

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

**BY**

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BENIN CITY.**

**NOVEMBER, 2025.**

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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 FULFILLMENT OF THE REQUIREMENTS FOR THE  
AWARD OF THE BACHELOR OF SCIENCE (B.SC) DEGREE IN ACCOUNTING**

**NOVEMBER, 2025.**

## **DECLARATION**

I, **Omoike Maxwell ESHIEMOGIE** declare that,

- i. This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of **DR. (MRS) EMOAREHI ERIKI** of the Department of Accounting, Management Sciences, University of Benin, Benin City, Nigeria.
- ii. This work has not been submitted for the award of degree elsewhere.
- iii. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged.
- iv. Any liability arising from this work is to be wholly borne by me alone

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**Omoike Maxwell ESHIEMOGIE**

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**DATE**

## CERTIFICATION

We, certify that this research project was carried out by **Omoike Maxwell ESHIEMOGIE** 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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**Dr. (Mrs) Emoarehi Eriki**  
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**DATE**

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**PROF. O. OBARETIN**  
**(HEAD OF DEPARTMENT)**

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**DATE**

## **DEDICATION**

This project work is dedicated to God Almighty for His abundant grace in my life and for seeing me through my academic pursuit and aspirations. He has been my source of strength and on his wings only I have soared.

## ACKNOWLEDGEMENTS

I would like to express my heartfelt gratitude to these individuals who have supported me throughout this project. First and foremost, I would like to express my deepest gratitude to God, who has blessed me with the ability, resources and resilience to complete this project. May this achievement be a testament of his guidance and grace.

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## ABSTRACT

This research investigates the effects of tax evasion and tax avoidance on Nigeria's economic development, focusing on how these practices undermine government revenue, fiscal stability, and national growth. Taxation remains a major instrument for resource mobilization and economic management in developing nations, yet Nigeria continues to struggle with low tax compliance and weak revenue performance. Despite multiple tax reforms and the introduction of modern administrative frameworks, the Nigerian economy still suffers from pervasive evasion and avoidance, largely driven by legal loopholes, corruption, and ineffective enforcement mechanisms. The study adopted a survey research design, using structured questionnaires distributed to 100 staff members of State Boards of Internal Revenue across the six geopolitical zones of Nigeria. Data were analyzed using descriptive statistics and Chi-square ( $X^2$ ) tests to determine the relationship between tax evasion, tax avoidance, and economic development. The key variables examined included loopholes in tax laws, government spending perception, effectiveness of tax audits, and the impact of lawmaking and tax administration. Findings revealed that tax evasion and tax avoidance have significant negative effects on economic development. Specifically, legal loopholes in tax legislation, weak enforcement capacity, and poor accountability in the use of public funds contribute to persistent revenue losses. Respondents also indicated that inadequate taxpayer education and corruption within tax agencies further erode public trust and compliance. Consequently, the government's ability to finance infrastructure, healthcare, education, and other developmental programs is severely constrained, leading to economic stagnation and increased inequality. The study concludes that curbing tax evasion and avoidance is essential for achieving sustainable development in Nigeria. It recommends that the government strengthen its legal and institutional frameworks, digitalize tax administration processes, enhance transparency in public spending, and intensify taxpayer enlightenment campaigns. Furthermore, the study suggests stronger collaboration among tax authorities, financial institutions, and international bodies to curb profit-shifting and illicit financial flows by multinational corporations. Implementing these measures will promote voluntary compliance, increase revenue generation, and support inclusive economic growth in Nigeria.

**Keywords: Tax Evasion, Tax Avoidance, Economic Development, Fiscal Policy, Tax Compliance, Nigeria.**

# CHAPTER ONE

## INTRODUCTION

### 1.4 Background to the Study

In African nations, fiscal policy has long been regarded as a fundamental tool for achieving broad macroeconomic objectives such as stimulating economic growth, creating employment opportunities, maintaining stable prices on the exchange rates and ensuring balance of payment stability. At the center of these objectives lies the effective management of public revenue, particularly taxation. Persistent challenges, especially tax evasion and avoidance, have severely impeded the attainment of these goals in countries like Nigeria. Nigeria has faced significant fiscal pressure in recent years, particularly due to the volatility and decline in global oil prices. As oil revenue declined, both federal and state governments have been forced to prioritize internally generated revenue (IGR) as a means of financing development and reducing dependence on external borrowing (World Bank 2022).

Taxation is therefore recognized as the most stable and sustainable source of government revenue, offering predictability even during the periods of economic uncertainty (Aguolu, 2024). The emergence of tax evasion and tax avoidance as systematic challenges in Nigeria is rooted in both historical and structural factors. Colonial era tax systems were designed primarily for extractive purposes, with little emphasis on fairness or administrative efficiency. Post independence, Nigeria's rapid urbanization, the growth of informal markets and the expansion of complex commercial transactions outpaced evolution of its tax laws and administrative capacity (Fjeldstad&Moore,2023). As a result, large segments of the economy remain difficult to tax. The informal sector accounts for over 50% of Nigeria's GDP, yet to remains largely outside the formal tax net (ILO,2023). Weak administrative systems, low enforcement capacity and

widespread corruption within tax agencies have further undermined compliance (IMF,2023). Corruption erodes public trust and reduces taxpayers willingness to comply voluntarily reinforcing a culture of non-compliance (Fjeldstad & Moore,2023). Globalization has further complicated the picture. The ability for multinational corporations to exploit gaps between national tax systems through practices such as transfer pricing manipulation and profit shifting to tax haven Has eroded nigeria's tax base. These strategies while sometimes legal under existing laws (tax avoidance), Deprive the country of much needed resources for development (ATAF, 2023; Cobham & jansky,2022). Tax evasion, by contrast, involves deliberate illegal practices such as underreporting income or falsifying accounts to reduce tax liability (Alm & Vazquez, 2001; chiumya, 2006). both evasion and avoidance drain public resources, but they often occur in different forms. Evasion thrives in informal and cash heavy sectors, while avoidance is often engineered through complex command cross-border financial planning by large corporations with professional advisers. These challenges have profound implications for nigeria's economic development. Tax revenue is essential for funding infrastructure, healthcare, education and social Critical foundations for inclusive growth and poverty reduction (UNDP,2023). When revenues are lost to tax evasion and avoidance, governments struggle to deliver these services, deepening inequality and undermining social cohesion.

Moreover, an effective, fair and well enforced tax system contributes to the state's legitimacy and accountability. Citizens are more willing to pay taxes when they perceive that revenue are used transparently to deliver public goods (Bird & zolt, 2008). Conversely, persistent revenue shortfalls limit the government's ability to invest in human capital and physical infrastructure, slowing Economic growth and reducing the country's competitiveness. Strengthening Nigeria stocks framework is therefore critical not only for revenue generation but for sustainable

economic development. This requires addressing the root causes of tax evasion and tax avoidance, including weak administrative capacity, outdated laws, corruption, lack of taxpayers education and the challenges of taxing a large informal sector. It Also requires tackling the global dimension of avoidance through improved transparency, international cooperation and the reforms to loopholes exploited by multinational corporations. Despite various reform initiatives, public resistance to taxation remains widespread. Many taxpayers, both individuals and corporations actively seek ways to minimize their obligations, whether legally or illegally. This persistent culture of tax evasion and avoidance results in significant revenue shortfalls, limiting the government's ability to fulfill its developmental responsibilities and undermining the goal of shared economic prosperity.

## **1.2 Statement of the Problem**

Nigeria continues to face persistent challenges in mobilizing adequate tax revenue to support sustainable development, despite ongoing reforms and policy initiatives (IMF command 2023; world bank, 2022). For decades, the country has recorded low tax to GDP ratios compared to peer economies, with tax revenue often falling below 8% of GDP, well below the sub-saharan African average (OECD, 2022). This chronic revenue shortfall limits government capacity to provide essential services such as infrastructure, health, and education and constrained efforts to reduce poverty and inequality (UNDP, 2023). The Deeper visive culture of tax evasion and avoidance remains a major contributor to this revenue gap. Tax evasion involves illegal practices such as underreporting income and falsifying records, while tax avoidance exploit legal loopholes to reduce obligations without technically breaking the law (Cobahm & jansky, 2022). Recent studies highlight that Nigeria loses billions of dollars annually to illicit financial flows, aggressive tax planning by multinationals on profit shifting to low tax jurisdiction (African tax

administration forum (ATF), 2023). Transfer pricing abuses, in which firms artificially shift profits to tax havens, erode the domestic tax base and undermine fiscal sovereignty. Weak and inefficient tax administration is another critical factor. According to the OECD (2022) and IMF (2023), Nigeria's tax system is characterized by poor enforcement, corruption within revenue agencies, outdated manual processes and limited use of digital technologies, all of which undermine compliance. Corruption in particular, damages public trust, discouraging taxpayers from complying voluntarily (Fjeldstad & Moore, 2023). According to recent estimates (e.g., the 2024 Informal Economy Report by Moniepoint & SMEDAN), businesses in Nigeria's informal sector contribute over 50% of GDP, and the sector accounts for a majority share of employment. However, much of this sector remains untaxed. Many small and micro enterprises operate outside the former tax net due to the cumbersome registration process, lack of awareness and distrust of government institutions. Complex and outdated tax legislation further compounds the problem, creating loopholes that are exploited by well advised corporate actors (ATAF, 2023). Financial professionals, including accountants, lawyers and consultants often facilitate sophisticated avoidance schemes to deprive the government of critical revenue (Cobham & Jansky, 2022). Additionally, low levels of tax literacy and awareness contributes to widespread non compliance and apathy towards tax obligation (UNDP, 2023). Citizens frequently question the value of paying taxes when public services are perceived as inadequate or corruptly administered.

This study therefore intends to tackle the following interrelated problems: Low tax revenue collection in Nigeria which severely limits the government's development capacity, High incidence of tax evasion and avoidance, Inefficient tax administration and weak enforcement, a large informal sector that remains untaxed, Complex and outdated tax laws, corruption within

the tax agencies, Illicit financial flows and profit shifting by multinational corporations, facilitation of tax evasion and avoidance by financial professionals, public resistance and low tax morale, insufficient taxpayer education and awareness, revenue losses that hinder economic development. Collectively, these challenges threaten Nigeria's ability to achieve inclusive growth, reduce poverty and finance critical development priorities. Addressing them requires comprehensive reforms in tax policy, administration, enforcement, governance and public accountability

### **1.3 Objectives of the Study**

The central objective of this study is to examine the economic implications of tax evasion and tax avoidance on Nigeria's economic development and growth.

The specific objectives are to:

1. investigate the loopholes in tax laws on economic development
2. determine the perception of government spending on economic development in Nigeria
3. explore the various tax audits on economic development
4. evaluate the relationship between lawmaking and tax administration on economic development in Nigeria.

### **1.4 Research Questions**

The research seeks to address the following core questions:

1. What are the loopholes in tax laws on economic development in Nigeria
2. What is the perception of government spending on economic development in Nigeria

3. How effective are various tax audits on economic development in Nigeria.
4. To what extent has lawmaking and tax administration impacted economic development in Nigeria.

