**THE EFFECTS OF TAX EVASION AND AVOIDANCE ON THE NIGERIAN ECONOMY**

**ABSTRACT**

This research project is a very crucial study on the effects on tax evasion and avoidance on Nigeria economy. To solve the research problem, both primary and secondary data were collected. The research instrument used in collecting the data was questionnaires and oral interview. Other forms of data collection were also consultation of relevant texts.

 In the conclusion of this research work, we can see that the problems of tax administration cannot be over looked that the government should as a matter of necessity provide the necessary facilities needed for administration of tax as well as employ more qualified tax officials.

**CHAPTER ONE**

 **INTRODUCTION**

 A well organized society, say a country or a state government owes some fundamental obligations to the people it governs. These obligations are in the forms of provisions of basic social amenities such good roads, health, security of lives and properties, shelter, good water etc.

 The citizens on there own part owe the government by making equitable contribution in the form of levy on tax. It is against these background that government levy taxes on its citizenry to pursue the above stated objectives it owns to the people.

 “Tax according to C. S. Ola is defined as:

“non punitive yet compulsory levy on the income and properties of individuals and organizations by government and which it does not account for, the proceeds from the levy on trade the government uses to pursue the accomplishment of some social, economic and political objective in the interest of it’s citizens”

 However, another school of thought maintain that though tax is non-punitive but compulsory an efforts should be made to pay as little possible with the frame work of the law thus engaging in legal tax evasion. Thus has led us on one of the most universal social malice effecting the proper administration of government at various levels.

 This tax evasion and avoidance which is the subject matter of this work. The acid rest of an efficient government is its ability to generate sufficient revenue to finance its enormous expenditure, and all things being equal tax should be in the forefront in government revenue generation, but on the contrary tax has always contributed miserly to government revenue. Undoubtedly there has been the after math of excessive tax evasion.

 Empirical evidence have shown that the unco-operative and unprogressive attitude of our citizenry towards tax payment result in major financial problems of government.

 Obviously it is an agreed fact, that payment of taxes is among the basic things needed for the survival of any society. In a State such as Enugu the need for an effective tax assessment and collection cannot be over-emphasized.

 The government is at a major transitory strategy her quest for industrialization and provision of amenities for her citizens.

 The hall mark of technological advancement, economic growth, social satisfaction, the people’s needs and value to the society center exclusively by within the ambit of taxation. Also the increasing impact government is making in Economic development is such that it requires substantial financial assistance from every individual in the society.

 This phenomenon therefore presupposes a qualitative and practical approach to a good system of base administration and collection. Admittedly, negative attitudes of the populace especially in the payment of tax have resulted in tax evasion and tax avoidance. Tax evasion is capable of pulling down a well organized government.

 Again on this background, it is the considered intention of the researcher to verify and ascertain to what extent tax evasion exist in Enugu State and its impact on the totally generated tax revenue.

**1.1 background of the study:**

 “A Tax is a compulsory exaction of money by a public authority for public purposes”.

 Taxation is raising money for the purpose of government by means of contribution from individual persons”, a tax signifies an exaction for the support of the government and the Supreme Court said of tax in Nicholas US Anaes that “the one power upon which the whole national fabric is based, it is necessary to the existence and property of a nation and is in the air he breathes for the natural men.

 It is not only the power to destroy; it is also the power to keep alive.

According to Eddy C. Ndekwu, in his book tax structure and administration in Nigeria “Increased tax was first introduced in Nigeria in 1904 by late Lord Lugard when tax became operative in the Northern Nigeria. At this time, taxes were paid in kind. The first ordinance on tax was in 1912 and this applied to both the Northern region in 1928. In 1929, 2 percent flat rate income tax was imposed for both salary and wage earner. This continued until 1939 when the Companies Income Tax Ordinance (CITO) was enacted. As a result of the lapses in (CITO) the Nigerian Income Tax Ordinance was enacted in 1940.

 In 1961, a major landmark was reached in tax development in Nigeria. Two tax laws were passed which transformed tax administration in Nigeria, they are:

1) Income Tax Management Act (ITMA)

2) Companies Income Tax Act (CITA) a petroleum profit ordinance was passed in 1959 for the purpose of regulating the taxation of companies engaged in petroleum exploration and mining in Nigeria.

 From then onwards, research work by various authors and experts have been done on Tax. It has to be observed here that a great deal of research done had concentrated on tax structure and administration. Not much effort was devoted to the crucial aspect of tax evasion and its attendant effects government revenue. Tax evasion involves a deliberate dishonesty on the part of a tax payer by failing to comply with duties of discourse to the Inland Revenue.

 Tax evasion is quite different from tax ordinance tax avoidance generally refers to a legitimate exploitation of tax legislation so as to pay less than is equitable. Some notable Nigerians have in the recent past attempted to address the issue of tax evasion. Ajibola .O. wrote in the Business Time of 1984 on “Decree to curb tax evaders Soon”. The write up critically analyses the negative effects of tax evasion and how it can be curbed.

