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Examining the Factors Responsible for the Persistent Tax Evasion in Nigeria: The Case of Akwa Ibom State, Nigeria

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Abstract:

This study was carried out to address the problem of persistent tax evasion in the Nigerian economy. The aim was to examine the factors responsible for continuous and increasing activities of tax evaders in Nigeria with Akwa Ibom State as a case study. The study adopted a survey and descriptive research design. Two hundred and eighty copies of structured questionnaire were distributed to respondents, out of which 145 valid copies of the question were received. The data were analyzed using simple percentages. This research design and method adopted was because of the main objectives of the study. From the data analysis, it becomes apparent that the major factor responsible for tax evasion in Nigeria is more of administrative than attitudinal. Specifically, the greater percentage of the respondents (86%) attributes this to lack of qualified personnel to enforce tax laws. Other factors identified include poor staff morale, dearth of infrastructural facilities to effectively carryout tax administrative functions. High tax rates (85%), misuse or mismanagement of public fund and tax revenues (88%) as well as corruption in the Nigerian tax system (99%). The study concludes that there is a relationship between ineffective and corrupt tax administration and tax evasion in Nigeria. The study recommends various measures towards curbing the problem of tax evasion in Akea Ibom State, Nigeria.

Keywords: Taxation, tax evasion, persistency, Akwa Ibom State, Nigeria

1.1. Background of the Study

In spite of the efforts by successive governments in Nigeria tax reforms that will enhance compliance and thus reduce the incidence of tax evasion in our tax system, this hydra-headed phenomenon has refused to cede. In Nigeria, as in other developing countries, the benefits accruing from taxation have not been fully realized. A major hindrance to this actualization is the issue of tax evasion. Tax evasion is said to be one of the fundamental problems of tax administration in a developing country, as it robs government of the much needed revenue to undertake various developmental projects (Lekan 2006).

Tax evasion is said to occur when a taxpayer deliberately misrepresents the true state of his/her affairs to the tax authorities to reduce tax liability. This covers such sharp practices as declaring less incomes, profits or gains than the amount actually earned, or overtaking deductions, and refusal to remit tax actually deducted.

The Nigerian government in attempt to reduce the incidence of tax evasion has over time introduced various tax measures designed to encourage voluntary tax compliance, especially for private individuals and those in self-employment. Some of these measures include: Consolidated Relief Allowance: ₦200,000 or 1% of gross income whichever is higher plus 20% of Gross Income, Free National Housing Fund Contribution, Free National Health Insurance Scheme, Free Life Insurance Premium, Free National Pension Scheme, and Reimbursement to employee for expenses incurred in the performance of his duties, and exemptions for Research & Development costs as well as Pioneering Status (for companies)

The demerits of tax evasion are numerous. First, it leads to loss of revenue to the government; secondly, honest taxpayers lose faith in tax system when tax evasion is rampant. Also, a high degree of tax evasion has unpleasant repercussions on wealth redistribution and economic growth.

Although tax evasion is an area which has attracted so much research interest, very little study has attempted to find out why tax evasion persists, in spite of the efforts by successive Nigerian government in initiating tax reforms with the aim of enhancing tax compliance and thus reduce evasion. This study therefore is designed to contribute towards filling this gap in knowledge, with a focus in Akwa Ibom State of Nigeria.

1.2. Statement of the Problem

In spite of the various measures adopted by government to encourage voluntary tax compliance and thus reduce the incidence of evasion, tax evasion still persists in Nigeria. In the Punch Newspaper of the 9th April, 2013 on the topic "Nigeria's chaotic tax system", it was asserted that Nigeria loses up to ₦85.2billion through tax evasion in the automobile industry between 2009 and 2013.

