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    REVIEW OF LITERATURE

    NEED/IMPORTANCE OF THE STUDY

    STATEMENT OF THE PROBLEM

    OBJECTIVES

    HYPOTHESES

    RESEARCH METHODOLOGY

    RESULTS & DISCUSSION

    FINDINGS

    RECOMMENDATIONS/SUGGESTIONS

    CONCLUSIONS

    SCOPE FOR FURTHER RESEARCH

    ACKNOWLEDGMENTS

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APPRAISAL OF FACTORS INFLUENCING TAX AVOIDANCE AND EVASION IN NIGERIA

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ABSTRACT

Tax evasion and avoidance are both phenomena that are probably as old as taxation itself. Literature revealed that tax avoidance and evasion represent some of the perplexing problems facing the Nigerian economy. The result of tax evasion and avoidance is tax revenue loss, which may cause serious damage to the proper performance of the public sector, threatening its capability to finance public expenditure. Therefore, this study examined the factors that are influencing tax evasion and tax avoidance in Nigeria. The study adopts a survey research design. Six-point rating scaled questionnaire starting from strongly agree to strongly disagree was used to collect primary data from 120 selected small and medium scale businesses in Lagos. The results of the analysis revealed that the low quality of the service in return for tax does significantly influence tax avoidance and evasion in Nigeria. Furthermore, tax system and perception of fairness, low transparency and accountability of public institutions, and high level of corruption do significantly influence tax avoidance and evasion in Nigeria. The study recommends that urgent steps should be taken by public office holders to live up to expectation when it comes to transparency, accountability and the war against corruption.

JEL CODES
H26, H31, K34

KEYWORDS
Corruption, Tax evasion, Tax avoidance, Transparency and Accountability.

INTRODUCTION

Taxation has been variously described in the literature. Arnold and McIntyre (2002) define tax as a compulsory levy on income, consumption and production of goods and services as provided by the relevant legislation. Tax has also been defined as a charge imposed by government authority upon property, individuals, or transactions to raise money for public purposes (Akinyomi & Tasie, 2011; Enahoro & Olabisi, 2012). Tax evasion and avoidance are both phenomena that are perhaps as old as taxation itself (Eschborn, 2010). Wherever and whenever authorities decide to levy taxes, individuals and firms try to avoid paying them. The two concepts of tax evasion and tax avoidance do not mean the same thing even though they often appear together. Bhuiyan (2012) described tax evasion as intentional and unlawful non-fulfillment of tax liabilities. In contrast, he considered tax avoidance as conscious acts of reducing one's taxes by lawful means. Nevertheless, the distinction between tax evasion and avoidance is not always very clear for the reason that tax laws are not always specific. Furthermore, when taxpayers try to discover loopholes with the intention to pay a smaller amount of tax; even if in principle lawful, their actions may be against the spirit of the law and in this sense regarded as noncompliant (Wenzel, 2002; Bhuiyan, 2012).

REVIEW OF LITERATURE

Tax avoidance involves an active means to reduce or remove altogether the payment of tax (Soyode & Kajola, 2006). It is usually done through taking advantage of the loopholes in the tax laws without actually breaking it. It is also the legal utilization of the tax regime to one's own advantage so as to reduce the amount of tax that is payable using means that are acceptable by the law. According to Kiabel and Nwokah (2009), it is a word used to show the various means which have been adopted with the purpose of saving tax and therefore securing the tax payer's earnings from greater liability which would have otherwise been incurred. Essentially it is simply going through the tax provisions and taking total advantage for the benefit of the tax payer, for instance, a situation where a tax payer invests in qualifying capital expenditures so that he may be granted capital allowances.

Tax evasion on the other hand is a term used when efforts of individuals and organizations are directed towards illegal reduction of tax liabilities. It has been defined by Alm and Martinez-Vazquez (2001) as a deliberate and willingly practices of not disclosing complete taxable income in other to pay lesser tax. This means that tax evasion is illegal in the eyes of the law. It entails the taxpayers deliberately misrepresenting and concealing the state of affairs in order to reduce tax payment from the tax authorities and it includes in particular dishonest tax reporting (i.e. declaring of reduced income, profits, gain than usually earned or overstating deductions). Kiabel and Nwokah (2009) posit that tax evasion is the fraudulent, dishonest, intention concealment of facts and figures in other to avoid or reduce tax payable.

