

**IMPACT OF TAX EVASION AND TAX AVOIDANCE ON TAX REVENUE
GENERATION IN NIGERIA**



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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF
BENIN, BENIN CITY, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR
THE AWARD OF BACHELOR OF SCIENCE (B.SC) DEGREE IN TAXATION.**

MARCH, 2025

DECLARATION

I hereby declare that:

This project work is based on a study undertaken by me in the Department of Accounting, University of Benin under the supervision of Prof. OFIAFOH EIYA.

This research work has not been previously submitted for the award of degree elsewhere.

All ideas and views are products of my personal research and where the views of others have been used and expressed, they were duly acknowledged.

ADA FAVOUR UYIOSA
(DECLARANT)

Date

CERTIFICATION

We certify that this research work was carried out by **ADA FAVOUR UYIOSA** with matriculation number **MGS2007528** in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirements for the award of Bachelor of Science (BSc.) degree in Accounting.

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DEDICATION

I humbly dedicate this project work to my ever supportive family and amazing parents for their unwavering show of love, commitment and efforts to enable me successfully complete this project.

And above all, to GOD ALMIGHTY for His infinite wisdom, direction and help to accomplish this project.

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ABSTRACT

The primary aim of this research was to assess the impact of tax evasion and tax avoidance on revenue generation in Nigeria. The study examines the relationship between tax evasion, tax avoidance, total revenue generation and the Nigerian economy. The research design adopted in this study was the survey research design; primary data were collected through the use of questionnaire. Secondary data was also supplemented with primary data.

The findings revealed that a significant relationship exists between tax evasion/avoidance and their contributing factors. It was also found that tax evasion and tax avoidance have a significant impact on revenue generation in Nigeria. The study therefore recommends, that the tax authorities should properly review and improve their assessment and collection procedures. It was also recommended that the tax authority's audit unit should be made stronger to regularly check and verify the tax payments collected by officials at all levels.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The concept of taxation is a key issue that impacts all economies around the world, regardless of their national differences (Oboh et al., 2012). Nigeria did not have a formal tax policy until the 1930s. At that time, only traditional rulers could collect taxes and use the funds as they wished, creating their own tax systems. However, these rulers were not historically significant. It wasn't until 1958 that the Raisman Fiscal Commission proposed establishing consistent tax principles or fundamental income tax principles for the country, which the National government later approved and accepted. These principles were incorporated into the Nigerian constitution. Although, there have been periodic reviews and revisions, the concepts from the 1961 Companies Income Tax Act and the 1961 Income Management Act still apply today. It can be said that taxation is a crucial part of Nigeria's history, as it has been key to its development throughout its history. Taxation has played an important role in Nigeria's history and development evolving into the system we see now (Harlem, 2023).

Taxation can be defined as the system of imposing a compulsory levy on all income, goods, services and properties of individuals, partnership, trustees, executorships and companies by the government (Samuel and Simon, 2011; Yunusa, 2023).

The government uses tax revenue to perform its essential roles, such as maintaining law and order, defending the nation, regulating trade and business, promoting social and economic fairness, and reducing income inequality among citizens. Additionally, taxes serves a fiscal weapon to direct the economy and attract foreign investment (Abdulrazaq, M.T 1993).

Recent changes in both the global and local economies have greatly affected governments revenue, leading to an increased focus on taxation as a reliable source of income (FIRS, 2009). The National Tax Policy aims to raise awareness about how important taxation is for ensuring a steady flow of revenue for the government. Currently, Nigeria is seen as a mono-product economy that heavily depends on oil revenue, a situation rooted in the country's historical economic development (FGN, 2009).

Nigeria's economy was heavily dependent on oil revenue from the 1970s to the 1980s, with taxation being overlooked as a reliable source of income. But when oil prices dropped in 2014, the country faced severe financial strain. To avoid bankruptcy, governments started seeking alternative revenue streams, prioritizing internally generated revenue to support their operations. Nigerian's reliance on oil revenue has often overshadowed the need for a robust tax system. The revenue accruing to the Federal Government of Nigeria from oil has not been enough to cover Nigeria's growing expenditures for social and public services, which are crucial for economic growth. When the crude oil crashed in world market, Nigeria had to look for alternative revenue sources. Taxation became a key focus area to generate revenue and mitigate the impact of declining oil prices. As global oil prices fluctuate, the government increasingly

needs to diversify its revenue sources through taxes, particularly corporate tax and this has become a matter of urgency and importance (Kiabel, 2009).

Anguolu (2004) states that while taxation may not be the largest source of revenue for the government in terms of total revenue generated, it remains the most important source due to its certainty and consistency.

However, one of the biggest challenges facing the Nigerian tax system, as well as in Africa, is tax evasion and tax avoidance. Tax evasion is the illegal act of deliberately evading taxes by falsely reporting income, exaggerating expenses or hiding assets to lower tax liability. In contrast, tax avoidance involves taking advantage of legal loopholes and using aggressive tax planning strategies to reduce tax responsibilities. Tax evasion and tax avoidance are key fundamental problems of tax administration in a developing country like Nigeria and have been found to have adverse effects on government revenue.

Despite the emphasis on the importance of taxation and effort to make it more efficient, many citizens still prefer not to adhere. People often seek ways - both legal and illegal to lower or avoid their tax payments. This leads to significant revenue losses for government, making it harder for them to fulfil their responsibilities. By curbing tax evasion and avoidance, Nigeria can enhance its revenue generation capacity, promote economic growth and improve the well-being of citizens.

By assessing the impact of tax evasion and tax avoidance on revenue generation in Nigeria, the research seeks to provide insights for policymakers to design effective tax reforms that promote compliance, equity and sustainable development.

1.2 Statement of the Research Problem

Taxation played a vital role as one of the major sources of revenue to federal, state and local governments not only in Nigeria but the world as a whole. In Nigeria, tax evasion and avoidance pose serious challenges to economic growth. Despite initiatives aimed at increasing tax compliance and revenue, many individuals and businesses still participate in activities that compromise the tax system's integrity. As a result, government revenue declines, which negatively impacts the funding available for vital services such as education, healthcare and infrastructure. People often try to lower their tax liabilities by deliberately overstating their expenses and making false entries in their financial records. As a result, these actions lead to a major decline in the revenue accruable to the government, ultimately reducing the revenue available in the treasury of government. Several factors contribute to this behaviour, including the insufficiencies and complexities of tax laws, taxpayers exploiting loopholes in the tax laws, high tax rates, a general lack of civic responsibility among the taxpayers, and inefficient and ineffective tax administration. Ogunleye, E.O (2019) highlighted that that poor tax administration has led to significant revenue losses in Nigeria.

This negative attitudes persist today with taxpayers finding new ways to evade tax authorities. Such disregard for taxation is unpatriotic, especially considering the important role taxes play in the economy. It is undeniable that governments rely heavily on taxes not only for economic growth but also to help reduce wealth inequalities in society. During Nigeria's recession, a drop in overall revenue is one of the factors contributing to the economic downturn. Taxation is a major source of government revenue and it can be greatly impacted by tax evasion and tax avoidance. The decline in Nigeria's economy can be linked to the government's inability to reach its full tax potential (Madugba et Al., 2013).

Anguolu (2004) mentioned that while taxation might not generate the largest amount of revenue for the government, it is still the most important source due to its reliability and consistency. The revenue authorities struggles to collect substantial amount of taxes due to tax evasion and tax avoidance. This research examines the challenges facing the revenue board in collecting taxes and aiming to identify strategies to reduce or eliminate tax evasion and avoidance in Nigeria.

1.3 Research Questions

The research question offers a framework and guidelines that facilitate a deeper understanding of the study. This study is set out to address the following questions.

1. What are the factors that contribute to tax evasion and tax avoidance in Nigeria?

2. To what extent has tax evasion and tax avoidance impact negatively on revenue generation in Nigeria?
3. How effective are the existing tax policies in Nigeria in preventing tax evasion and tax avoidance?
4. What strategies can be implemented to reduce tax evasion and tax avoidance in Nigeria?

1.4 Objectives of the Study

The main objective of this study is to assess the impact of tax evasion and tax avoidance on revenue generation in Nigeria. The specific objectives include the following:

1. To identify the factors contributing to tax evasion and tax avoidance in Nigeria.
2. To ascertain the extent of tax evasion and tax avoidance on revenue generation in Nigeria.
3. To evaluate the effectiveness of existing policies against tax evasion and tax avoidance in Nigeria.
4. To identify strategies to reduce tax evasion and tax avoidance in Nigeria.

1.5 Research Hypotheses

To aid this research work, the following hypotheses are stated in null form.

HO1: Tax evasion and tax avoidance are not influenced by significant factors in Nigeria.