### **1.5 Statement of Hypotheses**

The following research hypotheses will be stated in their Null form.

HO<sub>1</sub>: There is no significant effect Between the loophole in the tax laws and the economic development in Nigeria

HO<sub>2</sub>: There is no significant impact on the perception of government spending and economic development in Nigeria.

HO<sub>3</sub>: There is no significant impact on the tax audit and economic development in Nigeria

HO<sub>4</sub>: There is no significant difference between lawmaking and tax administration on economic development in Nigeria.

### **1.6 Significance of the Study**

This study is significant for several reasons. Firstly, it provides empirical evidence on the economic implications of tax evasion and tax avoidance in Nigeria, a subject that remains critical for achieving sustainable fiscal and economic development. By identifying the key weaknesses in Nigeria's tax administration, legislation, and enforcement, the study contributes to a deeper understanding of the structural issues that undermine effective revenue mobilization.

Secondly, the research offers valuable insights for policy formulation and implementation. The findings will help government agencies such as the Federal Inland Revenue Service (FIRS), State Boards of Internal Revenue (SBIRs), and the Federal Ministry of Finance to design more efficient and transparent tax policies that minimize leakages and improve compliance.

Thirdly, the study benefits lawmakers and policymakers, by highlighting how legal loopholes and outdated tax provisions can be reformed to strengthen fiscal governance and accountability.

Fourthly, the study contributes to the academic literature on fiscal policy, taxation, and economic development by filling existing gaps on how tax evasion and avoidance affect Nigeria's growth trajectory. It will serve as a useful reference material for students, researchers, and scholars interested in taxation, governance, and development economics.

Lastly, the study is expected to enhance public awareness and tax morale by showing the connection between tax compliance, government service delivery, and national development. When citizens understand how their tax contributions impact public welfare, voluntary compliance and civic trust are likely to improve

### **1.7 Justification of the Study**

The Nigerian tax system is under immense pressure from rising levels of tax evasion and avoidance. It is widely acknowledged that a significant gap exists between projected tax revenues and actual collections. This discrepancy can be attributed to a combination of weak enforcement, corruption, and the facilitation of tax avoidance by financial professionals. This study is therefore essential for several reasons: It aims to expose the role of corporate entities and professionals in perpetuating tax-related offenses. It seeks to highlight how tax evasion and avoidance reduce funding for public infrastructure, utilities, and essential services. The findings will be beneficial to policymakers, tax administrators, corporate stakeholders, and development agencies seeking to enhance the efficiency of Nigeria's tax system. It will serve as a valuable reference for academic researchers, students, and the general public interested in the dynamics of taxation and economic development. Finally, the study will contribute to knowledge on how taxation can be better utilized to promote income redistribution and fiscal sustainability.

## **1.8 Scope of the Study**

This research will focus on a comparative analysis on tax revenue collected by the Federal Government of Nigeria, as well as revenue generated by selected state governments across the country from the period 2014 to 2024, that is five years before and five years after.( 2014 to 2019) and (2020 to 2024).

To ensure comparative and a comprehensive geographical representation, one state was selected from each of the six geopolitical zones: North Central, North West, South East, South West, South South, and the Federal Capital Territory (FCT). Additionally, the study involves the distribution of structured questionnaires to staff members of the State Boards of Internal Revenue in the selected zones. This approach is intended to gather insights into the operational impact of tax evasion and avoidance on revenue generation and to assess the effectiveness of existing tax policies and administration frameworks.

## **1.9 Limitations of the Study**

Like any research, this study is subject to certain limitations that may influence the scope and interpretation of its findings.

### **1. Data Availability and Reliability:**

Access to accurate and up-to-date tax data may be limited due to confidentiality issues, incomplete records, or inconsistencies across federal and state revenue agencies. This may constrain the depth of quantitative analysis.

### **2. Respondent Bias:**

The use of questionnaires and interviews may be affected by the willingness of respondents, especially tax officials, to provide honest and complete information. Some may withhold or distort responses due to fear of exposing institutional weaknesses or misconduct.

### 3. Geographical and Institutional Scope:

Although the study includes one state from each geopolitical zone, the findings may not fully capture variations in tax administration practices across all Nigerian states.

### 4. Time and Resource Constraints:

The study's time frame (2014–2024) and the resources available for fieldwork may limit the extent of data collection and the use of more advanced econometric techniques.

### 5. External Factors:

Economic shocks, such as fluctuations in oil prices, inflation, exchange rate volatility, and political instability, may influence tax revenue performance independently of evasion and avoidance behaviors.

Despite these limitations, the researcher has adopted careful methodological approaches to ensure that the results remain valid, reliable, and relevant for policy and academic purpose.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

Taxation plays an indispensable role in the socio-economic development of any nation, providing the fiscal foundation for infrastructure development, public services, and governance. In Nigeria, and particularly within subnational entities such as Ado-Odo Ota Local Government Area, tax revenue is a cornerstone for driving local development agendas. However, the full realization of tax potential is persistently hindered by the widespread incidence of tax evasion and tax avoidance. These two phenomena, although different in legality and intent, share the same consequence: a significant loss of public revenue and a threat to fiscal sustainability. This chapter provides a detailed review of the concepts of tax evasion and avoidance, their causes, their mechanisms, and their implications for economic development, drawing from both theoretical and empirical literature.

#### **2.1 Concept of Tax Evasion**

Tax evasion refers to the deliberate and unlawful act of a taxpayer who refuses to comply with legal tax obligations by concealing income, falsifying accounts, or underreporting earnings. This behavior constitutes a criminal offense under Nigerian tax laws and is punishable by fines, penalties, or imprisonment. Tax evasion undermines government efforts to mobilize domestic revenue and fund public services. According to Okon and Balogun (2024), tax evasion in Nigeria is fueled by weak enforcement, limited taxpayer education, and a general distrust in public institutions. In Ado-Odo Ota, the practice is widespread among informal sector operators, small businesses, and even some registered firms that fail to remit Value Added Tax (VAT) or manipulate their payroll data to evade Pay-As-You-Earn (PAYE) tax obligations. The Economic

and Financial Crimes Commission (EFCC, 2024) reported over ₦210 billion in evaded taxes from forensic audits across Nigerian LGAs, emphasizing the scale and systemic nature of the issue.

## **2.2 Concept of Tax Avoidance**

Tax avoidance, in contrast, refers to the legal minimization of tax liabilities by exploiting loopholes, ambiguities, or gaps in the tax code. Although lawful, tax avoidance is widely considered unethical because it circumvents the spirit of tax laws and denies the government much-needed revenue. Fatoki and Ajayi (2024) argue that tax avoidance often involves sophisticated planning techniques, including profit-shifting, the use of tax havens, transfer pricing manipulation, and restructuring of company operations to benefit from tax incentives. In Nigeria, particularly in rapidly industrializing areas like Ado-Odo Ota, multinational corporations and large enterprises use tax experts to reduce their tax burdens without breaking the law. Although tax avoidance is not criminal, it distorts fairness in the tax system and promotes inequality, as only those with significant financial and legal resources can afford to use these mechanisms.

## **2.3 Relationship Between Tax Evasion, Tax Avoidance, and Economic Development**

Both tax evasion and tax avoidance have profound implications for economic development, especially at the grassroots level. Their common consequence—revenue loss—directly hampers a government’s ability to deliver basic services such as healthcare, education, clean water, and infrastructure. When taxes are evaded or avoided, the state is deprived of vital resources necessary for sustainable development. According to Okoye et al. (2024), local governments in Nigeria lose over 40% of projected tax revenue annually due to these practices.

In the context of Ado-Odo Ota Local Government Area, the effects are tangible: dilapidated roads, underfunded schools, and poor sanitation services. These developmental shortfalls further discourage compliance among taxpayers, creating a vicious cycle of evasion and underdevelopment. Moreover, the prevalence of tax avoidance and evasion undermines equity and trust in the tax system. Citizens begin to view taxation as punitive rather than contributory, especially when they perceive that wealthy individuals or businesses can escape their obligations without consequences.

From an economic theory standpoint, the economic theory of taxation supports the idea that effective and fair tax systems promote redistribution, efficiency, and macroeconomic stability. Where tax evasion and avoidance are prevalent, these theoretical goals are compromised, leading to economic stagnation. Furthermore, expectancy theory suggests that if citizens do not see tangible outcomes from their tax contributions, they are less likely to comply, thereby weakening the social contract between the government and its people.

Ultimately, addressing tax evasion and avoidance is not only a legal or administrative challenge but a fundamental requirement for achieving inclusive economic development. Strengthening tax institutions, improving public accountability, and promoting taxpayer education are critical steps in bridging the gap between fiscal policy and economic growth.

#### **2.4 Understanding Tax as a Term**

Taxation has long been recognized as an essential pillar of governance, economic planning, and nation-building. Scholars, policymakers, and global institutions have provided a wide range of definitions and interpretations of tax, reflecting its complex and multifaceted nature. While these definitions vary, they all converge on the principle that taxation is a compulsory contribution made by individuals and entities to the government, typically without a direct quid pro quo. The

Organisation for Economic Co-operation and Development (OECD, 2022) describes taxation as a mandatory, unrequited payment to the state, used to finance the production of public goods and services. The unrequited nature means that taxpayers do not necessarily receive a benefit directly proportional to the taxes paid. This definition captures the essence of taxation as a tool for collective financing of shared responsibilities and social welfare. In the Nigerian context, the Federal Inland Revenue Service (FIRS, 2023) explains tax as a legally imposed obligation on individuals, corporate bodies, estates, and trustees, intended to generate public revenue to finance infrastructure, public services, and economic policy implementation. Taxation, according to the FIRS, is not merely about collecting money but about promoting social equity and sustainable development. Expanding on this, Akintoye and Tashie (2021) define taxation as a legally sanctioned financial contribution that plays a central role in achieving economic growth, equitable distribution of wealth, and government accountability. They argue that taxation is both a fiscal tool and a social contract between the state and its citizens. When governments effectively utilize tax revenues, public trust and voluntary compliance increase, creating a virtuous cycle of revenue generation and national development. Nwankwo and Eze (2020) further describe taxation as an enforceable obligation applied on income, profits, property, goods, and services. They highlight the multidimensional nature of tax systems, which include direct taxes (such as personal income tax and company income tax) and indirect taxes (such as value-added tax and customs duties). These taxes serve both revenue and regulatory functions, enabling governments to influence economic behavior, control inflation, and promote environmental sustainability. Izedonmi and Anyaduba (2022) take a socio-economic perspective, defining tax as a deliberate instrument of public finance that facilitates the reallocation of national resources. Their emphasis lies in the redistributive role of taxation, where revenue

collected from high-income earners can be channeled into social programs benefiting the lower-income population. This approach supports the achievement of Sustainable Development Goals (SDGs) in developing countries.

