,517,400.00	4,758,811.00
2007	6.67	1.00	16,126,081.00	2,126,440.00
2008	15	1.00	46,595,800.00	4,491,482.00
2009	12.33	0.96	82,744,306.00	8,520,448.00
2010	15.33	0.96	3,515,800.00	399,365.00
2011	12	1.00	263,867,600.00	24,766,134.00
2012	14	1.00	876,400.00	101,831.00
2013	12.67	1.00	18,752,543.00	1,952,682.00
2014	13.56	1.00	28,487,361.00	2,923,378.00

Source: Nigerian Stock Exchange (NSE) various issues, Annual Average of Companies Annual Reports and Accounts.

Above is the presentation of all employed data for the study towards carrying out various tests and making inferences.

Descriptive Statistics

To access underlying trend amongst employed data, the study employs the descriptive statistics as a form of univariate analysis:

Table 2: Descriptive Statistics

	<i>BS</i>	<i>ACI</i>	<i>TS</i>	<i>TA</i>
<i>Mean</i>	13.26524	0.983909	82213974	9284281.
<i>Median</i>	13.56000	1.000000	46595800	4491482.
<i>Maximum</i>	17.00000	1.000000	4.63E+08	43745006
<i>Minimum</i>	6.670000	0.833000	130139.0	13475.00
<i>Std. Dev.</i>	2.299525	0.038590	1.13E+08	12676858
<i>Skewness</i>	-1.042238	-3.074037	2.090351	1.798132
<i>Kurtosis</i>	4.500995	12.35373	7.262087	5.165596
<i>Jarque-Bera</i>	5.773274	109.6297	31.18820	15.42006
<i>Probability</i>	0.055763	0.000000	0.000000	0.000448
<i>Sum</i>	278.5700	20.66209	1.73E+09	1.95E+08
<i>Sum Sq. Dev.</i>	105.7563	0.029784	2.55E+17	3.21E+15
<i>Observations</i>	21	21	21	21

Source: Eview-8 Output (Authors Computation).

From the descriptive statistics above, it can be duly noted that the mean representing a common average and expected normalcy of employed data varies greatly for all employed variables. The mean score of board size shows an average of 13 board members amongst sample, although fluctuated from other close ranged values with the highest being in 1998 around 17 while the least average number of board size was around approximately 7, the Audit committee independence which ranged from 0 to 1 shows that on the average there's a 0.983 preconceived level of audit which shows that in many employed sample firms, there's a presence of audit independence, while the total amount of tax savings is approximately 82 million, as the firms experienced the least tax saving in 2002 while most tax saving occurred in 2001 a year before the least tax saving, and the mean tax avoidance (TA) rate has been approximately 9284281.

The standard deviation showing the movement of variables around their mean appears manageable amongst employed variable; Tax avoidance is seen to possess the most shocks while audit independent possess the least shock followed by tax savings and board size (BS). The skewness which can simply be explained to show the movement of variables whether they are more or less than the mean (As the mean is considered as a state of normalcy), it could either be positive or negative. Board size (BS) and Audit committee independence (ACI) exhibit negative skewness of -1.042238 and -3.074037 respectively while Tax Avoidance (TA) and Tax savings (TS) exhibited positive skewness based on the respective output of 2.090351 and 1.798132 over the study period.

While the Kurtosis which is a statistics that shows the sharpness or flatness of variables might not be a very useful statistics but signifies a relatively peaked distribution as most employed variables have been on the increase and most are still rising; shows that all variables are quite steep with Audit committee independence (ACI) being the steepest with the kurtosis output of 12.35373 while Board size possess the least relative level of steepness based on its kurtosis level of 4.500995 over the 21 years study period.