 Again, in Business times of February 20th 1984, Oluruleke A.P. cried out that “Firms falsify Records to invade taxes another work, he called for tax returns in Nigeria – “Taxation in Nigeria, prospects for Reforms” and in his paper published daily times of September 21 1985, he listed the causes of tax evasion.

 Dr. C. S. Ola in his book “Income tax law for corporate and incorporated bodies in Nigeria, listed a number of cases where issues of tax avoidance were tried in law courts. It is nevertheless generally accepted by most people that a tax-payer is entitled to be astute to prevent so far as he honestly can, the depletion of his means by tax.

 Mezie F. was being practical when he said in debate US commission of Lajeation that “It is perhaps inevitable in an acquisitive society that taxation is regards as a burden from which those who are subject to it will seek to escape by any lawful means available”.

 Nevertheless a empirical evidence has shown that tax evaders or tax avoiders are mostly the minor illiterate elites who with all zeal try illegally and legally to circumvent the various tax laws. The social and economic consequence of this involves a high tax burden on the majority of the illiteracy in the society. Attempts were made by the IJM 1961 schedule 2 paragraphs to provide penalties for tax avoidance.

 In Enugu State, the finance law of Eastern Nigeria is applicable. These are provisions in No. 5 sections 35, 36 and 38 regarding penalties for offences in connection to tax evasion.

 According to Enugu State in Nigeria, Board of Internal Revenue Annual Report 1997 – 2002, the incidence of tax evasion which involves false declaration, impersonation, using frictions address, transfer of ownership of assets of Limited Liability Company are various ways and means people perpetrate tax evasion. From the investigations carried out, it was a starting revelation. All the segment of our society engages in tax evasion.

 The salary and wage earner continuously every year make false declaration on their assessment forms. From false basic salary, claiming to have children even when he is not yet married. Claiming for aged parents who are already dead all aimed at avoiding to pay the correct trade over ninety percent of the business man in his state pays nothing to the covers of the government in form of tax from the profit he made in business registered companies, converse with some assessment officers to declare low profit so as to pay less tax property tax rates entertainment tax pools and belting tax are completely evaded impunity in the State. The hot is endless.

**1.2 statement of the problem:**

 The problem therefore, is that the various taxes review by the government which may be (income rate, entertainment tax, road tax, pool belting tax, property tax act, value added tax) have not yielded enough revenue from projections made. This indicates therefore that tax contribute unimpressively to the government revenue.

 There is a growing realization that conditions within which the most modern equitable and flexible instrument of taxation work, do not yet prevail in the country. And most of the under developed countries of the world and that substantial modification of the fiscal techniques applicable in under-developed countries are necessary to adopt for the circumstances of the country. Our tax laws and administrative procedures have been very static and this proves ineffective with the result that government losses revenue that would have been collected as tax.

 Procedural approach to income tax administration ought to be dynamic in order to be responsible to changing devices through which tax payers evade and avoid tax.

**1.3 objectives of the study:**

 This research work aimed at achieving the following objectives:

a. To establish that there exist tax evasion and avoidance in Enugu State.

b. Exploring the causes of the tax evasion and avoidance.

c. Assessing the extent of its impact on total generated revenue from taxes.

d. Suggesting possible ways of abating of eradicating the practice of tax evasion and avoidance.

**1.4 RESEARCH QUESTION:**

 The following are the research questions:

1. What is the reason of citizens evading tax?

2. What is the effect of tax evasion on government projected revenue?

3. What is the punishment for tax evasion?

4. How does tax evasion affect the provision of basic amenities for the citizens?

5. Is there enough government machinery to check tax evasion?

**1.5 SCOPE OF THE STUDY:**

 This research work will try to review the effects which tax evasion has directly or indirectly on the revenue generation of Enugu State the circumstances that may have given credence to evasion of tax and the relevant machinery necessary to check it.

**1.7 A REVIEW OF TAX ADMINISTRATION IN NIGERIA:**

 Tax analysts have ascribed the problem of tax evasion and avoidance to the inadequacies inherent in our tax system. However before reviewing the administration in the State and it’s inherent problems, it will be pertinent to understand what Adam Smith enunciated as “Canons of a good tax system” Accordingly “Taxation should be equal” by which he meant proportionally to the tax payers income. There are three ways of collecting tax from individuals so that it falls equally. One is the per capital tax, in which everyone pays the same contribution, the proportioned tax in which everyone pays the same proportion of their income as tax.

 The progressive tax, in which the amount of tax is adjusted to fall most heavily on the rich, “which of these tax system gives the fairest tax?

 It must be judged not from the weight of burden in absolute terms, but relative to the utility to the tax payer of the income surrendered the per-capital income is unfair. The utility of income given up is very much greater for those in low income bracket.

 The proportional tax, which more often than not is applied indirectly tends to be regressive the progressive system is therefore the fairest system for direct taxation and this system has been adopted by most nations.

