

**THE EFFECTS OF TAX EVASION AND AVOIDANCE ON NIGERIA'S  
ECONOMY**

**NJOKU JOEL CHIBUZOR**

**MGS1611408**

**DEPARTMENT OF ACCOUNTING  
FACULTY OF MANAGEMENT SCIENCES  
UNIVERSITY OF BENIN  
BENIN CITY**

**DECEMBER, 2023.**

**THE EFFECTS OF TAX EVASION AND AVOIDANCE ON NIGERIA'S  
ECONOMY**

**BY**

**NJOKU JOEL CHIBUZOR**

**MGS1611408**

**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTING,  
FACULTY OF MANAGEMENT SCIENCES,  
UNIVERSITY OF BENIN, BENIN CITY, EDO STATE,  
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF  
BACHELOR OF SCIENCE (B.Sc.) DEGREE IN ACCOUNTING.**

**DECEMBER, 2023.**

## **CERTIFICATION**

This is to certify that **NJOKU JOEL CHIBUZOR** with matriculation number **MGS1611408** compiled this Project report.

**DR. (MRS) AKOGU O.U.**  
**PROJECT SUPERVISOR**

---

**SIGNATURE & DATE**

**DR. OBAZEE UYIOGHOSA**  
**PROJECT CORDINATOR**

---

**SIGNATURE & DATE**

**DR. OSASU OBARETIN**  
**HEAD OF DEPARTMENT**

---

**SIGNATURE & DATE**

## **DEDICATION**

This work is dedicated to God Almighty, the healer, giver of strength and wisdom.

## **ACKNOWLEDGMENTS**

My profound gratitude goes foremost to God Almighty for His favor, mercy, grace, wisdom and understanding throughout the project and compilation of this report. I also whole heartedly appreciate my project supervisor, Dr. (Mrs) Akogu O.U. for his continuous support, making out time for me even in his tight schedules and for keeping me on my toes to ensure that this report was compiled properly. My appreciation goes to my project coordinator Dr. Obazee Uyioghosa for his support. My immense appreciation also goes to the Head of Department Prof. Osasu Obaretin for his time. I genuinely appreciate my mum Mrs Pauline for her words of encouragement and prayers. I won't fail to appreciate my siblings, Mrs Chinaza Blessing for her constant push and motivation. I also appreciate my friend, Ifeanyi Enuma, Bayode Damilola, Amarachi Jude, Okpanachi Solomon, Naguda Hope, Onome Agbadu and everyone that has impacted my life in one way or the other. I say may God bless you all.

## TABLE OF CONTENTS

TITLE PAGE	i
CERTIFICATION	ii
DEDICATION	iii
ACKNOWLEDGMENTS	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vii
ABSTRACT	viii
<b>CHAPTER ONE: INTRODUCTION</b>	1
1.1 Background	1
1.2 Statement of the Problem	<b>Error! Bookmark not defined.</b>
1.3 Research Questions	<b>Error! Bookmark not defined.</b>
1.4 Objectives of the Study	<b>Error! Bookmark not defined.</b>
1.5 Hypotheses of the study	<b>Error! Bookmark not defined.</b>
1.6 Scope of the study	<b>Error! Bookmark not defined.</b>
1.7 Significance of the Study	<b>Error! Bookmark not defined.</b>
<b>CHAPTER TWO: LITERATURE REVIEW</b>	<b>Error! Bookmark not defined.</b>
2.1 Concept of Sexual Violence	<b>Error! Bookmark not defined.</b>
2.2 Sexual Violence Types	<b>Error! Bookmark not defined.</b>
2.3 Causes of Sexual Harassment	<b>Error! Bookmark not defined.</b>

2.4 National Security	<b>Error! Bookmark not defined.</b>
2.5 Theoretical Explanation of Sexual Violence Behavior Personality Theories (Attachment theory)	<b>Error! Bookmark not defined.</b>
2.5.1 Behavioral Theories	<b>Error! Bookmark not defined.</b>
2.5.2 Self-regulation is another behavioral theory that has been applied to	<b>Error! Bookmark not defined.</b>
2.5.3 Sexual Violence: A Challenge to Sustainable National Security and Development	<b>Error! Bookmark not defined.</b>
<b>CHAPTER THREE: METHODOLOGY</b>	<b>Error! Bookmark not defined.</b>
3.0 Introduction	<b>Error! Bookmark not defined.</b>
3.1. Philosophy & approach	<b>Error! Bookmark not defined.</b>
3.2 Research Approach	<b>Error! Bookmark not defined.</b>
3.2 Research design	<b>Error! Bookmark not defined.</b>
3.3 Population and sample size of the study	<b>Error! Bookmark not defined.</b>
3.4 Research Instrument	<b>Error! Bookmark not defined.</b>
3.5 Reliability of Research Instrument	<b>Error! Bookmark not defined.</b>
3.6 Method of Analysis	<b>Error! Bookmark not defined.</b>
3.7 Diagnostic tests	<b>Error! Bookmark not defined.</b>
3.7.1 Test for normality	<b>Error! Bookmark not defined.</b>
3.7.2 Test for Linearity	<b>Error! Bookmark not defined.</b>

3.7.3 Goodness of fit test **Error! Bookmark not defined.**

**CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS** **Error! Bookmark not defined.**

4.1. Introduction **Error! Bookmark not defined.**

4.2. Presentation and Analysis of Result **Error! Bookmark not defined.**

4.3 Diagnostic Test **Error! Bookmark not defined.**

4.3 Discussion of Findings **Error! Bookmark not defined.**

**CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION** **Error! Bookmark not defined.**

5.1. Introduction **Error! Bookmark not defined.**

5.2. Summary of Findings **Error! Bookmark not defined.**

5.3 Conclusion **Error! Bookmark not defined.**

5.4 Recommendation **Error! Bookmark not defined.**

5.5 Recommendation for Further Studies **Error! Bookmark not defined.**

REFERENCES **Error! Bookmark not defined.**

APPENDICES **Error! Bookmark not defined.**

## **ABSTRACT**

The objective of the study is to assess the effect of tax evasion and avoidance on Nigeria's economy. This study adopts survey research design. Used Primary data in form of questionnaire to obtain information from respondent.

The study finds out that tax evasion and avoidance affect Nigeria's economy and also tax evasion and avoidance affect government internally generated revenue.

The study recommends a series of policy measures, including tax reforms aimed at simplifying the tax system, improving tax compliance, and enhancing transparency. Strengthening tax enforcement and promoting financial education are also critical components of a holistic approach to mitigating the adverse effects of tax evasion and avoidance in Nigeria.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background**

Tax is a financial issue and its payment is a civil duty. It is the imposition of a financial burden for the government on individual firms and companies. In general, based, the word tax means any contribution imposed by the government upon individuals and companies for the use of the government to provide facilities or services as rendered by the state. It is not a voluntary payment or donation but an enforced contribution made on the pronouncement or directive of legislative authorities.

Osita (2004:1) stated that taxation may be defined as the compulsory levy by the government through its various agencies in the income, capital or consumption of its subject such as salaries, business profits, interest, dividends, commission regularities, rent, etc.