HO2: Tax evasion and tax avoidance do not have a significant impact on revenue generation in Nigeria.

HO3: There is no significant effect of existing policies against tax evasion and tax avoidance in Nigeria.

HO4: There is no significant effect of strategies aimed at reducing tax evasion and tax avoidance in Nigeria.

1.6 Scope of the Study

This study focuses on examining the challenges by the revenue authorities in Nigeria regarding tax collection. In achieving this, the study will analyze data from the past ten (10) years to assess the current state and get a clear picture of recent trends in tax revenue generation. Furthermore, survey questionnaire would be distributed to taxpayers, tax officials and relevant stakeholders within the Nigerian tax system.

1.7 Significance of the study

This research work would be relevant to various tax authorities; The Federal Board of Inland Revenue, Local Government Revenue Committee, as well as their tax officials who are responsible to collect tax on individual or corporate bodies. It gives them insights on how to improve the tax administration. The research will cover the general investigation of problem of tax evasion and tax avoidance and their impact on revenue generation. The importance of the

research is that it will supply the facts about the issue of tax evasion and avoidance, also prove the impact on revenue generation. It will as well profer and recommend strategies, as the government have lost considerable fortunes to the evaders.

Furthermore, this study seeks to enlighten taxpayers on the use of revenue collected, this is because there is a general consensus among the taxpayers that the amount collected as tax is not commensurate with amenities government claims to use the money to provide.

This research work shows the measures put in place for collection of taxes are not enough and there are not strict punishment for tax evaders. In conclusion, the study will make recommendations on how to improve their tax collection by eradicating or at least reducing the rate of tax evasion and avoidance.

1.8 Organization of the Study

This thesis is divided into five chapters. Chapter one; the introduction, consists of the research problem, research questions, objectives and hypotheses. It also includes the significance, scope and organization of the study. Chapter two looks at the conceptual frameworks upon which the research is based upon. Secondly, the theoretical literature from which the framework of reference for this study was adopted was of the study was presented as well as the relevant empirical literatures were reviewed as well as gap in literature. Chapter three details the research methodology employed in this study and outlines the empirical research

methods used. Chapter four presents the findings of the study along with their discussion. Finally, chapter five provides a summary of findings, recommendation and conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

To effectively tackle tax evasion and tax avoidance, Nigeria needs a comprehensive approach that promotes fiscal transparency, improved tax fairness, encourages voluntary compliance, and reduce corruption. Fundamental reforms to tax policies, revenue institutions and overall governance are crucial to addressing this ongoing issue that drains public resources (Dekker, 2020). In order to give answers to the research questions, necessary literatures will be reviewed in order to help us arrive at a solid base for answering the research questions relating to the concepts and help in taking better decisions as it bothers these concepts.

2.2 Conceptual Review

2.2.1 Taxation in Nigeria

Taxation in Nigeria is implemented by the three levels of government: federal, state, and local. Each level has specific responsibilities outlined in the Taxes and Levies (Approved List for Collection) Law of 1998. However, Nigeria primarily operates a centralized revenue collection system, where the federal government collects most major revenues, including petroleum revenue, company income tax, value-added tax, and customs duties, on behalf of all governments (Emmanuel, 2010). Taxation is crucial for every nation, and a country's level of development often depends on the revenue generated through taxes.

The Nigerian tax system consists of tax policy, tax laws, and tax administration, all of which need to work together to achieve the country's economic goals. According to the Presidential Committee on National Tax Policy (2008), the main aim of the tax system is to improve the well-being of all Nigerians by enhancing policy formulation and appropriately using tax revenue for public benefit.

To meet this goal, the tax system should minimize economic distortions. Other objectives outlined by the Committee include encouraging economic growth and development, generating stable revenue for government projects, providing economic stability, ensuring fairness and equity, and addressing market failures and imperfections.

As oil revenue declines, governments worldwide are shifting their focus to taxation as a sustainable alternative. In Nigeria, tax revenue has become increasingly crucial, accounting for a significant portion of the country's income.

It was noted at the 2022 National Tax Dialogue that, in 2021, the total revenue generated by all revenue agencies in Nigeria was ₦803.072 billion, with the Federal Inland Revenue Service (FIRS) contributing a substantial ₦513.522 billion, representing 63.94% of the total revenue.¹ Non-tax revenue accounted for ₦289.55 billion, making up 36.06% of the total revenue.

Tax revenue contributed an average of 59.45% to the Federation Account Allocation Committee (FAAC) in 2021. This surge in tax revenue can be attributed to the growth in Value Added Tax (VAT) and Company Income Tax (CIT) collections. For instance, VAT collections

increased by 52.93% in Q1 2021, 56.56% in Q2 2021, and 17.84% in Q3 2021, compared to the corresponding quarters of the previous year.

Nigeria's tax-to-GDP ratio also rose to 10.86% by the end of 2021, indicating a significant improvement in tax revenue generation. As the government continues to explore alternative revenue sources, taxation is likely to play an increasingly vital role in Nigeria's economic development.

2.2.2 Tax Evasion

Tax evasion is the intentional and illegal act of avoiding tax obligations by under-reporting income, inflating deductions, or engaging in other fraudulent activities to lower tax payments (Wenzel, 2002; Illahi & Sumari, 2022; Reck & Bomare, 2022; Wijerathna & Perera, 2019). Tax evasion can take different forms, including falsifying documents, hiding income or assets, and using complex schemes to exploit the tax system.

Several factors influence how taxpayers perceive tax evasion, including tax knowledge, tax morale, the tax system, tax fairness, and compliance costs (Rantelangi & Majid, 2018; Majid et al., 2018).

- **Tax Knowledge:** This refers to how well taxpayers understand tax laws and regulations, which affects their views on the risks and consequences of evasion (Rantelangi & Majid, 2018).

- **Tax Morale:** This involves the moral beliefs of taxpayers about their responsibility to pay taxes and contribute to society (Rantelangi & Majid, 2018; Luttmer, 2014).
- **Tax System Fairness:** A fair and equitable tax system shapes perceptions of evasion. If taxpayers find the system unfair or overly burdensome, they may be more likely to evade taxes (Rantelangi & Majid, 2018; Majid et al., 2018).
- **Compliance Costs:** This includes the time, effort, and money needed to meet tax obligations, which can also affect taxpayers' views on evasion (Rantelangi & Majid, 2018).

It's essential to differentiate between tax evasion and tax non-compliance. Tax evasion involves intentional and deliberate actions to avoid paying taxes, while tax non-compliance includes both intentional and unintentional failures to meet tax obligations (Wenzel, 2002). The difference can be unclear, as some taxpayers may exploit loopholes or bend the rules to lower their tax bills without committing outright fraud (Wenzel, 2002).

Tax evasion undermines the integrity of the tax system and places a heavier tax burden on compliant taxpayers (Majid et al., 2018; Illahi & Sumari, 2022; Wijerathna & Perera, 2019). It can have negative impacts on governments as it reduces tax revenues and hinders the provision of public goods and services (Alm, 2011). To combat tax evasion, efforts should focus on strengthening tax enforcement, improving compliance measures, and encouraging tax morale and voluntary compliance (Luttmer, 2014; Androniceanu et al., 2019).

2.2.3 Tax Avoidance

Tax avoidance involves legal and strategic actions taken by individuals or companies to minimize their tax liability within the boundaries of the law (Guenther et al., 2016; Park et al., 2015; Salhi et al., 2019; Blaylock, 2015; Hoseini et al., 2019; Deslandes et al., 2019; Rhee et al., 2019). It is a deliberate act of the taxpayer to pay less than he ought to pay legally. Its strategies can include various techniques such as taking advantage of tax deductions, credits, exemptions, and incentives provided by tax laws (Park et al., 2015; Salhi et al., 2019; Blaylock, 2015). These strategies aim to optimize tax planning and minimize tax burdens while remaining compliant with tax regulations.

Companies may engage in tax avoidance to improve their financial performance, boost shareholder value, and maximize profits. The motivations behind tax avoidance can vary. Some companies engage in tax avoidance to reduce their tax liabilities and increase their distributable wealth. Others may engage in tax avoidance to generate cash flows that can be used for investments, ultimately increasing the firm's value (Alkurdi&Mardini, 2020).

While tax avoidance is legal, it can create an uneven playing field in business, putting small and medium enterprises at a disadvantage.

2.2.4 Impact on Revenue Generation

The impact of tax evasion and tax avoidance on revenue generation is profound, affecting not only the immediate fiscal capacity of the government but also the overall economic and

social stability. Tax evasion by multinational companies leads to significant revenue losses. The Organization for Economic Cooperation and Development (OECD) estimates that this tax dodging costs governments between \$100 billion and \$600 billion each year (OECD, 2021). These income losses have serious consequences, resulting in budget deficits, higher public debt, and reduced support for essential public services. This can negatively affect economic development, social welfare, and public trust in government.