 “Tax should be arranged so that collection is convenient” taxes are invariably a burden at the time of payment even when the tax payer agrees they are just and equitable to collect them of the most convenient point reduces losses by non-payment and simplifies the whole process. The PAYE (pay as You Earn) system has achieved maximum convenience, tax is extracted from the pay packet before it is received and the employee pays it over to the tax department. Clearly this is painless extraction for the employee does not miss what he never has some employees have really no idea of what they pay in tax.

 “Taxes should be economic, that is productive of revenue”. Any tax which costs more than, it raises in revenue is clearly a waste of time of course taxation might be introduced for reasons other than causing revenue (for example to discourage and undesirable habit) for purposes of revenue taxes should be abandoned if it is un-economic.

 The compliance cost to the tax payer and the administrative cost to the government negatively affect output of tax collected. Though collection costs may be necessary they should be kept as low as possible as they are unproductive and do not make economic sense. A tax should be abandoned of the point where the marginal cost of collection becomes greater than the marginal revenue.

 “Taxes should be certain” A system of tax collection which is not certain will almost invariably cause discontent.

 The system should permit fair and non-arbitrary administration and should be understandable to the payers.

 The manner of payment the amount to be paid should all be clear to the payer so as non to be left at the mercy of tax collectors. Taxes should be impartial, complete impartiality is achieved by direct taxation if it is designed so as to be progressive, two citizens in the same situation as regards income should be equally taxed though impartiality is much more difficult when indirect taxes are imposed.

 A tax on hair dressing will not affect some people, the non smoker avoids tobacco duty and the hotelier avoids the alcohol tax. In many cases of on goods the incidence of the tax is on someone other than the person who consumes the goods. The impartiality achieved by progressive taxation is often called vertical equity.

 Horizontal equity by contract seek to ensure that two persons with the same income and the same commitments pay the same tax, but while this is fairly easy to achieve with direct taxation, it cannot be achieved with direct taxation, since two payers have different scale of preferences for goods and services.

 The tax structure permits the use of fiscal policy for stabilization and growth objectives. It should be able to direct and correct economics ills. The system should be sufficiently elastic so that the revenue from tax may be increased or decreased according to the requirements of the governments.

 The qualities of a good tax system mentioned above were not meant to obtain strictly as various objectives are not necessarily in agreement. For instance, a tax system which is design to achieve equity might end up distorting investment thus having negative effect on the general economy.

 In such a situation of conflict of objective, these have to be a trade off.

 Nigerian tax analysts have argued that to an unreasonable extensions tax system have to fall short of Adam Smith standard “Tax assessment and tax collection constitute a thorn in the taxing efforts of most developing countries including Nigeria”.

 One time director of Federal Board of Inland Revenue mentioned that “the present taxation system is completely faculty and two rapid to be used as an instrument of fiscal policy and it does not encourage industrial development and economic growth”?

 In his own contribution, Victor Eromosole a tax analyst opined “our tax laws need to review as a matter of urgency in order to make them relevant to the present day demands and circumstances. It is very doubtful; in spite of minor subsequent amendments – how relevant the Income Tax Management Act (IMTA) 1961 enacted barely a year after Independence could really be today – Indeed ITMA is so archaic that is fit for the archives.

 “Failing to fully incorporate the far reaching socio-economic developments over the past three decades in our tax laws is conspicuous omission, fines and financial figures contained in the act have almost been to make it appear ridiculous with inflation”.

 The irresponsible neglect in the tax system of the country makes the burden of taxation fall heavily on the majority of the poorer for instance the head tax may be necessary but not efficient. As a great number of our populace live in the rural areas to a great extent, they are subsistence farmers or seasonal labourers. So government encompassing head tax neglects the ability to pay principles. All subsistence farmers do not make the same income. Why they be taxed equally? Also in the cities majority are traders for this group, assessment and collection is not efficient. The amount to pay is not certain. Most of them do not pay tax commensurate with their income. Some do not even pay at all. Again the tax table does not give allowance for windfall projects, traders who lost money, farmers with negative harvest. Because level of collectivity is very poor government cannot predict revenue properly, this causes the whole budgetary process to flop.

 “The efficiency of any tax system is not just a matter of appropriate tax laws but also a function of the efficiency and integrity of its administration in almost all the States in Nigeria, the low revenue yield of taxation is attributable to the fact that tax provisions are not appropriately enforced either on account of inability to cope for reasons of inadequate manpower, lack of dedication by staff, lack of by-patriotism by tax payers or on account of outright dishonesty or corruption.

 Commenting on shortage of manpower and facilities in United Kingdom tax officials are referred to as “Her Majesty’s Inspectors of Taxes” thus demonstrating full backing and recognition of the importance of their work but the poor facilities and restricted prospects makes the job unattractive and therefore by denying tax administrative authority the quality and quantity of staff it needed.

 For effectiveness and efficiency, it requires a complement of staff trained in Public Administration, Accountancy, Economics, Social Sciences, Business Management and Computer Technology.

 A major problem of our tax our tax administration was pinpointed in a seminar by Ewugor as lack or education on the tax system. The denounced tax drive and that it should give way for tax education.

