THE EFFECT OF TAX EVASION AND AVOIDANCE ON REVENUE GENERATION IN NIGERIA

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ABSTRACT
A widely held opinion/views have it that the taxable adults and establishments in Nigeria, evade and avoid tax payment, hence depriving the government of revenue. The choice of this research topic therefore, is because of the ever increasing need to increase the internally generated revenue of States in Nigeria to enable her provide her citizens with adequate social and economic amenities without resorting to statutory allocation and external loan or funding. However tax evasion and avoidance do exist as observed but it is very difficult to know the exact figures being evaded and avoided. It was observed that poor fiscal policies, government, and tax payers attitude, and the administrative loophole and inefficiency are the causes of tax evasion and avoidance. It was therefore concluded that evasion and avoidance of tax have reduced government revenue so drastically in Nigeria. Based on the above observation, policy recommendations were put forward to reduce the cases of tax evasion and avoidance in Nigeria.

INTRODUCTION
Ideally, one of the basic responsibilities of the government is to provide its citizens with all the life made easy facilities like potable water, electricity, road, health, Education etc. These facilities are provide and maintained through revenues generated from tax, which is one of the major source of government internal generated revenue.

In Nigeria, in spite of the ever increasing number of taxable adults and firms, the standard of living of the people at the three tiers of the government are at deplorable condition. The poor state of roads, ineffective function of the public facilities (hospitals, schools etc), and uncountable number of abandoned projects are some of the clear pointers to the pathetic state of things in the Nation. A widely held opinion had it that the taxable adults and establishments in the nation (at all level of the tiers) evade and avoid tax payment, therefore resulting to the realization of less revenue from tax to Federal, State and Local Governments. This places the governments in a helpless situation towards the provision of those socio-economic life made easy facilities (Eze 2006). The inability of various tax system in Nigeria to yield the needed revenue, made the nation to rely solely on revenue from oil for the provision of public goods, utilities and services. Obi (2003) stated that the State Governors, and, Local Government Chairmen do not take internal revenue serious, hence the agencies responsible for the collection were allow to do what they like. Some Local Government Chairman see internal generated revenues as part of their wife's domestic expendable money, and cannot be accounted for.

For easy comprehension, I wish to define the two concepts (tax avoidance and evasion) thus: Tax avoidance is the deliberate legal act of the tax payer not to pay tax at all. It is a common knowledge that tax avoidance, however legal is tax dodging, and is antisocial and unpatriotic. Tax exemption when one is not due is example of tax avoidance. Tax evasion on its own part is illegal act which achieves the same goal as tax avoidance but its method is different. Tax evasion is an illegal method of reducing ones income or non declaration of accurate income by individuals or firms for the purposes of taxation.

More so, as the state of affairs in the country now calls for self sufficiency, reliance, and restriction in resorting to external borrowing in order to save the nation from the unnecessary embarrassment, hence there is dare need to increase the internally generated revenue of the governments to enable them provide her citizens with adequate social, and economic amenities without resorting to external loan. Again there is an explicit assumption that, an exchange or contract relationship between tax payers and the governments exist. J.S Mill described this relationship in his terminology as “in a quid proquo terms”, where governments provide public utilities and services to the members of the society who contributed to the cost of these supplies in proportion to the benefit received.

Unfortunately, in Nigeria, it is only pay as you earn (PAYE) System of tax that is more certain, less
controversiable, and allows the tax payers less opportunity for evasion, and manoeuvre. The relationship between the yields of PAYE and direct assessment taxes is significant because it throws light on the relative efficiency of the collection methods, Onah (2004).

REVIEW ON TAX AS A MEANS OF REVENUE GENERATION

Empirically, a tax according to Asukwo (1990) is a compulsory payment imposed on the citizen by the government to enable her (government) attains the national goals and objectives. To him, tax is one of the major sources of revenue to the government through which government raises funds to tackle her numerous financial and economic obligation like provision of basic infrastructure and others.