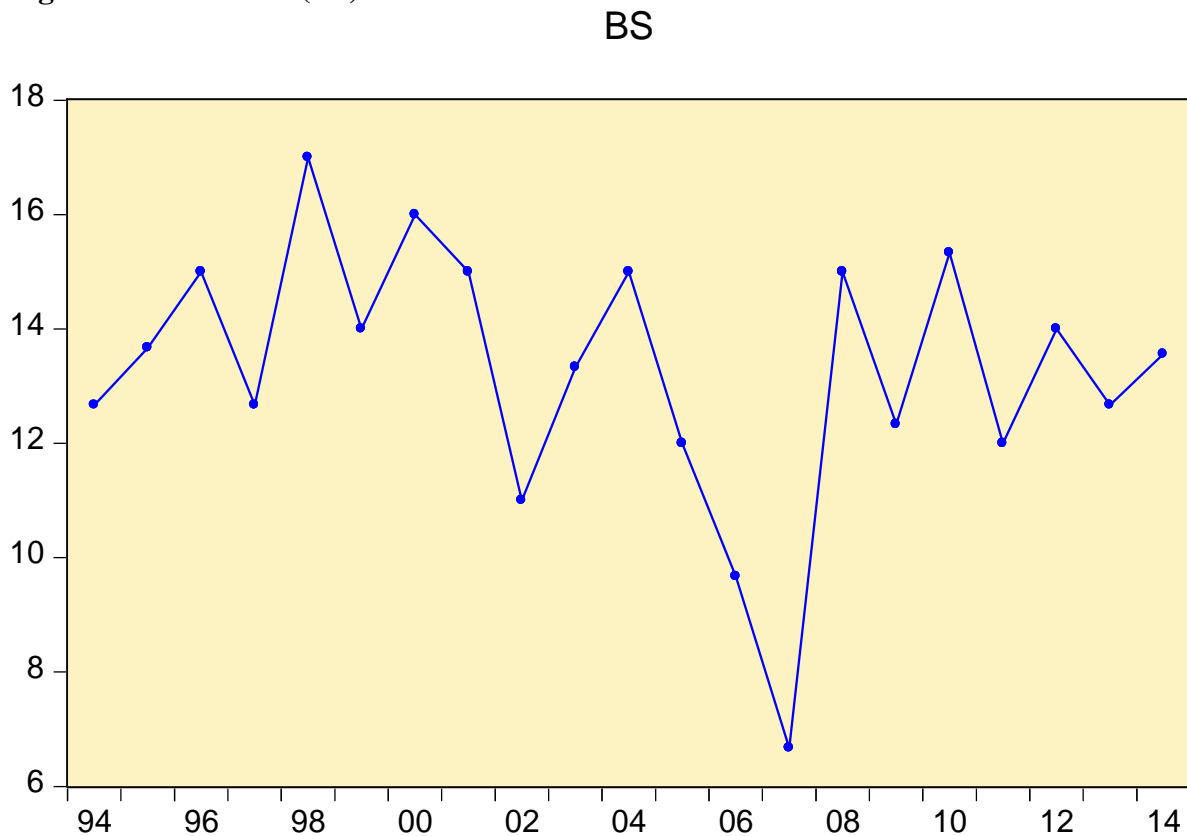
The Jarque Bera (JB) being a normality test based on the skewness and Kurtosis and shows the level of even distribution amongst employed variable. Shows that all variables were normally distributed as they possessed probability level less than 0.05 with the exception of Board Size (BS) whose probability level was 0.05576

Graphical Representation

The study employs the use of two forms of graphical representation, as it first presents the employed data in their natural form to see the real visual underlying trend amongst variables and is further presented in their logged form to evaluate their linear (line) movement closely.

Where: Board Size (BS), Audit Committee Independence (ACI), Tax Avoidance (TA) and Tax Savings (TS). 1994 – 2014.

