Tax Evasion And Economic Growth In Nigeria

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Abstract: This study empirically investigated tax evasion and avoidance in Nigeria with intention of suggestion for ways forward. Its specific objectives were to determine influence of tax administration, wrath of tax law and tax education on tax avoidance and evasion. A total of seventy-two (72) copies of questionnaire successfully retrieved from staff of federal and state Inland Revenue Services in Ondo State were used in the analysis. The statistical tool employed was least square regression method. This study found that tax administration and wrath of tax law have significant positive relationship by implications were critical factors towards reduction of tax avoidance and evasion, while tax education has no significant effect but has positive relationship towards tax avoidance and evasion reduction. It therefore recommended that manner by which taxes are administered should be clearly stated and adequate enlightenment should be given to tax payers in relation to the tax laws and need for compliance.

Keywords: Tax, Avoidance, Evasion, Administration, Education Compliance

I. INTRODUCTION

The beauty of a nation is the sustainability of her economy as such viable economy will assist the country to meet the requests and demands of her citizens. The ability to fulfill such obligations is a function of revenue generation. Government of a country generates founds by various means. The major sources of such funds are through taxes. Tax can be described as a compulsory obligation by the citizens to the government. Tax can be either direct or indirect. A direct tax can be explained as an income tax that is usually imposed on the income of a particular person who is to pay tax (Aguolu, 1999 and Ross, 2007). On the other hand, indirect tax is taxes levied on goods and services (Mckerchar and Evans, 2009 and Naiyeju, 2010). Brautigam (2008) expressed that taxes are important device of States to fulfill their aim. Brautigam (2008), Kiabul and Nwokah (2009) expressed further that the achievement of any tax system is a function of its administration. (Naiyeju, 2010), Bahi and Bird (2008) state that no tax is better than its administration. Despites the importance of taxes, there are cases of tax evasion globally. From indications, tax payers do not only evade taxes, they also avoid it. Tax evasion is practiced when tax payers refuse to pay tax liability due to them by illegal act (Marandu, 2014).

Also, tax avoidance is the refusal to pay the due tax liability by the tax payers through legal means (Mckercher, 2003). As a matter of fact, none of the evasion and avoidance acts is favourable to any government.

The practice of non-remittance of tax liability to the government of Malaysia by the small medium enterprises located in the suburban arrears of Malaysia is case of tax evasion (Azhar, Zarinah, and Mohd, 2016). The loss of about 6.3 percent of the gross domestic profit of Latin America in 2007 was a case of tax evasion (Oliva, 2019). The huge amount of money loss from 2008 to 2013 in Indian by nonpayment of due taxes by the tax payers was another case of tax evasion and avoidance (Devarajapp, 2017, Uche and Ugwoka, 2003). The deteriorating economy of Nigeria by not paying the adequate tax liability by the tax payers is case of tax evasion and avoidance in the country (Onyeka, and Nwankwo, 2016). The disintegrate relationship between the tax authorities and the tax payers in Nigeria justifies tax evasion and avoidance in the country (Kennedy, and Alade, 2014).

According to Adewale (2019) the following reviewed cases in Nigeria in 2008 are cases of tax evasion and avoidance in the country. "Olokun Pisces Limited vs. Federal Inland Revenue Services (FIRS): The Company who is

dealing in perishable commodities paid dividends from 2009 to 2012 when it has not actually assessed its total profits which reduced its tax liability. This action was challenged at the law court by the FIRS. The Federal High (FHC) Court ruled in favour of the FIRS that the company should pay its due tax liability. FIRS vs. Mobil Production Nigeria Unlimited: The Company made payment in arrears from 2006 to 2008 to the coffer of the Department of Petroleum Resources for gas flared and treated the gas flaring fees as tax detectable in its Petroleum Profits Tax returns for the year. The service disallowed the gas flaring fees for tax purposes. The FHC ruled in favour of IFRS that the Company did not obtain Ministerial permission for prior to flaring gas. Vodacom Business Nigeria limited vs. FIRS: The Company forwarded bandwidth capacity for its use in Nigeria through National Savings Scheme. The Non Residence Company (NRC) failed to charge Value Added Tax (VAT) on the receipt of the goods. AS a result, The Company did not remit VAT to the coffer of the IFRS. The FHC held that the failure of the NRC to charge VAT on the goods was not an excuse for the Company. The purpose of the study is to empirically investigate the impact of tax evasion and avoidance on the Nigerian economy. There have been a lot of researches on tax evasion and avoidance by researchers but their studies have not really indicated moral for tax evasion. AS a result, there is the need to empirically ascertain reasons for the actions of the tax payers".