To tackle these challenges, governments and international organizations have introduced various measures, such as increasing tax enforcement, closing legal loopholes, and promoting international cooperation. Initiatives like the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and the Two-Pillar Solution aim to reduce tax evasion and create a fairer global tax system (OECD, 2021).

Numerous studies indicate that tax evasion and tax avoidance have a profound impact on revenue generation in Nigeria, limiting the Government ability to fund essential services and infrastructure.

1. **Reduced Government Revenue:** Ogunleye (2019) found that Nigeria loses a significant amount of potential revenue because of widespread tax non-compliance, which restricts the government's ability to fund essential services.
2. **Budget Deficit:** This occurs when a Government's expenditures exceed its revenues over a given period. Reduced revenue from taxes can result in budget deficits, forcing the government to borrow more or cut spending on vital services. This can lead financial

instability. When tax revenues drop and lead to budget deficits, it can have serious effects on both the government and its citizens. Increased borrowing, cuts to important services, and the risk of social unrest can threaten economic stability and growth.

3. **Challenges in Tax Administration:** The complexities of Nigeria's tax system can also contribute to the challenges in revenue generation. Inefficient tax administration and lack of resources for enforcement lead to higher rates of evasion and avoidance. Strengthening the tax administration system is crucial for improving compliance and enhancing revenue generation.

2.2.5 Economic Consequences

Taxation is a crucial source of revenue for any country, including Nigeria, and is vital for economic development. Annual budgets are largely based on projected tax revenue. However, when tax evasion and avoidance are common, tax authorities struggle to meet their collection targets, leading to reduced revenue for the country. This has serious consequences for Nigeria's economy.

These are the main effects of tax evasion and avoidance in Nigeria:

1. **Decrease in Revenue:** There is a significant drop in the amount of money the Nigerian government could have collected through taxes. The exact loss from tax evasion and avoidance is hard to measure, which negatively impacts the government and its citizens.

2. **Inadequate Supply of Basic Services:** The Nigerian government faces challenges in carrying out socio-economic programs, such as providing clean water, electricity, security, healthcare, building schools, and constructing roads. This hampers the overall well-being of the population.
3. **Over Dependence on Oil Revenue:** Adebisi and Gbegi (2013) note that Nigeria's economy relies heavily on oil revenues, making it vulnerable to changes in global oil prices. This dependence worsens the tax collection issue, as the government struggles to diversify its revenue sources. Tax collection from other sectors, such as manufacturing and services, is still inadequate, which further limits overall revenue generation.

2.3 Strategies to reduce Tax Evasion and Tax Avoidance

The federal and state governments in Nigeria have implemented various measures to reduce tax evasion. Many of these measures are outlined in laws that empower government departments, ministries, agencies, and even commercial banks to require businesses to present a tax clearance certificate covering the three years before the current assessment year.

Additionally, the government has introduced provisional tax requirements that corporate entities must fulfill within 30 days, and companies declaring interim dividends must comply as part of anti-evasion efforts. Some states have also adopted similar measures.

Nigeria's tax laws include strict penalties and criminal sanctions designed to address tax evasion. For example, Section 66 of the Companies Income Tax Act gives the Federal Inland

Revenue Service (FIRS) the authority to seize and sell the assets of taxpayers who fail to pay their taxes, including their goods and properties, in severe cases.

Others are found in the FIRS ACT of 2007 which stipulates the following offences and penalties as follows:

- I. Section 40 – FAILURE TO DEDUCT OR REMIT TAX. The penalty on conviction is pay tax withheld or not remitted. In addition to a penalty of 10 per cent of the tax withheld or not remitted per annum plus interest at the prevailing CBN rate and imprisonment for a period not exceeding three years.
- II. SECTION 41 – OBSTRUCTION, HINDERING, MOLESTING OR ASSAULTING AUTHORISED PERSON. Penalty – N200, 000 or three years imprisonment or both.
- III. FALSE DECLARATION. Penalty as in section 41.
- IV. SECTION 43 – COUNTERFEITING DOCUMENTS, FALSIFICATION, ALTERATION. Penalty as in section 41.

2.3.1 Other Strategies To Reduce Tax Evasion and Tax Avoidance

2.3.2 Improving Tax Administration

Strengthening the Federal Inland Revenue Service (FIRS) is essential for effective tax collection. This can be achieved by enhancing training and resources to tax officials. Ogbonna, (2013) pointed out that improving the tax administration and enforcement framework can be achieved by investing in technology, training tax officials and strict implementation of effective

tax laws. Strong tax institutions are essential for improving tax compliance and reducing tax evasion (IMF, 2011). Tax administration reforms should focus on improving taxpayer services, enhancing enforcement, and reducing corruption (Nwosu, 2018). Embracing technology is crucial for modern tax administration. Technology greatly enhances tax compliance in Nigeria by making the system more efficient and accessible. E-filing and e-payment systems allow taxpayers to file returns and make payments online, reducing errors and saving time. A report by the Nigerian Economy Summit Group (2023) highlights that online platforms can enhance efficiency in tax collection. Moreover, utilizing data analytics can help tax authorities identify patterns of evasion, improving the effectiveness of audits (Ibrahim , 2023). Effective tax administration requires a combination of strong institutions, clear laws and effective enforcement (Adegbe, 2016).

2.3.3 Modernizing Tax Code

Review and update tax laws regularly. This helps close any loopholes that might allow individuals and businesses to evade and avoid taxes. As noted by Adebayo, (2022), keeping tax laws current is essential for reflecting economic changes. Additionally, simplifying the tax structure can make it easier for individuals and small businesses to comply, reducing confusion and mistakes in tax filing (Ogunleye, 2021). By combining various taxes into fewer types, taxpayers can grasp their obligations more easily. For example, merging several tax forms into one can simplify calculations and filing processes (Chukwu,2021). Establishing a routine for

reviewing tax laws can ensure they stay relevant and practical. Involving stakeholders like tax professionals and business leaders in these reviews can help identify areas that need simplification (Nwankwo,2022). Input from those affected by tax laws, is essential for making effective changes. Setting up channels for taxpayers to provide feedback and offer valuable insights into the complexities they face with current tax laws. This information can inform decisions about necessary changes and simplifications (Olaniyi, 2021). Listening to taxpayers can lead to meaningful improvements.

2.3.4 Implementing Tax Incentives

Implementing tax incentives for compliance is a strategic move that can significantly enhance tax collection and foster accountability in Nigeria. By offering various incentives such as tax credits, deductions, and recognition programmes, the government can encourage individuals and businesses to meet their tax obligations willingly. These incentives not only improve compliance rates, but also promote economic growth and enhances taxpayer morale, ultimately creating a more effective tax system for everyone involved. Adebayo (2022) points out that providing these incentives can significantly increase voluntary compliance rates, which leads to higher revenue for the government. According to Ogunleye (2021), incentives help shift the perspective of taxpayers, making them view taxes as a civic duty that offers rewards rather than just a burden. Ibrahim (2022) emphasizes that well designed tax incentives can lead to job creation and increase economic output, benefiting society as a whole.

2.4 Factors contributing to non-compliance

2.4.1 Corruption and Governance

Corruption is closely tied to tax evasion and avoidance, creating serious problems for effective governance and economic stability. One major issue is ineffective tax administration . Poorly managed tax systems can lead to corruption, as a lack of oversight allows corrupt practices to grow. Inadequate record-keeping and insufficient training among tax officials can worsen the situation. Oladipupo and Egbunike (2018) state that weak tax administration and corruption within tax authorities lead to situations that promote tax evasion.

Corruption among tax officials can take many forms, including bribery and favoritism. When officials accept bribes to ignore tax obligations, it undermines the integrity of the tax system and encourages others to evade taxes. This environment makes compliance less appealing, especially for honest taxpayers who feel the system is unfair.

The perception of corruption significantly influences taxpayer behavior. When people believe the tax system is corrupt, they are less likely to comply. If taxpayers think their money won't be used effectively or will benefit corrupt officials, they may choose to evade taxes. This drop in compliance leads to substantial revenue losses for the government, limiting its ability to fund essential services like healthcare, education, and infrastructure.

Moreover, corruption erodes public trust in government institutions. As citizens view the tax system as unjust, their confidence in the government's ability to manage resources declines.

This loss of trust can create a cycle of non-compliance, where fewer people are willing to pay taxes, further reducing revenue for public services.

The relationship between corruption and tax evasion often creates a vicious cycle. As compliance decreases, the government may feel pressured to collect revenue more aggressively, which can lead to more corruption. This cycle not only harms the tax system but also increases economic inequality, as those who evade taxes contribute less to the public good, shifting the burden to compliant taxpayers.