In Nigeria, especially among states government, the major problem lies in the collection of the taxes especially from the self-employed persons such as the businessmen, contractors, professionals and other informal operators. As observed by Ayua (1999), these persons blatantly refuse to pay tax by not reporting to the relevant tax authority or reporting losses every year. These activities lower the amount of total revenue collected by the government through taxes. It therefore becomes worrisome when it is noted that those persons benefit from the various tax incentives introduced by government to curb tax evasion. It is for this reason that this study was conceived to examine the reason for the persistent tax evasion in Nigeria.

1.3. Objectives of the Study

The main objective of this study is to find out why people evade taxes and suggest ways of minimizing the practice in Nigeria especially in the context of Akwa Ibom State in Nigeria. Other specific objectives are as follows:

1. To find out the effect of tax evasion on the total revenue of Akwa-Ibom State government
2. To examine the tax administrative system and taxes that are susceptible to evasion in Akwa Ibom State
3. To find out the factors responsible for tax evasion in Nigeria and Akwa Ibom State in particular.

1.4. Research Questions

The following questions are formulated to guide the study

1. What is the effect of tax evasion government revenue?
2. In what ways does the tax administrative system contribute to tax evasion?
3. What are the factors responsible for tax evasion in Nigeria and Akwa Ibom State in particular?

1.5. Significance of the Study

The study examines the factors that cause tax evasion in Nigeria especially in Akwa Ibom with the aim of providing workable solutions to this problem. The study therefore will be beneficial for policy formulation towards improvement in tax administration, not only to Akwa Ibom state, but other states in Nigeria as well. This study will enable the relevant tax authorities to understand the perceptions of the taxpayers concerning their tax policies and administrative procedures. The recommendations of this study will assist in addressing the vexing issue of tax evasion in the country.

The remaining of the paper is organized as follows: Given this background, section two takes an overview of related literature on tax evasion. Section three presents the methodology of the study and in section four, analyses of data and discussion of findings is presented. The paper concludes in section five with recommendations.

2. Review of Related Literature

2.1. The Concept of Tax Evasion

Tax evasion in general refers to illegal practices to escape from payment of tax. To this end, taxable income, profit liable to tax or other taxable activities are concealed, the account and/or the sources of income are misrepresented, or tax reducing factors such as deductions, exemptions or credits are deliberately overstated.

The concept of tax evasion is seen as a failure to disclose the correct income that should be assessed either by misstatement of facts, falsification of figures, filing of incorrect returns or by misrepresentation of tax liabilities. Tax evasion is accomplished by deliberate act of omission or commission which themselves constitutes criminal acts under the tax law.

The most common form of tax evasion in Nigeria is through failure to render tax returns to the relevant tax authority. A tax evader may be charged to court for criminal offenses with the consequent fines, penalties, and at times, imprisonment being levied on him for evading tax (Faseun;2001) as observed by Sosanya (1981), tax evasion has become the favorite crime of the Nigerians, so popular that it makes arm robbery seem like minority interest. It becomes so widespread that there now exist a cash economy of vast proportions over which the taxman has no control and which is growing at several times the rate of the national economy. Lekan et al (2005) identified the following as ways by which tax evasion is perpetuated:

- Refusing to furnish a return, statement or information or keep records required.
- Refusing to register with the relevant tax authority
- Making an incorrect return by omitting or understating any income liable to tax, refusing or neglecting to pay tax.
- Overstating of expenses so as to reduce tax profit or income which will also lead to payment of less tax than otherwise have to be paid.
- A taxpayer hides away totally without any tax returns at all.

In sum, tax evasion is perpetuated if a taxpayer fails to make returns for income or capital gain that accrue or accruable to him or if he makes incorrect returns or smoothen his accounts to declare low profit or outright loss.

2.2. Causes of Tax Evasion in Nigeria

The causes of tax evasion are universal, as it is applicable in any country that tax is imposed. Some are peculiar to different areas, however. In Nigeria some of these causes as identified by Onuigbo (1986) include:

2.3. Inequitable Distribution of Amenities

In many parts of Nigeria citizens are opposed to the payment of any form of taxes and rates on the ground that government had been unfair in the distribution of amenities and other good things of life. This thinking is often a root cause of most civil disturbances in parts of the country.