STATEMENT OF THE PROBLEM

The issue of tax as sources of government revenue in Nigeria should be handled with all seriousness. The tax administration in the country should be charged with responsibilities. The power of any country depends largely on her economy. Good economy will in no doubt provide for the needs of a country. Such wants includes: Adequate security, good health care facilities, road network, quality education, prime water, regular power supply, enable environment for sports and recreations. The above infrastructures will enhance good agriculture system which in turn contributes to the economy of such country. Regrettable, the tax system in Nigeria is porous. The act of tax evasion and avoidance in Nigeria is worrisome. In most cases, only the public servant and companies do pay tax in the country. Most of the private sectors, farmers, artisans and transport workers do indulge in tax evasion. Unlike advance countries where all segments will have to pay tax. None payment of the required taxes liabilities by the tax payers is not only criminal; it prunes the resources of the country. With such cut back, the society will not grow economically. When the economy is bad, the needs of the people will not be met. Before an economy of a particular nation can be viable, both the government and the tax payers must be in the page. Government should encourage tax payers by providing for the needs of the society. The tax administration should be able to educate members of the society on the need to pay tax. If the society can be convinced of having value for the payment of taxes, they will be willing to pay taxes without being force. This good gesture will definitely enhance the status of the country. From the above statement, we are able to generate the following research questions.

- ✓ How does tax evasion affect the revenue generation in Nigeria?
- ✓ What is the effect of tax avoidance on the Nigerian economy?
- ✓ How effective is the tax administration in Nigeria?
- ✓ What are the values for tax payment in Nigeria?

OBJECTIVES OF THE STUDY

The broad objective of the study is to examine the effect of tax evasion and avoidance on the economy of Nigeria
The specific objectives are to:
- ✓ examine how tax evasion and avoidance affects the revenue generation of Nigerian government and to
- ✓ determine the affiliation between tax evaders and tax administration in Nigeria.

STATEMENT OF HYPOTHESES

H_1 Tax avoidance does not affect revenue generation in Nigeria

H_2 Tax evasion has no effect in revenue generation in Nigeria

H_3 Tax administration system in Nigeria is not effective

H_4 Tax education has no effect in revenue generation in Nigeria

H_5 Littleness and weakness punishment for tax evaders has no effect on the economy of Nigerian

II. LITERATURE REVIEW

CONCEPTUAL ISSUES

TAX AVOIDANCE (TA)

Tax avoidance constitutes a legal means of reducing ones tax liability, by capitalizing on the vantage of the provisions of the constitution or the loopholes provided by the tax potency. Parkin (2006) define tax avoidance as the official diminution in tax obligations by cleverly increasing the number of dependents, fragmenting of income, tarry in filling tax application and tax arbitrage. Tax avoidance imbibes a strategy that gives room for legal prune of taxes liabilities. With the general believe that tax avoidance is disloyal and asocial, it is taken to be legal issue unless otherwise forbid by the law. An individual is entitled; if the privilege permits to order his activities in such a way that one tax liability can be reduced. If such arrangement could be successful, one may not be impelled to pay an increased tax (Alabi, 2001).

TAX EVASION (TE)

Unlike tax avoidance which is civil, tax evasion is criminal. It is an act cultivated to escape tax liabilities through illegal means (Baihi, 1987). Nwachukwu (2006) opine that tax evasion is a deceitful action by tax payers to evade taxes by cunning means. Tax evasion takes place when a taxpayer hide the true state of his affairs to the prescribe tax authorities in order to reduce tax liabilities (Andreoni,1998) Evasion and

avoidance of taxes are such dishonest act that tends to declare low income, profits and gains so as to deceive tax authorities (Ayua, 1999). Tax evasion is not only immoral; it also constitutes a breach of the tax laws (Allinghan and Sandmo, 1972). Sosanya (1981) submitted that tax evasion is a calculated and willful attempt not to disclose correct taxable income as a means of paying less tax. Sosanya (1981) submitted further that it is a measure to violate tax laws and a practice of reducing or falsifying claims.

CAUSES OF TAX EVASION AND AVOIDANCE IN NIGERIA

Tax evasion and avoidance could emanate from the following functions: Series of corruption, dubious act, insufficient tax education by the tax agents and lack of adequate awareness of the importance of taxes, showing no value for taxes collected by the government, ignorance of the tax payers, littleness and weakness punishment for tax defaulters, and loopholes in the tax laws (Toye, and Moore, 1998).