 According to him “Tax drive without tax education will amount to a double standard and is bound to fail its objectives”.

 The tax payers should be informed to imbibe the culture of good record keeping for especially those in business.

 Our tax system can only be said to have scored a pass mark with the public sector and organized private sectors. Pay As You Earn (PAYE).

1.8 PROBLEMS ASSOCIATED WITH TAX ADMINISTRATION MACHI:

 The Board of Internal Revenue, Enugu State with it’s headquarters in Enugu is the main tax administration machinery. It has at least one office in urban area in the State. Each local government office has a tax collector agent in each town.

 The Board equally has an office in Enugu State Liason Offices in Lagos and Abuja which collect taxes from employees under P.A.Y.E in the Laison Office as well as withholding tax on dividends to state residence.

 In spite of all these, there is still high rate of tax evasion; which is attributable to the problems of tax administration machinery.

THE INTERNAL PROBLEM;

 This could be regarded as operational shortcomings. Since it hinders carrying on efficiently the responsibility charged to them

This comprises of the following:-

a. Inadequate staffing

b. Inadequate supply of facilities and

c. Dishonesty among the tax assessors

a) Inadequate Staffing:

 The headquarters of the Board of Internal Revenue has two divisions and seven units, with four tax offices plus twelve sub-offices. The staff strength of all these offices and units were one hundred and fifty nine senior officials and six hundred and sixty-five officials giving a total of eight hundred and twenty four officers who are responsible for collection of taxes and other revenue in the whole of Enugu State. Most of the junior officials are not well educated to the extent that they find it difficult to apply tax laws. The skeletal numbers of experienced officers are mostly found in urban areas.

 These few are loaded with jobs as the available shaft is not sufficient. We are all aware that our tax laws; especially ITMA 1961 are still carbon copy of British tax laws with insignificant modifications. They are meant for developed countries which have experienced and have experienced and qualified tax officials that can interpret them and apply accordingly. The tax interacts and deals with influential; knowledgeable managing directors and business as well as academicians who are looking for any loophole to minimize of avoid tax liability. The lack of adequate experienced tax officials in Enugu State has created opportunity for tax evasion.

 Tax evaders can muddle their accounts up and even direct the ill-equipped half-baked junior tax officials on what he ought to pay. This results in loss of appropriate revenue that ought to come if properly assessed.

b) Inadequate Supply of Facilities:

 A visit to the headquarters Enugu tax office shows that offices lack facilities. They have not enough vehicles yet they go on tax drive, the offices are not well equip

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**THEORY OF TAXATION**

Several theories have been advanced from time to time for achieving the principles of justice in taxation. Eftekhari, (2009) noted that taxation has always been an issue for the government and tax payers alike from the early years of civilization. The issue of taxation has generated a lot of controversy and severe political conflicts over time. According to its importance, several economic theories have been generally classified under three different theories as given; Ability to pay principle, benefit approach and equal distribution. Some of the theories are given as follows:

**Ability-to-pay- Principle**: As the name suggests it says that the taxation should be levied according to an individual’s ability to pay. It says that public expenditure should come from “him that hath” instead of “him that hath not”. The principle originated from the sixteenth century, the ability-to-pay principle was scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean-Baptiste say (1767-1873). This is indeed the basis of “progressive tax” as the tax rate increase by the increase of the taxable amount. This principle is indeed the most equitable tax system, and has been widely used in industrialized economics.

 The usual and most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal benefit. However, there is no solid approach for the measurement of the equity of sacrifice in this theory as it can be measured in absolute, proportional or marginal terms.

**BENEFIT RECEIVED THEORY**

According to the benefits principle of taxation, the burden of taxation should be divided among the people in proportion to the benefits received from the state. The benefit principle is very much similar to the cost of service principle. Here also, the government acts just like a businessman. People pay to the businessman according to the amount of commodities purchased from him. Similarly, they should pay the government according to the goods and services received. The person receiving equal benefits from the state should pay equal amount of taxes, and those who receive greater benefits should pay more as taxes than those getting less benefits. The benefit approach to taxation was accepted widely among the political theoreticians of seventeenth century. Taxation as a price for services rendered seemed to be a natural complement to the contract theory of state. But throughout, the notion of control benefit remained the basis of organized society, and protection appeared as a major objective of contract. Taxes accordingly were considered as a price to be paid for protection to life and property by the members of the organized society.

**TAXATION**

The concept of taxation has been a concern of global significance as it affects every economy irrespective of national differences (Oboh, 2012). Tax is a compulsory charge imposed by a public authority on the income of individuals and companies as stipulated by the government decrees, acts or cases laws irrespective of the exact amount of services rendered to the payer in return (Omotoso, 2001). Tax is a compulsory levy imposed by an organization or Government on its member citizens, for the sole purpose of providing common goods and services for the benefit of all members” (Ekenze, 2013). Tax is designed to raise revenue required for the expenditure authorized in a government budget expectation. It is also a veritable instrument of promoting social and economic justice and equality amongst citizens of a state or members of an organization. Tax is not a voluntary payment; it is a compulsory pecuniary burden placed upon the subjects of a given country to support the people.