2.4. Misuse or Mismanagement of Collections Made

More often than not there are reports in the news media of how government functionaries misuse taxpayer's money. Evidences of wastage of public funds abound in the form of inflated contract prices, in unexecuted but paid contracts or in the criminal acts of using diverse methods and loopholes to exhaust funds voted for ministries and governmental departments before the financial year run out. The cumulative effect thereby produced is the resolve of many honest taxpayers never to pay theft due taxes again, or at most pay under compulsion.

2.5. Remoteness of Taxpayers from the Government

There is this common belief which most taxpayers have about the nature of government. The average Nigerian has an inborn bias or hatred against most government functionaries who in most cases live apart from the taxpayers. It hurts, most taxpayers would reason, for one to part with his hard earned resources for the upkeep of these (imagined) enemies. The creation of local government councils, which is supposed to bring government closer to the people, had not helped matters. As argues by Kiabel(2001), a solution to the problem probably lies in the proper education and orientation of the taxpayers towards government and its functionaries.

2.6. Absence of Spirit of Civic Responsibility

Most Nigerians probably due to illiteracy and ignorance fail to understand that they owe certain responsibilities to government, one of which is the payment of tax. Even when the government says it is poor they would rather argue that the government should print more money to solve her problems. This lack of spirit of civic responsibility amongst the majority of Nigerians is a major cause of tax evasion in Nigeria. Some other authors have at one time or the other attributed the causes(s) of tax evasion and avoidance to various reasons. For example, Orewa (1957) had earlier investigated the characteristics of evasion and found that complete evasion results from high degree of inter-district mobility on the part of the taxpayers. According to him, due to mobility, evasion is more pronounced on the part of self- employed taxpayers who move from compound to compound at frequent intervals than it is, with salary and wage earners with known and permanent address. He contended also that partial evasion may be due to inadequate accounting records maintained by traders, mistaken belief on the part of some illiterate taxpayers that only wages and salaries represent taxable income. Kiabel (2001) has argued that some businessmen do not see any reason why they should pay tax irrespective of the fabulous profits made- This is the direct display of the spirit of unpatriotic: Such people take the stand that no matter the income or revenue that was acquired during the year nothing will be paid as tax or they may prepare their accounts in such a way that a loss will be reflected.

2.7. Ineffective Tax Administration System

In his seminal work entitled "Income Tax Evasion: A Theoretical Analysis", Allingham and Sandmo (1972) noted that there is a positive correlation between tax rates and tax evasion. This position was later corroborated by Chipeta (2012). He argued that the higher the rate, the higher the likelihood for the taxpayers to evade tax, because the high tax rate increases their tax burden and hence lowers their disposable income.

The efficiency or otherwise of the tax administration system, especially its ability to enforce tax laws, has a tendency to reduce or increase tax evasion. In this context, it is argued that the probability of being detected after evading taxes greatly influences the decision of a taxpayer as whether to evade or not. (Allingham & Sandmo, 1972; Chipeta, 2002).

According to Acconnia, D'Amato & Martina (2003), corruption and bad governance is another major factor that fueled tax evasion. This position is corroborated by Ahmed and Ajaz (2010). Linked to the issue of corruption is the problem of poor remuneration of the tax officials. There appears to exist a nexus between corruption and tax evasion on one hand and poor salary and corruption by tax officials on the other hand.

The acute shortage of basic infrastructural facilities and inability of government to account for the use of tax revenue also facilitates tax evasion. According to Pashev (2005), the failure of government to provide basic infrastructures which are supposed to be funded by the taxes being collected may aggravate tax evasion. Lack of transparency and accountability in the use of public fund has the effect of building public distrust both in the tax system (Pashev, 2005; Ahmad & Ajaz, 2010).