EFFECTS OF TAX EVASION AND AVOIDANCE IN NIGERIA

Ideally, a good country should be equipped herself with adequate security, sound health care facilities, good road network, quality education, job opportunities, infrastructures currency competition and ability to meet with other requests and demands of her citizens. With tax evasion and avoidance which are major causes of government shortage of funds, hardly any country could fulfill her targets. (Toye, and Moore, 1998) confirmed that evasion and avoidance of taxes have inauspicious effect on the government revenue generation capableness and the economy at large. (Brautigani, Fjelftand, and Moore, 2008) submitted that a nation's tax system is a mirror of its group values and the wealth of the sovereign power. The assertion of the researchers could be frustrated by tax evaders. Parkin (2006) is of the opinion that sustainable development is a development that meets the needs of its group through viable taxation. (Cobham, 2005) stressed that the recent occurring in the globe which impacted on governments revenue generation was a function of tax evasion and avoidance. (FIRS, 2009). Argued that taxes serve a securing stable flow of revenue for the government of Nigeria. Federal Government of Nigeria (FGN) (2009) confirms that taxes have been identified as alternative sources of revenue generation to oil revenue.

THEORETICAL FRAMEWORK

ECONOMIC DETERRENCE THEORY

Out of the different theories of tax evasion and avoidance such as lay, quantitative, collaboration and economic deterrence theories, the study is anchored on economic deterrence theory because of it's relevant to the study. Marandu, Mbekomize and Ifezue (2014) note that the theory is based on tax compliance behaviour. The theory states that taxpayer's attitude in respect of taxation is ascertain by tax audit. The theory is of the opinion that the littleness and weakness punishment charge against tax evaders responsible for tax evaders. The theory also indicates that tax abidance is influenced by the required education, more advertisement and motivation.

Despites the fact that the theory agitated for more penalties for tax evaders, in order to gain greater income declaration, the theory remains an unproven theoretical model (Lewis, 1982) The prominent issue observed by Allingham and Sandmo's model in 1972 is the existence of limen. The researchers argued that the identification of the offender through tax audits and other measures is most important.

The theory has been admitted by some researchers as accomplishing the expected result. Mckerchar and Evans (2009) stated that the theory has addressed majority of the tax payer's noncompliance. In their opinion, Ogbonna and Ebimpbowei (2016) believe that the fear of tax audit, which always reveals tax evasion, couple with the penalties for tax evaders, has charge taxpayer for tax compliance (Jackson, and Milliron,1986; Allingam and Sandmo, 1972 and Devos, 2014) are of the same opinion with Ogbonna and Ebimpbowei (2016).

III. METHODOLOGY

RESEARCH DESIGN

Cross- sectional survey design was adopted for the study because it requires the use of primary data. The study applied Qualitative data which include coded (scale) data from copies of questionnaire administered.

The population for the study embraced tax experts in Ondo State. Simple-stratified-random sampling technique was used to select sample respondents from the targeted population. The sampling of the study include twenty-five (25) members from each of the following two (2) categories of Federal Inland Revenue Services and State Inland Revenue Services from the three (3) Senatorial Districts of the State. Copies of Likert scale format questionnaire were distribute for the study.

RESEARCH INSTRUMENT

Data was collected through structured questionnaire administered to Federal Inland Revenue Services and State Inland Revenue Services staff. A total of 18 questions prepared in likert scale form (strongly agreed, agreed, neutral, disagreed and strongly disagreed. Questionnaire administered was subjected to reliability test and outcome showed Cronbach Alpha of 0.988 which is higher than 0.60 appropriate for any study as suggested by Field (2009). A total of seventy-five (75) copies of questionnaire were items distributed and successfully retrieved 72 copies which were used to analyzed the work with the assistance of computer software (SPSS 21).

MODEL SPECIFICATION

Below are the econometric model formulated for the research study:

$TAE = F (TA, TE, WoL)$

$TAE = \beta_0 + \beta_1 TA + \beta_3 TE + \beta_4 WTL + \Sigma$

Where TAE = Tax Avoidance and Evasion

TA	= Tax Administration
TE	= Tax Education
WTL	= Wrath of tax law
Σ	= Stochastic Error Term
β	= Intercept

$\beta_1, \quad \beta_2, \quad \beta_3 > 0$

The presumption signs of the parameters in the specifications.