To tackle these challenges, governments must enhance transparency in tax administration, hold tax officials accountable, and educate taxpayers about their rights and responsibilities. Strengthening laws and ensuring corrupt officials face consequences can help restore trust in the tax system and encourage greater compliance.

In summary, corruption in tax administration is a key factor in tax evasion and avoidance. This connection results in significant revenue losses and erodes public trust in government. Addressing corruption is essential for improving tax compliance and creating a fair and effective tax system that benefits everyone.

2.4.2 Ineffective Tax Administration

Inefficient tax administration can lead to opportunities for corruption. When tax authorities lack proper oversight, resources or training, it becomes easier for corrupt practices to take root. This inefficiency may involve poor record-keeping, inadequate staff training and lack

of transparency in tax collection processes. According to Rabi (1984) and (2003), the effectiveness of tax assessment and timely collection relies heavily on the skills and efficiency of the staff in revenue departments. Several studies note that tax authorities in Nigeria lack the necessary human and technological resources to effectively administer and enforce tax laws. This includes inadequate skilled personnel for poor data management, weak audit system which hinders efficient operations. Oladipupo and Egbunike, (2018) emphasized that inadequate capacity of tax authorities, outdated technology and insufficient training are hindrances to effective tax collection and enforcement.

2.4.3 Complexity in Tax Laws

The complexity of Nigeria's tax system has been highlighted as a barrier to compliance and a contributing factor to tax evasion and tax avoidance. Tax Laws are often very complex, containing many detailed rules that can be hard for regular taxpayers to understand. In a research conducted by Nwaobia (2021), he argued that the multiplicity of taxes contributes significantly to the high levels of tax evasion and tax avoidance. This complexity can lead some taxpayers to try to avoid or evade taxes. Because of this confusion, many taxpayers turn to tax professionals for help. While these experts can offer useful guidance, their advice isn't always unbiased. Sometimes they may suggest ways to avoid paying taxes rather than encouraging compliance with the law.

This situation points to a bigger problem: Complicated tax rules can not only make it hard to follow the law, but also raise questions about the ethics of the advice given by tax professionals.

2.5 Effectiveness of existing policies against Tax Evasion and Tax avoidance.

The recent enactment of the new Finance Act is set to bring significant changes to tax administration in Nigeria. For instance, the amended section 49(1) of the Personal Income Tax Act now requires everyone to provide a Tax Identification Number (TIN) as a condition precedent in opening a business bank account or maintaining one for business operations. This Tax Identification Number (TIN) helps the Federal Inland Revenue Service (FIRS) monitor tax obligations and payments they make to the government, making it easier to identify those who evade taxes.

Additionally, the Finance Act 2020 has removed provisions in section 34(4), (5), (6) of the Personal Income Tax Act that allowed for tax deductions based on the number of children and dependent relatives. This change targets individuals who falsely claim extra dependents to reduce their taxes.

The new Section 8 of the Value Added Tax Act imposes strict penalties for non-compliance by failing to register with the FIRS for VAT. Defaulters will face a fine of N50,000 (fifty thousand naira) for the first month and N25,000 (twenty – five thousand naira) in the subsequent months. Taxpayers should think carefully about these penalties before considering non-compliance. Furthermore, section 28 of the Value Added Tax Act has been replaced to

clarify that intangible assets like rights, patents, trademarks and royalties are now subject to VAT. Previously, some taxpayers argued that these items didn't count as goods and services, but the new law clearly states otherwise, making it harder to avoid tax payment. In conclusion, tax avoidance and evasion causes a drastic reduction in revenue and is detrimental to the growth and development of the economy. Fortunately, the new Finance Act of 2020 has closed loopholes that some taxpayers exploited to reduce their tax liabilities. The updated laws are clear and unambiguous, helping to reduce tax evasion and tax avoidance.

2.6 Theoretical Review

This Section reviews theories related to the study.

2.6.1 Social Contract Theory

Social contract theory is a political concept that highlights the agreement between the governed and those in power, outlining the rights and responsibilities of both sides (Hassan, 2012). According to Britannica (1995), this theory suggests that in early human societies, people lived in a state of nature—either peaceful or troubled—until they used reason to create a society (government) through a mutual agreement.

Although similar ideas can be traced back to ancient Greece, social contract theory gained prominence in the 17th and 18th centuries with thinkers like Thomas Hobbes, John Locke,

and Jean-Jacques Rousseau. In Nigeria, this theory is reflected in the constitution, where citizens are obligated to pay taxes for the government to provide basic amenities.

This theory is particularly relevant to taxation. Citizens are willing to pay taxes only if the government provides adequate public services, such as electricity, good roads, schools, job opportunities, healthcare, and security. Taxpayers often feel frustrated when the government fails to deliver these services despite the heavy taxes they pay.

Social contract theory supports the idea that each taxpayer should contribute based on the benefits they receive from public services. When tax authorities understand their responsibilities to citizens, and citizens recognize their duties, everyone contributes their fair share, leading to increased government revenue. If this understanding breaks down, revenue generation may suffer.

2.6.2 Tax Morale Theory

Erich Kirchler, an Austrian psychologist, is well-known for his work on Tax Morale Theory. He studies the psychological and social factors that affect whether people pay their taxes or evade them. Kirchler highlights the concept of tax morale, which refers to people's attitudes and beliefs about how fair and legitimate the tax system is. His research looks at how trust in the government, perceptions of tax fairness, and the effectiveness of public spending influence individuals' willingness to comply with tax laws.

In Nigeria, tax morale is often low due to a lack of trust in the government and a perception that tax revenues are not being used effectively.

Effective strategies to enhance tax morale include transparency initiatives, through regular reports detailing how tax revenues are allocated and the outcomes achieved, public education campaigns that emphasizes the benefits of tax compliance and reinforce the social contract between the government and citizens.

2.6.3 Deterrence Theory

Deterrence theory in taxation focuses on how the threat of punishment can influence people's decisions to adhere to tax laws. The essence of this theory is that if people believe the consequences of tax evasion such as heavy fines, penalties or legal action are severe and likely, they are more inclined to comply with tax regulations. Stricter penalties and increased audit improved tax compliance among taxpayers that tend to evade taxes (Solano Garcia, 2017). Awareness campaigns educate citizens about the legal consequences of tax evasion, emphasizing its seriousness. Combining deterrence with efforts to create a culture of compliance and publicizing tax evasion cases can be effective (Becker & English, 2019). Additionally, implementing quick legal actions against tax evaders ensures that punishment are delivered promptly, strengthening the deterrent effect.

Despite its strengths, deterrence theory has limitations. It assumes that people always behave rationally, making decisions based on logical assessments of risks and rewards. However,

emotions and social influences can also play a significant role. Simply raising penalties does not always lead to Better compliance, positive reinforcement and education about civic duty are equally important. For an effective tax compliance, a combination of deterrent measures and social factors like ethics and community values is needed (Cyan & Alm, 2017).

2.7 Empirical Review

Tax evasion and avoidance are major challenges that hinder Nigeria's economic growth and development. Studies by Abdulrazaq (2022) and Adegbe and Famade (2019) show that increasing tax evasion leads to significant revenue losses, which reduces funds for important areas like infrastructure, job creation, and social services. Okolo et al. (2020) estimated that Nigeria loses over \$3 billion each year due to tax avoidance by multinational companies taking advantage of legal loopholes. This lost revenue limits the government's ability to create a supportive environment for private sector growth and sustainable development (Nnachi & Onu, 2022; Nweze et al., 2020).

Additionally, research by Alm and Embaye (2013) found that high levels of tax evasion contribute to the growth of an informal economy characterized by low productivity and poor working conditions, which negatively impacts long-term economic growth. There is strong agreement in the literature about the harmful effects of tax evasion and avoidance on government revenue in Nigeria. For example, a study by Omesi and Nzor (2022) found that a 1% increase in tax evasion leads to a 0.73% drop in tax revenue. Earlier research by Kiabel and Nwikipasi

(2009) reported that some Nigerian states lost over 30% of their revenue annually from 1999 to 2007 due to personal income tax non-compliance. Arnold et al. (2011) support this by stating that such revenue losses weaken the government's ability to invest in essential services like infrastructure and education, which are vital for long-term growth. Similarly, Adediran et al. (2013) found a negative link between corporate tax avoidance and government revenue, limiting funds for necessary reforms and support for the private sector.