Ojo (1982) views tax as a compulsory levy imposed by the government on the individuals and business firms and paid by them to government. It is a special kind of payment in that it is compulsory and benefits for payment do not necessarily correspond (in magnitude) to the amount of tax paid. Ogbueghu (2004) maintained that there are other sources of revenue to the government, but regarded taxation as the most important. He stated that tax is divided into two; namely: direct and indirect. He explained that the burden of indirect taxes, are borne by the final consumers of the commodities on which it was levied. Some other authors were of the opinion that government usually embarks on borrowing as a result of short fall on the expected revenue from taxes to meet its expenditure obligations. They also noted that government borrowings are for financing emergency and huge capital programmes and projects. However, they conclude that effective tax administration and proper tax management will lead to high yield of tax revenues and consequently reduce the incidence of government borrowing to finance its expenditure obligation.

Taxes have also been viewed as built in stabilizers. This implies that taxes reduce the marginal propensity to spend out of the national income and hence reduces the value of the multiplier. Thus, taxes as built-in- stabilizers reduce the magnitude of fluctuation in the national income caused by autonomous changes in such expenditure as investment, (Lipsey and Steiner 1981).

According to them, it implies that if government desire to maintain stability in the economy, it can design taxes in such as way as to serve as built-in-stabilizers in some consumption goods and this will lead to proper control and regulation of the consumption and expenditure obligations.

However, Tabans: (1994) explains that tax evasion is illegal, and involves that evasion of the liability to tax by the tax payer. For instance, failure to declare a taxable income or claiming a relief to which there is no entitlement. On the other hand, tax avoidance involves arranging ones affairs and income in such a manner that liabilities to taxes are avoided. It is a deliberated escape or avoidance of tax payment by the adult citizen of a country.

According to the writer, tax evasion and avoidance are the two major factors that militate against the achievement of revenue projection of the government.

Tabans recorded or opined that to evade a tax is an illegal act, but the question then arises whether the laws guiding the administration of taxes considered tax evasion as a serious offence. It is obvious that if tax evasion and tax avoidance are both eliminated, revenues and incomes accruing to government through which government raises funds to tackle its numerous financial and economic obligation like provision of basic infrastructure and others.

He stressed that government should provide adequate administrative machinery for efficient out-puts. This implies adequate trainings for the personal income tax administrators, streamlining the system in to a modern system and reorganizing the system with the aim of achieving maximum outputs. Writing on the tax administration in Nigeria, Sills (1972) viewed tax avoidance and evasion as what have affected the economy negatively.

This means that the government expected revenue targets had never been attained as a result of effects of tax evasion and tax avoidance. In line with this, Anyanwu (1993). Hinted, that due to the economic hardship in the country today, many tax payers in a bid to avoid tax, reallocate their own time, gathering, analyzing information and studying tax laws, figuring out how to reduce their tax bill. They engage in non-taxable and non-market production e.g. The painting of their houses, repairing their cars and performing other-do it-yourself jobs. Less honestly, they perform services for non-traceable cash payments or even better transactions.

On the other hand, Federal Inland Revenue service’s Management stated that tax evasion is an attempt to escape tax liabilities (Wholly or practically) by breaking the tax law. It is essentially; therefore, a
criminal act since it is achieved principally by making false declaration such as under-reporting income or over-reporting relief and allowances. Contrary, the FIRS explained that tax avoidance is an attempt to escape tax liability by circumventing the law, not by breaking it. Thus, even though the tax evaders and avoiders have similar end (namely to escape tax liabilities) their means to the end differ.

The evader according to FIRS is a criminal, but avoided is just a smart taxpayer who exploits loopholes in the tax law (related laws) to reduce his tax liabilities. She (FIRS) further distinguished tax evasion and avoidance from tax delinquency or tax default. Both of which described a situation in which a taxpayer refuses (on one reason or the other) to pay his assessed tax in full or in time. She maintained that it is possible for a tax evader or avoided to also be a tax delinquent. It is clear from the above comparison that not much can be done by the tax administration about tax avoidance as long as the law continues to produce various loopholes for the smart payer to exploit. Indeed, the tax avoidance by contrast to tax evasion is due principally to administrative ineffectiveness.