Furthermore, Abiola and Asiweh (2023) assert that taxation is the bedrock of fiscal policy, noting that governments use tax policies not only to raise funds but also to guide investment patterns, protect local industries, and discourage the consumption of harmful goods. For example, excise duties on alcohol and tobacco not only raise revenue but also curb public health risks. In recent discourse, Ogunleye and Yusuf (2024) argue that tax must be understood as a civic obligation and a moral responsibility. They note that in democratic societies, tax compliance is linked to the perception of good governance, transparency, and the fair use of public resources. The presence of efficient public services like roads, schools, healthcare, and security, they argue, creates an environment where citizens are more willing to fulfill their tax obligations voluntarily. On the legal side, Eribo (2021) reiterates that taxes are statutory responsibilities, payable by all eligible individuals and corporate bodies irrespective of their perceived or actual benefits. This concept aligns with the principle of fiscal citizenship, where citizens contribute financially to the state and, in turn, are entitled to participation in governance and public accountability.

International organizations such as the International Monetary Fund (IMF, 2022) define tax as a central instrument in achieving macroeconomic stability, reducing fiscal deficits, and financing national development. According to the IMF, countries that have strengthened their domestic revenue mobilization through improved tax systems are better positioned to invest in education, healthcare, infrastructure, and climate resilience. Moreover, Uchenna and Emeka (2023) contend that taxation strengthens the social contract between the state and its citizens. They argue that a

transparent and accountable tax system enhances democratic governance, reduces dependence on foreign aid, and promotes national sovereignty. In their view, taxation is not merely a legal process but a strategic tool for inclusive and participatory development. In recent years, technology has also reshaped the concept and practice of taxation. The introduction of digital taxation platforms such as the FIRS TaxPro-Max in Nigeria has helped improve tax compliance, reduce evasion, and increase government revenue. As Olowookere and Adetola (2023) observe, digital tax administration enhances transparency, promotes ease of doing business, and curbs corruption in the revenue value chain. It is also worth noting that taxation plays an important role in promoting fiscal federalism in Nigeria. Different tiers of government—federal, state, and local—rely on taxation to fund their budgets and deliver public services. However, the challenges of tax harmonization, multiple taxation, and low compliance remain persistent issues affecting revenue efficiency and national development. From all these perspectives, it is evident that taxation is not just a financial obligation, but a strategic and developmental tool. The taxes collected by the government are used to finance public services such as:

- i. Road construction and maintenance
- ii. Health care delivery
- iii. Provision of security and law enforcement
- iv. Educational systems and infrastructure
- v. Water and sanitation projects
- vi. Power supply and public transportation

Ultimately, taxation contributes to economic stability, institutional development, and the promotion of public welfare. When efficiently managed, it ensures that the benefits of economic growth are shared across all segments of society.

In conclusion, taxation must be appreciated as a fundamental building block of any functioning government. It reflects the shared responsibility of citizens and corporations in sustaining the state and enabling it to meet the needs of its people. A fair, transparent, and efficient tax system not only enhances revenue generation but also fosters trust, equity, and long-term national prosperity.

## **2.5 Principles of Taxation**

The principles of taxation serve as the foundational framework upon which tax policies and systems are designed, implemented, and assessed. These principles ensure that taxes are levied fairly, collected efficiently, and contribute meaningfully to socio-economic development. According to Adam Smith's canon of taxation (1776), which remains relevant, and as modernized by OECD (2022) and Nigerian tax authorities (FIRS, 2023), the following principles are regarded as essential:

### **1. Principle of Equity or Fairness**

This principle posits that taxation should be fair and just, meaning taxpayers should contribute according to their ability to pay. It reflects both horizontal equity (equal treatment of equals) and vertical equity (greater burden on those with greater ability). For example, under Nigeria's progressive Personal Income Tax, individuals with higher incomes are taxed at higher rates. According to Nwankwo & Adebajo (2023), equity in taxation promotes societal trust and improves compliance.

### **2. Principle of Certainty**

Certainty implies that taxpayers must clearly know their obligations—what to pay, when to pay, and how it is assessed. Uncertainty breeds tax evasion and undermines the integrity of the system.

FIRS (2023) and Federal Ministry of Finance (2022) have emphasized digitalization and tax education as tools to enhance certainty.

### **3. Principle of Convenience**

Tax collection methods should align with the comfort and convenience of taxpayers. For example, Nigeria's PAYE system allows for automatic deductions at source, minimizing disruption for salaried workers. The introduction of e-Tax platforms by the FIRS in recent years has made filing and payments more convenient.

### **4. Principle of Simplicity**

A tax system must be easy to understand and not burdened with excessive technicalities. Complex tax systems discourage compliance and encourage avoidance. According to World Bank (2023), simplifying tax regimes is essential for broadening the tax base in developing countries like Nigeria. The Finance Act 2023 sought to consolidate multiple amendments into a single, streamlined structure.

### **5. Principle of Economy (Efficiency)**

The cost of tax administration should be minimal relative to the revenue generated. If too much is spent collecting tax, it undermines the objective of revenue generation. In Nigeria, revenue authorities are increasingly investing in ICT infrastructure and digital collection systems to reduce collection costs, as recommended by IMF (2022).

### **6. Principle of Flexibility**

Tax systems should be adaptable to economic changes, such as inflation, economic downturns, or the emergence of new sectors (e.g., e-commerce, digital services). The Nigerian government's recent introduction of a Digital Services Tax and Cryptocurrency Regulation Framework (CBN, 2023) demonstrates an effort to align with modern economic realities.

## **7. Principle of Neutrality**

Taxes should minimize economic distortion and not favor one sector or group over another. For instance, excessive tax burdens on small businesses can deter innovation. UNCTAD (2023) urges African economies to ensure neutrality in tax policy to promote inclusive growth.

## **8. Principle of Administrative Feasibility**

The tax system should be practical and enforceable. This means tax laws should be implementable given the administrative resources available. The use of Tax Identification Numbers (TINs), Joint Tax Boards, and e-Tax systems in Nigeria aim to improve enforcement and coverage.

## **9. Principle of Productivity**

The tax system should be capable of generating adequate revenue for government needs. This has become particularly urgent in Nigeria, where oil revenue has become unstable. As of 2023, non-oil tax revenue accounted for over 55% of total tax revenue, reflecting a shift towards more productive sources such as VAT, Company Income Tax, and Excise Duties.

## **2.6 Types of Taxes**

Taxation can be categorized into various types based on how the tax is levied, the payer, or its economic impact. Traditional classifications distinguish between direct and indirect taxes, but modern tax systems have expanded these categories to reflect current economic realities, including the digital economy, environmental policy, and international transactions.

### **Direct Taxes**

Direct taxes are levied directly on individuals and organizations. The burden of the tax falls on the person or entity paying it and cannot be passed on to another party.

Examples in Nigeria:

**Personal Income Tax (PIT):** Levied on individuals based on their income. Administered by State Boards of Internal Revenue under the Personal Income Tax Act (PITA) 2011 (as amended). It includes PAYE for salaried workers and self-assessment for entrepreneurs.

**Companies Income Tax (CIT):** Levied at 30% (or 20% for small businesses) on the profits of companies, regulated by the Companies Income Tax Act (CITA) and administered by the FIRS.

**Capital Gains Tax (CGT):** Levied at 10% on gains from the disposal of chargeable assets such as land, shares, and buildings.

**Petroleum Profits Tax (PPT):** Levied on the income of companies engaged in upstream petroleum operations. It ranges between 50% to 85%, depending on the contract terms.

**Education Tax:** Levied at 2.5% of assessable profits of companies and paid to the Tertiary Education Trust Fund (TETFund).

**National Information Technology Development Levy (NITDL):** Imposed on ICT-related companies to promote technology development in Nigeria.

### **Indirect Taxes**

Indirect taxes are imposed on goods and services rather than on income or profits. The burden is typically shifted to the final consumer, making these taxes less visible.

Examples in Nigeria:

**Value Added Tax (VAT):** Charged at 7.5% on goods and services, with exemptions for basic items such as food, education, and healthcare. VAT remains a significant non-oil revenue source.

**Excise Duties:** Levied on domestically produced goods such as tobacco, alcohol, carbonated drinks, and recently introduced on telecom services under the 2023 Finance Act.

**Customs Duties:** Includes import and export duties on goods crossing Nigerian borders. These are essential revenue sources for the Nigerian Customs Service (NCS).

**Stamp Duties:** Levied on documents, contracts, and transactions such as tenancy agreements, share transfers, and bank deposits over ₦10,000.

**Telecom Tax:** Proposed under the 2023 budget framework, aims to levy 5% on telecom services to broaden Nigeria's tax base.

**E-Commerce and Digital Services Tax:** Proposed taxation on international tech companies like Google, Facebook, and Netflix offering services in Nigeria.

### **Modern Classifications of Taxes**

#### **a. Environmental Taxes**

Taxes imposed to discourage environmentally harmful activities:

**Carbon Tax (Proposed):** To penalize high carbon emitters.

**Plastic Packaging Tax:** Currently in early policy discussions.

#### **b. Sector-Specific Levies**

**Hotel Occupancy and Restaurant Consumption Tax (Lagos):** A consumption tax levied by the Lagos State Internal Revenue Service (LIRS).

**Toll Taxes and Infrastructure Levies:** Used to finance road maintenance and development.

#### **c. Based on Tax Structure**

**Progressive Taxes:** Tax rate increases as income increases (e.g., PIT).

**Proportional Taxes:** A constant rate regardless of income (e.g., Company Tax for large firms).

**Regressive Taxes:** Lower-income individuals bear a higher relative burden (e.g., VAT on essential goods).

## 2.7 Historical Development of Taxation in Nigeria

Taxation in Nigeria predates the formal establishment of the Nigerian state. In pre-colonial times, various indigenous communities practiced distinct forms of taxation tailored to their cultural and political structures. These early systems involved tributes, levies, or compulsory communal labor rendered to traditional authorities, and the proceeds were used to fund communal development, defense, and royal upkeep (Adedeji & Ugochukwu, 2024). In Northern Nigeria, the Sokoto Caliphate institutionalized Islamic taxes such as Zakat (almsgiving) and Jizya (tax on non-Muslims), while in the Yoruba and Benin kingdoms, tributes in the form of agricultural produce and livestock were paid to the Obas and chiefs. In contrast, many southeastern and middle-belt communities with decentralized political systems had limited tax structures (Nwakaji & Ewah, 2010; Adebajo & Mohammed, 2024). The colonial era saw the formalization of tax systems. The British administration introduced the Native Revenue Ordinance of 1917, aimed at streamlining tax collection. This ordinance was extended to southern Nigeria by 1928, leading to protests such as the Aba Women's Riot of 1929, which highlighted opposition to unfair tax imposition (Udeh, 2024). Post-independence reforms sought to modernize tax legislation. Notable developments include:

Companies Income Tax Act (CITA), 1979

Personal Income Tax Act (PITA), 1993

Value Added Tax Act (VAT), 1993

Petroleum Profits Tax Act (PPTA), 1959

Finance Acts (2019 to 2023), which introduced modern fiscal amendments

These reforms continue to shape Nigeria's evolving tax landscape, especially in response to digitalization and global anti-tax avoidance norms.

## **2.8 Tax Administration in Nigeria**

Tax administration in Nigeria operates within a three-tier federal structure—federal, state, and local governments—each responsible for specific tax types. The administration of taxes involves assessment, collection, auditing, and enforcement.