Taxes, and tax systems, are fundamental components of government revenue generation. Brautigam (2008) has noted, taxes underwrite the capacity of states to carry out their goals; they form one of the central arenas for the conduct of state-society relations, and they shape the balance between accumulation and redistribution that gives states their social character. Thus, taxes build the capacity to provide security, meet basic needs or foster economic development and they build legitimacy and consent helping to create a consensual, accountable, and representative government. A key component of any tax system is the manner in which it is administered (Naiyeju, 2010). Bahi and Bird (2008) state that no tax is better than its administration, so tax administration matters a lot, and an essential objective of tax administration is to ensure the maximum possible compliance by taxpayers of all types with their taxation obligations. Unfortunately, in many countries, tax

administration is usually weak and characterized by extensive evasion, corruption and coercion. In many cases overall tax levels are low, and large sectors of the informal economy escape the tax net entirely (Brautigani, Fjelftand, and Moore, 2008).

A nation's tax system is often a reflection of its communal values and the values of those in power (Ross, 2007). Thus, to create a system of taxation, a nation must make choices regarding the distribution of the tax burden and how the taxes collected will be spent. In democratic nations where the public elects those in charge of establishing the tax system like Nigeria, these choices reflect the type of community that the public or government wish to create. Parkin (2006) states that in countries where the public does not have a significant amount of influence over the system of taxation, that system may be more of a reflection of the values of those in power as governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as businesses, or to redistribute resources between individuals or classes in the population in addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy, or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive (Parkin, 2006).

In a report of the Federal Inland Revenue Services (FIRS) presented to the federal executive council on National Tax Policy for 2009, it says that sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs thus, in this context sustainable development refers to the pattern of revenue generation, which is able to meet the needs of the present generation of Nigerians, without negatively impacting the ability of future generations to meet their own needs. Generally, taxation is regarded as a

sustainable source of Government revenue due to the stability and certainty of the tax system (Aguolu, 1999). Unlike other sources of revenue, taxes are constantly available in so far as economic activity is carried on in society (Cobham, 2005). However, recent developments in the global and local economy which have significantly impacted Government revenue have directed focus on taxation as a sustainable source of income (FIRS, 2009). It is in line with this that the National Tax Policy intends to create awareness of the importance of the role, which taxation can play in securing a stable flow of revenue for the

It could be said that there are three main methods of financial economic expedition open to meet developing countries there are Loans, grants, tax, and other current receipts. Of these sources, tax is perhaps the most important since the level of government expenditure is to a great extent dependent on the ability of the tax system to generate the required revenue at the disposal of the government.

In spite of this benefit from tax, most people still indulge in tax evasion and avoidance. Attempting to avoid some portion of liability or not paying tax will affect the revenue of the government that is the reason why the government frown at the issue of tax evasion and avoidance, and uses its authorities to enforce compliance.

Aronomole and Oluwalayode (2006:39). Define tax avoidance as legal ways by which a taxpayer reduces in tax liabilities.

Tax evasion is deliberate on the part of the taxpayers to reduce their tax liabilities through illegal means or an attempt not to pay the tax due.

The distinction between this tax avoidance and tax evasion is that tax avoidance is not considered a criminal offence whereas tax evasion is a criminal offence.

According to Anyaele (1990:225) a tax may be defined as a compulsory contribution imposed by a government authority on goods, individual and co-operate bodies irrespective of the exact amount of services rendered to the taxpayer in return and not imposed as a penalty for our legal offense. Both direct and indirect taxes are collected for the government in the form of income tax, exercise duty, and import and export duties. Purchase and sales taxes and so on help the government generate a lot of revenue for the smooth administration in the nation.

There are two elements in every form of taxation and that is the base and rate. The tax base is the object which is taxed or a measure of the private sector income or wealth that can be taxed, while the tax rate is the percentage of the measured amount taken off from the tax base. In this case, the money realized from it is used to provide social goods and services, so that everybody both the rich and poor will have equal chances of making use of them, that is the goods and services. They include pipe-borne water, electricity, good roads, hospital, schools, etc. most people in Nigeria have the habit of evading or avoiding tax payment i.e., they always avoiding paying their taxes. With this state of affairs, the various tier of government in the country don't usually generate enough revenue which will enable them to effectively execute all the development projects which are highlighted in their budgets.

It has to be pointed out that the successive Nigeria governments have not made adequate and sincere efforts toward informing the tax dodger or evader on the need for them to pay the taxes. All attention has been directed on the revenue from oil sector while taxes and agriculture, which are supposed to be generating a lot of revenue to the country, are deliberately overlooked.

Also, the researcher wants to look into the problems of paying tax by the public, such problem is: Tax evasion and tax avoidance by the public, poor system of tax collection, and the inability of the government to prosecute tax avoidance.

## **1.2 STATEMENT OF THE PROBLEM**

It has been noted that the tax system in Nigeria has come to play a significant role, as a major source of revenue to the federal government by way of imposing tax on taxpayers and it is for them to pay up the tax.

The act of evading and avoiding tax by most registered companies and some individuals has however affected the revenue base of the government, especially in providing essential services in the society. People naturally prefer to reduce their tax liabilities by deliberately overstating their expenses and make false entries and fictions in their books of account. Thus, their act, however, causes a tremendous reduction in the revenue accruable to the government which eventually shrinks revenue to the treasure of the government.

The inability of the revenue board to collect a substantial amount of money from tax is as a result of evasion and avoidance of tax. This research work examines the problems facing the revenue department in collecting taxes and levies under their jurisdiction with a view to identifying possibilities at minimizing or even eradicating tax evasion and avoidance.

## **1.3 RESEARCH QUESTION**

For this research work to be effective it pleases the researcher to ask the following question

1. To what extent does tax evasion and avoidance affect Nigeria's economy?
2. What are the possible effects of tax evasion and avoidance on the economic development of the country?
3. To what extent do tax evasion and avoidance affect government internally generated revenue?

#### **1.4 OBJECTIVE OF THE STUDY**

The main objective of the study is to assess the effect of tax evasion and avoidance on Nigeria's economy.

1. To ascertain the extent tax evasion and avoidance affect Nigeria's economy.
2. To know the possible effects of tax evasion and avoidance on the economic development of the country.
3. To find out the extent tax evasion and avoidance affect government internally generated revenue.

#### **1.5 STATEMENT OF HYPOTHESES**

The following hypothesis were stated in Null form

**H<sub>01</sub>** There is no relationship to the extent tax evasion and avoidance affect Nigeria's economy.

**H<sub>02</sub>** There is no possible effects of tax evasion and avoidance on the economic development of the country.

**H<sub>03</sub>** There is no extent to which tax evasion and avoidance affect government internally generated revenue.

#### **1.6 SCOPE OF THE STUDY**

Since no single research can validly cover all areas of the topic the researcher tends that thrust of this project will be limited within the scope of how taxpayers' performance on tax is influenced by the choice of its tax system.

The study will assess the impact of tax evasion and tax avoidance on Nigeria's Economy and how they affect revenue generation, economic growth, and development, as well as how to curtail and reduce the level of evasion and avoidance in the tax system. It will examine the consequences of tax evasion on individuals and organizations that are into the acts of tax evasion and avoidance.

The study will assist policymakers in developing policies that encourage the payment of taxes and also serve as a piece of first-hand information to other students embarking on this study in the future.

### **1.7 SIGNIFICANCE OF THE STUDY**

This research work would be relevant to various tax authorities; the Federal Board of Inland Revenue, the Local Government revenue committee as well as their tax officials who are responsible to collect tax on individual or corporate bodies. It gives them insight on how to improve the tax administration.