IV. INTERPRETATION AND DISCUSSION OF FINDINGS

Variables	Unstandardized Coefficients		T	Sig.
	B	Std. Error		
(Constant)	-.083	.159	-.524	.602
TAXADM	.484	.074	6.566	.000
TAXED	.068	.073	.925	.358
WTL	.172	.060	2.865	.006
R^2	0.978			
R^2	0.976			
Standard error of the estimate	0.1097			
F-Statistics (Probability value)	582.336 (0.0000)			
Durbin Watson	1.930			

Table 1: Least Square regression Method

TAXAE=-0.083+0.484TAXADM+0.68TAXED+0.060WTL

(-0.524)   (6.566)   (0.925)   (2.865)

Table 2 showed least square regression method results of the independent variables proxied with tax administration (TAXADM), tax education (TAXED) and wrath of tax law. The coefficient of determination (R^2) and adjusted coefficient of determination (adjusted R-square (R^2)) which stood at 0.978 and 0.976 respectively, implied that about 98% of the systematic variations in the dependent variable (economic growth) were explained by the independent variables while only 2% were unaccounted for hence captured by the stochastic disturbances. The general statistic (F-statistic) or goodness-of-fit measure which indicated value of 582.336 compared to standard error of the estimate with a minimum value of 0.1097 suggested that the broad result is statistically significant and there exist linear relationship with independent and dependent variables. Similarly, the Durbin Watson with a value of 1.930, showed absence of serial correlation and this which further suggested that the results are suitable for predictions and decision making.

V. DISCUSSION OF FINDINGS

Tax administration (TAXADM) which showed positive coefficient value of 0.484 with economic growth, indicated that a unit increase tax administration could lead to increase in economic growth by over 48&. Its probability value 0.000 was less than critical probability value at 0.05 (5%) significance level, revealed that tax administration (TAXAVD) is statistically significant. The result showed that tax administration has significant influence on economic growth. This implied that tax administration is a critical factor enhancing economic growth in Nigeria.

Tax education (TAXED) which revealed positive coefficient value of 0.068 with economic growth, implied that a unit increase in tax education or enlighten could lead to increase in economic growth by over 7%. It has probability value of 0.358 which is greater than critical probability value at 0.05 (5%) significance level, suggesting that tax education (TAXED) is statistically insignificant. The result showed that tax education has no significant influence, but has positive relationship on economic growth. This implied that tax education is a weak influencing factor enhancing economic growth in Nigeria.

Wrath of tax law (WTL) which showed positive coefficient value of 0.172 with economic growth implied that a unit increase in wrath of tax law could lead to increase in economic growth by over 17%. Wrath of tax law probability value of 0.000 was less than its critical probability value at 0.05 (5%) significance level, indicated that wrath of tax law (WTL) is statistically significant. The result showed that wrath of tax law has significant positive relationship with economic growth. By implication, wrath of tax law is a critical factor enhancing economic growth in Nigeria.

VI. CONCLUSION AND RECOMMENDATIONS

Tax remains crucial issue to nations whether developed or developing. Due to lapses in the tax laws individuals and corporate organizations may take advantage to avoid or evade tax. Tax avoidance and evasion could have implications on revenue generation for expenditure and consequently on economic growth. Tax avoidance and evasion have relation with economic deterrence theory of tax compliance. Taxpayer compliance definitely could enhance tax revenue for expenditure and consequently improve economic growth. This study showed that wrath of tax law; tax administration and tax education have positive relationship in curtailing issues of tax avoidance and evasion in Nigeria. By implication, tax administration, tax laws are critical factor enhancing tax avoidance and evasion reduction, while tax education is weak influencing factor but has positive relationship on tax avoidance and evasion reduction. Hence this study recommended as follows

✓ The manner taxes are imposed or administered by the tax authority should be clearly stated for the interest of the tax payers whether individuals, small scale business owners or corporate organization. Administration of tax should be issue of understanding between government authority in tax matters and the tax payers.

- ✓ Tax education or enlightenment campaign should be carried out from time to time. Tax payers should be well educated of he consequences of tax evasion and avoidance on government revenue for expenditure for the well being of the people.
- ✓ Wrath of tax law should be melted out on tax evaders and those caught in tax avoidance activities especially without taking cognizance of the loopholes in the law. Tax laws should be able to encourage compliance.

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