**TAX AVOIDANCE**

 Tax avoidance may simply be defined as the reduction or minimization of a person’s tax liability by carefully arranging one’s affairs in such a way as to take advantage of loopholes in the tax law provisions, it is the intentional act of a tax payer to pay less than what he ought to pay to the tax authority. It is legal. In the course of examining the attitude of the courts and the legislature towards tax avoidance professor wheat craft observed that “tax avoidance is an art of winning games without actually cheating; thereby beating the internal revenue and the Government to their own game”. Similarly in Ire v. Duke of Westminster, Lord Tomlin observed in respect of tax avoidance that: “Everyman is entitled, if he can, to order his affairs so that the tax attaching under the appropriate act is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, of Inland Revenue or his fellow tax payers may be of his ingenuity, he cannot be compelled to pay an increased tax”.

 Aim and Martinez (2001) noted that, tax avoidance is a legal reduction in tax liabilities by practices that take full advantage of the tax code, such as income splitting, postponement of taxes and tax arbitrage across incomes that face different treatments (Aim and Martinez, 2001, Eboziegbe, 2007). Tax avoidance includes not only the use of strategies that allow for the search of strategies to exploit deficiencies or ambiguities in the law (Known as aggressive tax planning strategies).

Tax avoidance arises in a situation where the taxpayer arranges his financial affairs in a way that would make him pay the least possible amount of tax without infringing the legal rules. In short it is a term used to denote those various devices which have been adopted with the aim of saving tax and thus sheltering the taxpayers’ income from greater liability which would have been otherwise incurred (Kiabel, 2001). Adebisi and Gbegi (2013) quota how Ani (1978) had described tax avoidance as follows: the taxpayers knowing what the law is decide not to be caught by it; arranges his business in such a manner as to escape tax liability partially or entirely. It is a lawful trick or manipulation to evade the payment of tax. The meaning of tax avoidance is vividly captured in the case involving Ayrshire pullmn motor services and David M. Ritchin vs. Commissioner of Inland Revenue when the Lord president Lord Clyde held that: No man in this country is under the smallest obligation, moral or otherwise so to arrange his legal relations to his business or to his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shoved into his stores. The Inland Revenue is not slow and quite rightly to take every advantage, which is open to it under the taxing statutes for the purpose of depleting the taxpayer’s pocket and the taxpayer is in like manner entitled to be astute to prevent so far as he honestly can the depletion of his means by the Revenue.

Tax avoidance means legally reducing one’s tax liability and it’s another term for tax planning. Tax planning describes the techniques which tax payer minimizes or escape tax liability. The tax payer seeks to take full advantage of all exemptions, deduction, concessions, rebates, allowances and other tax relies or benefits permitted by law. Tax avoidance is an attempt to escape the liability by circumventing the law, not by breaking it (Anyafa, 1938). Tax avoidance is a legal ways by which a tax payer reduces his tax liabilities. Tax liability by the tax payer or his agent by efficient tax planning. It is possible by fully complying with the tax laws and meeting tax liabilities. Thus tax avoidance takes the advantages of the loopholes in the existence fiscal laws. The avoider is just smart tax payer who exploits loopholes in the tax laws (and related laws) to reduce tax liability (Ezeanyeji, 2015). Thus, it is clear that tax avoidance is legal or at least not illegal since is mostly probably using the tax laws to limit his tax liability under the same laws. Examples of tax avoidance include;

i. Seeking professional advice; ii. Reducing one’s income by submitting claims

iii. Increasing the number of one’s children (in Nigeria the maximum allowance is four); iv. Taking addition life assurance policies. Tax avoidance is thus considered to be a matter of being sensible.

Therefore; irrespective of the generally held opinion that tax avoidance is unpatriotic and anti-social, it is clear that it is not a moral or legal issue unless the legislature expressly prohibits it. No doubt, tax evasion and avoidance had robbed the Nigerian government or substantial tax revenue. According to the Nigeria Stock Exchange, 85 percent of corporate tax revenue in the country accrues from the 196 companies listed on the exchange compared on the 30, 000 companies registered with corporate Affairs Commission. This is a serious indictment of the administrative machinery and capacity of the tax authorities in Nigeria.

 Tax avoidance is an act of doing everything possible within the confines of the tax law to reduce the tax paid. It implies an arrangement of tax payer’s affairs using the tax shelters in the tax law, and avoiding tax traps in the tax laws to enable him pay less than he ought to pay. The tax payer takes advantages of loopholes in tax laws and reduces the normal tax he supposes to pay. Tax avoidance can take any he supposed to pay. Tax avoidance can take any of the following forms:

• Incorporating the tax payers’ sole proprietor or partnership into a limited liability company.

• The ability to claim allowances and reliefs that are available in tax laws in other to reduce the amount of income or profit to be subjected to tax.