The research would also help professional bodies like the Chartered Institute of Taxation of Nigeria and the Institute of Chartered Accountants of Nigeria as well as their members to see the areas of deficiency in the collections and call for improvement in tax revenue.

This research would also be relevant to future researchers and the dents of accounting, economics, business administration, and other social and management sciences as well as the legislation which will also benefit immensely from this research because it will form the basis of tax policy formation, implementation, and administration.

## 1.8 LIMITATION OF THE STUDY

It is not unusual for researchers to encounter some difficulties in a course at their research and these may include.

- i. Finance: This is always a major limitation in a study of this nature, since the individual may not have enough money to carry out all the necessary research.
- ii. Inadequate data: There are areas where data is available but which the researcher cannot lay hands on because the relevant information is sometimes termed confidential and unavailable to outsiders.
- iii. Lack of co-operation: By some of the respondents to whom he administered certain copies of his questionnaire and vocal interview.
- iv. Delay in giving back some of the copies of the questionnaires for some of the respondents.

## 1.9 DEFINITION OF TERMS

In order to aid understanding of this research work by the user, special terms used in this study are defined,

**Tax:** this is a compulsory contribution imposed by the government on individual and corporate bodies for the use of the government to provide facilities or services in the nation.

**Tax evasion:** this is the attitude adopted by taxpayers to deliberately misrepresent the true state of their affairs to the tax authorities or includes dishonest tax reports such as declaring less income, profit, or gains to escape tax liability (wholly or partially) by breaking the law.

**Tax avoidance:** this is a legal way by which a taxpayer reduces his tax liabilities.

**Tax liability:** this is the amount that is borne by the taxpayer

**PAYE (pay as you earn):** this type of tax is based on the earning of the taxpayer.

Tax laws: these are acts decrees or regulations guiding the assessment and collection of taxes in the country.

**State inland revenue:** the body responsible for the collection of tax at the state level.

**Federal inland revenue:** the body responsible for the collection of tax at the federal level

**Revenue:** the amount of money realized by an individual or group or company

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter entail the conceptual framework, review of literature, empirical studies and theoretical framework.

#### **2.2. Conceptual framework**

##### **2.2.0 Tax Evasion and Avoidance**

Tax evasion and avoidance are a worldwide phenomenon. The problem is especially acute in transition and developing economies, since they do not have an appropriate infrastructure in place to collect taxes (McGee and Tyler, 2006:1). Tax avoidance is the legal arrangement of the taxpayer's affairs in order to minimize the tax liability, whereas tax evasion is illegal. Sometimes, however, the borderline between avoidance and evasion can become blurred, a fact that is evidenced by the huge body of anti-avoidance legislation and the development of case law in this area (Nightingale, 2003:44).

##### **2.2.1 Tax evasion**

Tax evasion involves the intentional disregard of the legislation in order to escape the liability to tax. Tax evasion may be achieved by understating income, overstating expenses, making false claims for allowances or failing to disclose a chargeability tax. Because of its illegal nature, there is little hard evidence as to measure the true extent of tax evasion. Whatever the actual level of

evasion, it is likely to be more prevalent when the tax system is perceived to be unfair or levied at confiscatory rates (Nightingale, 2003:44). Tax evasion is illegal and the offender may be liable to prosecution, however, the authorities will usually only resort to criminal prosecution where the case involves substantial amount of lost revenue, many minor cases of tax evasion that are discovered by the revenue are generally steered out of court. The most common form of tax evasion in Nigeria is through failure to render tax returns to the Relevant Tax Authority. A tax evader may be charged to court for criminal offences with the consequent fines, penalties and at times imprisonment being levied on him for evading tax (Faseun, 2001). And as observed by Sosanya (1981): Tax evading has become the favourite crime of the Nigerian, so popular that it makes armed robbery seem like minority interest. It has become so widespread that there now exist a cash economy of vast proportions over which the taxman has no control and which is growing at several times the rate of the national economy. No doubt, tax evasion and avoidance had robbed the Nigerian government of substantial tax revenue. According to the Nigerian Stock Exchange, 85 percent of corporate tax revenue in the country accrues from the 257 companies listed on the exchange compared to the 30,000 companies registered with the Corporate Affairs Commission. This is a serious indictment of the administrative machinery and capacity of the tax authorities in Nigeria.

### **2.2.2 Determinants of Tax Evasion**

In the standard approach to tax evasion a risk-averse individual chooses either the amount or the share of income to be concealed so as to maximize his or her expected utility of income, considering

- i. The probability of detection,
- ii. The penalty tax rate applied when tax evasion has been detected,
- iii. The marginal tax rate, and
- iv. The level of true income

All theoretical studies conclude that both the probability of detection and the penalty tax rate will negatively affect underreporting of income (Hennemann 1996: 162). That is, if taxpayers believe the probability of detection is low they will tend to underreport. In addition, if the penalty tax rate applied when tax evasion has been detected is low again taxpayers might tend to underreport. When underreporting is measured by the absolute amount of income concealed, a risk-averse individual experiencing an increase in his or her true income will underreport more.

### **2.2.3 Tax Avoidance**

A tax such as VAT can be avoided simply by not buying the taxed good or services. The arrangement of an individual's affairs so as to mitigate the liability to tax is tax avoidance, and provided that the taxpayer acts within the framework of the law, tax avoidance is legal. However, where the activity is within the letter of the law but outside the spirit of the law, the distinction between avoidance and evasion may become blurred (Nightingale 2003:46). Many forms of tax

avoidance are merely tax planning opportunities that exist in the legislation for reducing the liability to tax, for example, choosing the most tax efficient savings and investments, or making sure that all available relief are used to their full advantage. However, loopholes in the legislation also create opportunities for tax avoidance. However, once loopholes have been exploited, the revenue reacts by introducing legislations to close those particular loopholes. The increasing body of anti-avoidance legislation merely makes the tax system more complicated, detracting from the cannon of simplicity even though it has been suggested that ‘an economy breaths through its loopholes’. The tax avoidance industry grew to enormous proportions during the 1970s as high rates of tax made the cost elaborate avoidance schemes worthwhile, supporting the view that ‘the existence of wide spread avoidance is evidence that the system, not the taxpayer, stand in need of radical reform.

General anti-avoidance rules have been tried in Australia, New Zealand and Canada with little success, which would indicate that targeted legislation may be more desirable. However, the policy makers are faced with the dilemma of how wide or narrow anti-avoidance legislation should be; too narrow and it may fail in its objectives, too wide and it may well be applied to situations for which it was not intended. Whatever steps are taken to counter tax avoidance the principles of certainty of taxation would require a definition of legitimate tax planning which may be difficult to frame as ‘the boundaries move with public sentiment’ with developing financial techniques and

with the introduction of new statutory relief. Tax law will always have to address this equation and to determine where the line will be drawn. (ibid: 47)

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 taxpayer's income from greater liability which would have been otherwise incurred (Kielbaso, 2001). Ani (1983) 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.

Thus, it is clear that tax avoidance is legal or at least not illegal since one is mostly probably using the tax laws to limit his tax liability under the same laws. Examples of tax avoidance include: Seeking professional advice; reducing one's income by submitting claims for expenses in earning the income: increasing the number of one's children (in Nigeria the maximum allowable is four) and taking additional life assurance policies.