Nigeria's tax administration suffers from significant inefficiencies and lack of capacity, allowing widespread tax evasion. Modugu and Anyaduba (2014) noted that inadequate skilled personnel and weak audit systems enable businesses to evade taxes, resulting in lower corporate tax revenues. Ekubiat and Atu (2021) identified issues such as insufficient technology, poor data management, and ineffective penalty systems as factors driving tax avoidance. Nwachukwu and Abah (2023) emphasized that these administrative issues prevent the government from accessing funds needed for economic growth. Eke (2023) concluded that Nigeria's tax system, burdened by corruption and technological shortcomings, severely hampers revenue generation.

The tax laws in Nigeria contain ambiguities and loopholes that encourage tax evasion and avoidance. Ilaboya (2024) showed that unclear laws and excessive exemptions incentivize non-compliance. Okolo and Boniface (2020) pointed out that outdated tax laws and confusion about incentives contribute to widespread evasion. Akintoye and Tashie (2013) argued that overly complex tax provisions undermine fairness and erode public trust in tax obligations. This aligns with Ilaboya's (2023) view that well-designed and fair tax policies are crucial for encouraging

compliance and supporting economic development. Lastly, Taiwo (2022) highlighted many gaps in the Nigerian tax code, such as insufficient guidelines for new sectors like e-commerce, which create opportunities for aggressive tax avoidance by companies.

The complexities of Nigerian tax system is another factor that contribute to these issues. Many tax laws are ambiguous, leading to confusion among taxpayers. Frequent changes in regulations can also make compliance challenging. As a result, both individuals and businesses struggle to understand their tax obligations. (Ekubiat and Anu, 2021) pointed out that factors like inadequate technology, weak data management and ineffective penalty systems contributes to tax evasion and tax avoidance. The Nigerian tax system faces several challenges, including weak institutional capacity which limits the Federal Inland Revenue Service's ability to enforce tax laws effectively. Poor data management hampers accurate tracking of taxpayers while corruption allow some individuals to evade and avoid taxes without consequences.

Additionally, the use of outdated technology slows down tax collection processes, and many taxpayers lack awareness of their obligations. Taiwo (2022) pointed out several weaknesses in the Nigerian tax code, including a lack of clear guidelines for new sectors. The lack of public understanding about tax obligations and insufficient guidelines for emerging sectors, is a major challenge to effective tax compliance in Nigeria. This situation leads to widespread tax evasion and avoidance, which negatively impact tax revenue generation.

Many individuals and businesses and not aware of their tax responsibilities, resulting in non compliance. For instance, small business owners often do not understand the requirements

for registering for a Tax Identification Number (TIN) or filing Value Added Tax (VAT) returns. This lack of knowledge results in missed tax payments and an increased tax gap. Moreover, new sectors like the digital economy and e-commerce often lack specific tax guidelines. For instance, online businesses may not be adequately informed about the need to collect VAT on goods and services sold. Without clear regulations, these businesses may either ignore their tax duties or misinterpret them, thereby leading to further tax avoidance. The absence of targeted educational campaigns and resources for these sectors worsens the situation. Consequently, many potential taxpayers remain outside the formal tax system, resulting in significant tax revenue losses for the government.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents a detailed account of how the study will be carried out, while revealing the research methods to be used in the study. This study focuses on the impact of tax evasion and tax avoidance on tax revenue generation in Nigeria. This chapter is divided into a number of sections which include research design, population, sample size, sources of data collection, research instruments, and data analysis techniques.

3.2 Research Design

The research design adopted and utilized for the purpose of this study is the survey research design. Survey involves asking structured questions to a representative cross section of the population at a single point in time. The survey may be mailed to respondents, conducted over the phone, electronically or involve a face to face meeting with the respondent (Sweeney, 2009).

3.3 Population of the Study

The population of this study would include tax officials and administrators of the Federal Inland Revenue Service and taxpayers (individuals and businesses) in Nigeria.

3.4 Sample Size and Technique

A random sampling technique will be used for this study. Random sampling technique is a technique used to select a subset of individuals from a larger population, where every individual has an equal chance of being chosen. This is used because it helps ensure that the sample is representative of the population, reducing bias and increasing the reliability of the results. Hence, a sample size that will be determined using the Taro Yamane (1973) formula.

This is given as:

$$N/1+Ne^2$$

Where;

n = sample size

N = population size

e = error limit

Given an error limit of 0.10 and a sample of approximately 40,000 taxpayers.

$$n = 40,000/1 + (40,000)(0.10)^2 = 100$$

Using this technique, 100 respondents were chosen for this for this study's sample size, representing FIRS tax officials, administrators and taxpayers.

3.5 Sources of Data

This study will employ a mixed-methods research approach, combining both primary and secondary data. Primary data will be collected through questionnaire surveys administered to

respondents. Secondary data will be sourced from online databases, statistics, and existing literature, providing additional context and insight.

3.6 Method of Data Collection

This study adopt the use of a self-administered questionnaire for data collection. This method is cost-effective, time-efficient, and allows for easy distribution to respondents. It also eliminates interviewer bias and is ideal for quantitative survey. However, this approach has some limitations, including potential low response rates, respondent biases, and delayed responses (Kothari & Gaurav, 20014).

3.7 The Research Instrument

The research instrument to be used for this study is a self-administered questionnaire on the study sample. The questionnaire is titled 'The Impact of Tax Evasion and Tax Avoidance on Tax Revenue Generation in Nigeria'. The questionnaire consist of three sections which includes the cover letter, the demographic section and the last section which contains the structural items relating to the research questions necessitating this study.

3.8 Method of Data Analysis

The questionnaires were first checked for complete responses and edited wherever necessary. Coding and analysis of the collected data was done using the Statistical Package for Social Sciences (SPSS) computer software. Data collected for this research study will be

presented and analyzed using tabular representation. The hypotheses of the study will be tested using linear regression analysis. It is used to show the relationship between variables, such that the impact of one is measured how it will influence the other.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSES

4.1 Introduction

This chapter contains the presentation, analysis, and interpretation of the various data collected for the purpose of this research work. Consequently, it entails the application of statistical technique to provide the basis for the testing of the research hypotheses raised earlier at the introductory section of the study. Hence, it is a vital part of any research work since it forms the basis for recommendations and calculation at the end of the research.

4.2 Data Presentation and Analytical Techniques

A comprehensive data analysis was conducted based on field research. The study's questionnaire, comprising Research questions 1 to 4 guided the analysis. A total of 100 questionnaires were distributed, and all were collected and utilized in the study. Demographic findings were presented in tables and percentages for clarity and ease of understanding.

4.2.1 Demography Analysis

Table 4.1: Frequencies and percentages relating to age, sex, marital status, educational qualifications and year of working experience of respondents

Age Distribution of respondents	Frequency	Percentages
21-30 years	10	10%
31-40 years	17	17%
41-50 years	33	33%
Above 50 years	40	40%
Total	100	100%
Sex distribution of respondents	Frequency	Percentage
Male	57	57%
Female	43	43%
Total	100	100%
Marital status of the respondents	Frequency	Percentage
Single	22	22%
Married	78	78%
Total	100	100%
Educational status of the respondents	Frequency	Percentage
HND	6	6%
BSC	46	46%
MSC	28	28%
Others	20	20%
Total	100	100%
Years of working experience of respondents	Frequency	Percentage
Less than 5 years	22	22%
5-10 years	30	30%
Above 10 years	48	48%
Total	100	100%

Source: Field Survey, 2025

From the above table, 10 percent of the total respondents are between the age bracket of 21-30, 17 percent of the total respondents are within 31-40 years of age, 33 percent of the total respondents are between the ages of 41-50, 40 percent of the total respondents are 50 years and above. It was further discovered that under the gender of the respondents that, 57 percent of the total respondents are male, while 49 percent of the total respondents are female. This implies that majority of the population are male. It also indicates under the marital status of the respondents that 22 percent of the respondents are single while 78 percent of the respondents are married. The table further shows under educational status that 6 percent of the total respondents have HND, 46 percent of the total respondents have BSC, 28 percent of the total respondents have MSC, while 20 percent of the total respondents have other certification. It also indicates that 22 percent of the total respondents have less than 5 years working experience, 30 percent of the total respondents have 5-10 years of working experience, 48 percent of the total respondents have above 10 years of working experience.

Research questions

4.2.2 Research Question One:

What are the factors that contribute to tax evasion and tax avoidance in Nigeria?

Table 4.2: Frequencies and percentages on the factors that contribute to tax evasion and tax avoidance in Nigeria?