Ojo in the (ICAN) Journal (1989) stated that tax evasion is a serious handicap in the realization of government revenue objective in the area of taxation. He was of the view that for government to realize its expected revenue target from taxation, effective tax laws and efficient tax administration should be ensured. He further advocated for the creation of new tax offices and tax libraries, while the offices should be located nearer to tax-payer, for greater revenue yield to be achieved, because it makes for conveniences of both the tax officials and the tax payers.

In the journal some employers of labour who deduct PAYE from their employees but will either convert such deductions for their personal acquisition or for expansion of their business, were accused, hence advocated for an advert to be sponsored in the newspaper, television and radio by the FIRS to educate the employers as to their criminal liabilities for non-deduction or withholding PAYE or non-proper accounting or remittance of such deductions to the appropriate tax authorities.

Onah (2004) stated that fiscal Federalism in Nigeria involves the assignment of functional responsibilities and taxing powers among the federal, State and Local governments. The allocation of functions and powers as embodied in the 1999 Federal Constitution are classified into three namely; exclusive list, concurrent list and residual list. Also associated to the allocation of responsibilities is the assignment of revenue/taxing powers. This is shown in the table below:

<table>
<thead>
<tr>
<th>Federal Govt.</th>
<th>State Govt.</th>
<th>Local Govt.</th>
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<tbody>
<tr>
<td>2. Export duties</td>
<td>2. Tax or duty fee.</td>
<td>2. Collection of</td>
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<tr>
<td>3. Stamp duties</td>
<td></td>
<td>Licenses on radio,</td>
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<tr>
<td>4. Taxation of income,</td>
<td>3. Collection of taxes on</td>
<td>Television Bicycle, Trucks</td>
</tr>
<tr>
<td>Profit and capital gain</td>
<td>capital gain, incomes</td>
<td>wheel barrows and Carts.</td>
</tr>
<tr>
<td>5. Royalty on mines and</td>
<td>on persons other than</td>
<td></td>
</tr>
<tr>
<td>minerals</td>
<td>companies.</td>
<td>3. Registration of birth,</td>
</tr>
<tr>
<td>6. Value added tax</td>
<td></td>
<td>and marriages.</td>
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**SOURCE:** 1999 Constitution of the federal republic of Nigeria, second and fourth schedules.

From the above table, we can see that the major sources of revenue fall under the Jurisdiction of the federal government.

Also apart from personal income tax at the State level which is highly yielding, state, and local governments have jurisdiction over poor revenue yielding sources. The revenue from these poor sources is further being reduced by evasion, and avoidance practices, because the two concepts do not only exist in taxation sources, but in all the sources of revenue generation in the country.

3) **PROBLEM ASSOCIATED WITH INCOME TAX ADMINISTRATION MACHINERY IN NIGERIA.**

The board of internal revenue in the state and the federal Inland Revenue at the federal are the main tax administration body in the country. They have offices located at each major settlement areas, and local government areas, with tax collecting agents. The board of Internal Revenue has agents/representatives in all the hamlets, Quarters and villages in Nigeria for easier assessment and collection of taxes.

All these notwithstanding there still exist, high rate of tax evasion, which is to a good extent contributed to the problems of tax administration machinery in Nigeria.

The commonest problems experienced by both tax administrators and payers in the country according to Asukwo (1990) include:

1. Accurate records of business transaction and income are not kept. The literacy rate in most part of
the Country is still low. This makes it difficult to keep records of income or business transactions.

2. Many people do engaged in subsistence production. It is difficult to estimate correctly the income of many people who do not produce on a commercial basis. Such people engaged in the subsistence sector are therefore exempted from personal income tax.

3. Many people keep their wealth in the form of commodities such as gold, precious stones etc. the value of such commodities is difficult to determine for taxation purposes. Also those who assess tax may not know that people have such type of wealth. They are therefore left untaxed.

4. Some tax collector and tax assessors are dishonest. There are cases where some tax collectors were prosecuted for misappropriation of fund collected from tax payers, or for having collected bribe and under assess the tax payers.

5. People may feel discontented when they are not adequately rewarded or represented by those in power. This especially may be true if their areas did not receive adequate share of social amenities.

6. Inadequate logistics: The important logistics are lacking, even where they exist, they are grossly inadequate, for instance mobility/means of transport to cover the tax areas.