Tax avoidance is thus considered to be a matter of being sensible. While the law regards tax avoidance as a legitimate game tax evasion is seen as immoral and illegal. Tax evasion is an outright, dishonest action whereby the taxpayer endeavours to reduce his tax liability through the use of illegal means. According to Farayola (1987), tax evasion is the fraudulent, dishonest,

intentional distortion or concealment of facts and figures with the intention of avoiding the payment of or reducing the amount of tax otherwise payable. Tax evasion is accomplished by deliberate act of omission or commission which in them constitutes criminal acts under the tax laws. These acts of omission or commission might include: failure to pay tax e.g. withholding tax; failure to submit returns; omission or misstatement of items from returns; claiming relief (in Personal Income Tax), for example, of children that do not exist; understating income; documenting fictitious transactions; overstating expenses; failure to answer queries (Aguolu, 1999).

### **2.3 Nigerian Tax System**

The Nigeria political environment embraces the federal system of governance; hence her fiscal operations adhere to the same principle which has severe consequences on the tax management system in the country (Oduola, 2017). Government's fiscal policy is based on the three-tiered tax structure i.e. the Federal, State and Local Governments, each of which has different tax jurisdictions (Enahoro and Olabisi 2012). They further state that in 2002, almost 40 different taxes and levies are distributed among all three levels of government.

Oduola (2017) opined that tax system in Nigeria is characterized by avoidable complexity, distortion and largely inequitable tax laws that have limited application in the informal sector that dominates the economy. According to Abubakar (2018), the Nigerian tax system has experienced remarkable variations in recent times. The tax system is the process of taxation which involve sets

of rules, regulations and procedures with the organs of administration intermingling with one another to generate fund for government (Agbetunde 2017). The Nigerian tax system is of multi activities which include tax administration tax laws, and tax policies (Adesola, 2014). Under current Nigerian law, taxation is enforced by the three tiers of Government, that is. Federal Government, State Government, and Local Government with each tier of Government having its sphere clearly writing out in the Taxes and Levies (approved list for Collection) Act, 1998 (Abubakar, 2018). Based on the structure of Nigerian Tax system for revenue generation.

Naiyeju, (2015) and Odusola, (2017) opined that the system is lopsided, and dominated by oil revenue. They further said that the most veritable tax handles are under the control of the federal government while the lower tiers are responsible for the less buoyant sources, meaning that the federal government collects tax from corporate bodies while state and local governments' tax individuals. In their work, the federal government on the average accounts for ninety per cent of the total tax revenue collected annually but, only accounts for about seventy per cent of total government expenditure.

Generally, the tax system of Nigeria comprises of the tax policy, tax laws and tax administration as observed by Akintoye (2016). The effective administration of existing tax laws will lead to efficient harnessing of tax resources in Nigeria according to Okauru (2014). Inefficient tax administration over the years has been identified as the reason for low tax revenue yield, as opined

by Garde (2004), who posited that, dismal tax collection is reflective of tax administration performance and public service in Nigeria. Various reforms to position tax as major revenue earner has not produced the expected result. (Ola 2017), Azubike (2015), submitted that, the ever-increasing needs of governments across the three tiers of government to provide infrastructures and quality services requires tax reforms that is an on-going process and changes according to the dynamics of the society. Historically, taxes have been used as policy instruments to achieve some set objectives such as raising revenue for public expenditure or redistribution of wealth or sectorial allocation of resources. In the opinion of Azubike (2018), Governments need to raise revenues to enable them to discharge their obligations to provide funding for infrastructure, education and public health, and in some cases, there is still much to do to reduce the significant public deficits which persist. However, in a world which has now truly embraced globalization, some governments also see a need to put in place tax systems which are seen to be efficient, can help to attract investment, and in turn can help foster economic growth. A sensible business tax system is not just about attractive tax rates but also tax rules which are simple and easy to comply with.

The central objectives of Nigeria tax system is the appropriate utilization of revenue for the common good and enhancement of the people's well-being. The presidential committee on national tax policy (2008) cited in Azubike, (2015), stated that the central objectives of Nigeria tax policy are; contribute to the wellbeing of all Nigerians directly through improved policy formulations and

to enhance the wellbeing of the populace indirectly through the appropriate utilization of tax revenue. Further objectives include;

1. Generate stable revenue resources needed by government to accomplish laudable projects and or investment for the benefit of the people.
2. Encourage economic growth and development.
3. Provide economic stabilization.
4. To pursue fairness and distribute equity.
5. Correction of market failure and imperfections.
6. To meet these objectives, Nigeria requires a highly efficient tax administrative system. The current efforts at repositioning tax as the major revenue earner in Nigeria, has not yielded the desired result, therefore, this study is needed to add to the body of knowledge on the subject matter.

### **2.3.1 Relevant Tax Authorities**

- i. Joint Tax Board
- ii. The Federal Board of Inland Revenue,

### **2.3.2 The Federal Inland Revenue Service Board (FIRSB)**

The Board was first established under Section 3 of the repealed Income Tax Administration Ordinance 1958 and amended by subsequent Acts and Decrees. The Finance (Miscellaneous

taxation provisions) (Amendment) Decree No.3 of 1993 provided for an operational arm to be known as the Federal Inland Revenue Service. The board administers federally collected tax revenue through the executive arm known as the Federal Inland Revenue Service. They administers taxes such as Value Added Tax(VAT), Company Income Tax (CIT), Education Tax (EDT) ,Capital Gains tax (CGT),Withholding tax (WHT) and Petroleum Profits Tax(PPT). (Ojo, 2017).

### **Composition**

- i. An Executive Chairman who shall be a person within the service experienced in taxation to be appointed by the President.
- ii. The Directors and Heads of Departments of the service.
- iii. The Officer from time to time holding or acting in the post of Director with responsibility for planning, research and statistics matters in the Federal Ministry of Finance.
- iv. A member of the Board of the National Revenue Mobilization, Allocation and Fiscal Commission.
- v. A member from the Nigeria National Petroleum Corporation, not lower in rank than an Executive Director.
- vi. A Director from the National Planning Commission.
- vii. A Director from the Department of Customs and Excise.
- viii. The Registrar-General of the Corporate Affairs Commission (CAC).

- ix. The Legal Adviser who shall be an ex-officio member of the Board.

### **Duties**

- i. Advising the Federal Government through the Minister of Finance on tax matters which include any amendment to the existing law.
- ii. Assessment and collection of company's income tax.
- iii. Issuing instructions on the financial aspects of assessment including interpretation on income tax Acts.
- iv. Reviewing and approving the strategic plans of the service.
- v. Employ and determine the terms and conditions of service including disciplinary measures of the employees of the service.
- vi. Do such other things, which in its opinion are necessary to ensure the efficient performance of the functions of the service under the Act.

### **2.4 Tax Policy Reforms and Institutional Development**

The need to address the problem of low tax returns motivated the Federal government to embark on a number of reforms to existing tax laws. According to Alii (2016). the objectives of tax reforms in Nigeria include: to bridge the gap between the national development needs and the funding of the needs; to ensure taxation, as a fiscal policy instrument, to achieving improved service delivery to the public; to improve on the level of tax derivable from non-oil activities, vis-a- vis revenue

from oil activities; efforts at constantly reviewing the tax laws to reduce/manage tax evasion and avoidance; and to improve the tax administration to make it more responsive, reliable, skillful and taxpayers friendly and to achieve other fiscal objectives.