Neck, Wachter and Schneider (2011) investigated how the possibility of tax avoidance affects the extent of tax evasion and hence the shadow economy. Using comparative statistics, the study revealed that the complexity of the tax system affects participation in the shadow economy negatively. Furthermore, the study demonstrated that a decrease in the maximum acceptable number of working hours in the official economy increases the labour supply in the shadow economy. Similarly, Abiola and Asiweh (2012) carried out a survey on Nigeria tax administration and its capability to reduce tax evasion and generate revenue for the developmental aspiration of the Nigerian general public. The outcome of the study revealed that management and organizational approach in the implementation of tax policy in Nigeria is very weak. The weakness could be traced to the use of poor tools, insufficient staffing of the tax-collecting organization, poor financial support, bad access road to the heart of the rural areas, poor enlightenment. The result additionally supported the fact that tax payers are not enlighten on the need to meet up with their tax obligation.

Bhuiyan (2012) investigated tax evasion and avoidance in some selected firms in Bangladesh, using primary data obtained through the administration of questionnaire to top level tax officials and tax practitioners. Besides, secondary data on appellate cases were obtained by the researcher himself from the relevant tax personnel assuring them that the names of the corporate firms would be kept confidential. The study highlighted the main reasons for tax evasion and tax avoidance, major techniques adopted by the corporate firms in evading and avoiding corporate taxes in Bangladesh. It also reported ways and means of preventing tax evasion and avoidance practices.

Alabede, Ariffin and Idris (2011) investigated individual taxpayers' attitude and compliance behaviour in Nigeria. The study recognized that a number of factors may be responsible for low compliance in income tax administration in Nigeria. However, taxpayers' attitude was identified as one factor that play important role in influencing tax compliance behaviour. Data for the study were collected through a survey of individual taxpayers' opinion, meanwhile the analysis was carried out using moderated multiple regression. The result of the study indicated that taxpayer's attitude towards tax evasion is positively related to compliance behaviour. Furthermore, the study also revealed that taxpayer's risk preference has strong negative moderating impact on the relationship between attitude towards tax evasion and compliance behaviour.

In general, citizens expect some kind of service or benefit in return for the taxes paid. If the government fails to provide basic public goods and services or provides them insufficiently, citizens may not be willing to pay taxes and tax evasion and avoidance will be the consequence (Lieberman, 2002; Pashev, 2005; Everest-Phillips, 2008; Brautigam et al., 2008). Some studies suggest that high tax rates foster evasion. The intuition is that high tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer (Chipeta, 2002). However, the level of the tax rate may not be the only factor influencing people's decision about paying taxes. In fact, the structure of the overall tax system has an impact as well. If, for example, the tax rate on corporate profits is relatively low, but individuals are facing a high tax rate on their personal income, they may perceive their personal tax burden as unfair and choose to declare only a part of their income. Similarly, large companies can often more easily take advantage of tax loopholes, thereby contributing to the perceived unfairness of the system. Tax rates and the overall structure of the tax system, therefore, have a significant effect on the disposition to evade and avoid taxes.

Lack of transparency and accountability in the use of public funds contributes to public distrust both with respect to the tax system as well as the government. This, in turn, increases the willingness to evade taxes (Kirchler, Muelbacher, Kastlunger & Wahl, 2007). If due to high levels of corruption, citizens cannot be certain whether their paid taxes are used to finance public goods and services their willingness to pay suffers and it becomes more likely that they evade their tax liabilities. A taxpayer might consider evading taxes if the cost of bribing a tax auditor is lower than the potential benefit from tax evasion (Popoola, 2009).

IMPORTANCE OF THE STUDY

This study focuses on the factors that influence tax avoidance and evasion in Nigeria. The subject of the study is of high importance as tax evasion and avoidance practice adversely hamper government's capacity to provide the basic social amenities needed by the populace. In fact, if tax evasion and tax avoidance continue unchecked, it may lead to the collapse of any government, as every government requires adequate funding for it to run. Therefore, it becomes necessary to investigate those factors that influence evasion and avoidance of tax so as to develop strategies to combat them.

STATEMENT OF THE PROBLEM

Simser (2008) observed tax evasion could be said to occur when individuals or organizations intentionally fail to conform to their tax responsibility. Tax evasion and avoidance are not new phenomena as they have been in existence long time ago, however, they have taken a new dimensions in recent times (Eschborn, 2010). According to Asada (2010) tax avoidance and evasion represent some of the perplexing problems facing the Nigerian economy. Wherever and whenever authorities decide to levy taxes, individuals and firms try to avoid paying them. Meanwhile, taxation is one of the means of revenue generation of any government to meet the need of its citizens (Abiola & Asiweh, 2012). The resulting tax revenue loss may cause serious damage to the proper performance of the public sector, threatening its capability to finance public expenditure (Chiumya, 2006). Therefore, there is the need to ascertain the factors that are influencing tax evasion and tax avoidance in Nigeria.