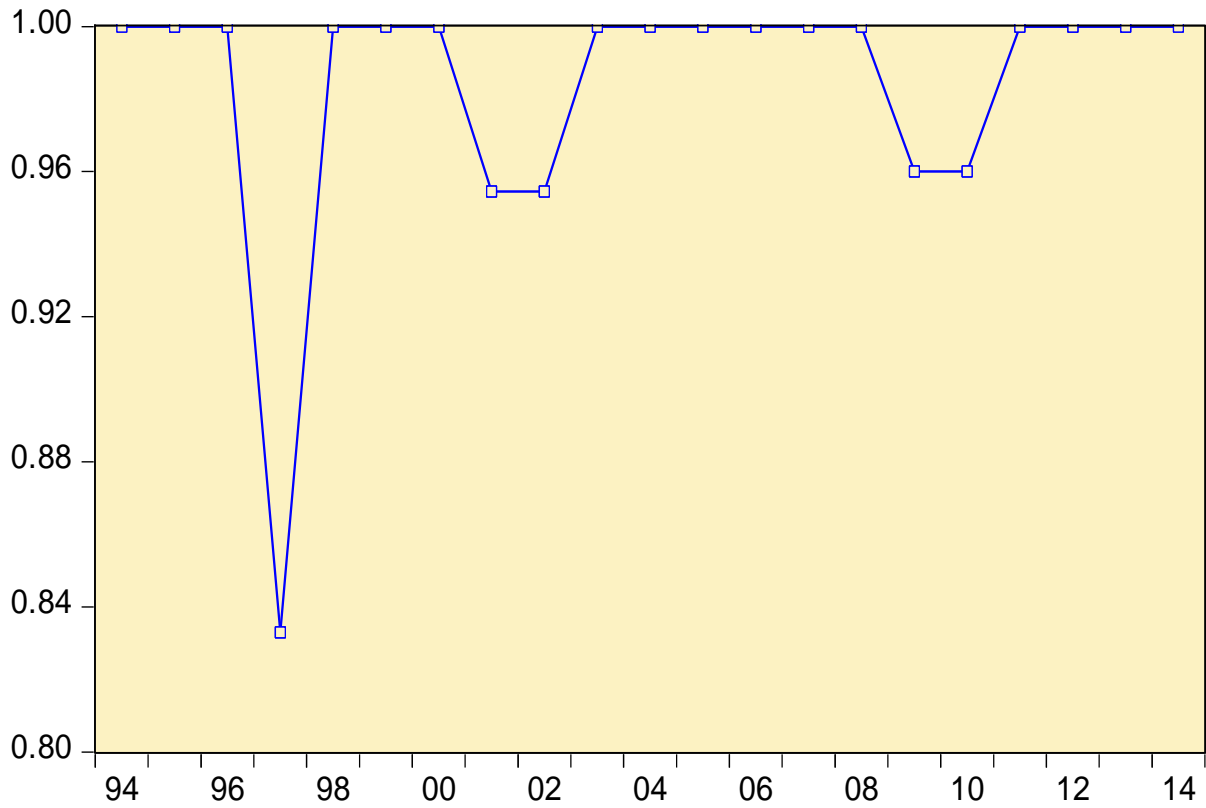
Figure 1: Board Size (BS) 1994 – 2014.



Source: Eview-8 Output (Authors Computation).

From the above figure, it can be seen that the board size (BS) has fluctuated overtime in a zig zag with its highest average level of 1995 and the least board size was evident in 2007, it can be seen that there has been an annual discrepancy in the number of board members especially amongst sample variables owned to various policies, downsizings and right sizing employed by individual firms across board.