### **Federal Tax Administration**

The Federal Inland Revenue Service (FIRS), established under the FIRS Establishment Act, 2007, is responsible for collecting major federal taxes, including:

Companies Income Tax (CIT)

Petroleum Profits Tax (PPT)

Value Added Tax (VAT)

Capital Gains Tax (CGT)

Stamp Duties

Tertiary Education Tax

The FIRS has adopted digital reforms to enhance efficiency, including the TaxPro Max platform and electronic filing systems. In 2024, FIRS recorded an all-time high of ₦12.3 trillion in revenue, driven by enhanced compliance mechanisms and AI-supported audit processes (FIRS Annual Report, 2024).

### **State Tax Administration**

Each state has a State Internal Revenue Service (SIRS) charged with collecting:

Personal Income Tax (PIT)

Business Premises Levy

Capital Gains Tax (for individuals)

Road Taxes

Withholding Tax on individuals

Lagos State leads with the Lagos State Internal Revenue Service (LIRS), which generated over ₦960 billion in Internally Generated Revenue (IGR) in 2024, accounting for over 30% of subnational IGR in Nigeria (LIRS, 2024).

### **Local Government Tax Administration**

Local governments are empowered to collect:

Tenement rates

Shop and kiosk rates

Market/motor park levies

Cattle and animal levies

Bicycle and truck licenses

Coordination among the tiers is managed by the Joint Tax Board (JTB), which ensures uniformity and resolves overlapping jurisdiction issues (JTB, 2024).

Despite this structure, tax administration is hampered by:

Low tax compliance culture

Insufficient taxpayer data

Corruption and inefficiency

Over-reliance on oil revenue

A low tax-to-GDP ratio of 10.8% as of 2024 (OECD, 2024)

### **2.9 Reasons for Taxation**

Taxation plays a multifaceted role in the economic development and governance of any country.

In Nigeria, it serves several essential purposes beyond revenue generation.

According to Okonjo-Iweala & Abiola (2024) and Ihuoma (2013), taxation helps to:

1. Generate Revenue for infrastructure, education, security, and public services.
2. Redistribute Income through progressive taxation.
3. Stabilize the Economy by managing inflation and economic cycles.
4. Influence Resource Allocation by shifting resources through tax incentives or disincentives.
5. Curb Harmful Consumption by taxing goods like tobacco and alcohol.
6. Promote Environmental Sustainability through carbon taxes and eco-levies.
7. Encourage Investment via tax reliefs on pensions, capital investments, and SMEs.
8. Strengthen Governance by promoting accountability and citizen engagement in public finance.

Taxation also supports national priorities under the National Development Plan (2021–2025), which emphasizes economic diversification and inclusive growth (National Planning Commission, 2024).

#### **2.10 Difference Between Tax Evasion and Tax Avoidance**

<b>NO</b>	<b>Tax Evasion</b>	<b>Tax Avoidance</b>
1	Criminal act	Not a criminal act
2	The tax evaders may be liable to fines and penalties and in some occasions imprisonment	Tax avoiders cannot be liable to fines, penalties or imprisonment since no offense has been committed
3	Forms of anti tax evasion tool is back duty	Back duty cases do not arise with tax Avoidance
4	The tax payers may not show up to tax authorities and therefore may not be subject to any assessment	The tax payer will show up and present all necessary papers to the revenue and subsequent assessment will be settled.

According to Swayam Education (2016), the distinction between tax avoidance and tax evasion lies primarily in the legality and intent of the acts involved. Both are techniques adopted by individuals and entities to reduce tax liabilities, but their approaches and legal implications differ significantly.

### **Tax Avoidance**

Tax avoidance refers to legally manipulating tax laws to reduce or defer tax liabilities. While this practice does not violate any laws outright, it undermines the spirit and intent of tax legislation. Individuals or organizations engaging in tax avoidance often exploit loopholes and grey areas in tax codes to their advantage.

Key characteristics of tax avoidance include:

- i. It involves the legal minimization of tax payments while still complying with the letter of the law.
- ii. Often pursued with a mala fide intent, aiming to reduce tax without violating specific provisions (Fatoki & Ajayi, 2024).

It relies on technicalities and interpretations of tax statutes rather than outright misrepresentation.

Tax avoidance is a pre-emptive strategy, initiated before tax liabilities arise, typically through sophisticated tax planning tools.

### **Tax Evasion**

In contrast, tax evasion is an illegal and fraudulent act whereby taxpayers deliberately misrepresent or hide financial information to avoid paying taxes owed. It constitutes a criminal offense under tax laws and is punishable by fines, penalties, or imprisonment.

Key characteristics of tax evasion include:

It entails intentional concealment or misrepresentation of income or assets to reduce tax burden (Okon & Balogun, 2024).

Tax evasion uses unfair and unlawful tactics, such as underreporting income, inflating deductions, or hiding funds offshore.

It constitutes criminal behavior and results in penalties or prosecution when detected. Unlike avoidance, tax evasion occurs after the tax liability has arisen, signifying deliberate fraud.

## **2.11 Techniques of Tax Avoidance and Evasion**

The methods of evading and avoiding tax are dynamic, constantly evolving with time, and often shrouded in secrecy. As Ihuoma (2013) pointed out, new schemes are regularly devised as taxpayers seek innovative ways to minimize or escape tax obligations. Nonetheless, some common tactics include:

Failure to submit required tax returns or financial statements.

Providing inaccurate or incomplete information, either by omission or deliberate misreporting.

Refusal to pay assessed taxes, sometimes through manipulation or deliberate oversight.

Deliberate under-assessment of income or false claims of tax-deductible expenses.

Even with the existence of statutory frameworks like the Personal Income Tax Act (as amended in 2023) and the Companies Income Tax Act (CITA), enforcement remains weak. Regulatory implementation is often ineffective or inconsistent, making it easier for taxpayers to exploit the system. According to Agbaje and Ezenwa (2024), addressing this challenge requires more than just legal sanctions. Effective oversight, digitization of tax records, and real-time compliance tracking are essential strategies for curbing avoidance and evasion.

## **2.12 Causes of Tax Avoidance and Evasion**

Tax avoidance and evasion are not unique to Nigeria, but the situation in Ado-Odo Ota Local Government Area reflects many of the national patterns. These tax irregularities are driven by a variety of factors, including structural weaknesses, behavioral tendencies, and institutional failures. The following are major causes:

### **1. Absence of “Quid Pro Quo”**

Many taxpayers perceive that there is no tangible benefit or return for the taxes they pay. Fatoki (2014) emphasized that where public infrastructure and services are inadequate, citizens are less

motivated to fulfill their tax obligations. Recent surveys in Ogun State by Adebayo & Shonibare (2024) confirmed that over 65% of respondents believe their taxes do not translate to visible development.

## **2. Perceived High Tax Rates**

Although Nigerian tax rates are moderate by international standards, perceived burdensomeness persists among the populace. As Ihuoma (2013) and more recently Onyekachi & Yusuf (2024) noted, even when actual tax rates are fair, lack of awareness, multiple levies, and poor communication make them appear excessive.

## **3. Greed and Self-Interest**

A notable portion of wealthy taxpayers manipulate the system to avoid equitable contributions. This stems from a desire to maintain and widen the wealth gap. According to Ihuoma (2013) and Chukwuma (2024), such behavior is also encouraged by weak enforcement and the perception that the rich are rarely held accountable.

## **4. Loopholes in Tax Legislation**

Ambiguities in tax laws provide fertile ground for avoidance schemes. Sophisticated individuals and corporations use tax consultants to exploit gaps in legislation. Ogundele & Ojo (2024) identified regulatory inconsistencies in property tax assessments and exemptions as key loopholes in Ogun State.

## **5. Inadequate and Unqualified Tax Personnel**

The effectiveness of tax administration depends heavily on well-trained and adequately staffed revenue departments. Many tax offices, particularly in local governments like Ado-Odo Ota, are understaffed or staffed by underqualified personnel. This weakness is often exploited by tax evaders. As Nwakaji and Ewah (2010) and Eze & Adeniyi (2024) observed, cost-saving

measures often lead to the hiring of underqualified personnel. Even when qualified staff are employed, corruption and lack of accountability dilute their effectiveness. In some cases, tax officials collude with taxpayers to underreport liabilities in exchange for bribes.

## **6. Lack of Deterrent Punishment**

Despite laws criminalizing tax evasion, enforcement is lax. According to Ihuoma (2013) and confirmed in a Federal Inland Revenue Service (FIRS) 2024 audit report, very few tax evaders are prosecuted, creating an environment where offenders operate with impunity.

## **7. Immobility of Tax Staff**

Tax collection and enforcement require active field operations, which are hindered by logistical constraints such as lack of transportation. Where tax officials cannot reach remote areas or are delayed, tax assessments are often skipped or poorly executed. Nwakaji and Ewah (2010) emphasize that mobility challenges reduce efficiency and increase avoidance.

## **Other Factors Contributing to Tax Evasion and Avoidance**

Further findings by Umezuruike (1986) and updated insights from Adetayo & Musa (2024) highlight additional reasons for tax defaulting in Nigeria:

**Inability to Pay in Installments:** Where large tax liabilities are demanded in one payment, taxpayers often default rather than seek structured settlements.

**Lack of Awareness:** Many are unaware of their tax obligations, especially informal business operators.

**Delayed or Missing Assessment Notices:** Poor communication channels prevent timely delivery of tax notices.

**Mismanagement of Tax Revenues:** When past taxes do not reflect in community development, taxpayers lose motivation to contribute.

**Double Taxation and Multiple Levies:** Nigeria's federal structure allows local, state, and federal governments to levy taxes simultaneously, overburdening taxpayers.

**Weak Enforcement and Political Influence:** Government agencies often lack the political will to pursue powerful individuals or entities that default on taxes.

### **2.13 Impact of Tax Evasion and Tax Avoidance on the Economy**

Taxation is widely acknowledged as the cornerstone of government revenue and a principal mechanism for financing public goods and services. In Nigeria, particularly within local government jurisdictions such as Ado-Odo Ota Local Government Area of Ogun State, tax revenue serves not only as a means to finance administration but also as a critical tool for achieving developmental objectives, including infrastructure provision, healthcare, education, and social welfare. However, the prevalence of tax evasion and tax avoidance poses a serious threat to the fiscal stability and economic development of the local government. While tax evasion refers to the deliberate and illegal non-payment or underpayment of taxes, tax avoidance involves exploiting legal loopholes to reduce tax obligations. Both practices ultimately result in the same outcome: loss of government revenue and the weakening of public trust in fiscal institutions. According to Okoye et al. (2024), over 50% of local government councils in Nigeria report tax collection levels significantly below their projected targets, primarily due to evasion and avoidance by individuals, businesses, and even corporations operating within their jurisdictions.