## **2.5 Federal Government Collection Taxes in Nigeria**

Buba (2017) accentuate the fact that the development of the private sector which is the main engine for national development growth and wealth creation requires large investment in areas like infrastructure, energy, and power. Investment of this magnitude can only come from government. In order to enhance the level of income of the poorer sections of the society, sufficient investment is also required in sectors like education, health and others that can generate employment. The government can successfully implement all these projects if only it can raise the required revenue whose major source is tax. According to Olawunmi & Ayinla (2017), policy guidance represents the objective of economic policy.

## **2.6 REVIEW OF LITERATURE.**

### **2.6.1 TAX EVASION AND THE ECONOMY.**

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 (Klabel and Nwokah, 2009). Avoidance takes the form of investment in arts

collection, emigration of persons and capital. And as observed by Toby (1983) the taxpayer 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 and companies declare higher dividends and individuals have a high take home profit. This increases 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 (Toby, 1983).

Tax evasion is an economic crime, perhaps the most common economic crime, and it appears to be a large and growing problem, both in the United States and elsewhere. Despite obvious difficulties in measurement, the Internal Revenue Service (1990) estimates for the United States that the tax gap, or the amount of unpaid federal income taxes, was between \$83 billion and \$93 billion in 1987, and had grown at an average annual rate of over 10 percent over the last two decades; more recent estimates by the Internal Revenue Service (1993) put the tax gap in 1991 at over \$111 billion. Similar work for other countries suggests that tax evasion is an even more severe problem elsewhere (Tanzi 1982; Feige 1989). Such underreporting has a variety of harmful effects: it reduces the tax revenues of the government, it affects public provision of goods and services, it creates misallocations in resource use, it alters the distribution of income in unpredictable ways, it increases feelings of unfair treatment by government, and it generates disrespect for the law.

Following the publication of a seminal theoretical essay on tax evasion by Mittone (2006) the topic of tax evasion has been examined from the taxpayer's perspective as a form of game theory in which the taxpayer must determine whether or not to avoid paying taxes. That is to say, the decision to pay the tax is now similar to the decision to buy a lottery ticket. The sensible person will weigh the benefits and drawbacks of each option before settling on a choice. The goal here is to provide the greatest benefit to the taxpayer possible. Taxes are the primary source of funding for public goods like the maintenance of law and order and public infrastructure, but in a context where many governments must deal with declining revenue, rising expenditures, and resulting fiscal constraints, raising revenue remains the most important function of taxes. Assuming a certain level of income that must be produced, which is dependent on the larger economic and fiscal policies of the country in question, a wide range of broad tax policy considerations have traditionally driven the development of taxing systems. Neutrality, efficiency, certainty and simplicity, efficacy and fairness, and flexibility are all examples of these traits. These overarching principles formed the basis for the 1998 Ottawa Ministerial Conference and are now known as the Ottawa Taxation Framework Conditions in the context of the work leading up to the Report on the Taxation of Electronic Commerce (Mansell, 2001). It was determined that these standards were adequate for assessing tax issues associated with electronic commerce at the time. In addition to these widely acknowledged concepts, equality is also a significant factor in the creation of tax policy. Taxation

should aim for neutrality and equity among business activity. An optimal allocation of production means is facilitated by a neutral tax, which in turn contributes to efficiency (Sun, Guan, Cao, & Bao, 2022). When a change in prices leads to a different shift in supply and demand than would occur in the absence of tax, a distortion and the associated deadweight loss result. Furthermore, a neutral tax system is one that does neither favour nor disadvantage any one economic activity. To ensure fairness and consistency, the same tax rules should be applied to all business entities, while taking into account any unique aspects that may arise (Beckman, Ivanic, & Jelliffe, 2021). Businesses should spend as little as possible on compliance, and the government should spend as little as possible on administration. Individuals and businesses benefit from a simpler tax system since it is easier to understand their responsibilities and rights. As a result, businesses are more likely to respond appropriately and make the best possible decisions. Because of this complexity, aggressive tax preparation is often promoted, which may lead to unnecessary economic expenditures. The goal of taxes is to raise the right amount of money at the right time while avoiding inadvertent non-taxation and double-taxation.

Additionally, it is important to reduce the possibilities of flight or hiding. Furthermore, the tax system's enforceability is crucial for its efficiency because it influences tax collection and administration. The tax structure should be flexible and dynamic enough to accommodate new technologies and industries. As governments' revenue needs evolve over time, it is essential that

their tax structure can keep up. Despite the unpredictability of future developments, it is essential that the system's structural elements be robust in a shifting policy context while yet allowing governments to adjust as necessary to stay up with technology and economic advancements. Tax policy frameworks should also give careful consideration to issues of fairness. Horizontal equity and vertical equity are the two main types of equity (González-Sánchez, Medina-Salgado, & SGarcía-Muiña, 2021). If we're talking about horizontal fairness, then everyone in the same tax bracket should pay the same rate. Users may have different interpretations of the normative concept of vertical equity. In the opinion of its proponents, it suggests that the wealthiest taxpayers should pay a larger share of the tax burden in relation to their income. Whether or if it should be applied to income acquired during a given period or lifetime income, and the extent to which different countries aim to minimize economic disparities all influence how vertical equality is understood in practice. The distribution of wealth is made more equitable through the institutionalization of transfer and income taxation. The term equity can also be applied to relations between countries (Jansen, Bulder, & Müsgens, 2020). Although tax evasion is a problem for all tax systems, the predominance of corrupt activities in Africa makes Africa's position unique, as reported by (Shandu, Maluleke, & Lekgau, 2019). The most difficult aspect of direct personal taxation as it is practiced in Africa is assessing and collecting taxes from the self-employed, including business owners, contractors, and professionals like lawyers, doctors, accountants, architects, and store

owners. As pointed out by Hitchcock (2022) many self-employed people openly avoid paying taxes by reporting annual losses, while others maintain a level of lavish spending that is at odds with their reported income, which is sometimes implausibly low given the nature of their businesses. The effect of bonus tax regimes on revenue generation is analysed by (Ogolo, 2021). He contends that this justification for bonus programs should be rejected since it undermines trust in government and reduces tax collection in the long run. It is quite unlikely that sustainable development can arise from an institutional framework that favours corruption and extra-legal tax enforcement (Karpoff, 2021).

## **2.7 Review of Empirical Studies**

Onyeka and Nwankwo (2016) conducted a study to examine the impact of tax evasion on growth of the Nigerian economy. The study adopted the ex-post facto design where data were collected from Central Bank of Nigeria Statistical Bulletin for the period 1999 - 2012. The Ordinary Least Square Regression (OLS) model was used to test the hypothesis. The result emanating suggested that tax evasion had negative significant effect on growth of the Nigerian economy. The study recommended among others that government policies and measures as it relates to fiscal policies in the country be streamlined to motivate economic growth and development by ensuring that they are made towards growth of the economy.

Chukwudi (2016) had a study to examine the sustainable infrastructural development for sustained economic growth in Ado-Odo Ota local government area, Ogun state. The acute shortage of infrastructure constitutes the major threat to survival in the local government area. The perceptions of the population in this study comprised of tax payers and tax officials in the state. A structured questionnaire was used to collect the opinions of seventy (70) respondents in the study area. The data collected was analyzed using simple percentage where the hypotheses formulated were tested using chi-square statistical tool at 0.05 level of significance. The findings revealed that tax evasion had negative impacts on sustainable infrastructural development from short to long-run effects. The study recommended that taxes should be paid correctly and as at when due because greediness and selfishness constitutes one of the major reasons of tax evasion in the state.