Inefficient tax administration is a major factor that contributes to tax evasion and tax avoidance in Nigeria	Frequency	Percentage
Strongly Agree	62	62%
Agree	36	36%
Disagree	2	2%
Strongly Disagree	0	0%
Total	100	100%
Decreased public trust and corruption within tax authorities can undermine tax compliance	Frequency	Percentage
Strongly Agree	36	36%
Agree	58	58%
Disagree	6	6%
Strongly Disagree	0	0%
Total	100	100%
The Complexity of Nigeria’s tax system can lead to unintentional compliance	Frequency	Percentage
Strongly Agree	44	44%
Agree	56	56%
Disagree	0	0%
Strongly Disagree	0	0%
Total	100	100%
Widespread poverty and income inequality can lead to unwillingness to pay taxes	Frequency	Percentage
Strongly Agree	40	40%
Agree	50	50%
Disagree	10	10%
Strongly Disagree	0	0%
Total	100	100%
Lack of tax education and awareness can facilitate tax	Frequency	Percentage

evasion and tax avoidance		
Strongly Agree	62	62%
Agree	30	30%
Disagree	8	8%
Strongly Disagree	0	0%
Total	100	100%

Source: Field Survey, 2025

Table 4.2 shows that 62 percent of the total respondents strongly agree, 36 percent of the total respondents agree while 2 percent of the total respondents disagree that inefficient tax administration is a major factor that contributes to tax evasion and tax avoidance in Nigeria. From the table, it also shows that, 36 percent of the total respondents strongly agree, 58 percent of the total respondents agree while 6 percent of the total respondents disagree that decreased public trust and corruption within tax authorities can undermine tax compliance. It was also indicated that 44 percent of the total respondents strongly agree and 56 percent of the total respondents agree that the complexity of Nigeria’s tax system can lead to unintentional compliance. The table also shows that 30 percent of the total respondents strongly agree, 50 percent of the total respondents agree while 20 percent of the total respondents disagree that widespread poverty and income inequality can lead to unwillingness to pay taxes. Lastly, it was indicated that 62 percent of the total respondents strongly agree, 30 percent of the total respondents agree while 8 percent of the total respondents disagree that lack of tax education and awareness can facilitate tax evasion and tax avoidance.

Research Question Two: To what extent has tax evasion and tax avoidance impact negatively on revenue generation in Nigeria?

Table 4.3: Frequencies and percentages of the extent of tax evasion and tax avoidance on revenue generation in Nigeria

Tax evasion and tax avoidance leads to significant revenue losses for the Nigerian Government	Frequency	Percentage
Strongly Agree	68	68%
Agree	24	24%
Disagree	8	8%
Strongly Disagree	0	0%
Total	100	100%
Tax evasion and tax avoidance affects the Government's ability to fund essential public services	Frequency	Percentage
Strongly Agree	42	42%
Agree	56	56%
Disagree	2	2%
Strongly Disagree	0	0%
Total	100	100%
High level of tax evasion and tax avoidance makes the Government lose billions in revenue each year	Frequency	Percentage
Strongly Agree	34	34%
Agree	62	62%
Disagree	2	2%
Strongly Disagree	2	2%
Total	100	100%
Widespread tax evasion and tax avoidance is capable of crippling infrastructure and economic development	Frequency	Percentage
Strongly Agree	60	60%
Agree	36	36%
Disagree	4	4%

Strongly Disagree	0	0%
Total	100	100%
Tax is an important tool for sustaining and growing the country's economy	Frequency	Percentage
Strongly Agree	58	58%
Agree	42	42%
Disagree	0	0%
Strongly Disagree	0	0%
Total	100	100%

Source: Field Survey, 2025

Table 4.3 revealed that 68 percent of the total respondents strongly agree, 24 percent of the total respondents agree, 8 percent of the total respondents disagree while 0 percent of the total respondents strongly disagree that tax evasion and tax avoidance leads to significant revenue losses for the Nigerian Government. It was also indicated that, 42 percent of the total respondents strongly agree, 56 percent of the total respondents agree, 2 percent of the total respondents disagree while 0 percent of the total respondents strongly disagree that tax evasion and tax avoidance affects the Government's ability to fund essential public services. From the table, it also shows that, 34 percent of the total respondents strongly agree, 62 percent of the total respondents agree, 2 percent of the total respondents disagree while 2 percent of the total respondents strongly disagree that high level of tax evasion and tax avoidance makes the Government lose billions in revenue each year. It was also indicated that, 60 percent of the total respondents strongly agree, 36 percent of the total respondents agree, 4 percent of the total respondents disagree, 0 percent of the total respondents strongly disagree that widespread tax

evasion and tax avoidance is capable of crippling infrastructure and economic development. Lastly, it shows that 58 percent of the total respondents strongly agree, 42 percent of the total respondents agree, 0 percent of the total respondents disagree while 0 percent of the total respondents strongly disagree that tax is an important tool for sustaining and growing the country's economy.

Research Question 3: How effective are the existing policies in Nigeria in preventing tax evasion and tax avoidance?

Table 4.4: Frequencies and percentages of the existing policies against tax evasion and tax avoidance in Nigeria

The Tax Identification Number (TIN) helps the Federal Inland Revenue Service (FIRS) to identify tax evaders and defaulters	Frequency	Percentage
Strongly Agree	42	42%
Agree	58	58%
Disagree	0	0%
Strongly Disagree	0	0%
Total	100	100%
Unambiguous tax laws encourages tax compliance among individuals and businesses	Frequency	Percentage
Strongly Agree	32	32%
Agree	68	68%
Disagree	0	0%
Strongly Disagree	0	0%
Total	100	100%
The fear of penalties can motivate taxpayers and boost tax compliance	Frequency	Percentage

Strongly Agree	34	34%
Agree	62	62%
Disagree	4	4%
Strongly Disagree	0	0%
Total	100	100%
Strengthening regulatory agencies and closing loopholes could increase tax revenue	Frequency	Percentage
Strongly Agree	46	46%
Agree	50	50%
Disagree	4	4%
Strongly Disagree	0	0%
Total	100	100%
Simplifying complex tax codes could boost compliance	Frequency	Percentage
Strongly Agree	48	48%
Agree	52	52%
Disagree	0	0%
Strongly Disagree	0	0%
Total	100	100%

Source: Field Survey, 2025

Table 4.4 shows that 42 percent of the total respondents strongly agree while 58 percent of the total respondents agree that the Tax Identification Number (TIN) helps the Federal Inland Revenue Service (FIRS) to identify tax evaders and defaulters. It also shows that 32 percent of the total respondents strongly agree, 68 percent of the total respondents agree, 0 percent of the total respondents disagree while 0 percent of the total respondents strongly disagree that unambiguous tax laws encourages compliance among individuals and businesses. The table further shows that, 34 percent of the total respondents strongly agree, 62 percent of the total respondents agree while 4 percent of the total respondents disagree that the fear of penalties can

motivate taxpayers and boost tax compliance. It was also indicated that 46 percent of the total respondents strongly agree, 50 percent of the total respondents agree while 4 percent of the total respondents disagree that strengthening regulatory agencies and closing loopholes could increase tax revenue. Lastly, it shows that 48 percent of the total respondents strongly agree and 52 percent of the total respondents agree that simplifying complex tax codes could boost compliance.

Research Question 4: What Strategies can be implemented to reduce tax evasion and tax avoidance in Nigeria?

Table 4.5: Frequencies and percentages on the strategies to reduce tax evasion and tax avoidance in Nigeria

Offering tax incentives for compliance can enhance tax collection and foster accountability in Nigeria	Frequency	Percentage
Strongly Agree	66	66%
Agree	32	32%
Disagree	2	2%
Strongly Disagree	0	0%
Total	100	100%
Simplifying the tax structure by merging several tax forms into one can reduce compliance costs and administrative burdens for taxpayers	Frequency	Percentage
Strongly Agree	44	44%
Agree	52	52%
Disagree	2	2%
Strongly Disagree	2	2%

Total	100	100%
Embracing technology for modern tax administration is crucial and greatly enhances tax compliance	Frequency	Percentage
Strongly Agree	42	42%
Agree	58	58%
Disagree	0	0%
Strongly Disagree	0	0%
Total	100	100%
Regular and targeted audits on high-risk taxpayers can help to detect and address non-compliance	Frequency	Percentage
Strongly Agree	64	64%
Agree	36	36%
Disagree	0	0%
Strongly Disagree	0	0%
Total	100	100%
Conducting educational campaigns to inform taxpayers about their obligations could reduce tax evasion and tax avoidance	Frequency	Percentage
Strongly Agree	45	45%
Agree	55	55%
Disagree	0	0%
Strongly	0	0%
Total	100	100%

Source: Field Survey, 2025

Table 4.5 shows that 66 percent of the total respondents strongly agree, 32 percent of the total respondents agree while 2 percent of the total respondents disagree that offering tax incentives for compliance can enhance tax collection and foster accountability in Nigeria. From the table, it also shows that 44 percent of the total respondents strongly agree, 52 percent of the total respondents agree, 2 percent of the total respondents disagree while 2 percent of the total

respondents strongly disagree that simplifying the tax structure by merging several tax forms into one can reduce compliance costs and administrative burdens for taxpayers. It was also indicated that 42 percent of the total respondents strongly agree and 58 percent of the total respondents agree that embracing technology for modern tax administration is crucial and greatly enhances tax compliance. It was also revealed that 64 percent of the total respondents strongly agree and 36 percent of the total respondents agree that regular and targeted audits on high-risk taxpayers can help to detect and address non-compliance. Lastly, it shows that 45 percent of the total respondents strongly agree and 55 percent of the total respondents agree that conducting educational campaigns to inform taxpayers about their obligations could reduce tax evasion and tax avoidance.