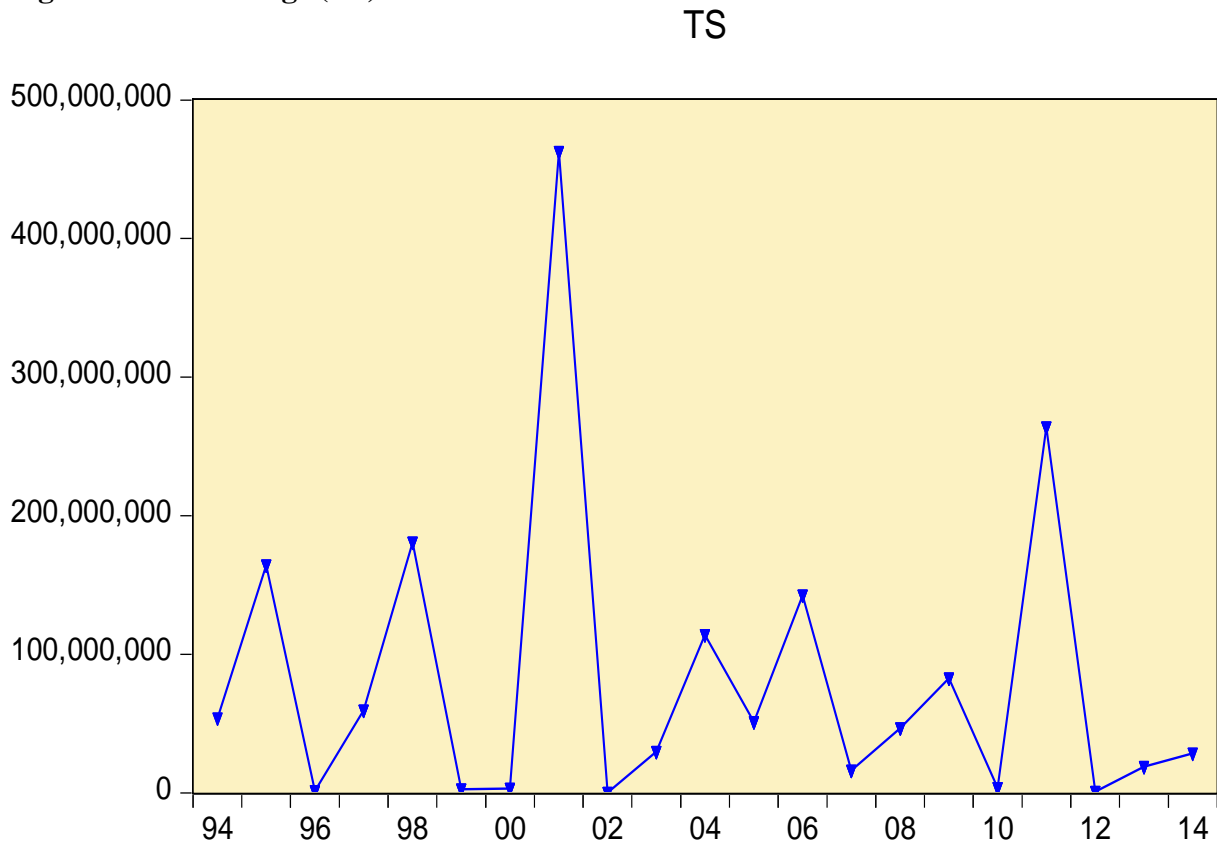
Figure 2: Audit Committee Independence (ACI) 1994 – 2014.
ACI



Source: Eview-8 Output (Authors Computation).

The Audit committee independence (ACI) has maintained a moderately smooth and steady move overtime as it can be seen from the above figure that on the average, there exists a great level of audit committee independence across all employed firms, with a great exception to the year 1997, which saw a down trodden fall in the independence of the internal or external auditors as most firms exhibited some form of control over their auditing activities.