• Minimizing the incidence of high taxation by acquiring a business which has sustained heavy loss and set off the loss against future profit.

• Investing in capital assets (through new form corporate financing by equipment leading). Also through capital allowances as it minimizes tax liability.

• Sheltering part of the company’s taxable income from income tax by capitalizing profit through the issue of bonus shares to the existing members at the (deductible) expenses to the company.

• Creation of a trust settlement for the benefit of children or other relation in order to manipulate the martinet tax rate such that a high income bracket tax payer reduces his tax liability.

• Buying on article manufactured in Nigeria thereby avoiding import duty on importation articles.

**CAUSES OF TAX EVASION AND AVOIDANCE IN NIGERIA**

There are many causes for tax avoidance. In order to develop methods and instruments for fighting tax avoidance it is very much important to establish a broad understanding of the different causes underlying these problems. They are;

**High Rates of Taxation:** The prevailing high rates of taxation are one of the main causes of evasion and avoidance. The high tax rates in the top income brackets are said to be tolerated only because, considerable evasion take place there. But the tax rates by themselves are not to be blamed for the large extent of the evasion in any country for even if the rates are reduced, evasion will still continue, because it exists at all levels of income.

**Complexity in Tax Laws**: The complicated provisions of the Direct Taxes Acts, not all of which are easily intelligible were also stated to be responsible to some extent, for tax avoidance as well as evasion. The average tax-payer has inevitably to seek the assistance of tax experts and their advice is not always disinterested but to help the tax-payer for evasion and avoidance.

Shortage of Experienced Personnel: Another reason for avoidance is said to be the dearth of experienced personnel in the department. It is, therefore, necessary to have in the department sufficient numbers of trained and experienced personnel to cope with the current as well as arrear load of assessment and investigation work. Simultaneously, the organization and procedures of the department should be imposed so as to bring it with highest pitch of efficiency.

**Moral and Psychological Factors**: Certain moral and psychological factors have also been pointed out as responsible for tax avoidance in various countries. Unfortunately, all citizens do not realize their duties to the state and the necessity of paying the correct among of taxes and paying them in time. Only a reformed moral outlook and the development of better civic conscience can improve matters in this respect.

**Attitude of Income-Tax Department**: It should also be agreed that income-tax department is no less responsible for the present state of affairs. It has been said and not unjustifiably, that even when the assesses returns are correct in respect of income, wealth etc. and produce evidence in support, the assessing officers do not always accept them. Because of this attitude of the department, it is said that assesses, sometimes under state their income and wealth, etc., in returns. This mutual distrust between the assessing officers and the tax- payers also encourage, to some extent, tax evasion, which should be broken. For this purpose, the administration has to take initiative and trust the assesses and conduct itself with a high sense of justice and fair play.

Officers of the Department should be men of Integrity: It has also been said that lack of integrity in some of the officers of the department is partly responsible for tax avoidance. It should be stressed that “Not only should the department officials be honest but they must also be above suspicion and should so conduct themselves in their private as well as official life that no wrong motives could be attributed to any of their actions.”

**Political Vendetta**: People avoid tax if they are being oppressed by the party in power. Sometimes, the political party in power may witch-hunt their opponents by imposing heavy taxation on their business interests or personal income tax. This leaves the opponent with no other option than to evade the tax. Sometimes also, the opponent may refuse to pay income tax if the party in power is not favorable to him or he does not support that government (Appah, 2004).

**EFFECTS OF TAX AVOIDANCE ON ECONOMIC GROWTH AND DEVELOPMENT**

Tax evasion and avoidance have adverse effect on government revenue. Tax avoidance generates investment distortion in the form of the purchase of assets exempted from tax or under-valued for tax purposes. Avoidance takes the form of investment in arts collection, emigration of persons and capital. And as observed by Toby (2003) the tax payer indulges in evasion by resorting to various practices. These practices erode moral values and build up inflationary pressures. This point can be buttressed with the fact that because of the evasion of tax, individuals and companies have a lot of money at their disposal. Companies declare higher dividends and individuals have a high take home profit. This increase the quantity of money in circulation but without a corresponding increase in the goods and services. This then build up what is known as inflationary trends where large money chases few goods.

1. Tax evasion and tax avoidance hamper the social welfare. It obliges the government to borrow loan that effects the economic development.

2. Economic growth is co-related with budget and large budget helps to accelerate economic development of a country. But due to tax evasion and avoidance, a huge amount of revenue is not collected. As a result the government has to short-out the budget.

3. In capitalist mixed economy, private sector is supposed to play vital role in investment and development. But sometimes direct investment by governments is necessary. Due to tax evasion and tax avoidance the government cannot supply the expected fund for investment.

4. The government has to take various plans for economic development. But due to lack of fund, the plan cannot be implemented. If the people would not evade tax, the government could implement the plans as they would have enough resources with them for their purpose.

5. The government needs fund to create employment opportunities to its citizen. But due to tax evasion and tax avoidance, the government cannot ensure the employment opportunity due to paucity of funds.