From the perspective of a tax administrator, the former chairman of Federal Inland Revenue Service, Ifueko Omoigui-Okauru, highlighted the following challenges as inimical to tax administration in Nigeria generally. They include:

- Lack of an overall understanding of the role of taxation in national development
- Dependence on oil revenues leading to a neglect of taxation as a source of revenue
- Lack of sufficient political support for the tax administration
- Level of business activity in the economy
- Issues within the tax administration set up, which include
 - Capacity issues quality and quantity of human resource
 - Technology issues, manual system of tax operations, lack of records, absence of automated systems
 - Low level of taxpayer education and enlightenment
 - Funding challenges

- Large informal sector outside the tax net
- Poor attitude to taxation, lack of tax culture, low awareness amongst taxpayers
- Low level of voluntary compliance
- Deliberate evasion and non-compliance
- Multiple taxation
- Corruption, leakage and diversion of tax revenues, by tax officials before and during collection, by Government officials after distribution
- Lack of accountability for tax revenue
- Lack of inter-governmental collaboration, co-operation and co-ordination between different tiers and agencies of Government
- Lack of sufficient Government impact on citizens (Omoigui-Okauru, 2011)

3. Methodology

This study adopts a survey and descriptive research design. The target and accessible population consists of the staff of the Akwa Ibom State Internal Revenue Service and those of the Federal Inland Revenue Service (FIRS) in Uyo, estimated at 420 staff. Out of this, a sample of 280 was selected for the study. Two hundred and eighty (280) copies of questionnaires was distributed to respondents out of which one hundred and forty (140) valid copies were retrieved for analysis.

In order to ensure that the data collected provides unbiased, suitable and close estimates of the studied characteristics, the instrument was subjected to content and face validity by some senior academics as well as professional tax practitioners. The inputs and corrections from the pilot were incorporated into the final version of the questionnaire. The analysis of the data is presented in the next section.

4. Data Analysis and Discussion of Findings

Table 1 shows the summary of the questionnaire sent out to tax payers in Akwa Ibom State and staff of the Federal Inland Revenue Service in Akwa Ibom State.

Respondents	No Distributed	No Returned	% Returned
Federal Inland Revenue Service Officers	80	45	56%
State Internal Revenue Service Staff	100	70	70%
Tax Payers	100	30	30%
Total	280	145	52%

Table 1: Questionnaire Distribution

Source: Field Survey 2015

Table 1 shows that a total of 280 copies of questionnaires was distributed to the staff of Federal Inland Revenue Service (FIRS), State Internal Revenue Service and other taxpayers in the state, out of which 145 copies (representing 52% of the total questionnaires distributed) were returned.

Variables	No. of Respondents	Percentage
Very Strong	120	83%
Strong	23	16%
Weak	2	1%
Very Weak	0	0%
Total	145	100%

Table 2: Respondents' knowledge of tax and tax evasion

Source: Field Survey 2015

From Table 2, twenty-six (120) respondents representing 83% of the respondents have a very strong knowledge of tax and tax evasion, 23 (or 16%) have a strong knowledge while two (or 1%) have a weak knowledge of tax evasion matters. This indicates that 99% of our respondents have a good knowledge of the subject matter.

Variables	No. of Respondents	Percentage
Administrative problems	124	86%
Attitudinal issues	18	12%
No idea	3	2%
Total	145	100%

Table 3: Perceived Reason for Tax evasion

Source: Field Survey 2015

Table 3 shows that 124 of the respondents (representing 86% of total respondents) opine that tax evasion is more of an administration problem; 18 (or 12%) states that it is more of attitudinal and 2% of the respondents have no idea as to the major factor behind tax evasion.