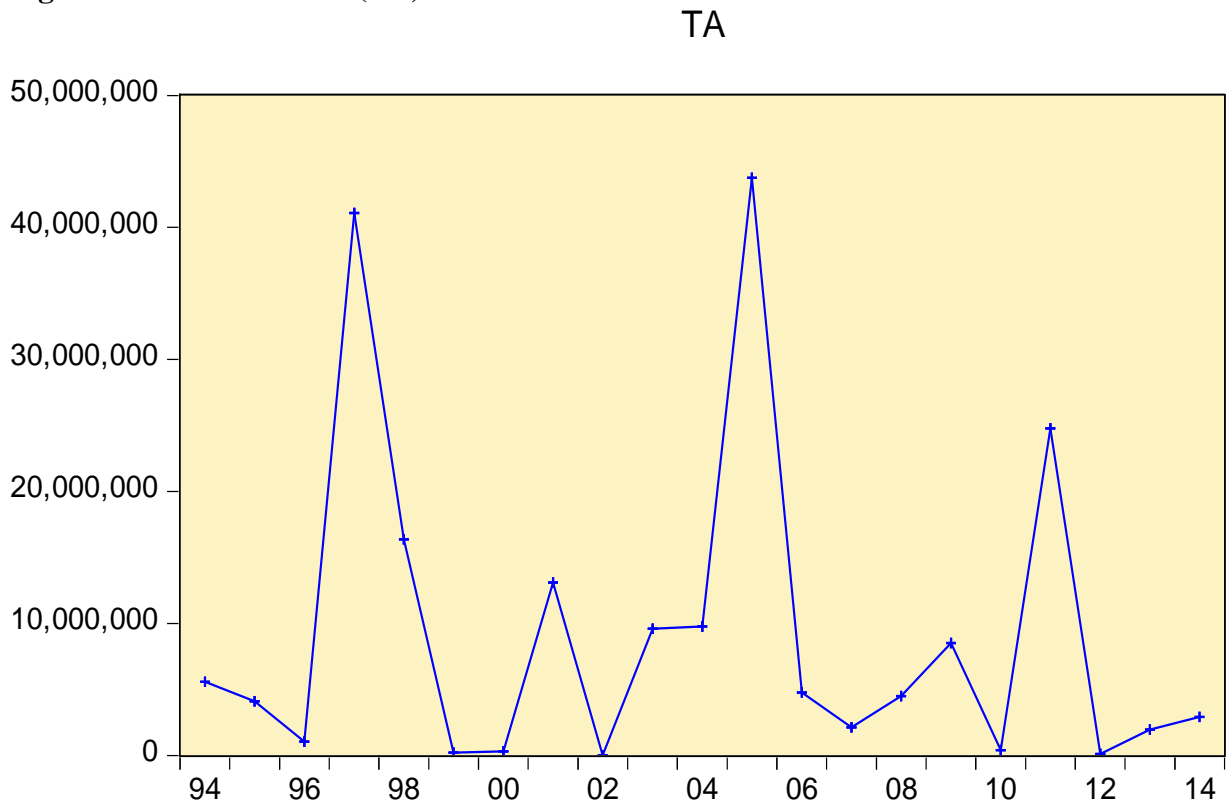
Figure 3: Tax Savings (TS) 1994 – 2014



Source: Eview-8 Output (Authors Computation).

The tax saving over time has seen a rough movement over time as it will reduce in a particular year and further increase in another year, which has been a steady sequence over time even amongst independent firms in the nation, as each firm has battled with saving taxes through various means which could be quite worrisome and strenuous and has reflected in the fluctuating trend that seems no to be hidden, although the highest tax savings occurred in the early part of 2001.