OBJECTIVES OF THE STUDY

The main objective of this study is to investigate the factors influencing tax avoidance and evasion in Nigeria. Specifically, the study sets out to:
i. Investigate whether low quality of the service in return for tax affects tax avoidance and evasion in Nigeria.
ii Examine whether tax system and perception of fairness affect tax avoidance and evasion in Nigeria.
iii Evaluate whether low level of transparency and accountability by public institutions affect tax avoidance and evasion in Nigeria.
iv Assess whether high level of corruption affects tax avoidance and evasion in Nigeria.

RESEARCH QUESTIONS

The following research questions have been developed mainly based on the review of literature on tax avoidance and evasion:
i. What is the influence of low quality of the service in return for tax on tax avoidance and evasion in Nigeria?
ii What is the influence of tax system and perception of fairness on tax avoidance and evasion in Nigeria?
iii What is the influence of low transparency and accountability of public institutions on tax avoidance and evasion in Nigeria?
iv What is the influence of high level of corruption on tax avoidance and evasion in Nigeria?

RESEARCH HYPOTHESES

In order to be able to test the significance of the relationship that exists between the identified factors and tax avoidance and evasion in Nigeria, the following hypotheses have been formulated:
Ho_i: Low quality of the service in return for tax does not significantly influence tax avoidance and evasion in Nigeria.
Ho_{ii}: Tax system and perception of fairness do not significantly influence tax avoidance and evasion in Nigeria.
Ho_{iii}: Low transparency and accountability of public institutions do not significantly influence tax avoidance and evasion in Nigeria.
Ho_{iv}: High level of corruption does not significantly influence tax avoidance and evasion in Nigeria.

RESEARCH METHODOLOGY

The study adopts a survey research design. Six-point rating scaled questionnaire starting from strongly agree (SA), agree (A), fairly agree (FA), fairly disagree (FD), Disagree (D), and strongly disagree (SD) was used to collect data from one hundred and twenty (120) randomly selected small and medium scale businesses in Lagos, Nigeria. However, only 87 representing 72.5% of the questionnaires were returned and usable. The questionnaire was designed in such a way that every question in the questionnaire was related to the research questions.

Chi-square test with 5% level of significance was employed in testing the hypotheses. The decision rule is to reject the null hypothesis if the calculated value is greater than the critical value and accept if otherwise. Chi-square is calculated with the help of the following formula.

$$X^2 = \frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$$

Where O_{ij} = represents observed frequency; E_{ij} = represents expected frequency

$$E = \frac{\text{Number of questionnaire}}{\text{Number of response}}$$

Level of significant= 0.05; Formula for degree of freedom= n-1; Therefore the degree of freedom df= 6-1 = 5. Thus, the value of X^2 from that 5 degree of freedom at 5% significance is 11.070.

RESULTS

The responses of the respondents on the various statements put forward in the questionnaire are analyzed as follows:

TABLE 1: ANALYSIS OF RESPONSES TO STATEMENT 1 IN THE QUESTIONNAIRE: LOW QUALITY OF THE SERVICE IN RETURN FOR TAX DOES AFFECT TAX AVOIDANCE AND EVASION IN NIGERIA

S/No.	Responses	No. of responses	% of Responses
1	Strongly agree	42	48.28
2	Agree	28	32.18
3	Fairly agree	11	12.64
4	Fairly disagree	4	4.60
5	Disagree	2	2.30
6	Strongly disagree	-	-
Total		87	100

Source: Field Survey, 2013

The analysis of responses to statement number one reveals that most of the respondents (93.1%) agreed that the low quality of the service in return for tax does affect tax avoidance and evasion in Nigeria. Furthermore, in order to confirm the existence of relationship between the low quality of the service in return for tax and tax avoidance and evasion in Nigeria; the first hypothesis is then tested below.

TABLE 2: ANALYSIS OF QUESTIONNAIRE BASED ON HYPOTHESIS 1

Observed (O)	Expected (E)	$(O - E)$	$(O - E)^2$	$(O - E)^2/E$
42	14.5	27.5	756.25	52.1552
28	14.5	13.5	182.25	12.5690
11	14.5	-3.5	12.25	0.8448
4	14.5	-10.5	110.25	7.6034
2	14.5	-12.5	156.25	10.7759
-	14.5	-14.5	210.25	14.5000
x^2				98.4483

Source: Field Survey, 2013

The result of hypothesis one indicates an x^2 value of 98.4483, which is greater than the critical value of 11.070. Therefore, we reject the null hypothesis and accept the alternative hypothesis. Thus, we conclude that the low quality of the service in return for tax does significantly influence tax avoidance and evasion in Nigeria.