4.4 Test of Hypothesis

One sample T-Test was used for testing the hypotheses at a test value of 2.5 with 95% Confidence level and the probability value (p) was attained. If the p-value was less than or equal to 0.05, the null hypothesis would not be retained, but if the p-value is greater than 0.05, the null hypothesis would be retained.

Hypothesis One: Tax evasion and tax avoidance are not influenced by significant factors in Nigeria.

Table 4.6: One- Sample t-Test of how Tax evasion and tax avoidance are influenced by significant factors in Nigeria

Test Value = 2.5

	N	Mean	Std. Dev.	t	df	Sig. (2-tailed)
Tax evasion and tax avoidance are not influenced by significant factors in Nigeria.	100	3.4360	.52214	17.926	99	.000

From Table 4.6, a mean score of 3.4360, which is higher than the test value of 2.5, was obtained along with a standard deviation of 0.52214. Also, a p-value of 0.000, which is less than the 0.05 significance level, was obtained. This indicates that tax evasion and tax avoidance are significantly influenced by various factors in Nigeria. Hence, the null hypothesis is not retained.

The findings of the hypothesis showed that tax evasion and tax avoidance are significantly influenced by various factors in Nigeria. This suggests that multiple economic, social, and regulatory factors contribute to the prevalence of tax evasion and avoidance in the country. The low p-value indicates strong statistical evidence that these factors play a crucial role in shaping tax compliance behavior. This further underscores the need for strategic policy interventions to mitigate tax evasion and avoidance in Nigeria.

Hypothesis Two: Tax evasion and tax avoidance do not have a significant impact on revenue generation in Nigeria.

Table 4.7: One- Sample t-Test of how Tax evasion and tax avoidance do not have a significant impact on revenue generation in Nigeria

Test Value = 2.5

	N	Mean	Std. Dev.	t	df	Sig. (2-tailed)
Tax evasion and tax avoidance do not have a significant impact on revenue generation in Nigeria.	100	3.4840	.50226	19.591	99	.000

From Table 4.7, a mean score of 3.4840, which is higher than the test value of 2.5, was obtained along with a standard deviation of 0.50226. Also, a p-value of 0.000, which is less than the 0.05 significance level, was obtained. This indicates that tax evasion and tax avoidance have a significant impact on revenue generation in Nigeria. Hence, the null hypothesis is not retained.

The findings of the hypothesis showed that tax evasion and tax avoidance have a significant impact on revenue generation in Nigeria. This suggests that the inability to curb tax evasion and avoidance directly affects government revenue, limiting the funds available for public services and infrastructure development. The low p-value indicates strong statistical evidence that tax-related malpractices substantially reduce the country's revenue base. This highlights the necessity for stricter enforcement of tax laws and improved compliance measures to enhance revenue generation.

Hypothesis Three: There is no significant effect of existing policies against tax evasion and tax avoidance in Nigeria.

Table 4.8: One- Sample t-Test of if there is no significant effect of existing policies against tax evasion and tax avoidance in Nigeria

Test Value = 2.5

	N	Mean	Std. Dev.	t	Df	Sig. (2-tailed)
There is no significant effect of existing policies against tax evasion and tax avoidance in Nigeria.	100	3.3880	.47637	18.641	99	.000

From Table 4.8, a mean score of 3.3880, which is higher than the test value of 2.5, was obtained along with a standard deviation of 0.47637. Also, a p-value of 0.000, which is less than the 0.05 significance level, was obtained. This indicates that existing policies against tax evasion and tax avoidance have a significant effect in Nigeria. Hence, the null hypothesis is not retained.

The findings of the hypothesis showed that existing policies against tax evasion and tax avoidance have a significant effect in Nigeria. This suggests that the measures and regulations put in place to curb tax-related malpractices are impactful in influencing compliance and enforcement. The low p-value indicates strong statistical evidence that these policies play a crucial role in addressing tax evasion and avoidance. This underscores the importance of continuous policy evaluation and strengthening of regulatory frameworks to further enhance tax compliance in the country.

Hypothesis Four: There is no significant effect of strategies aimed at reducing tax evasion and tax avoidance in Nigeria.

Table 4.9: One- Sample t-Test of if there is no significant effect of strategies aimed at reducing tax evasion and tax avoidance in Nigeria

Test Value = 2.5

	N	Mean	Std. Dev.	t	Df	Sig. (2-tailed)
There is no significant effect of strategies aimed at reducing tax evasion and tax avoidance in Nigeria	100	3.5060	.47094	21.362	99	.000

From Table 4.9, a mean score of 3.5060, which is higher than the test value of 2.5, was obtained along with a standard deviation of 0.47094. Also, a p-value of 0.000, which is less than the 0.05 significance level, was obtained. This indicates that strategies aimed at reducing tax evasion and tax avoidance have a significant effect in Nigeria. Hence, the null hypothesis is not retained.

The findings of the hypothesis showed that strategies aimed at reducing tax evasion and tax avoidance have a significant effect in Nigeria. This suggests that various initiatives, such as stricter enforcement, improved tax education, and the use of technology in tax administration, are effective in curbing tax-related malpractices. The low p-value provides strong statistical evidence that these strategies contribute meaningfully to enhancing tax compliance. This highlights the

need for continuous implementation and refinement of these strategies to further strengthen Nigeria's tax system.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The objective of this study is to assess the impact of tax evasion and tax avoidance on tax revenue generation in Nigeria. This chapter focuses on the summary of findings from the empirical analysis as well as the conclusion and policy recommendation resulting from the findings.

5.2 Summary of Findings

The following were observed from the result of the analysis:

1. A significant relationship exists between tax evasion/avoidance and their contributing factors.
2. Tax evasion and tax avoidance have a significant impact on revenue generation in Nigeria.
3. The effectiveness of existing policies has significantly reduced tax evasion and tax avoidance in Nigeria.
4. A significant relationship exists between strategies implemented and the reduction of tax evasion and tax avoidance in Nigeria.

5.3 Conclusion

This study examines taxation as a revenue generation tool in Nigeria's federal, state and local governments, focusing on its role in economic and social development, and government revenue generation. Effective taxation can boost infrastructural development and overall economic growth. It investigates why people evade and avoid taxes and suggests ways to minimize these practices. The study also explores the relationship between tax avoidance, tax evasion, and total revenue generation in Nigeria. Corruption and mismanagement in government have led to a breakdown in public trust, which is crucial for people to willingly comply with tax laws. When taxpayers feel the tax system is unfair or that public funds are being wasted, they're less likely to comply. Inadequate transparency in government spending and tax collection processes fuels mistrust among taxpayers. Furthermore, overly complex tax laws and regulations create confusion and discourage compliance. Nigeria's tax challenges require a two-pronged approach. While policy changes and improved tax administration are essential, it's equally important to address the attitudes and behaviors of taxpayers. Building a strong tax system requires educating the public and fostering a culture of voluntary tax compliance which is very crucial. This involves shifting societal norms and attitudes towards taxation, recognizing that tax payment is a civic duty that contributes to national development.

In conclusion, to address Nigeria's tax challenges, the government should emphasize on how payment of taxes benefits the communities, to encourage voluntary compliance. Additionally, simplify the tax laws for easier understanding. Importantly, ensuring transparency

and accountability in tax revenue spending to rebuild trust between the government and citizens. Furthermore, strengthen the tax authorities so they can enforce the laws and collect taxes efficiently. By adopting this multi-faceted approach, Nigeria can build a more robust tax system and promote economic growth and development.

5.4 Recommendations

Following the analyses and the findings of this research study, these recommendations are made:

1. The tax authorities should properly review and improve their assessment and collection procedures. Tax laws written in complicated legal terms and being sent to the taxpayers expecting that they would understand is not encouraging. Therefore, tax authorities should explain tax laws and regulations in simple language for easier understanding.
2. The tax authority's Audit Unit should be made stronger to regularly check and verify the tax payments collected by officials at all levels. This will help prevent corrupt practices and ensure transparency.
3. Implementing Tax Incentives is a strategy to encourage taxpayers to comply with tax laws and regulations. Offering tax incentives such as tax deductions, credits. These incentives motivate taxpayers to prioritize tax compliance and encouragement voluntary payment.
4. To encourage tax compliance, there should be serious consequences imposed on non-compliant taxpayers. Strict penalties can help to ensure the integrity of the tax system.