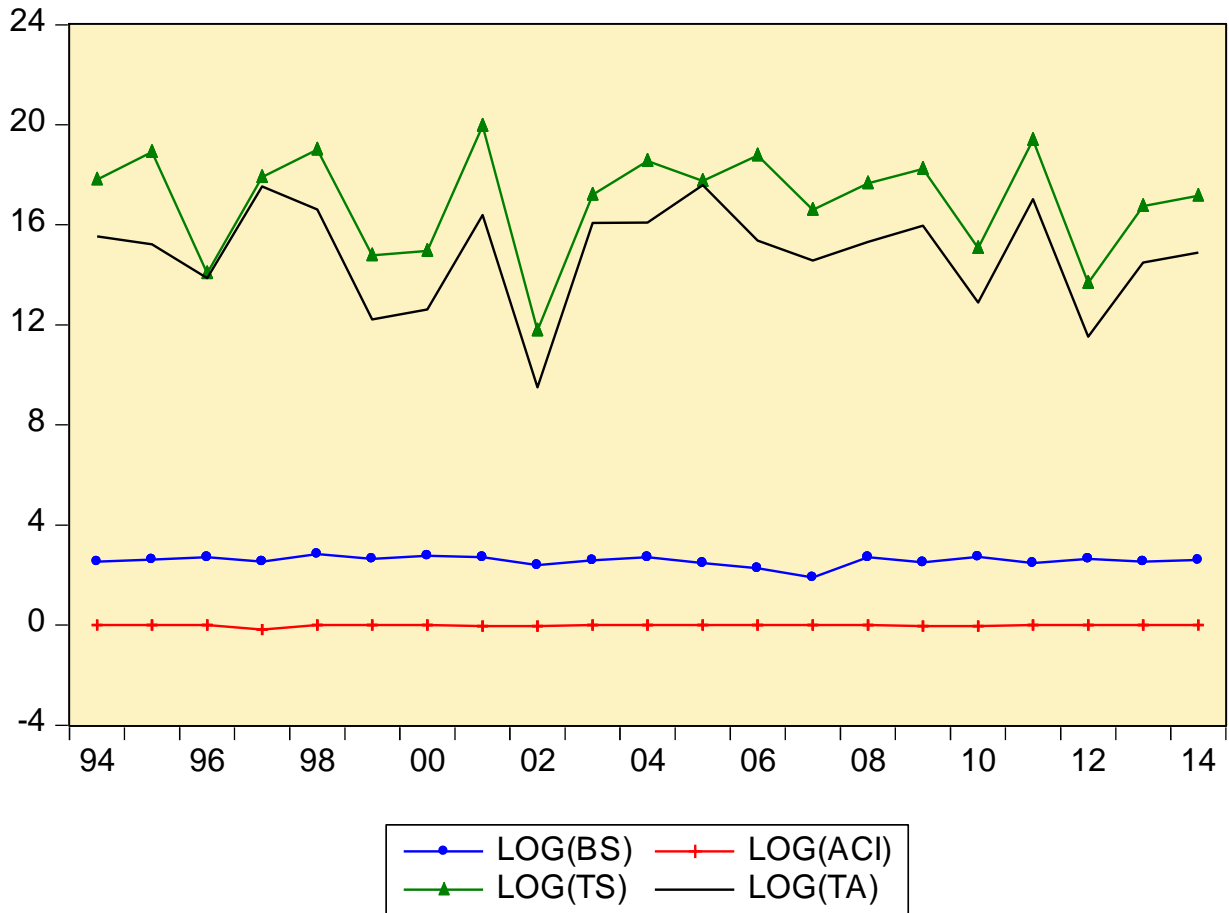
Figure 4: Tax Avoidance (TA) 1994 – 2014



Source: Eview-8 Output (Authors Computation).

Tax avoidance is seen to exhibit high degree of shocks and has not been stable overtime as firms have found it difficult in avoiding taxes, the only major periods where these activities were prominent occurred three times; which were in 1997, 2005 and 2011.

Figure 5: Board Size (BS), Audit Committee Independence (ACI), Tax Avoidance (TA) and Tax Savings (TS). 1994 – 2014.



Source: Eview-8 Output (Authors Computation).

The above figure shows that tax avoidance and tax savings move interderental, while Board size and Audit committee independence are steadily moving; which shows a complacent visual correlation amongst employed variable.

Data Analysis

In analyzing the above data set, it is just right to determine the successful capture of the model by the employed variable towards determining the relevance and worthiness of employed variables. We therefore utilize the Multiple regression model (Both normal and logged), followed by Correlation Matrix.

Multiple Regressions (Ordinary Least Square)

The multiple regressions were carried out using the Ordinary Least Square regression tool, as it is the best unbiased linear regression estimator; it was carried out in the normal form and the log-linear form.

Table 3: Ordinary Least Square Output (Model 1: Tax Avoidance).

Dependent Variable: LOG(TA)

Method: Least Squares

Date: 04/14/16 Time: 11:50

Sample: 1994 2014

Included observations: 21

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
<i>C</i>	7.377785	5.799133	1.272222	0.2204
<i>BS</i>	-0.007184	0.092562	-0.077614	0.9390
<i>ACI</i>	-7.310543	5.516780	-1.325147	0.2027
<i>R-squared</i>	0.822704	<i>Mean dependent var</i>		14.82501
<i>Adjusted R-squared</i>	0.791416	<i>S.D. dependent var</i>		2.082126
<i>S.E. of regression</i>	0.950927	<i>Akaike info criterion</i>		2.906885
<i>Sum squared resid</i>	15.37246	<i>Schwarz criterion</i>		3.105841
<i>Log likelihood</i>	-26.52229	<i>Hannan-Quinn criter.</i>		2.950063
<i>F-statistic</i>	26.29492	<i>Durbin-Watson stat</i>		2.294910
<i>Prob(F-statistic)</i>	0.000001			

Source: Eview-8 Output (Authors Computation).