TABLE 3: ANALYSIS OF RESPONSES TO STATEMENT 2 IN THE QUESTIONNAIRE: TAX SYSTEM AND PERCEPTION OF FAIRNESS DO NOT AFFECT TAX AVOIDANCE AND EVASION IN NIGERIA

S/No.	Responses	No. of responses	% of Responses
1	Strongly agree	36	41.38
2	Agree	29	33.33
3	Fairly agree	13	14.94
4	Fairly disagree	2	2.30
5	Disagree	6	6.90
6	Strongly disagree	1	1.15
Total		87	100

Source: Field Survey, 2013

The analysis of responses to statement number two reveals that most of the respondents (89.65%) agreed that the tax system and perception of fairness do affect tax avoidance and evasion in Nigeria. Furthermore, in order to confirm the existence of relationship between the tax system and perception of fairness and tax avoidance and evasion in Nigeria; the second hypothesis is then tested below.

TABLE 4: ANALYSIS OF QUESTIONNAIRE BASED ON HYPOTHESIS 2

Observed (O)	Expected (E)	$(O - E)$	$(O - E)^2$	$(O - E)^2/E$
36	14.5	21.5	462.25	31.8793
29	14.5	14.5	210.25	14.5000
13	14.5	-1.5	2.25	0.1552
2	14.5	-12.5	156.25	10.7759
6	14.5	-8.5	72.25	4.9828
1	14.5	-13.5	182.25	12.5690
x^2				74.8622

Source: Field Survey, 2013

The result of hypothesis two indicates an x^2 value of 74.8622, which is greater than the critical value of 11.070. Therefore, we reject the null hypothesis and accept the alternative hypothesis. Thus we conclude that tax system and perception of fairness do significantly influence tax avoidance and evasion in Nigeria.

TABLE 5: ANALYSIS OF RESPONSES TO STATEMENT 3 IN THE QUESTIONNAIRE: LOW TRANSPARENCY AND ACCOUNTABILITY OF PUBLIC INSTITUTIONS DO NOT AFFECT TAX AVOIDANCE AND EVASION IN NIGERIA

S/No.	Responses	No. of responses	% of Responses
1	Strongly agree	52	59.77
2	Agree	24	27.59
3	Fairly agree	4	4.60
4	Fairly disagree	3	3.45
5	Disagree	1	1.14
6	Strongly disagree	3	3.45
Total		87	100

Source: Field Survey, 2013

The analysis of responses to statement number three reveals that most of the respondents (91.96%) agreed that low transparency and accountability of public institutions do affect tax avoidance and evasion in Nigeria. Furthermore, in order to confirm the existence of relationship between low transparency and accountability of public institutions and tax avoidance and evasion in Nigeria; the third hypothesis is then tested below.

TABLE 6: ANALYSIS OF QUESTIONNAIRE BASED ON HYPOTHESIS 3

Observed (O)	Expected (E)	(O − E)	$(O - E)^2$	$(O - E)^2/E$
52	14.5	37.5	1406.25	96.9828
24	14.5	9.5	90.25	6.2241
4	14.5	-10.5	110.25	7.6034
3	14.5	-11.5	132.25	9.1207
1	14.5	-13.5	182.25	12.5690
3	14.5	-11.5	132.25	9.1207
x^2				141.6207

Source: Field Survey, 2013

The result of hypothesis three indicates an x^2 value of 141.6207, which is greater than the critical value of 11.070. Therefore, we reject the null hypothesis and accept the alternative hypothesis. Thus, we conclude that low transparency and accountability of public institutions do significantly influence tax avoidance and evasion in Nigeria.

TABLE 7: ANALYSIS OF RESPONSES TO STATEMENT 4 IN THE QUESTIONNAIRE: HIGH LEVEL OF CORRUPTION DOES AFFECT TAX AVOIDANCE AND EVASION IN NIGERIA

S/No.	Responses	No. of responses	% of Responses
1	Strongly agree	59	67.82
2	Agree	23	26.43
3	Fairly agree	1	1.15
4	Fairly disagree	2	2.30
5	Disagree	1	1.15
6	Strongly disagree	1	1.15
Total		87	100

Source: Field Survey, 2013

The analysis of responses to statement number four reveals that most of the respondents (95.4%) agreed that high level of corruption does affect tax avoidance and evasion in Nigeria. Furthermore, in order to confirm the existence of relationship between high level of corruption and tax avoidance and evasion in Nigeria; the fourth hypothesis is then tested below.