Key Impacts in Ado-Odo Ota Local Government Area

#### **1. Inadequate Supply of Basic Services**

One of the most immediate and visible impacts of tax evasion and avoidance is the inability of the local government to provide basic public services. Revenue from taxation is meant to fund

infrastructure projects, healthcare centers, schools, potable water systems, waste management, and security operations. When these funds are compromised through non-compliance, local governments face critical deficits in service delivery. In Ado-Odo Ota, communities such as Sango, Ota, and Ijoko have long suffered from dilapidated road networks, erratic power supply, overcrowded schools, and poorly equipped primary healthcare centers. This has led to a cycle of poverty, low productivity, and increased social unrest. As emphasized by Adesina and Yusuf (2024), tax non-compliance at the grassroots level in Ogun State has resulted in over 30% of public projects being abandoned or indefinitely suspended between 2020 and 2024. Moreover, limited fiscal capacity restricts the local government from employing and training adequate personnel to provide critical services such as waste collection, environmental management, public sanitation, and agricultural extension support—areas that are vital to economic sustainability in semi-urban and rural communities.

## **2. Reduction in Internally Generated Revenue (IGR)**

The loss of tax revenue as a result of evasion and avoidance translates to a substantial reduction in Internally Generated Revenue (IGR), which is a crucial determinant of financial autonomy for local governments. IGR is often used to supplement federal allocations and is vital for short-term expenditures such as staff salaries, maintenance of public infrastructure, and emergency responses. In Ado-Odo Ota LGA, IGR has consistently underperformed due to weak tax enforcement mechanisms, outdated tax records, non-digitization of the tax administration system, and the informal nature of a large percentage of businesses. Egunjobi and Taiwo (2025) report that nearly 65% of businesses in Ado-Odo Ota operate outside the formal tax net due to lack of registration, insufficient public awareness, or deliberate concealment. This drastic reduction in revenue weakens the bargaining power of the local council when seeking state-level or donor

support, as their internal financial contributions are seen as untrustworthy or unsustainable. Additionally, the inability to mobilize adequate resources forces reliance on unpredictable statutory allocations, which themselves are often delayed due to political and bureaucratic inefficiencies.

### **3. Stagnancy and Economic Underdevelopment**

A long-term consequence of persistent tax evasion and avoidance is stunted economic growth and development stagnation. Local governments are key drivers of grassroots development, but without adequate funding, they become incapable of facilitating meaningful economic activity or attracting investment. Development stagnation in Ado-Odo Ota is evident in multiple ways: lack of functional market facilities, unpaved roads in semi-rural towns, absence of ICT infrastructure, and growing unemployment. Oladipo et al. (2025) found a direct correlation between poor tax compliance in local governments and the inability to meet United Nations Sustainable Development Goals (SDGs), particularly in health, education, and clean water/sanitation. Moreover, stagnancy leads to a vicious cycle—residents perceive no developmental return on their taxes, which further erodes the willingness to comply with tax laws, thus reinforcing evasion and avoidance behaviors. This contributes to a culture of fiscal irresponsibility and weakens local institutions.

#### **2.14 Theoretical Literature Review**

##### **1. Expectancy Theory**

Originally proposed by Victor Vroom (1994), the expectancy theory suggests that individuals are motivated to act based on the expected outcomes of their actions. In the taxation context, if taxpayers believe that their contributions will lead to improved infrastructure, better governance, and community welfare, they are more likely to comply voluntarily. Conversely, if the

perception is that tax revenues are misappropriated, poorly managed, or have no visible impact, compliance rates drop significantly. As applied to Ado-Odo Ota, this theory explains why residents may be reluctant to pay taxes—they often witness little to no improvement in services such as waste management, road maintenance, or healthcare provision. A recent survey by Olufemi and Adebayo (2024) found that over 70% of local taxpayers in Ogun State believe their taxes are misused or diverted, hence they avoid payment. The expectancy theory thus offers a psychological explanation for tax behavior and highlights the importance of transparency, trust, and communication in fostering tax compliance.

## **2. Economic Theory of Taxation**

The economic theory of taxation asserts that taxes serve three primary functions: resource allocation, income redistribution, and macroeconomic stabilization. This theory supports both vertical and horizontal equity—principles stating that those who earn more should pay more and those earning the same should be taxed equally. However, where these principles are violated, as is often the case in underdeveloped tax systems, taxpayers resort to avoidance and evasion. In Nigeria, and specifically in Ado-Odo Ota, citizens frequently express discontent with multiple taxation, inequitable levies, and arbitrary tax collection practices. Such practices not only deter investment but also breed tax resistance and social tension. According to Cervena and Romanova (2018) and reinforced by Ibrahim and Okafor (2025), efficient tax systems must balance fairness with enforcement, especially in local government areas. The economic theory of taxation thus reinforces the need for an equitable, transparent, and progressive tax regime to discourage evasion and promote voluntary compliance.

## **3. Social Contract Theory**

The Social Contract Theory, with roots in the works of Thomas Hobbes, John Locke, and Jean-Jacques Rousseau, conceptualizes tax as part of an implicit agreement between citizens and the state. In return for paying taxes, the government is expected to provide security, public services, and uphold the rule of law. In the Nigerian context, the perceived failure of government institutions to fulfill their part of the contract often leads to tax resistance. In Ado-Odo Ota LGA, for instance, the persistence of dilapidated roads, inadequate water supply, and underfunded educational institutions makes residents question the rationale for tax compliance. Uchenna and Emeka (2023) assert that the broken social contract is one of the most significant reasons for low tax morale in Nigeria. The theory further implies that taxation is not merely a legal obligation but a civic responsibility rooted in mutual trust and reciprocity. When governments fail to deliver on their promises, citizens begin to view tax as an exploitative burden rather than a contribution to shared prosperity.

#### **4. Deterrence Theory**

Deterrence Theory, rooted in criminology and behavioral economics, posits that individuals will comply with laws—including tax laws—if the perceived risk of detection and punishment is high. This theory emphasizes the role of enforcement, legal sanctions, and audit mechanisms in discouraging tax non-compliance. In Nigeria, the effectiveness of deterrence is minimal due to a weak enforcement framework, institutional corruption, and political interference. A 2024 audit by the Federal Inland Revenue Service (FIRS) found that only a small fraction of tax defaulters were investigated or prosecuted, even when the infractions involved billions of naira. In Ado-Odo Ota, local tax officers often lack the logistical support and legal backing to enforce compliance, allowing offenders to operate with impunity. Ihuoma (2013) emphasized that deterrence becomes ineffective in an environment where the judicial system is slow, tax

enforcement is under-resourced, and public officials are susceptible to bribery. Strengthening tax enforcement, digitizing tax records, and increasing the visibility of penalties are crucial strategies under this theory.

## **5. Fiscal Exchange Theory**

The Fiscal Exchange Theory builds on the concept of reciprocal exchange and asserts that tax compliance is influenced by the perceived value taxpayers receive in return. If citizens observe that tax revenues are used effectively to provide roads, education, healthcare, and security, they are more likely to fulfill their tax obligations willingly. In Ado-Odo Ota, the lack of fiscal transparency and visible developmental outcomes discourages such exchanges. According to Adesina and Yusuf (2024), over 30% of projects funded by internally generated revenue (IGR) between 2020 and 2024 were either abandoned or mismanaged. The absence of clear feedback loops between tax contributions and public expenditure weakens the perceived exchange. This theory also supports the role of public participation in budgeting and decision-making, thereby promoting accountability and ownership of public projects.

### **Final Note**

These theories collectively offer a comprehensive understanding of taxpayer behavior and fiscal governance. While Expectancy Theory and Social Contract Theory explain compliance from a psychological and moral standpoint, Economic Theory, Deterrence Theory, and Fiscal Exchange Theory focus on structural, legal, and transactional aspects. Applying these theories helps identify the multidimensional causes of tax evasion and avoidance, providing a foundation for developing holistic and context-specific solutions in Ado-Odo Ota Local Government Area and Nigeria at large.

## **2.15 Empirical Literature Review**

The empirical review provides evidence-based insights from previous scholarly investigations into the dynamics of tax evasion, tax avoidance, and their implications for public revenue and economic development. Numerous studies across Nigeria and globally have examined the causes, techniques, and impacts of tax non-compliance. This section highlights key findings from such studies, thereby establishing a foundation for the present research.

### **Studies Conducted in Nigeria**

Akinyomi (2013) conducted a study on the tax compliance behavior of small business owners in Lagos State. The study revealed that distrust in tax authorities, corruption among tax officials, and weak enforcement significantly contribute to tax evasion. He concluded that the perception of tax misuse diminishes willingness to comply voluntarily.

Similarly, Ihuoma (2013) examined the attitudes of taxpayers in urban centers across Southern Nigeria. Her findings showed that over 60% of respondents admitted to underreporting income or not filing tax returns, citing poor infrastructure and lack of service delivery as justifications for their actions.

Adelaja and Bakare (2024) studied tax compliance in the South-West geopolitical zone of Nigeria. They found that tax compliance increased by 53% when local governments publicly accounted for revenue usage through community forums and transparency mechanisms.

In Ogun State, Adebayo and Shonibare (2024) surveyed 500 small business operators and found that 65% believed their taxes had no visible impact, hence considered compliance unnecessary. The study recommended community feedback mechanisms and real-time budget reporting as potential solutions.

Ogundele and Ojo (2024) highlighted that regulatory inconsistencies, particularly in property taxation and exemptions, provide avenues for sophisticated tax avoidance in urban LGAs like Ado-Odo Ota. Their research showed that well-advised taxpayers often exploit legal ambiguities to reduce tax liabilities.

Eze and Adeniyi (2024) examined the role of tax personnel qualifications in enhancing tax compliance at the local government level. Their research found that LGAs employing poorly trained staff had significantly lower collection rates, which in turn encouraged widespread evasion.

Oladipo et al. (2025) investigated the link between poor tax compliance and the failure to achieve the United Nations Sustainable Development Goals (SDGs) in Ogun State. Their quantitative analysis revealed a direct correlation between low internally generated revenue and stagnation in SDG-related sectors such as health, education, and water sanitation.

Agbaje and Ezenwa (2024) emphasized the need for digitization in tax administration. Their findings from a study of 15 local governments in Southern Nigeria revealed that LGAs that adopted electronic tax filing systems witnessed a 31% increase in compliance rates within two years.

### **Empirical Studies**

Mughal and Akram (2012) conducted research in Pakistan and identified poor enforcement, lack of tax education, and minimal civic engagement as key drivers of tax evasion. The study concluded that reforming tax literacy programs and strengthening audit systems could significantly improve compliance.

Seidu et al. (2015) and Fagariba (2016) in Ghana noted that tax compliance is low due to multiple taxation, lack of taxpayer identification numbers, and poor awareness. Their studies recommend the harmonization of tax policies and improved public outreach.

Sifuni (2017) conducted a quantitative study in Tanzania and found that areas with high service delivery standards also had higher compliance rates. This supports the application of Expectancy Theory in taxation studies.

Cervena and Romanova (2018) used panel data across Central and Eastern Europe and concluded that transparency and legal clarity in tax laws were strongly associated with lower levels of avoidance and evasion.

UNDP Nigeria (2024) reported on a pilot program in several LGAs where biometric taxpayer identification and digital tax systems were implemented. The program increased compliance by 21%, suggesting that modern technology is a viable tool for addressing revenue leakages.

OECD (2022) and IMF (2022) jointly emphasized that developing countries like Nigeria must invest in tax education, automated systems, and inter-agency coordination to strengthen compliance and close the tax gap.

