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Impact of tax evasion and tax avoidance on government revenue generated in Nigeria

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Impact of tax evasion and tax avoidance on government revenue generated in Nigeria

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Abstract
This study examined the impact of tax evasion and avoidance on government revenue generated in Nigeria. This research used an explanatory and descriptive design. Along with applying library research techniques to obtain the necessary data, 100 questionnaires were administered to FIRS employees in Nigeria. From the research analysis, tax evasion and avoidance has a significant and negative impact on the Nigerian economy, there exists a strong and negative relationship between tax evasion and avoidance and government revenue generated, inadequate tax administration has a negative and significant impact on the Nigerian economy and inadequate tax legislation causes tax evasion or avoidance. Based on the research findings, the study recommends that a comprehensive strategy combining institutional building, behavioral interventions, and policy reforms are needed to solve these issues. Enacting comprehensive tax changes is necessary to streamline tax laws, eliminate loopholes, and improve accountability and transparency in the tax administration procedures. Additionally, funding capacity-building programs is essential to improve the efficiency of tax authorities in observing, prosecuting, and penalizing noncompliant taxpayers in order to discourage tax evasion and guarantee the integrity of the tax system.

Keywords: *Tax evasion, Tax avoidance, Government revenue, Nigeria*

Introduction

There was no formal tax policy in Nigeria until the 1930s. The only people who could collect taxes and spend them however they pleased were the traditional rulers. These rulers were able to design their own taxation scheme. However, none of them managed to survive long enough to be recognized in history. Not until much later, in 1958, did the Raisman Fiscal Commission advocate introducing consistent tax principles, or fundamental income tax principles, across Nigeria. The national government later approved and embraced the commission's recommendations. The Nigerian Constitution now includes the aforementioned recommendations. Though with periodic reviews and revisions, the ideas of the 1961 Companies Income Tax Act and the 1961 Income Management Act remain essentially applicable in Nigeria today, having been derived from the Constitution. It can be said that taxation is a crucial part of Nigeria's history, as it has been key to its development throughout its history. Taxes and taxation have gone on to evolve into what we see today in Nigeria (Harlem, 2023).

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Taxes help pay for a number of vital services that are necessary for societies to operate on a worldwide scale, including social services, healthcare, and education. The majority of people still avoid and evade taxes in spite of this tax benefit. The amount of money collected by the government will be impacted by efforts to lower or remove tax responsibilities. Because of this, the government despises tax evasion and avoidance and uses its authority to compel compliance. Tax evasion is the deliberate falsification of financial information to deceive tax authorities. This can include underreporting corporate profits or withholding crucial information from them. Tax avoidance is the reduction of taxable income or tax owed through legal means (Michaelmas, 2023). Examples of this include creating an offshore business in a "tax haven," where taxes are lower than in the business's actual home base. This can also be seen in circumstances such as moving to a country with low income tax rates.

In contrast to tax avoidance, which uses legal defenses to reduce tax obligations, tax evasion is illegal (Oseni, 2020). Common forms of tax evasion include lying to tax authorities, smuggling to avoid customs charges, underreporting income, overstating deductions, hiding assets, neglecting to file tax returns, inflating business costs, and generally breaking tax laws and regulations (Andersen Tax LP, 2021). Penalties for offenders include fines, jail, prosecution, and back taxes. Government income losses from tax evasion are enormous, and public finances are weakened as a result. Global tax authorities use strong legislation, digitization, and taxpayer education to discourage tax evasion.