Mansur (2016) conducted a study to examine the factors influencing tax evasion in Gombe state. The research adopted a survey research design. Questionnaires were utilized to collect primary data from 303 randomly selected personal taxpayers from public and private sectors in the state. The findings revealed that tax system, income and education levels have significant positive relationship with tax evasion. The study recommended that adequate measures should be mounted by the tax administration in the state to improve revenue generation to reduce tax evasion.

Sylvester (2016) Conducted an empirical study on Tax evasion and Avoidance on Revenue generation in Nigeria. A widely held opinion /views have it that the taxable adults and

establishments in Nigeria, evade and avoid tax payment, depriving the government revenue. However, the two evils exist as observed but difficult to determine the precise amount being evaded and avoided. It was however determined that the causes of tax evasion and avoidance were poor fiscal policies, government and tax payers' attitudes and the administrative inefficiencies. It therefore concluded that tax evasion and avoidance are responsible for reduced government tax revenue in Nigeria.

Obafemi (2014) had a study to examine the impact of tax evasion and avoidance on Nigerian economic development. A survey study design was used where responses obtained was from the use of structured questionnaire administered to 150 respondents. Findings showed that tax evasion and avoidance have negatively affected economic growth and development in Nigeria. It also revealed that lack of good governance and unpatriotic act of tax payer, are the bases for which tax evasion and tax avoidance are perpetrated. The study therefore recommends that the government should embrace and promote good governance so as to encourage voluntary compliance of tax liability by the tax payers.

Imam, Gulani & Baba (2014) had a study to assess the view of tax authority and self employed persons in the state. The study used both primary and secondary sources. Respondents were sampled from the state through the use of purposive and convenience sampling methods and to whom questionnaires were administered and responses were subjected to statistical analysis using

SPSS version 20 and hypothesis tested using chi-square method. The study revealed significant evidence that taxpayers did not file tax returns to government, and good tax strategy could significantly promote voluntary taxpayer compliance in the state. The study recommended that government should consider public relations, tax education, tax consultation, guidance and counseling, enforcement of penalty provision for errant taxpayers and training and work condition for tax authority staff as part of its strategy for improving taxpayer compliance in the state.

## **2.8 Strategies of tax avoidance**

Tax avoidance involves legal methods used by corporations and individuals to minimize their tax liabilities within the boundaries of the tax law. While tax avoidance is not illegal, it can sometimes involve exploiting loopholes or using complex financial structures to reduce tax payments. Here are some common tax avoidance strategies used by corporations and individuals:

1. **Transfer Pricing:** Multinational corporations often engage in transfer pricing, where they manipulate the prices of goods, services, or intellectual property transferred between their subsidiaries in different countries. This allows them to shift profits to jurisdictions with lower tax rates, reducing their overall tax burden in higher-tax countries.
2. **Tax Havens and Offshore Accounts:** Corporations and wealthy individuals may establish subsidiaries or accounts in countries with low or zero tax rates, known as tax havens. They

can route income, royalties, or capital gains through these jurisdictions to benefit from reduced taxation.

3. **Shell Companies and Special Purpose Vehicles (SPVs):** These entities are often set up for specific transactions or investments and can be used to move profits, assets, or debts in a way that minimizes tax liabilities.
4. **Hybrid Mismatches:** Taking advantage of differences in tax treatment between different countries, entities may structure financial instruments or transactions in a way that leads to double deductions or deductions without corresponding income inclusion, effectively reducing taxable income.
5. **Debt Shifting:** Corporations might manipulate their financial structure to shift debt to high-tax jurisdictions, where the interest payments on the debt can be deducted from taxable income, thus reducing their tax liability.
6. **Use of Tax Credits and Incentives:** Corporations can leverage tax credits, deductions, and incentives offered by governments to lower their tax obligations. These credits and incentives are often intended to promote specific activities, such as research and development, renewable energy investments, or job creation.

7. **Artificial Loss Creation:** Creating artificial losses through transactions such as loss-making deals or investments, which can then be offset against taxable income in order to lower the overall tax liability.
8. **Complex Financial Instruments:** Corporations may employ complex financial instruments, like derivatives or structured financial products, to manage their income recognition timing and reduce their tax liabilities in specific years.
9. **Income Deferral:** Delaying the recognition of income or accelerating expenses to different tax years can lead to lower current tax liabilities, though it might result in higher taxes in the future.
10. **Real Estate Investment Trusts (REITs):** REITs are investment vehicles that receive favorable tax treatment in many jurisdictions. Corporations or individuals can invest in real estate through REITs to benefit from tax advantages

## **2.9 Theoretical Framework**

A lot of theories have been propounded by so many researchers to study taxation, but this study reviewed and adopted the ability to pay, the benefit, and equal distribution theories because of their high level of relevance to the current study.

### **2.9.1 Ability to Pay Theory**

This theory says that taxation should be levied in accordance with an individual's ability to pay. It says that public spending should come from "him that hath" instead of "him that hath not" (Anthony & Bridget , 2009).. The theory 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 (1767-1832) and the English economist John Stuart Mill (1806-1873). This is indeed the foundation of 'progressive tax,' as 'the tax rate increases by the increase of the tax base. This theory is indeed the most equitable tax system, and has been widely used in industrialized economies. The usual and most supported justification of ability to pay is on basis 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 use. However, there is no solid approach for the measurement of the fairness of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as: Each taxpayer surrenders the same absolute degree of utility that she or he obtains from her or his income; Each sacrifice the same proportion of utility she or he obtains from her or his income; Each gives up the same utility for the last unit of income; respectively as cited in (Adebisi & Gbegi, 2013).

## **The Benefit Theory**

According to Anthony & Bridget , (2009), individuals may be required to submit their taxes in proportion to the utility being enjoyed from the services provided by the government. This should be based on the postulation that there is an exchange relationship between the taxpayer and the government. Government deliberates some benefits to the taxpayers by providing different services and other so-call social goods. Moreover, this theory professes and advocates that equity or fairness in taxation stresses that an individual would be required to submit a tax in proportion to the welfare he receives in return from the services provided by the government. Despite the theory is seen as interchange relationship between taxpayer and the government, a lot of difficulties were identified in applying the theory. The major problems confronting this principle of utility or benefit approach is how to quantify and measure the enjoyed benefit by taxpayers from the services provided by the government. For example, on which scale taxpayer benefit would be measured for enjoying national security and education, maintaining law and order and other social infrastructure-all provided by government. Furthermore, various expenditures incurred by government in rendering services, their benefits are indivisible which course the expenditures also not possible to be divided. This could only show that people are always encouraged by paying taxes to the government for the continuity of the community prosperity. However, the theory can only be really applied in a situation where the beneficiaries are easily and clearly traceable. For instance, it can be applied to

the road taxes collected from owners of vehicles. Also principle of benefit approach can be applied to the workers who have a network of social security programs. Therefore, this principle can only render restricted solution to the issue of equity and fairness in the domain of taxation as cited in (Gurama, Mansur & Pantamee, 2015).

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter entails the procedures and methods adopted in the study. It consists of the research design population of the study, sample and sampling techniques, the sources of data collection, the administration of questionnaire and techniques for data analysis.