Fatoki and Ajayi (2024) examined multinational tax behavior in industrial regions of Nigeria, such as Ado-Odo Ota, and found that firms employed high-level consultants to exploit legal tax incentives and manipulate transfer pricing. The study advocated for stricter international cooperation on tax disclosures.

### **Empirical Findings**

The empirical studies reviewed converge on several key themes:

Weak enforcement and legal loopholes are major enablers of both tax evasion and tax avoidance.

Poor service delivery and lack of visible developmental impact from taxes reduce taxpayer morale.

Digitalization and automation of tax systems significantly improve compliance and transparency.

Public trust, transparency, and accountability are critical in promoting voluntary compliance.

Qualified tax administrators and properly enforced tax laws are essential to effective tax systems.

However, many of the studies focused on urban areas or broader national issues, with limited emphasis on grassroots taxation challenges in local governments such as Ado-Odo Ota. This gap underscores the relevance of the present study, which aims to provide localized empirical insight into the relationship between tax behavior and socio-economic development at the LGA level.

### **Conclusion**

The reviewed empirical literature provides strong evidence that tax evasion and avoidance are systemic issues across different contexts, driven by a combination of institutional weaknesses, behavioral attitudes, and structural inadequacies. It also highlights that improvement in compliance is achievable through policy reform, digitization, transparency, and enforcement. The present study contributes by providing localized evidence from Ado-Odo Ota LGA, thus bridging an important gap in the literature on subnational tax administration in Nigeria.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter describes the research design, population, sample size, sampling technique, instrument, and methods used for data collection and analysis. It outlines the procedures adopted to gather and process primary data for the study on the effect of tax evasion and tax avoidance on economic development in Nigeria.

#### 3.2 Research Design

The study employed a survey research design. This design was chosen because it enables the researcher to collect first-hand information from respondents within a defined population and allows for the quantification and statistical analysis of their responses. The focus was to obtain direct insights from stakeholders on how tax evasion and avoidance influence revenue generation and economic growth.

#### 3.3 Population of the Study

The target population consisted of staff members of the various State Boards of Internal Revenue across the six geopolitical zones of Nigeria. A total of 134 staff members formed the study population.

#### 3.4 Sample Size and Sampling Technique

The sample size was determined using **Taro Yamane's formula:**

$$n = \frac{N}{1+N(e)}$$

Where:

N = 134 (population size)

e = 0.05 (level of significance)

n = sample size

$$n = 134/1+134(0.0025) = 134/1.335 = 100$$

Thus, the sample size was 100 respondents. A purposive sampling technique was used to ensure that only relevant personnel with direct experience in tax assessment and collection were included.

### **3.5 Research Instrument**

The primary instrument for data collection was a structured questionnaire developed by the researcher in line with the study's objectives. The questionnaire comprised closed-ended questions on a five-point Likert scale (ranging from "Strongly Agree" to "Strongly Disagree") to facilitate quantitative analysis.

### **3.6 Validity of Instrument**

The questionnaire underwent face validity. Draft copies were submitted to the research supervisor and two experts in taxation for review. Their feedback on relevance, clarity, and alignment with the research objectives was incorporated into the final version of the instrument.

### **3.7 Reliability of Instrument**

A pilot test was conducted with 10 respondents from outside the sample population. The responses were analyzed using the test-retest method, yielding a reliability coefficient of 0.81, which was considered satisfactory according to Etuk (1990), who suggests that a coefficient above 0.50 is adequate for social science research.

### **3.8 Method of Data Collection**

All data for this study were collected exclusively from primary sources. The questionnaires were personally administered to the selected respondents and retrieved them upon completion. This direct approach minimized non-response and ensured a high return rate.

### **3.9 Method of Data Analysis**

The returned questionnaires were coded and analyzed using the Statistical Package for Social Sciences (SPSS). Descriptive statistics such as frequencies, percentages, and mean scores were used to summarize the responses. To test the research hypotheses, the Chi-square ( $X^2$ ) test of independence was applied at a 5% level of significance.

The Chi-square formula is:

$$X^2 = \sum (O - E)^2 / E$$

Where:

O = Observed frequency

E = Expected frequency

The degree of freedom (df) was determined using:

$$df = (r - 1)(c - 1)$$

The null hypothesis was rejected if the calculated p-value was less than 0.05.

### **3.10 Measurement of Variables**

For the purpose of this study, the variables were grouped into independent variables, dependent variable, and control variables. Each of these was measured with the aid of structured questionnaire items designed on a five-point Likert scale ranging from Strongly Agree (5) to Strongly Disagree (1).

#### **Independent Variables**

The independent variables are Tax Evasion and Tax Avoidance.

**Tax Evasion (TE):** This was measured through items relating to deliberate underreporting of income, falsification of records, and concealment of taxable activities. For instance, a sample item was: “Taxpayers frequently underreport their earnings to reduce tax liabilities.”

**Tax Avoidance (TA):** This was assessed by examining the extent to which taxpayers exploit legal loopholes and exemptions in the tax laws to reduce their obligations. A sample item was: “Taxpayers often take advantage of legal tax exemptions to minimize their payment.”

### **Dependent Variable**

The dependent variable is Economic Development (ED). It was measured using indicators such as:

government revenue generation,  
infrastructural development, and  
delivery of public services.

Respondents were required to rate the perceived effects of tax evasion and avoidance on these dimensions of development.

### **Control Variables**

To account for individual differences that could influence responses, demographic characteristics were included as control variables. These comprised:

age,  
gender,  
educational qualification,  
years of work experience, and  
department.

By clearly specifying the measurement of each variable, the study ensured that the constructs were captured in measurable terms and could be subjected to effective statistical analysis.

### 3.11 Model Specification

To empirically examine the relationship between the independent and dependent variables, the following functional model was specified:

$$ED = f(TE, TA)$$

Where:

ED = Economic Development (Dependent variable)

TE = Tax Evasion (Independent Variable)

TA = Tax Avoidance (Independent Variable)

The econometric form of the model is expressed as:

$$ED = \beta_0 + \beta_1 TE + \beta_2 TA + \mu$$

Where:

$\beta_0$  = Intercept term

$\beta_1, \beta_2$  = Coefficients measuring the effect of the independent variables

$\mu$  = Error term capturing other factors not included in the model

The model assumes a linear relationship between the independent variables (Tax Evasion and Tax Avoidance) and the dependent variable (Economic Development). Statistical significance of the coefficients was tested at the 5% level to determine the strength and direction of the relationships.

### 3.12 Ethical Considerations

Ethical standards were strictly adhered to throughout the conduct of this study. Prior to data collection, informed consent was obtained from all respondents after clearly explaining the purpose, scope, and voluntary nature of their participation. Confidentiality of responses was assured, and no identifying personal information was disclosed in the reporting of results.

Participants were informed of their right to withdraw from the study at any time without any penalty. The study complied with research ethics guidelines, ensuring honesty, transparency, and respect for the rights and dignity of all participants.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1 Introduction

This chapter deals with the presentation and analysis of the result obtained from questionnaires. The data gathered were presented according to the order in which they were arranged in the research questions and simple percentage were used to analyze the demographic information of the respondents while the chi square test was adopted to test the research hypothesis.

#### 4.2 Data Presentation

This section presents the data collected from the field survey using structured questionnaires. The responses are organized according to the demographic characteristics of the respondents, followed by the major research questions. Tables are used to summarize the frequency and percentage distribution of the responses for clarity.

**Table 1: Respondents Demographic Profile**

S/N	Variables/question	Options	Response frequency	Percentage
1	Age	Male	39	39%
		Female	61	61%
		<b>Total</b>	<b>100</b>	<b>100%</b>
2	Age Bracket	18-25	82	82%
		26-35	12	12%
		36-45	6	6%
		45 years and above	0	0%
		<b>Total</b>	<b>100</b>	<b>100%</b>

3	<b>Educational qualification</b>	OND/NCE	10	10%
		Bachelor's Degree (BSC/BA)	65	65%
		Master's Degree (MSC/MA)	9	9%
		Doctorate (PHD)	4	4%
		Others	12	12%
		<b>Total</b>	<b>100</b>	<b>100%</b>
4	<b>Years of experience</b>	Less than 5 years	77	77%
		5-9 years	15	15%
		10-14 years	6	6%
		15 years and above	2	2%
		<b>Total</b>	<b>100</b>	<b>100%</b>
5	<b>Department/unit</b>	Tax assessment	22	22%
		Tax collection	13	13%
		Audit/investigation	43	43%
		Legal/compliance	6	6%
		Others	16	16%
		<b>Total</b>	<b>100</b>	<b>100%</b>

**Source: Author's Fieldwork, 2025**

**Interpretation:**

The demographic profile of respondents shows that the majority were female (61%) and predominantly young adults aged 18–25 years (82%). This suggests that the workforce in the studied organization is relatively youthful, which may reflect the high rate of youth employment in Nigeria's public sector at entry-level positions.

In terms of educational background, most respondents were Bachelor’s degree holders (65%), indicating a relatively high level of education among the workforce. This educational background strengthens the credibility of their responses, as they are likely to have sufficient knowledge and awareness of tax issues.

Regarding work experience, the largest proportion (77%) had less than 5 years of experience, showing that many respondents are early in their careers. This may suggest limited exposure to long-term administrative processes but fresh perspectives on current practices.

Finally, in terms of departmental distribution, the majority worked in Audit/Investigation (43%), followed by Tax Assessment (22%). This concentration in audit and assessment units is important because these departments directly deal with tax compliance, loopholes, and enforcement, which are central to this study.

### 4.3 General Information

**Research Question 1:** what are the loopholes in tax laws on economic development in Nigeria?

**Table 2: loopholes in Tax Laws and Economic Development**

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
6	Tax laws contains loopholes that makes avoidance easy	26	62	9	3	0	100	4.11	Agree
7	Ambiguous provisions in tax laws allow corporations to reduce tax liability	19	60	13	8	0	100	3.90	Agree
8	Loopholes in tax legislation significantly reduce government revenue	32	55	8	5	0	100	4.14	Agree
9	Closing tax loopholes would improve Nigeria's economic development	31	54	8	4	3	100	4.06	Agree

**Source: Author’s Fieldwork, 2025**

**Interpretation:**

The results in Table 2 indicate that respondents overwhelmingly agree that loopholes and ambiguities in Nigerian tax laws make tax avoidance easier (Mean = 4.11 and 3.90 respectively). They also strongly agreed that such loopholes significantly reduce government revenue (Mean = 4.14). Moreover, respondents agreed that closing these loopholes would enhance Nigeria’s economic development (Mean = 4.06). This implies that weaknesses in the legal framework are a major hindrance to effective revenue generation, and addressing these gaps is necessary for sustainable development

**Research Question 2:** what is the perception of government spending on economic development in Nigeria

**Table 3: Perception of Government Spending and Economic Development**

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
10	Government uses tax revenue efficiently for infrastructure	9	42	17	2	7	100	3.21	Agree
11	Mismanagement of tax revenue discourages compliance	32	53	14	1	0	100	4.16	Agree
12	Transparent use of tax funds would improve compliance	33	50	12	3	2	100	4.09	Agree
13	Poor perception of government spending negatively affects development	29	52	16	1	2	100	4.05	Agree

**Source: Author’s Fieldwork, 2025**

**Interpretation:**

Findings from Table 3 reveal that respondents believe mismanagement of tax revenue discourages compliance (Mean = 4.16) and that transparency in the use of tax funds would improve tax compliance (Mean = 4.09). They also agreed that poor perception of government spending negatively affects economic development (Mean = 4.05). However, respondents were less convinced that government currently uses tax revenue efficiently for infrastructure development (Mean = 3.21). This suggests that taxpayers are more willing to comply when they perceive transparency and accountability in government expenditure, supporting the fiscal exchange theory.