6. It also hampers structural development such as roads bridges, transportation, industrial development etc.

7. Development expenses fall due to tax evasion and tax avoidance. It affects the distribution function of wealth of the government and adversely affects the economic development of a country.

From the above discussion it is clear to us that tax evasion and tax avoidance affect the economic development of a country severely, because a large part of the government income is collected by tax revenue (Appah, 2010).

**METHOD OF CHECKING AVOIDANCE AND EVASION**

The methods that could be adopted for combating avoidance are different from those required for eliminating evasion. Avoidance could be checked only by plugging the loopholes in the law and by careful drafting of all new legislations.

1. Reduction in Tax Rates: It has been pointed out that prevalence of high tax rates is the first and foremost reason for tax evasion in any country. This makes the tax evasion profitable and attractive in spite of the attendant risks. The high rates of taxation create a psychological barrier to greater effort, and undermine the capacity and will to save and invest. Hence, it is suggested that there should be reduction in the present tax rates.

2. It is also suggested that there should be minimization of controls and licenses in the economy. To this end, a committee of experts should be appointed to enquire into the utility of existing controls, licensing and permit systems and suggest elimination of some of these as they are no longer considered necessary.

3. It is also suggested that there should be regulation of donations to political parties. However, it is suggested that reasonable grants-in-aid should be given to political parties and the accounts of political parties should be audited and published annually.

4. The practice of being too meticulous in small cases, where no worthwhile revenue is involved, has done much to damage the image of the department in the public eye. It is therefore suggested that confidence be created among small tax payers. It means that the small tax payers should not be harassed unnecessarily.

5. Changes in penal provisions: Penalty serves its purpose only so long as it is within reasonable limit. A penalty based on income instead of tax highs the smaller tax-payer harshly. Hence, it is suggested that there should be changes in the penal provisions in different countries. It is also recommended that the minimum penalty impossible for concealment of income should be the amount of tax sought to be evaded and the maximum penalty impossible should be fixed at twice the said amount.

6. Public opinion: It is suggested that public conscience is to be aroused against tax evasion and the evaders should be ostracized by the society. But it is possible only when the public is convinced that tax evasion is anti-social.

7. Vigorous Prosecution: It is also suggested that the department should completely re-orient itself to a more vigorous prosecution itself to a more vigorous prosecution policy in order to instill a wholesome respect for the tax laws in the minds of the tax-payer. Further, where there is a reasonable chance for securing a conviction, the tax dodger should in variably be prosecuted.

8. Arousing Public Conscience: A special drive should be undertaken to arouse public conscience by enlisting the co-operations of leaders in the various walks of life by (Ezeanyeji, 2015).

CHAPTER THREE

# METHODOLOGY

The researcher adopts survey research design while carrying out the study. This study used secondary sources of data collection. For an in depth analysis of the issue involved in the effects of tax avoidance and evasion on economic growth and development in Nigeria. The researcher carried out a survey which is aimed at revenue generation. In this study mixed methods of research design (both quantitative and qualitative methods) will be used by mixing both quantitative and qualitative data in a single study (Germils and Airasn, 2006, 489). The quantitative method makes it possible to effectively utilize a large sample size that would produce statistical data with an improved ability to generatlize such across the country.

# POPULATION OF THE STUDY

The focus of this research work is on the eligible individual taxpayers and organizations in the society. This includes workers in both the formal and informal sector. Those in the formal sectors are all civil servants and or officers with their different salary level and proportionate tax rates e.g. the police, teachers, doctors, soldiers, all the ministries workers whether at the federal, state or local government level. The informal sector forms a larger percentage of the working or taxable population of Nigeria. Put simply they dominate the economy of Nigeria. They include all the self-employed and their employees and or agents.

Survey method has the advantages of collecting a large volume of data from a very large population at a relatively low cost. Volumes of data can easily be generated and analysed to give result that can represent the population of study. This makes the use of this method most appropriate in this study.

# SAMPLE SIZE

The study adopts the judgmental sampling whereby selection is based on individual taxpayers and corporate organization. It is most appropriate or preferred by the researcher. They are preferred by the researcher because data on them are readily available and they are the most popular sources of revenue to the Government. This study covered both self-employed and salary earners for the period of 2006-2016.

**DESCRIPTION OF MODEL VARIABLES**

# HYPOTHESIS I

Ho: There is no significant relationship between tax avoidance and economic growth in Nigeria

Hi: There is significant relationship between tax avoidance and economic growth in Nigeria

These are expressed in the following mode:

 GDP = βo + βTEA - - - - - model for object 1

Where GDP represents economic growth. It is the dependent variable while TEA represents Tax avoidance. It is the independent variable.