#### **3.2 Research Design**

According to Izedonmi (2005) a research design specifies the methods and procedures used to acquire the information needed for the research. The research design adopted in this study is survey design in order to give insight into the research. It is opted for because it uncovers data, integrate and brings out inter relationship among variables.

#### **3.3 Population and Sample of the Study**

Parastatals in Edo State constitute the population of the study. A total of one hundred respondents shall randomly be sampled from UBTH in Edo state. The sample procedure adopted in the study was convenience sampling method, reason for that is because of the ease and accessibility of the research to obtain information from respondents.

### 3.4 Sources of Data

In generating data, the primary source of data is employed through the administration of questionnaires and in this study the questionnaire is the instrument used in obtaining data from respondent.

The questionnaire will be streamlined into two part A and B. The part A of the questionnaire will deal with respondent social characteristics, part B of the questionnaire will be based on the variables in the research objectives of the study.

### 3.5. Z-Test

The Z-test is a statistical tool that enables the researcher estimate the proportion possessing a particular trait of interest. It is used where the sample size of the study is very large. In testing the hypotheses of a study, the Z-test for population proportion would be adopted because of the large sample size used as stated earlier in the study.

The formula for Z-test is shown below:

$$Z = \frac{p - P_0}{\sqrt{\frac{\bar{p} \cdot \bar{q}}{n}}}$$

Where  $P_0$  = hypothesized proportion  $P_0 = 0.5$

$P$  = Proportion of respondents with affirmative response

$$\bar{P} = \frac{x}{n}$$

$n$  = Sample size

$x$  = Respondents with affirmative response

### **Decision Rule**

The null hypothesis would be accepted if the calculated Z-value is less than the table Z-value but if the calculated Z-value is greater than the table Z-value, the null hypothesis would be rejected while the alternative hypothesis would be accepted.

## QUESTIONNAIRE

Department of Accounting  
University of Benin,  
Benin Study Centre

Dear Respondent,

### **REQUEST FOR YOUR COOPERATION IN COMPLETING A QUESTIONNAIRE.**

I am an undergraduate student undergoing B.Sc Taxation programme, undertaking a research work on ‘the impact of tax evasion and avoidance in the Nigeria economy’. I wish to appeal to you to assist this study by taking a few minutes to fill this questionnaire.

Yours faithfully,

**Njoku Joel Chibuzor**

**Researcher**

*Please tick (✓) or fill where appropriate.*

Sex: Male ( ), Female ( ).

Age: 25 - 35 ( ), 36 - 45 ( ), 46 - 55 ( ), 56 and above ( ).

Marital Status: Married ( ) Single ( )

Educational Qualification: B.Sc/HND ( ) M.Sc ( ) PhD

**SECTION B:**

PLEASE TICK ( ) AS APPROPRIATE USING THE FOLLOWING KEY

SA =STRONGLY AGREE, A =AGREE, U =UNDECIDED, D =DISAGREE,

SD =STRONGLY DISAGREE

S/N	Effects of tax evasion and avoidance on the economic development of the country	SD	D	U	A	SA
<b>Section A</b>						
1	Potential positive and negative economic implications of tax avoidance for a country. How might it influence resource allocation, investment decisions, and overall economic growth					
2	Do you believe that stronger tax regulations and international cooperation can effectively address the challenges posed by aggressive tax avoidance					
3	Do you believe that public awareness campaigns and educational efforts could help reduce instances of tax evasion					
4	Does tax avoidance differ from tax evasion in terms of legality and ethical considerations					

<b>Section B</b>	The impact of tax evasion and avoidance on a government's internally generated revenue:					
1	Tax evasion and avoidance contribute to the reduction of the government's internally generated revenue					
2	There are methods and strategies individuals and businesses use to evade taxes and avoid paying their full tax liabilities					
3	The loss of revenue due to tax evasion and avoidance affect a government's ability to fund essential public services such as healthcare, education, and infrastructure development					
4	Reforms from government could effectively combat tax evasion and avoidance and thereby enhance its internally generated revenue?					

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION OF RESULT

#### 4.1 Introduction

This chapter contains the presentation, analysis and interpretation of the 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. It is a vital part of any research work since it forms the basis for recommendations and conclusion at the end of the research. The preliminary analysis of the data is evaluated using responses from questionnaires analyses.

**Table 4.1: Analysis of responses to question 1; Potential positive and negative economic implications of tax avoidance for a country. How might it influence resource allocation, investment decisions, and overall economic growth.**

	Frequency	Percent	Percent	Cumulative Percent
<b>STRONGLY DISAGREE</b>	27	76.5	76.5	76.5
<b>DISAGREE</b>	14	21	21	97.5
<b>UNDECIDED</b>	7	9.09	9.09	106.59
<b>AGREE</b>	16	18	18	124.59
<b>STRONGLY AGREE</b>	13	35	35	100.0
<b>Total</b>	77	100.0	100.0	

*Source: Field Survey (2023)*

The table above shows that about 35% strongly agree that potential positive and negative economic implications of tax avoidance for a country might influence resource allocation, investment decisions, and overall economic growth while about 76.5% strongly disagree.

**Table 4.2: Analysis of responses to question 2 Do you believe that stronger tax regulations and international cooperation can effectively address the challenges posed by aggressive tax avoidance**

	Frequency	Percent	Percent	Cumulative Percent
<b>STRONGLY DISAGREE</b>	<b>11</b>	<b>14.3</b>	<b>14.3</b>	<b>14.3</b>
<b>DISAGREE</b>	<b>11</b>	<b>14.3</b>	<b>14.3</b>	<b>28.6</b>
<b>UNDECIDED</b>	<b>9</b>	<b>12</b>	<b>12</b>	<b>40.6</b>
<b>AGREE</b>	<b>31</b>	<b>40.2</b>	<b>40.2</b>	<b>60.1</b>
<b>STRONGLY AGREE</b>	<b>15</b>	<b>19.5</b>	<b>19.5</b>	<b>100.0</b>
<b>Total</b>	<b>77</b>	<b>100.0</b>	<b>100.0</b>	

*Source: Field Survey (2023)*

The table above shows that about 19.5 % strongly agree that stronger tax regulations and international cooperation can effectively address the challenges posed by aggressive tax avoidance while about 14.3% strongly disagree.

**Table 4.3: Analysis of responses to question 3; Do you believe that public awareness campaigns and educational efforts could help reduce instances of tax evasion**

	Frequency	Percent	Percent	Cumulative Percent
<b>STRONGLY DISAGREE</b>	7	9.09	9.09	9.09
<b>DISAGREE</b>	4	5.19	5.19	14.28
<b>UNDECIDED</b>	9	12	12	40.6
<b>AGREE</b>	17	22	22	60.1
<b>STRONGLY AGREE</b>	40	52	52	100.0
<b>Total</b>	77	100.0	100.0	

*Source: Field Survey (2023)*

The table above shows that about 52% strongly agree that public awareness campaigns and educational efforts could help reduce instances of tax evasion while about 9.09% strongly disagree.

**Table 4.4: Analysis of responses to question 4 Does tax avoidance differ from tax evasion in terms of legality and ethical considerations**

	Frequency	Percent	Percent	Cumulative Percent
<b>STRONGLY DISAGREE</b>	13	17	17	14.3
<b>DISAGREE</b>	8	10.3	10.3	28.6
<b>UNDECIDED</b>	4	5	5	40.6
<b>AGREE</b>	19	25	25	60.1
<b>STRONGLY AGREE</b>	33	43	43	100.0
<b>Total</b>	77	100.0	100.0	

*Source: Field Survey (2023)*

The table above shows that about 43% strongly agree that tax avoidance differ from tax evasion in terms of legality and ethical considerations while about 17% strongly disagree.