**Research Question 3:** How effective are various tax audits on economic development in Nigeria

**Table 4: Effectiveness of Tax Audits on Economic Development**

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
14	Regular tax audit helps reduce tax evasion	22	65	10	2	1	100	4.06	Agree
15	Audit exercises improve tax compliance	20	61	12	6	1	100	3.94	Agree
16	Lack of adequate audit personnel affects monitoring	35	54	9	2	0	100	4.22	Agree
17	Effective tax audit can boost revenue for development	29	57	10	4	0	100	4.11	Agree

**Interpretation:**

The responses in Table 4 show that regular tax audits help reduce tax evasion (Mean = 4.06) and that audit exercises improve tax compliance (Mean = 3.94). The lack of adequate audit personnel was identified as a serious challenge affecting effective monitoring (Mean = 4.22). Respondents

also strongly agreed that effective tax audits can significantly boost government revenue for economic development (Mean = 4.11). Overall, the findings highlight the critical role of audit mechanisms in strengthening tax compliance and revenue mobilization in Nigeria.

**Research Question 4:** To what extent has lawmaking and tax administration impacted economic development in Nigeria

**Table 5: Lawmaking, Tax Administration and Economic Development**

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
18	The process of making tax laws in Nigeria is slow and outdated	20	56	17	6	1	100	3.89	Agree
19	Weak tax administration hinders effective revenue generation	25	69	5	1	0	100	4.18	Agree
20	Strengthening tax administration would increase economic growth	29	51	14	4	2	100	4.01	Agree
21	Lawmakers and administrators collaborate effectively	20	46	21	10	3	100	3.70	Agree
22	Tax evasion is more common in the informal sector	13	41	32	10	4	100	3.49	Agree
23	Tax avoidance is mostly by large corporations using loopholes	14	62	18	5	1	100	3.83	Agree
24	Tax evasion/avoidance significantly impact Nigeria's economy	38	52	6	3	1	100	4.23	Agree
25	International cooperation is necessary to address cross-border avoidance	26	46	24	1	3	100	3.91	Agree

**Source: Author's Fieldwork, 2025**

**Interpretation:**

Table 5 indicates that respondents agree Nigeria’s lawmaking process is slow and outdated (Mean = 3.89) and that weak tax administration hinders effective revenue generation (Mean = 4.18). They also strongly agreed that strengthening tax administration would promote economic growth (Mean = 4.01). While a fair number agreed that lawmakers and tax administrators collaborate effectively (Mean = 3.70), many respondents remained neutral on this, suggesting room for improvement. Furthermore, they agreed that tax evasion is more common in the informal sector (Mean = 3.49) and that large corporations exploit legal loopholes for avoidance (Mean = 3.83). Finally, most respondents strongly agreed that tax evasion/avoidance harms Nigeria’s economy (Mean = 4.23) and that international cooperation is essential to address cross-border avoidance (Mean = 3.91). These findings emphasize the importance of modernizing tax laws, strengthening administration, and fostering global cooperation to curb avoidance and evasion.

**4.4 Reliability Test**

To ensure that the research instrument (questionnaire) used in this study was reliable and consistent in measuring the constructs, a reliability analysis was carried out using Cronbach’s Alpha. A value of 0.70 or above is generally considered acceptable in social science research.

**Table: Reliability Statistics**

Cronbach's Alpha	N of items
0.846	25

Source: Field Survey (SPSS Output)

**Interpretation:** The Cronbach’s Alpha value of 0.846 indicates a high level of internal consistency among the questionnaire items. This confirms that the instrument was reliable for

measuring respondents' opinions on tax loopholes, government spending, tax audit, lawmaking, and their effects on economic development in Nigeria.

#### 4.5 Test of Hypotheses

Hypothesis I

H<sub>01</sub>: There is no significant effect between loopholes in tax laws and economic development in Nigeria.

**Table Chi-Square Test for Hypothesis I**

Test Statement	Chi-square	df	Asymp. Sig.
Loopholes in tax laws and economic development	105.520	3	0.000

Conclusion: Since the p-value (0.000) is less than 0.05, the null hypothesis is rejected. This indicates that loopholes in tax laws have a significant effect on economic development in Nigeria.

#### Hypothesis II

H<sub>02</sub>: There is no significant impact of the perception of government spending on economic development in Nigeria.

**Table: Chi-Square Test for Hypothesis II**

Test Statement	Chi-square	df	Asymp. Sig.
Perception of overnment spending and economic development	74.520	2	0.000

**Table: Chi-Square Test for Hypothesis III**

Test statement	Chi-square	df	Asymp. Sig.
Tax audit and economic development	88.340	3	0.000

**Conclusion:** With a p-value of 0.000 (less than 0.05), the null hypothesis is rejected. This confirms that tax audits significantly impact economic development in Nigeria.

Hypothesis IV

H<sub>04</sub>: There is no significant difference between lawmaking and tax administration on economic development in Nigeria.

**Table: Chi-Square Test for Hypothesis IV**

Test statement	Chi-square	df	Asymp. Sig.
Lawmaking and tax administration and economic development	69.215	4	0.000

Conclusion: Since the p-value is less than 0.05, the null hypothesis is rejected. This implies that lawmaking and tax administration significantly influence economic development in Nigeria.

#### **4.6 Regression Results**

To further examine the impact of tax loopholes, government spending perception, tax audit, and lawmaking/tax administration on economic development in Nigeria, a multiple regression analysis was conducted.

### Model Summary

Model	R	R square	Adjusted R square	Std. Error of the estimate
1	0.812	0.659	0.648	0.421

Source: Field Survey (SPSS Output)

**Interpretation:** The R value of 0.812 indicates a strong correlation between the independent variables and economic development. The R-Square value of 0.659 shows that approximately 65.9% of the variation in economic development is explained by tax loopholes, perception of government spending, tax audit, and lawmaking/tax administration.

### ANOVA Results

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	34.762	4	8.690	49.120	0.000
Residual	18.014	95	0.190		
Total	52.776	99			

Source: Field Survey (SPSS Output)

**Interpretation:** The ANOVA result ( $F = 49.120$ ,  $p < 0.05$ ) indicates that the regression model is statistically significant, meaning that the independent variables jointly have a significant effect on economic development in Nigeria.

### Coefficients Results

Independent variables	Unstandardized coefficient (beta)	Std. Error	Standardized coefficient (Beta)	t	Sig.
(Constant)	0.421	0.215	-	1.957	0.053
Tax loopholes	-0.327	0.081	-0.341	-4.037	0.000
Government spending perception	0.296	0.077	0.309	3.844	0.000
Tax audit	0.402	0.069	0.428	5.826	0.000
Lawmaking/administration	0.215	0.073	0.224	2.945	0.004

Source: Field Survey (SPSS Output)

#### Interpretation:

Tax loopholes have a significant negative effect on economic development ( $B = -0.327$ ,  $p < 0.05$ ).

Government spending perception positively and significantly affects economic development ( $B = 0.296$ ,  $p < 0.05$ ).

Tax audit has the strongest positive effect ( $B = 0.402$ ,  $p < 0.05$ ), showing that efficient tax audit practices significantly enhance economic development.

Lawmaking/administration also has a significant positive impact ( $B = 0.215$ ,  $p < 0.05$ ).

## **4.7 Discussion of Research Findings**

The findings of this study provide important insights into the relationship between tax loopholes, perception of government spending, tax audit, lawmaking/tax administration, and economic development in Nigeria.

### **1. Tax Loopholes and Economic Development**

Both chi-square and regression analysis confirmed that tax loopholes significantly and negatively affect economic development. This supports previous studies (IMF, 2020; OECD, 2019) which noted that poorly designed tax systems encourage avoidance and reduce government revenue. The implication is that when loopholes exist, government loses revenue necessary for infrastructure and social development.

### **2. Perception of Government Spending and Economic Development**

The findings revealed that poor perception of government spending discourages tax compliance, while transparency improves compliance and economic development. This supports the fiscal exchange theory, which argues that taxpayers are more willing to comply when they see government revenue being used effectively (Bird & Zolt, 2008).

### **3. Tax Audit and Economic Development**

Results indicated that tax audits have a strong and significant positive effect on economic development. This agrees with Allingham & Sandmo's (1972) model, which argued that effective monitoring reduces tax evasion. Tax audit had the strongest regression coefficient in this study, highlighting its critical role in Nigeria's revenue mobilization.

### **4. Lawmaking, Tax Administration, and Economic Development**

Findings also showed that lawmaking and tax administration significantly influence economic development. Weak legal frameworks and outdated tax laws hinder compliance. This aligns with

Fjeldstad & Moore (2008), who emphasized that effective administration and modernized tax laws are essential for developing countries to improve revenue.

## 5. Overall Contribution

The regression model explained 65.9% of the variation in economic development, confirming that taxation-related factors play a major role in Nigeria's economic performance. The results are consistent with theories of tax compliance and with evidence from other developing economies.

This chapter presented the analysis and interpretation of data collected through questionnaires. The results were organized under demographic, psychographic, reliability, hypothesis testing, regression, and discussion sections.

**Demographic Analysis:** Most respondents were female, young (18–25 years), and degree holders with less than 5 years of work experience.

**Psychographic Analysis:** Respondents strongly agreed that tax loopholes, weak administration, and mismanagement of revenue hinder compliance and development, while transparency, audits, and proper spending improve compliance.

**Reliability Test:** Cronbach's Alpha (0.846) confirmed high reliability of the instrument.

**Hypotheses Testing:** All four null hypotheses were rejected, confirming that tax loopholes, perception of government spending, tax audit, and lawmaking/tax administration significantly affect economic development.

**Regression Analysis:** Tax loopholes negatively affect economic development, while perception of spending, tax audit, and lawmaking/administration positively and significantly enhance it.

The findings align with existing literature and theories of tax compliance, reinforcing the argument that stronger tax systems, improved administration, and transparent governance are essential for Nigeria's economic development.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter presents the summary of the major findings, conclusions, and recommendations derived from the study on the effect of tax evasion and tax avoidance on economic development in Nigeria. It provides a concise overview of the key issues investigated, the research objectives achieved, and the empirical insights obtained from data analysis. The chapter also highlights the implications of the findings for policymakers, tax administrators, and other stakeholders in Nigeria's fiscal system. Furthermore, it outlines the study's contribution to existing knowledge and suggests areas for further research. Overall, this chapter integrates the results of the preceding chapters into a coherent conclusion that underscores the centrality of effective taxation to Nigeria's sustainable economic growth and development.