TABLE 8: ANALYSIS OF QUESTIONNAIRE BASED ON HYPOTHESIS 4

Observed (O)	Expected (E)	(O − E)	$(O - E)^2$	$(O - E)^2/E$
59	14.5	44.5	1980.25	136.5690
23	14.5	8.5	72.25	4.9828
1	14.5	-13.5	182.25	12.5690
2	14.5	-12.5	156.25	10.7759
1	14.5	-13.5	182.25	12.5690
1	14.5	-13.5	182.25	12.5690
x^2				190.0347

Source: Field Survey, 2013

The result of hypothesis four indicates an x^2 value of 190.0347, which is greater than the critical value of 11.070. Therefore, we reject the null hypothesis and accept the alternative hypothesis. Thus, we conclude that high level of corruption does significantly influence tax avoidance and evasion in Nigeria.

DISCUSSIONS

The results of the analysis revealed that the low quality of the service in return for tax does significantly influence tax avoidance and evasion in Nigeria. This finding is in line with that of Lieberman (2002), Everest-Phillips (2008) and Brautigam et al. (2008). The tax paying public expects government to provide basic social amenities such as pipe borne water, electricity, good road, educational facilities and most importantly security in return for the tax paid. However, in Nigeria as at date, these facilities are not adequately provided by the government. Particularly, the inadequate provision of security of lives and properties of the citizenry has remained a major concern to all. No wonder this study identified that the low quality of the service in return for tax is a factor that encourages tax avoidance and evasion in Nigeria.

Furthermore, the results of this study showed that high level of corruption, perception of lack of fairness, and low transparency and accountability of public institutions are other factors facilitation tax evasion and avoidance in Nigeria. This result is in line with that of Chipeta (2002) and Kirchler et al., (2007). As long as the tax paying public perceives those in the helm of affairs of public institutions as corrupt, unaccountable and not transparent, they may not be favourably disposed to continue to perform their civic responsibilities of paying tax. Similarly, on condition that the tax paying populace continues to perceive the tax laws as unfair (especially to the low and middle class) they may not be motivated to faithfully pay their taxes. Therefore, political leaders should make themselves accountable to the people, steer clear of corrupt practices and try as much as possible to be transparent to the public.

FINDINGS

This study investigated the factors which influence tax avoidance and tax evasion in Nigeria. The results of the study revealed the following:
(i) That the low quality of the service in return for tax does significantly influence tax avoidance and evasion in Nigeria. (ii) That tax system and perception of fairness do significantly influence tax avoidance and evasion in Nigeria. (iii) That low transparency and accountability of public institutions do significantly influence tax avoidance and evasion in Nigeria. (iv) That high level of corruption does significantly influence tax avoidance and evasion in Nigeria.

RECOMMENDATIONS

Sequel to the findings of this study, it is recommended that urgent steps should be taken by public office holders in particular and government representatives in general to live above board when it comes to transparency, accountability and the war against corruption. Furthermore, government should strive to make dividends of democracy available to the general public through the provision of basic social amenities such as good roads, pipe borne water and electricity supply among others. The entire security system in the country should be totally upgraded so as to guarantee the safety of lives of properties. With all these in place, it is expected that the citizenry with have a positive change of attitude towards government in general and taxation in particular.

CONCLUSION

Tax evasion and avoidance usually result in revenue loss to government, which may cause serious damage to the proper performance of the public sector, threatening its capability to finance public expenditure. This study examined the factors that are influencing tax evasion and tax avoidance in Nigeria. The results of the analysis revealed that the low quality of the service in return for tax does significantly influence tax avoidance and evasion in Nigeria. Furthermore, tax system and perception of fairness, low transparency and accountability of public institutions, and high level of corruption do significantly influence tax avoidance and evasion in Nigeria.

SCOPE FOR FURTHER RESEARCH

This study concentrated only on four of the factors identified in the literature to have influence on tax avoidance and tax evasion. However, there are other factors beside those investigated in this which may exact some influence on tax payers' inclination towards tax avoidance and tax evasion. These other factors could be examined by future researchers. Furthermore, future researchers could broaden the scope of their studies by selecting more samples.

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