Variables	No. of Respondents	Percentage
Lack of qualified personnel and poor staff morale	76	52%
Lack of adequate facilities	45	31%
Lack of proper record keeping	19	13%
All of the above	5	7%
Total	145	100%

Table 4: The problems associated with tax administration in Akwa Ibom State

Source: Field Survey 2015

Table 4 shows that 76 (52%) of the respondents attribute the problem of tax administration to lack of qualified staff and poor staff morale; 45 (representing 31%) of the respondents opine that the major problem with tax administration is the lack of facilities such as motor vehicles, office accommodation, computers and other equipments. 19 respondents (or 13% of the total respondents) attribute the problem to lack of proper record keeping and 7% (or five respondents) ascribe it to all the listed factors.

Variables	No. of Respondents	Percentage
Strongly Agree	68	47%
Agree	56	39%
Disagree	18	12%
Strongly Disagree	3	2%
Total	145	100%

Table 5: Whether there is any relationship between the inability of the tax authority to enforce tax laws and tax evasion

Source: Field Survey 2015

From Table 5 indicates that 86% of the respondent are in agreement that there is a relationship between the inability of tax authority to enforce tax laws and tax evasion; out of this figure 47% (or 68 respondents) are in strong agreement. Only 14% of the total respondents dispute this fact.

Variables	Strongly Agree	Agree	Disagree	Strongly Disagree	Total
High Tax Rates	55 (38%)	68 (47%)	17 (12%)	5 (3%)	145 (100%)
Improper utilization of Public Funds	58 (40%)	70 (48%)	13 (9%)	4 (3%)	145 (100%)
Corruption of tax officials	75 (52%)	69 (47%)	1 (1%)	0 (0%)	145 (100%)
High cost of compliance	36 (25%)	33 (23%)	60 (41%)	16 (11%)	145 (100%)

Table 6: Other factors responsible for tax evasion

Source: Field Survey 2015

From Table 6 85% of the respondent's attribute tax evasion to high tax rates; out of which 38% of the respondent are in strong agreement; 88% attribute it to improper utilization of tax revenues (and public funds in general). Also, 99% of the respondents are in agreement that corruption on the part of tax officials is responsible for tax evasion, with only one percent of the respondents dissenting. With regards to high cost of tax compliance, 52% of the respondents disagree that this factor is responsible for tax evasion; 48% of them are in agreement, with 25% being in strong agreement.

5. Conclusion and Recommendations

The main focus of this study was to examine the factors responsible for persistent tax evasion in Nigeria, with particular reference to Akwa Ibom State. One Hundred and eighty (180) copies of questionnaires were administered on respondents, out of which one hundred and forty (145) copies were duly completed and returned. The data collected were analyzed by the use of simple percentages. From the findings of this study, it is evidenced that there is a strong relationship between ineffective tax administration (that is, inability of the tax authority to enforce tax law) and tax evasion in Nigeria.

The findings of this study revealed that the main factor responsible for the persistent tax evasion in Nigeria is more of administrative problem than attitudinal. Part of the administrative problems which fueled tax evasion include: lack of qualified personnel in tax authorities and poor staff morale, as well as the death of infrastructural facilities and equipment for effective tax administration. High

tax rates, improper utilization of public funds (including tax revenues) as well as corruption in the tax system also account for the persistence of tax evasion in our nation.

6. Recommendations

Flowing from the findings and conclusions of this study, the following recommendations are proffered in order to curb tax evasion in Nigeria.

- The enlightenment of the citizens on the incentives given by government on taxes. This will help to enhance voluntary compliance and thus boost tax revenue;
- Adequate sensitization of taxpayers on the need to pay tax;
- The proper enforcement of tax laws as touching penalties by the tax authorities;
- It is pertinent for the government to check the loopholes in the tax administrative system of the state as these enables the activity of tax evasion;
- Tax authorities should be provided with infrastructures such as motor vehicle, computers and other facilities and equipment;
- Employment of qualified for the assessment and collection of taxes;
- Effective training and retraining of staff and officers of tax authorities will go a long way to enhance their efficiency in tax administration.

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