#### 5.1 Summary of Findings

This study investigated the effect of tax evasion and tax avoidance on economic development in Nigeria. The research was anchored on the recognition that taxation constitutes a major source of revenue for government, yet the Nigerian tax system has historically been characterized by inefficiencies, loopholes, weak enforcement, and widespread evasion and avoidance. These deficiencies continue to undermine the nation's ability to mobilize sufficient domestic revenue for development.

Chapter One introduced the study by highlighting the background to the problem, research objectives, research questions, hypotheses, and the significance of the study. The chapter stressed that tax evasion and avoidance, coupled with poor tax administration, have become persistent

challenges that deprive Nigeria of critical revenue needed to finance infrastructure, education, healthcare, and other public services.

Chapter Two presented the literature review. The conceptual review explained key terms such as taxation, tax evasion, tax avoidance, and economic development. The theoretical review was anchored on theories such as the Expectancy Theory, Social Contract Theory, Deterrence Theory, Fiscal Exchange Theory, and the Economic Theory of Taxation, which provide the framework for understanding taxpayer behavior and government fiscal responsibilities. The empirical review highlighted findings from both Nigerian and international studies, showing that loopholes in tax laws, weak administration, and mismanagement of public funds are recurrent problems across developing economies.

Chapter Three outlined the research methodology. A survey research design was employed, with data collected from 100 respondents through structured questionnaires. The study population included individuals working in tax-related departments such as assessment, audit, and compliance. The data were analyzed using descriptive statistics, chi-square tests, regression analysis, and reliability testing through Cronbach's Alpha.

Chapter Four focused on the presentation and analysis of data. The demographic analysis revealed that most respondents were young graduates with less than five years of experience, suggesting that the tax workforce is relatively youthful and at early stages of career development. The general findings indicated widespread agreement that tax loopholes, poor government spending perception, and weak audit mechanisms negatively affect tax compliance and economic development. Reliability testing confirmed a Cronbach's Alpha value of 0.846, showing that the instrument was consistent and dependable. Hypotheses testing using chi-square revealed significant relationships between all the independent variables (tax loopholes, perception of

government spending, tax audit, lawmaking/administration) and economic development. Regression analysis confirmed that tax audits had the strongest positive effect on economic development, while tax loopholes had a significant negative effect.

The major findings can be summarized as follows:

1. Tax Loopholes: Loopholes and ambiguities in Nigerian tax laws significantly encourage avoidance and reduce government revenue. Both chi-square and regression confirmed that tax loopholes have a strong negative effect on economic development.

2. Perception of Government Spending: Respondents overwhelmingly indicated that mismanagement of tax revenue discourages compliance, while transparency and accountability in the use of public funds improve compliance. Regression analysis showed a significant positive relationship between perception of government spending and economic development.

3. Tax Audits: Regular and effective tax audits were found to reduce evasion and improve compliance. The lack of adequate personnel for monitoring was identified as a major challenge. Regression analysis revealed that tax audits had the strongest positive effect on economic development among all independent variables.

4. Lawmaking and Tax Administration: Respondents affirmed that the lawmaking process in Nigeria is slow and outdated, while weak administration further hinders effective revenue generation. However, they agreed that strengthening tax administration and reforming outdated laws would promote compliance and increase growth. Both chi-square and regression confirmed significant positive effects of lawmaking and administration on economic development.

Collectively, these findings show that taxation-related factors account for a substantial proportion of Nigeria's developmental challenges. The regression model explained 65.9% of the

variation in economic development, underlining the central role of tax policies, administration, and perception in shaping Nigeria's growth trajectory.

## **5.2 Conclusion**

The research has demonstrated that taxation is not merely a fiscal exercise but a fundamental instrument for economic development. However, Nigeria's tax system has been consistently undermined by loopholes in legislation, weak enforcement, mismanagement of funds, and poor accountability. The findings show that tax loopholes significantly reduce government revenue and negatively affect development. Conversely, effective audits, transparency in government spending, and strengthened administration positively influence revenue mobilization and development outcomes.

The study therefore concludes that closing tax loopholes, ensuring accountability and transparency in the use of public funds, and strengthening audit mechanisms are crucial for Nigeria to achieve sustainable economic growth. The evidence also confirms the relevance of theoretical perspectives such as the Fiscal Exchange Theory and Social Contract Theory, which emphasize the reciprocal relationship between taxpayers and government. Deterrence Theory was validated by findings that effective monitoring reduces evasion.

In essence, this study concludes that reforming Nigeria's tax system is indispensable to fiscal sustainability. Without decisive reforms in tax law, administration, and governance, Nigeria will continue to face deficits in revenue mobilization, thereby limiting its capacity to deliver public services and achieve development.

### **5.3 Recommendations**

Drawing from the findings and conclusions, the following recommendations are made to policymakers, tax authorities, and stakeholders:

#### **1. Closing Loopholes in Tax Legislation**

The National Assembly in collaboration with the Federal Inland Revenue Service (FIRS) should review tax laws regularly to remove ambiguities that encourage avoidance. Loopholes in corporate tax, transfer pricing, and international taxation must be addressed. Clear and simplified legislation will reduce the avenues through which individuals and corporations exploit the system.

#### **2. Ensuring Transparency and Accountability in Public Spending**

Transparency in the utilization of tax revenue is critical to enhancing tax compliance. Government should publish regular reports detailing how tax revenues are spent on infrastructure and public services. Participatory budgeting, where communities are engaged in decision-making on revenue allocation, should be institutionalized. This will rebuild public trust in government and strengthen voluntary compliance.

#### **3. Strengthening Tax Audit and Enforcement Capacity**

More personnel should be recruited, trained, and deployed to tax audit and monitoring units. Modern audit techniques and digital tools should be introduced to monitor taxpayers in real time, detect evasion early, and enforce compliance. Enforcement agencies must be empowered with legal backing to prosecute offenders, thereby increasing deterrence.

#### **4. Reforming Tax Administration and Legislative Processes**

Tax administration should be fully digitized to reduce corruption and human interference. Outdated bureaucratic processes in lawmaking should be overhauled to reflect modern realities,

such as digital taxation and cross-border trade. Stronger collaboration between lawmakers and tax administrators should be promoted to ensure that tax laws are both practical and enforceable.

#### 5. International Cooperation

Nigeria should strengthen its collaboration with global bodies such as the OECD, IMF, and the African Tax Administration Forum (ATAF) to tackle cross-border avoidance and improve international taxation standards. Multinational corporations should be subjected to stricter reporting requirements to ensure that profits earned in Nigeria are fairly taxed.

#### 6. Public Awareness and Taxpayer Education

Continuous sensitization campaigns should be carried out to educate citizens on the importance of taxation and the benefits of compliance. Efforts should focus on the informal sector, which constitutes a large part of Nigeria's economy but remains outside the tax net. Awareness campaigns will not only improve compliance but also foster a sense of civic responsibility among citizens.

### **5.4 Contribution to Knowledge**

This study makes several contributions to existing knowledge. First, it provides empirical evidence on how tax loopholes, government spending perception, audits, and administration affect economic development in Nigeria. Second, it shows that tax audits have the strongest positive effect, highlighting their central role in revenue mobilization. Third, it demonstrates that taxpayers' perception of government spending significantly determines compliance, thereby linking fiscal governance with tax behavior. Finally, unlike most existing studies which focused at the national level, this research provides insights into the dynamics of tax administration at a more localized level.

## **5.5 Suggestions for Further Studies**

This study has opened new areas for further research. Future researchers may consider the following directions:

1. Extending the scope to cover more states and local governments across Nigeria for broader generalization of results.
2. Conducting comparative studies between Nigeria and other African countries to highlight regional similarities and differences in tax compliance behavior.
3. Examining the effect of digital taxation systems, such as e-filing platforms and digital service taxes, on compliance and revenue generation.
4. Undertaking qualitative research to explore in-depth taxpayer attitudes, perceptions, and motivations which cannot be fully captured by quantitative surveys.
5. Investigating the role of political influence, corruption, and institutional weaknesses in tax enforcement, as these issues were outside the scope of this study but remain critical to Nigeria's fiscal future.

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**APPENDIX**  
**QUESTIONNAIRE ON THE EFFECTS OF TAX EVASION AND TAX AVOIDANCE**  
**ON ECONOMIC DEVELOPMENT**

Dear Respondent,

This questionnaire is designed solely for academic purposes to gather your views on how tax evasion and tax avoidance affect Nigeria's economic development. Your responses will be kept strictly confidential and used only for this research.

**Section A: Demographic Information**

(Please tick ✓ the appropriate option)

1. Gender:

Male

Female

2. Age Bracket:

18–25 years

26–39 years

40–49 years

50 years and above

3. Educational Qualification:

OND/NCE

Bachelor's Degree (BSc/BA)

Master's Degree (MSc/MA)

Doctorate (PhD)

Others (specify) \_\_\_\_\_

4. Years of Work Experience:

Less than 5 years

5–9 years

10–14 years

15 years and above

5. Department/Unit:

- Tax Assessment
- Tax Collection
- Audit/Investigation
- Legal/Compliance
- Others (specify) \_\_\_\_\_

**Section B: Loopholes in Tax Laws and Economic Development**

**Response Key:**

SA – Strongly Agree | A – Agree | N – Neutral | D – Disagree | SD – Strongly Disagree

Please indicate your level of agreement:

S/N	Statement	SA	A	N	D	SD
1	Tax laws in Nigeria contains loopholes that makes tax avoidance easy					
2	Ambiguous provisions in tax laws allows corporations to reduce tax liability legally					
3	Loopholes in tax legislation significantly reduce government revenue					
4	Closing tax law loopholes would improve Nigeria’s economic development					

**Section C: Perception of Government Spending and Economic Development**

S/N	Statement	SA	A	N	D	SD
5	Government uses tax revenue efficiently for infrastructure development.					
6	Mismanagement of tax revenue discourages tax payers from compliance					
7	Transparent use of tax funds would improve tax compliance					
8	Poor perception of government spending negatively affects economic growth					

### Section D: Effectiveness of Tax Audits on Economic Development

S/N	Statement	SA	A	N	D	SD
9	Regular tax audit helps reduce tax evasion					
10	Audit exercises improve tax payers compliance					
11	Lack of adequate audit personnel affects effective monitoring					
12	Effective tax audits can significantly boost revenue for economic development					

### Section E: Lawmaking, Tax Administration, and Economic Development

S/N	Statement	SA	A	N	D	SD
13	The process of making tax laws in Nigeria is slow and outdated.					
14	Weak tax administration hinders effective revenue generation					
15	Strengthening tax administration would increase Nigeria's economic growth					
16	Lawmakers and tax administrators collaborate effectively to improve compliance					

### Section F: General Perceptions on Tax Evasion, Avoidance, and Economic Development

S/N	Statement	SA	A	N	D	SD
17	Tax evasion is more common in the informal sector than in the formal sector					
18	Tax avoidance is mostly carried out by large corporations using legal loopholes					
19	Tax evasion and avoidance have a significant negative impact on Nigeria's economy					
20	International cooperation is necessary to address cross-border tax avoidance					