From the above output for the first model, the coefficient of the constant (C) is 7.377785, which signifies that if all other variables are kept at a constant or zero, the criterion variable Tax Avoidance (TA) will increase by approximately 9.557526 units, showing a positive progress of the criterion variable to the predictors.

Regression coefficients: holding all other variables fixed: the following are the contributions of the employed predictors to the criterion variable. Board size exits a negative coefficient of -0.007184 and Audit committee independence exhibits a bag tube coefficient of -7.310543 with the criterion variable going against the apriori expectation

The R-square (Coefficient of Determination) shows an explanation of 0.822704 percent of the employed model, I.e. 82.27 percent of the change of the criterion variable is elucidated by the predictor variable. Which shows how well fitted the regression is based on the unique theoretical combinations of variables. While the remaining 17.73% is captured through other variables not explained in the model i.e. the error term.

The adjusted R-square and extension of the coefficient of determination which takes to cognizance corrections for the variables employed shows a slight reduction to 0.791416 signifying 79.14%, which still shows a good measure of achievement of the regression in predicting the values of the criterion variable.

The Durbin-Watson being a test for auto/serial correlation shows an output of 2.294910 which signifies a presence of serial or autocorrelation of the residual (error term).

The F-statistics testing the overall hypothesis of the slope coefficient displays a very significant short run relationship based on the probability output of 26.29492 at a probability level of 0.000001 which is less than the critical value of 0.05 ($0.00 < 0.05$). Therefore, we reject its null hypothesis and accept the alternate that there is a significant (short-run) relationship between employed variables.

Table 4: Ordinary Least Square Output (Model 2: Tax Savings).

Dependent Variable: LOG(TS)

Method: Least Squares

Date: 04/14/16 Time: 11:51

Sample: 1994 2014

Included observations: 21

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
<i>C</i>	<i>-3.664236</i>	<i>6.252791</i>	<i>-0.586016</i>	<i>0.5656</i>
<i>BS</i>	<i>0.008132</i>	<i>0.096321</i>	<i>0.084423</i>	<i>0.9337</i>
<i>ACI</i>	<i>6.658901</i>	<i>5.809979</i>	<i>1.146115</i>	<i>0.2676</i>
<i>R-squared</i>	<i>0.818419</i>	<i>Mean dependent var</i>		<i>16.95142</i>
<i>Adjusted R-squared</i>	<i>0.786376</i>	<i>S.D. dependent var</i>		<i>2.141052</i>
<i>S.E. of regression</i>	<i>0.989584</i>	<i>Akaike info criterion</i>		<i>2.986578</i>
<i>Sum squared resid</i>	<i>16.64769</i>	<i>Schwarz criterion</i>		<i>3.185535</i>
<i>Log likelihood</i>	<i>-27.35907</i>	<i>Hannan-Quinn criter.</i>		<i>3.029757</i>
<i>F-statistic</i>	<i>25.54077</i>	<i>Durbin-Watson stat</i>		<i>2.637810</i>
<i>Prob(F-statistic)</i>	<i>0.000002</i>			

Source: Eview-8 Output (Authors Computation).

From the above output for the second model, the coefficient of the constant (C) is 7.377785, which signifies that if all other variables are kept at a constant or zero, the criterion variable Tax Savings (TS) will increase by approximately 9.557526 units, showing a positive progress of the criterion variable to the predictors.