However, these consequences should be fair and match the severity of the offense. If the penalties are too harsh, people may become resentful and less likely to comply. The government needs to find a balance between being tough and being fair. Examples of strict penalties that can be imposed on non-compliant taxpayers are asset forfeiture, seizure of business license, tax clearance certificate denial, interest charges, penalty fees and short-term imprisonment for heavy tax fraud.

5. Government should utilize various channels to inform taxpayers about changes in tax laws and the need for compliance. This multi-faceted approach ensures that the message reaches a wide audience, regardless of their location, age or socio-economic background. This can include the social media, eye-catching posters and billboards in public areas to grab people's attention, broadcasting messages on popular radio stations, TV advertisements and using traditional methods, such as town criers, to announce important tax information in local communities.
6. Leveraging technology can improve tax compliance. It helps identify suspicious patterns and errors in taxpayer behavior. Technology also makes reporting easier and more accurate. Additionally, it allows for real-time monitoring and collaboration with financial institutions to prevent tax evasion.

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QUESTIONNAIRE

Department of Accounting,
Faculty of Management Sciences,
University of Benin, Benin City,
Edo State.
February, 2025.

Dear Respondent,

REQUEST FOR THE COMPLETION OF THE QUESTIONNAIRE

I am a student of the above named Institution currently undertaking research on assessing the **Impact of Tax Evasion and Tax Avoidance on Tax Revenue Generation in Nigeria**. The study is a prerequisite for the partial fulfillment for the award of Bachelor of Science Degree (B.SC) in Taxation. I therefore crave your indulgence to assist to fill the questionnaire. Any information given will be treated with utmost confidentiality. Thanks for your anticipated cooperation.

Best regards,

Ada Favour Uyiosa

(Researcher)

Section A: Personal Bio-Data

Instruction: Please indicate as appropriate.

1. Gender: Male () Female ()
2. Age: 21-30years (), 31-40years (), 41-50years (), Above 50years ()

3. Marital Status: Single () Married ()
4. Highest Educational Qualification: HND (), BSC (), MSC (), Others ()
5. Years of Working Experience: less than 5years (), 5-10years (), Above 10 years ()

Section B

Instruction: Please indicate the extent to which you agree with the following, you are to assess the following on a scale of “strongly agree to strongly disagree”

Section B

SA= Strongly agree, A= Agree, D= Disagree, SD= Strongly Disagree

S/N	What are the factors that contribute to Tax evasion and Tax avoidance in Nigeria?	SA	A	D	SD
1	Inefficient tax administration is a major factor that contributes to tax evasion and tax avoidance in Nigeria.				
2	Decreased public trust and corruption within tax authorities can undermine tax compliance				
3	The Complexity of Nigeria’s tax system can lead to unintentional compliance.				
4	Widespread poverty and income inequality can lead to unwillingness to pay taxes.				
5	Lack of tax education and awareness can facilitate tax evasion and tax avoidance.				
	To what extent has Tax evasion and Tax avoidance impact negatively on revenue generation in Nigeria?				
6	Tax evasion and Tax avoidance leads to significant revenue loss for the Nigerian				

	Government.				
7	Tax evasion and tax avoidance affect the Government's ability to fund essential public services.				
8	High level of tax evasion and tax avoidance makes the Government lose billions in revenue each year.				
9	Widespread tax evasion and tax avoidance is capable of crippling infrastructure and economic development.				
10	Tax is an important tool for sustaining and growing the country's economy.				
	How effective are the existing policies in Nigeria in preventing tax evasion and tax avoidance?				
11	The Tax Identification Number (TIN) helps the Federal Inland Revenue Service (FIRS) to identify tax evaders and defaulters.				
12	Unambiguous tax laws encourages tax compliance among individuals and businesses.				
13	The fear of penalties can motivate taxpayers and boost tax compliance.				
14	Strengthening regulatory agencies and closing loopholes could increase tax revenue.				
15	Simplifying complex tax codes could boost tax compliance.				
	What Strategies can be implemented to reduce tax evasion and tax avoidance in Nigeria?				
16	Offering tax incentives for compliance can enhance tax collection and foster accountability in Nigeria.				
17	Simplifying the tax structure by merging several tax forms into one can reduce compliance costs and administrative burdens for taxpayers.				

18	Embracing technology for modern tax administration is crucial and greatly enhances tax compliance.				
19	Regular and targeted audits on high-risk taxpayers can help to detect and address non-compliance.				
20	Conducting educational campaigns to inform taxpayers about their obligations could reduce tax evasion and tax avoidance				

APPENDIX

Reliability

[DataSet2] C:\Users\SVC\Desktop\PROJECT WORK\FAV PROJECT\SPSS DATA.sav

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	100	100.0
	Excluded ^a	0	.0
	Total	100	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.984	20

T-Test

Notes

Output Created	14-MAR-2025 18:54:09	
Comments		
Input	Data	C:\Users\SVC\Desktop\PROJECT WORK\FAV PROJECT\SPSS DATA.sav
	Active Dataset	DataSet2

	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	100
Missing Value Handling	Definition of Missing	User defined missing values are treated as missing.
	Cases Used	Statistics for each analysis are based on the cases with no missing or out-of-range data for any variable in the analysis.
Syntax		T-TEST /TESTVAL=2.5 /MISSING=ANALYSIS /VARIABLES=RQ_1 /ES DISPLAY(TRUE) /CRITERIA=CI(.95).
Resources	Processor Time	00:00:00.02
	Elapsed Time	00:00:00.08

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RQ_1	100	3.4360	.52214	.05221

One-Sample Test

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
RQ_1	17.926	99	.000	.93600	.8324	1.0396

Test Value = 2.5

One-Sample Effect Sizes

		Standardizer ^a	Point Estimate	95% Confidence Interval	
				Lower	Upper
RQ_1	Cohen's d	.52214	1.793	1.474	2.108
	Hedges' correction	.52614	1.779	1.462	2.092

a. The denominator used in estimating the effect sizes.

Cohen's d uses the sample standard deviation.

Hedges' correction uses the sample standard deviation, plus a correction factor.

T-TEST

```

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/VARIABLES=RQ_2
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/CRITERIA=CI(.95).
    
```

T-Test

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RQ_2	100	3.4840	.50226	.05023

One-Sample Test

Test Value = 2.5				
t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference

					Lower	Upper
RQ_2	19.591	99	.000	.98400	.8843	1.0837

One-Sample Effect Sizes

		Standardizer ^a	Point Estimate	95% Confidence Interval	
				Lower	Upper
RQ_2	Cohen's d	.50226	1.959	1.622	2.293
	Hedges' correction	.50611	1.944	1.609	2.276

a. The denominator used in estimating the effect sizes.

Cohen's d uses the sample standard deviation.

Hedges' correction uses the sample standard deviation, plus a correction factor.

```
T-TEST
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/VARIABLES=RQ_3
/ES DISPLAY(TRUE)
/CRITERIA=CI(.95).
```

T-Test

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RQ_3	100	3.3880	.47637	.04764

One-Sample Test

					95% Confidence Interval of the Difference	
					Lower	Upper
	t	df	Sig. (2-tailed)	Mean Difference		
RQ_3	18.641	99	.000	.88800	.7935	.9825

Test Value = 2.5

One-Sample Effect Sizes

		Standardizer ^a	Point Estimate	95% Confidence Interval	
				Lower	Upper
RQ_3	Cohen's d	.47637	1.864	1.537	2.187
	Hedges' correction	.48001	1.850	1.526	2.171

a. The denominator used in estimating the effect sizes.

Cohen's d uses the sample standard deviation.

Hedges' correction uses the sample standard deviation, plus a correction factor.

T-TEST

```

/TESTVAL=2.5
/MISSING=ANALYSIS
/VARIABLES=RQ_4
/ES DISPLAY(TRUE)
/CRITERIA=CI(.95).
    
```

T-Test

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
RQ_4	100	3.5060	.47094	.04709

One-Sample Test

		Test Value = 2.5		95% Confidence Interval of the Difference		
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
RQ_4	21.362	99	.000	1.00600	.9126	1.0994

One-Sample Effect Sizes

		Standardizer ^a	Point Estimate	95% Confidence Interval	
				Lower	Upper
RQ_4	Cohen's d	.47094	2.136	1.778	2.490
	Hedges' correction	.47454	2.120	1.765	2.471

a. The denominator used in estimating the effect sizes.

Cohen's d uses the sample standard deviation.

Hedges' correction uses the sample standard deviation, plus a correction factor.