Other problems include: Inadequate stationeries and office equipment, poor office accommodation, lack of manpower, societal negative attitude to tax, insufficient tax policies and rude method of tax collection, especially in the rural areas.

(4) **CONCEPTS OF TAX EVASION AND AVOIDANCE**

All illegal means through which tax liability would be lessened or dodged completely is regarded as tax evasion. Such means could be non declaration of true income. It covers not only cheating and fraud of various categories but also failure to comply with the tax laws which are due to ignorance. In broad sense, it is any action of omission or commission tending to avoid, reduce or delay the payment of tax. It involves gambling for illicit income, given certain probabilities of detection and fine.

Also it could be regarded as a attempt to escape tax liabilities (Wholly or partially) by breaking the tax law. It is essentially; therefore, a criminal act since it is achieved principally by making false declaration such as under-reporting income or over reporting relief and allowances.

On the other hand, tax avoidance can be described as an attempt to escape tax liabilities by circumventing the law, not by breaking it. It is a legal activity aimed at achieving the savings by reducing the taxable income. Tax can be avoided by converting taxable income into non-taxable income at a lower bracket rate. For instance owner of companies who knows that tax are charged on the profit of the companies may declare no profit claiming that they made no profit. Also in the case of estate tax, tax could be avoided especially where such tax permits gifts, by denoting to charitable organizations, educational institutions, research and religion organizations.

Thus, even though the tax evader and avoider have similar end (namely to escape tax liabilities) but their means to the end differs. The evader according to federal Inland Revenue Service (FIRS) is criminal but an avoided is just a smart tax payer who exploit loopholes in the tax laws (and related laws) to reduce his tax liabilities. FIRS further distinguished tax evasion and avoidance from tax delinquency or tax default. Both of which described a situation in which a taxpayer refuses (for one reason or the other) to pay his assesses tax in full or in time. FIRS maintained that it is possible for a tax evader and avoided to also be a tax delinquent. It is clear from the above comparison that not much can be done by the tax administration about tax avoidance as long as the law continues to produce various loopholes for the smart tax payer to exploit.

Indeed, the tax administrators by and large are not to be blamed for successful tax avoidance but by contrast, tax evasion is due promptly to administrative ineffectiveness.

(5). **FORMS OF TAX EVASION AND AVOIDANCE.**

A. Tax evasion has four notable forms viz:

1. There is legitimate and illegitimate evasion, the later referring to the failure of legal tax to conform with the provisions of the law.

2. Also exist is intentional and unintentional evasion both falling into the category of legitimate evasion. The intentional evasion is that which takes place when the legislator expressly desires that tax should not be paid. Some tax scholars argued that there are two classes of evasion namely: fraud and smuggling.

3. Bilateral evasion which occurs with the collaboration of the tax officials and the tax payer. This is where the tax officials collect bribe from the tax payers in order to be exempted or under assessed.
4. Over invoicing of import and under invoicing of export especially of Multi-national Corporation in less developed countries (LDCS).

(B). **TAX AVOIDANCE COULD BE IN ANY OF THESE FORMS:**
1. The fragmentation of enterprise to avoid higher progressive rates of the incomes.
2. An increase in the number of forms under the corporate form in order to reduce tax liabilities.
3. Fleeing from tax Jurisdiction or emigration.
4. The tax payer may engage in non-taxable, non-market production e.g. by painting ones house etc.
5. The taxpayer may perform service for non-traceable cash payments or even better transitions.
6. The taxpayer can purchase outside service of lawyers, accounting specialist or tax return preparation firms. This class of avoidance expenditures comprises naira outlays whose pay off is legal tax saving. Anyanwu (1993).

(6) **REASON FOR TAX EVASION AND AVOIDANCE.**

Abdulazag (1993), stated that existing empirical research indicates that while government sanctions may play a role in this directions taxpayers attitudes towards the tax system and taxpayers norms may also be important. Field experimental research undertaken in the united states, suggests that taxpayer's norms are important factors underlying the choice between evasion and compromise that normative appeals which is more effective than threats in inducing compliance.