Regression coefficients: holding all other variables fixed: the following are the contributions of the employed predictors to the criterion variable. Board size exits a positive coefficient of 0.008132 and Audit committee independence exhibits a bag tube coefficient of 6.658901 with the criterion variable going in line with the apriori expectation. The R-square (Coefficient of Determination) shows an explanation of 0.818419 percent of the employed model, I.e. 81.84 percent of the change of the criterion variable is elucidated by the predictor variable. Which shows how well fitted the regression is based on the unique theoretical combinations of variables. While the remaining 17.16% is captured through other variables not explained in the model i.e. the error term.

The adjusted R-square an extension of the coefficient of determination which takes to cognizance corrections for the variables employed shows a slight reduction to 0.786376 signifying 78.64%, which still shows a good measure of achievement of the regression in predicting the values of the criterion variable.

The Durbin-Watson being a test for auto/serial correlation shows an output of 2.637810 which signifies a presence of serial or autocorrelation of the residual (error term).

The F-statistics testing the overall hypothesis of the slope coefficient displays a very significant short run relationship based on the probability output of 25.54077 at a probability level of 0.000001 which is less than the critical value of 0.05 ($0.00 < 0.05$). Therefore, we

reject its null hypothesis and accept the alternate that there is a significant (short-run) relationship between employed variables.

Table 5: Correlation Matrix Output

	<i>TA</i>	<i>TS</i>	<i>BS</i>	<i>ACI</i>
<i>TA</i>	1.000000	0.290948	-0.067365	-0.478078
<i>TS</i>	0.290948	1.000000	0.130889	-0.076303
<i>BS</i>	-0.067365	0.130889	1.000000	0.044139
<i>ACI</i>	-0.478078	-0.076303	0.044139	1.000000

Source: Eview-8 Output (Authors Computation).

From the correlation matrix above, it can be deduced that Board size (BS) has a weak and negative association of -0.067365 with Tax Avoidance, and Audit committee independence (ACI) exhibits a negative and weak association with Tax avoidance (-0.478078) and Tax savings (-0.076303).

Hypothesis Testing

The t-statistics is used to test in the short run individual hypothesis highlighted in the null and alternate form as follows.

Hypothesis One:

H₀₁: There is no significant effect between Board size and Tax savings of firms in Nigeria. Utilizing the ordinary least square estimate, it can be seen using the t-statistics value of -0.077614 at a probability level of 0.9390 which is greater than the 0.05 significance level as seen in the first model, the study therefore accepts the null hypothesis and concludes that there is no significant effect between Board size and Tax savings of firms in Nigeria.

Discussion of Findings

The study empirically found the following:

It could be seen that Board Size (BS) a proxy for corporate governance exhibits a negative and insignificant relationship with Tax Avoidance in Nigeria a proxy for tax planning while on the other hand, it displays a positive yet insignificant relationship with Tax savings (TS), as Audit committee Independence (ACI) exhibits similarly a negative and insignificant relationship with Tax avoidance (TA), while displaying a positive yet insignificant relationship with Tax savings (TS). This goes a long way to show that the nation's organizational corporate governance is still a long way from achieving or influencing its tax planning activities as firms have still continually battled with excessive tax liabilities and have so many related operations that fail to relate to tax planning (Altshuler & Grubert, 2005; Rego, 2003; 1992; King and Sheffrnm, 2002; Slemrod & Yitzhaki, 2002; Kirchler et al., 2003; Grubert & Mutti, 1991). It is seen that directly or indirectly, in the nation, tax saving is as a consequence of tax planning and its measures are still ongoing.

Conclusion

Corporate tax planning focuses on the form, nature and size of business; capital mix, choice of accounting period, market structure, investment policy and dividend policy”, and the study

discovered that the nation's firms are still far from where they expect to be towards reducing their tax liabilities.

Recommendations

In view of the discovered behaviors and relationships among employed variables the study proffers the following recommendations:

- (i) Audit committee of firms should be encumbered with the obligation of appraising tax assessment and returns in order to minimize any form of strategic tax behaviour by management.
- (ii) Tax authorities should occasionally demeanor tax audit of the various banks to examine whether there is any form of mischaracterization in financial statements.

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