**Table 4.5: Analysis of responses to question 5**

**Tax evasion and avoidance contribute to the reduction of the government's internally generated revenue**

	Frequency	Percent	Percent	Cumulative Percent
<b>STRONGLY DISAGREE</b>	3	3.8	3.8	14.3
<b>DISAGREE</b>	5	8	8	28.6
<b>UNDECIDED</b>	2	2.6	2.6	40.6
<b>AGREE</b>	12	16	16	60.1
<b>STRONGLY AGREE</b>	55	71.4	71.4	100.0
<b>Total</b>	77	100.0	100.0	

*Source: Field Survey (2023)*

The table above shows that about 71.4% strongly agree that tax evasion and avoidance contribute to the reduction of the government's internally generated revenue while about 3.8% strongly disagree.

**Table 4.6: Analysis of responses to question 6 There are methods and strategies individuals and businesses use to evade taxes and avoid paying their full tax liabilities**

	Frequency	Percent	Percent	Cumulative Percent
<b>STRONGLY DISAGREE</b>	6	7.8	7.8	14.3
<b>DISAGREE</b>	13	16.8	16.8	28.6
<b>UNDECIDED</b>	12	15.5	15.5	40.6
<b>AGREE</b>	29	37.5	37.5	60.1
<b>STRONGLY AGREE</b>	17	22	22	100.0
<b>Total</b>	77	100.0	100.0	

*Source: Field Survey (2023)*

The table above shows that about 22% strongly agree that there are methods and strategies individuals and businesses use to evade taxes and avoid paying their full tax liabilities while about 7.8% strongly disagree.

**Table 4.7: Analysis of responses to question 7; The loss of revenue due to tax evasion and avoidance affect a government's ability to fund essential public services such as healthcare, education, and infrastructure development**

	<b>Frequency</b>	<b>Percent</b>	<b>Percent</b>	<b>Cumulative Percent</b>
<b>STRONGLY DISAGREE</b>	<b>14</b>	<b>18</b>	<b>18</b>	<b>14.3</b>
<b>DISAGREE</b>	<b>12</b>	<b>15.5</b>	<b>15.5</b>	<b>28.6</b>
<b>UNDECIDED</b>	<b>11</b>	<b>14.3</b>	<b>14.3</b>	<b>40.6</b>
<b>AGREE</b>	<b>15</b>	<b>19.4</b>	<b>19.4</b>	<b>60.1</b>
<b>STRONGLY AGREE</b>	<b>25</b>	<b>32.4</b>	<b>32.4</b>	<b>100.0</b>
<b>Total</b>	<b>77</b>	<b>100.0</b>	<b>100.0</b>	

*Source: Field Survey (2023)*

The table above shows that about 32.4% strongly agree that the loss of revenue due to tax evasion and avoidance affect a government's ability to fund essential public services such as healthcare, education, and infrastructure development while about 18% strongly disagree.

**Table 4.8: Analysis of responses to question 8; Reforms from government could effectively combat tax evasion and avoidance and thereby enhance its internally generated revenue?**

	Frequency	Percent	Percent	Cumulative Percent
<b>STRONGLY DISAGREE</b>	<b>15</b>	<b>19.4</b>	<b>19.4</b>	<b>14.3</b>
<b>DISAGREE</b>	<b>10</b>	<b>13</b>	<b>13</b>	<b>28.6</b>
<b>UNDECIDED</b>	<b>11</b>	<b>14.3</b>	<b>14.3</b>	<b>40.6</b>
<b>AGREE</b>	<b>31</b>	<b>40.2</b>	<b>40.2</b>	<b>60.1</b>
<b>STRONGLY AGREE</b>	<b>10</b>	<b>13</b>	<b>13</b>	<b>100.0</b>
<b>Total</b>	<b>77</b>	<b>100.0</b>	<b>100.0</b>	

*Source: Field Survey (2023)*

The table above shows that about 13% strongly agree reforms from government could effectively combat tax evasion and avoidance and thereby enhance its internally generated revenue while about 19.4% strongly disagree.

On the basis of the overall statistical significance of the model as indicated by the Z-statistics, it was observed that the overall model was statistically significant since the calculated Z- value of 55.9 was greater than the critical T-value at 5% level of significance. This shows that there exist a significant linear relationship between the dependent variable and all the explanatory variables taken together.

**H<sub>01</sub>**

**H<sub>02</sub>.**

## 4.2 TEST OF HYPOTHESES

The hypotheses of the study were tested using data generated from the field work. The z-test was used in testing the hypotheses at 5% level of significance under the two-tailed test.

**Hypothesis 1** There is no relationship to the extent tax evasion and avoidance affect Nigeria's economy.

The result showed that enforcing tax compliance with a calculated z-value of 7.93 is greater than the critical t-value of 2.0 at 5% level of significance. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that there is relationship between enforcing tax compliance.

### **Hypothesis 2**

**H<sub>0</sub>:** There is no possible effects of tax evasion and avoidance on the economic development of the country

The result showed that there is no relationship between cross border transactions and digital economy with a calculated z-value of 3.87 is greater than the critical t-value of 2.0 at 5% level of significance. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that there is a positive relationship between cross border transactions and digital economy.

### **Hypothesis 3**

**H<sub>03</sub>**. There is no extent to which tax evasion and avoidance affect government internally generated revenue

The result showed that the size and growth of the digital economy, including e-commerce, digital services, and online advertising affects the collection of taxes with a calculated z-value of 7.93 is greater than the critical t-value of 2.0 at 5% level of significance. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that there is relationship between them.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This study examined the effect of tax evasion and avoidance on Nigeria's economy. Tax evasion and avoidance lead to substantial revenue shortfalls for the Nigerian government. This reduces the government's capacity to fund essential public services and infrastructure development, hindering economic growth and poverty reduction efforts.

#### **5.2 Summary of Findings**

The specific focus of this study is to examine the effect of tax evasion and avoidance on Nigeria's economy, the estimation provided the following results:

1. Tax evasion and avoidance affect Nigeria's economy.
2. Tax evasion and avoidance on the economic development of the country.
3. Tax evasion and avoidance affect government internally generated revenue.

#### **5.3 Conclusion**

In conclusion, this study highlights the urgent need for Nigeria to tackle tax evasion and avoidance as integral components of its economic and fiscal policy agenda. By doing so, the government can not only boost its revenue collection but also create a fairer, more equitable, and conducive environment for economic growth and prosperity for all its citizens.

## **5.4 Recommendation**

From the above findings, the study makes the following recommendations:

- Launch public education campaigns to raise awareness about the importance of paying taxes and the negative consequences of tax evasion.
- Promote a culture of tax compliance and responsibility.
- Review and update corporate tax laws to close loopholes and ensure multinational corporations pay their fair share of taxes in Nigeria.
- Consider adopting transfer pricing regulations in line with international best practices.
- Offer tax incentives and benefits to businesses and individuals who voluntarily comply with tax regulations.
- Consider amnesty programs that allow tax evaders to come forward, pay their dues, and avoid criminal prosecution.