It has been established that Nigeria's tax system has evolved to be quite important, serving as a substantial source of income for the federal government through the imposition of taxes on taxpayers, who are then responsible for paying such taxes. However, the majority of registered businesses and some individuals have been evading and avoiding taxes, which has negatively impacted the government's revenue base, particularly when it comes to providing essential services to the community. The primary research problem driving this study is the dire need to close the significant gap in understanding the depth of the impacts of tax evasion and avoidance on the Nigerian economy. This research aims to examine and put into perspective the more recent changes in tax rates and how they could possibly cause a shift in tax evasion and avoidance of the economy, be it positive or negative (Usman, 2023). This investigation was originally motivated by the recognized deficiency of thorough understandings of the evolving relationship between the shortcomings of Nigeria's tax legislation, the consequences for tax evasion and avoidance, their inevitably large influence on income earned, and the country's economic development (Abdulaziz, 2022; Sinebe, 2021). The research gap resides in the scarcity of recent analyses investigating the impacts of tax avoidance and evasion on structural changes in Nigeria's economic environment. Few recent qualitative research has examined the attitudes, experiences, justifications, and underlying reasons that underlie noncompliance (Abiola & Asiweh, 2012; Yunusa, 2015). The majority of research is based only on quantitative measures or out-of-date survey data, which makes it difficult to understand the firm- and individual-level decision-making that supports modern-day evasion and avoidance tactics. It is essential to conduct more modern ethnographic and interview-based research.

This study's main goal is to determine how tax avoidance and evasion affect the Nigerian economy. Nonetheless, the research highlighted the subsequent particular goals, which are to:

(a) Ascertain the impact of tax evasion and avoidance on the Nigerian economy.
(b) Determine the relationship between tax evasion and avoidance and government revenue generated.
(c) Examine the impact of inadequate tax administration on the Nigerian economy.
(d) Identify if inadequate tax legislation causes tax evasion and avoidance.

Literature Review

Tax evasion has been a major challenge in Nigeria's post-independence tax system. High levels of evasion have been attributed to a lack of trust in the government, poor tax morale, complex regulations, limited enforcement capacity, and an expansive informal sector. Attempts to improve compliance have focused on reforming tax administration, increasing automation, enacting tax amnesty programs, and strengthening anti-avoidance legislation. However, systemic issues like corruption, political interference, and an opaque system have continued to provide opportunities for tax evasion. Tackling evasion will require multifaceted efforts to build fiscal transparency, improve tax equity, boost voluntary compliance, and dilute opportunities for corruption. Fundamental reforms to tax policy, revenue institutions, and the broader governance environment will be essential to curbing this persistent drain on public revenues (Dekker, 2020).

According to UNECA (2013), Nigeria increasingly used taxation tools to stimulate growth in priority sectors like agriculture and manufacturing in the 1970s. Tax incentives and exemptions were granted to favored industries (Adegite, 2010). However, dependence on volatile oil revenues along with mismanagement hindered non-oil tax administration and capacity (Odusola, 2006). By the 1980s, Nigeria faced a fiscal crisis and a weak tax base outside of oil, precipitating major reforms in the 1990s focused on improving tax administration and growing non-oil revenues (Okoye et al., 2019).

Impact of tax evasion and avoidance on revenue generated

Tax evasion by multinational firms adds greatly to revenue losses. The Organisation for Economic Cooperation and Development (OECD) estimates that multinational firms' tax dodging costs governments between $100 and $600 billion in lost income each year (OECD, 2021). The implications of these income losses are far-reaching. It can result in budget deficits, increased public debt, and less support for important public services. This, in turn, can have a negative impact on economic development, social welfare, and faith in government institutions. To address these difficulties, governments and international organizations have implemented a variety of initiatives, including increased tax enforcement, addressing legal loopholes, and fostering international collaboration. Initiatives such as the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and the Two-Pillar Solution seek to reduce tax evasion and establish a fairer global tax system (OECD, 2021).

Addressing tax evasion and avoidance is critical to maintaining equitable and sustainable revenue generation. It helps governments fund public goods, stimulate economic progress, and ensure social stability. Governments may secure the resources they need to fulfill their duties and improve their citizens' well-being by improving tax compliance and closing loopholes for tax evasion and avoidance (Olaoye, 2017; Onuorah, 2020).