In the words of Anyanwu (1993), the reason for tax evasion and avoidance borders on economic factors, and psychological attitude, which are administrative and legally determined.

**Some of the specific reasons are:**

a. Economically, the individual taxpayer could think of him as maximizing his income by evading tax especially where the tax liability's burden is heavy. He may be ready to risk penalties by way of fines or imprisonment if eventually caught.

b. Psychological explanation is the attitude of a group or majority of a group with regards to compliance or non-compliance to their obligations which is related to the attitude viz-a-viz he state (tax ethics) or sensation of being unfairly treated with regard to other taxpayers. When a taxpayer perceives himself as a victim of inequality or injustice in a society, he will be happy to evade and avoid tax. It increases the marginal utility, which he derives from extra one naira of the evasion income and hence the amount of taxes evaded.

c. Another psychological causes of evasion and avoidance are where the purpose of the taxes is not visible and concrete.

d. The payer may be unconscious of their responsibility towards the society and the community in which they are living.

e. Evasion occurs where opportunities and relative degree of administrative inefficiency exist as obtainable in the developing countries.

f. Again significant and well known tax avoidance could increase evasion as people could be aware of the unfairness of the law.

g. The more evaders, a taxpayer know, the more likely he is to evade tax himself. (Principles of association).

h. Legally and administratively, there is also the consideration of tax measure as a threat to ones portion. Therefore, in order to safeguard himself, he will try to evade tax.

i. Another possible reason for evading and avoiding tax could be because of the deplorable and distressed economic situation, which reduces income against increasing responsibilities.

(7) **EFFECTS OF TAX EVASION AND AVOIDANCE ON NIGERIA ECONOMY**

Basically, the overall effect of tax evasion, and avoidance on the Nigeria economy is negative. It has done more harm to the economy of Nigeria, especially interns of revenue generation. This resulted to the realization of less revenue from tax, especially at State Levels thereby places her in a helpless situation towards the provision of those Socio economic live made easy facilities to the citizens.

In the course of this research, it was observed that tax payers are constantly looking for ways of evading and avoiding tax payment due to the profit maximization tendencies of the business owners.
They hold to the administrative loopholes, inefficiency and defective fiscal policies to undo the economy of Nigeria.

To buttress this, in Nigeria News desks of 18th and 20th December, 2012, the following information were stated:

(a) That an illicit financial outflows and tax evasion cost Nigerian $129 billion in the past decades.

(b) That four British Nationals have been charged with bribery for tax evasion in Nigeria.

Generally, the effect of tax evasion and avoidance can be concluded thus:

i. Reduction in revenue generation
ii. Provision of poor socio-economic facilities
iii. Leads to abandoned projects and programmes due to low/resource.

(8) POLICY RECOMMENDATION

Based on the findings in this study, the following recommendations are apparent and imperative to improve the revenue generation in Nigeria:

(a). Government should review some of the fiscal policies that creates loopholes for tax evasion and avoidance.

(b). Monitoring team that will be charged with the responsibility of overseeing the activities of the tax officials should be established.

(c). Government should embark on more tax education/awareness, so that the tax payers will in no doubt appreciate the need for tax payment.

(d). Government should introduce a threatening penalty to be mated on those found guilty of tax evasion and avoidance.

(e). Tax offices should be decentralized and located nearer to the tax payers for easy accessibility in line with the principle of convenience.

(f). Government should also infuse regular audit check in the records of the tax authorities.

(g). Tax drive exercise in Nigeria should be reintroduced, to intensify optimum tax revenue yield.

(9) CONCLUSION

In the course of this research, it was discovered that the twin concepts in taxation impact negatively into the economy of Nigeria. It was also inferred that tax evasion and avoidance may not be completely eliminated, rather it could be reduced.

It was also revealed that tax evasion and avoidance have led to decline in the fiscal revenue of the country, especially at state level. This has adversely affected the allocation of resources. Also the attitude of the government towards the welfare of her citizen has encouraged evasion and avoidance tax in Nigeria because there is little or nothing to show for the ones paid.

Therefore, it is pertinent to note here that if government should adhere strictly to the aforementioned recommendations, the problem of tax evasion and avoidance will be reduced drastically.
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