βo is constant while BTEA represents rate of change in βTEA

# HYPOTHESIS 2

 Ho: Tax avoidance has no significant positive effect on economic growth in Nigeria

 H3: Tax avoidance has a significant positive effect on economic growth in Nigeria

 GSP = βo +βoTE - - - - - model objective 2

Where GDP represent economic growth. It is the dependent variable while βTE represent tax evasion. It is the independent variable. βo is a constant

βTE represent rate of change

# TECHNIQUES OF DATA ANALYSES

In analyzing the data gathered regressions model was employed to establish the relationship between dependent and independent variables. The study made use of economy approach in estimating the relationship between tax avoidance with economic growth and development in Nigeria. The ordinary least square (OLS) techniques were employed in obtaining the numerical estimates of the co-efficient in different equation. The ordinary least square method was chosen because it possesses some optimal properties. Its computational procedure is fairly simple and it possesses the BLUE property.

**CHAPTER FOUR**

**DATA ANALYSIS, RESULTS AND DISCUSSION**

# HYPOTHESIS ONE

Objective: To ascertain the relationship between Tax avoidance on economic growth and development in Nigeria

**Ho:** There is no significant relationship between economic growth and Tax evasion and tax avoidance in Nigeria

 **Correlations**

|  |  |  |  |
| --- | --- | --- | --- |
|   |  | GDP  |  Avoided Tax Revenue  |
| GDP  | Pearson Correlation  | 1  | .902\*\*  |
| Sig. (2-tailed)  |   | .000  |
| N  | 11  | 11  |
| Avoided Tax Revenue  | Pearson Correlation  | .902\*\*  | 1  |
| Sig. (2-tailed) N  | .000  |   |
| 11  | 11  |

 \*\*. Correlation is significant at the 0.01 level (2-tailed).

From the correlation table, we see that our correlation coefficient of 0.902 which is greater than 0.3 shows there is a significant relationship between tax avoidance and economic growth measured in GDP. To visualize this, we use a scatter plot



The scatter plot graph also shows that tax avoidance has a significant relationship with economic growth as indicated by the scattered dots.

# TEST OF HYPOTHESIS

To test the hypothesis, our p value of 0.000 is less than 0.01 therefore; we reject the null hypothesis and accept the alternative hypothesis.

# Objective: To determine the effect of Tax evasion and avoidance on economic growth Ho: Tax avoidance has no significant positive effect on economic growth

# Model Summary

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model  | R  |  | R Square  | Adjusted R Square  | Std. Error of the Estimate  |
| 1 |   | .302a | .091 | -.010 |  3.11613 |

a. Predictors: (Constant), Evaded and Avoided Tax Revenue

# ANOVAa

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Model  | Sum of Squares  | df  |  | Mean Square  | F  |  | Sig.  |  |
| 1 Regression Residual Total  | 8.773 |  | 1 |  8.773 |   | .903 |     | .367b |
| 87.393 |  | 9 |  9.710 |   |  |
| 96.166 |  | 10 |   |   |  |

1. Dependent Variable: Growth Rate
2. Predictors: (Constant), Avoided Tax Revenue

# Coefficientsa

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model  | Unstandardized Coefficients  | Standardized Coefficients  |  t | Sig. |
| B |  Std. Error |  Beta |
| 1 (Constant) Avoided Tax Revenue  | 8.545 |  4.489 |   |  1.904 | .089 |
| -1.630E-6 |  .000 |  -.302 |  -.951 | .367 |

a. Dependent Variable: Growth Rate

Result from our regression analysis shows that the Co-efficient of Correlation (R) value of 0.302 means that the strength of the effect of tax avoidance has on economic growth is 30.2% percent.

Column number three is named 'R Square' also called Co-efficient of Determination or (R2). The value given under it measures the extent or degree to which changes in Avoided Tax Revenue can be relied on to explain the changes in Economic growth. The value of 'R Square, (R2) value of .091 means that changes or flow of tax avoidance can only explain 9.1 percent of the changes in economic growth.

# TEST OF HYPOTHESIS

Since our p value (0.367) is greater than 0.01 we can conclude that tax avoidance has no significant positive effect on economic growth. We therefore accept the null hypothesis while rejecting the alternative hypothesis.

# CHAPTER FIVE

**CONCLUSION AND RECOMMENDATIONS**

# CONCLUSION

The study investigated the effect of tax evasion and avoidance on economic growth and development in Nigeria. Based on the result of the study, it was found that tax avoidance is still midcentury with low tax system in Nigeria. There exist positive relationship between tax evasion and avoidance and economic growth.

# RECOMMENDATIONS

In respect to the results of this research work, the following recommendations were therefore made:

1. The federal government should have well equipped data base on all taxpayers in federal, state and local government in Nigeria.
2. The federal government should set up a federal revenue court to look into cases of tax avoidance and evasion. Also the government should ensure that jurisdictions of those courts are extended to states and local governments, offender should also receive prompt prosecution of tax evaders.
3. The federal government should ensure that tax officials are constantly trained on the job, and should embark on aggressive public enlightenment campaign on tax.
4. The federal government should embark on continuous tax education as well as in religious gatherings in federal, state and local governments in Nigeria
5. The federal government should sensitize the general public on the issues of tax evasion and avoidance in our system in order to improve revenue generation for economic growth and development in Nigeria.

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