Review of Empirical Literature

Tax evasion and avoidance practices have emerged as formidable obstacles impeding Nigeria's economic growth and development trajectory. Empirical studies by Abdulrazaq (2022) and Adegbie and Famade (2019) consistently demonstrate that rising tax evasion leads to significant revenue shortfalls, consequently diminishing funds available for critical infrastructural development, job creation initiatives, social safety nets and other public goods that drive long-term economic prosperity. Buttressing this, Okolo et al. (2020) estimated staggering annual revenue losses exceeding $3 billion due to pervasive tax avoidance by multinational corporations exploiting legal loopholes. Such foregone revenue hamstrings the government's fiscal capacity to facilitate an enabling environment conducive to private sector growth, economic diversification and sustainable development (Nnachi & Onu, 2022; Nweze et al., 2020). Furthermore, Alm and Embaye's (2013) influential research revealed that higher levels of tax evasion inadvertently fuel an expansion of the informal, underground shadow economy characterized by low productivity, limited innovation, unfavorable working conditions and lack of regulatory oversight - factors that ultimately undermine long-term economic growth prospects.

There exists a robust consensus within empirical literature highlighting the detrimental impact of tax evasion and avoidance on government revenue mobilization efforts in Nigeria. A recent study by Omesi and Nzor (2022) specifically quantified that a 1% increase in tax evasion precipitates a 0.73% decline in tax revenue collected. Earlier work by Kiabel and Nwikpasi (2009) documented staggering revenue losses averaging over 30% annually from 1999-2007 in some Nigerian states due to rampant personal income tax non-compliance. This corroborates Arnold et al.'s (2011) assertion that such significant erosion of the tax base severely undermines the government's ability to finance productivity-enhancing public investments in vital areas like infrastructure, healthcare and education - prerequisites for catalyzing long-term economic growth. Similarly, Adediran et al. (2013) established a negative correlation between corporate tax avoidance and government revenue in Nigeria, depriving the state of funds necessary to provide incentives, reforms and an enabling environment to foster private sector development.

A glaring lack of institutional capacity and inefficiencies plaguing Nigeria's tax administration machinery have enabled widespread evasion and avoidance, thereby impeding optimal revenue mobilization critical for economic growth. Modugu and Anyaduba's (2014) analysis highlighted inadequate skilled personnel and weak tax audit mechanisms as major facilitators enabling rampant tax evasion by businesses, resulting in suboptimal corporate tax revenues. Ekubiat and Atu (2021) further cited inadequate technological infrastructure, lack of robust data management systems, porous revenue collection processes and insufficient deterrent penalties as key factors fueling aggressive tax avoidance among companies. Nwachukwu and Abah (2023) emphasized that such administrative lapses chronically deprive the government of funds required to implement fiscal and economic policies to stimulate growth. Eke's (2023) comprehensive evaluation bluntly concluded that Nigeria's overburdened, corruption-riddled and technologically deficient tax system significantly impairs revenue mobilization efforts vital for catalyzing economic development.

Ambiguities, loopholes and structural deficiencies inherent in Nigeria's tax legislation framework provide ample opportunities for economic agents to engage in evasion and avoidance activities that distort market efficiencies. The seminal work by Ilaboya (2024) unequivocally demonstrated how ambiguous laws, excessive tax exemptions, and law enforcement inadvertently incentivize non-compliance through legal avoidance or outright evasion. Within the Nigerian context, Okolo and Boniface (2020) identified obsolete and archaic tax statutes, a multiplicity of taxes across various jurisdictions, and a lack of clarity regarding incentives as major precipitating factors enabling rampant tax evasion. Buttressing this view, Akintoye and Tashie (2013) asserted that unjust, overly complex tax provisions not only violate the principle of fairness but also severely erode public trust and voluntary compliance with tax obligations. This aligns with Ilaboya (2023) philosophical arguments underscoring the pivotal role well-designed, equitable tax policies play in upholding ethical compliance norms, thus facilitating an environment conducive to economic development. Furthermore, Taiwo (2022) recent legal analysis highlighted numerous deficiencies in the Nigerian tax code, including limited scope, inadequate provisions for emerging sectors like e-commerce, and insufficient guidance on issues like transfer pricing - creating avenues for aggressive tax avoidance by corporate entities.

Research Methodology

A survey research design was used for this investigation. The procedure of compiling information from a sample of people based on their answers to questionnaires. The study's population would include Nigerian employees of the Federal Inland Revenue Service Administration. Using a basic random sampling technique, 100 respondents were chosen at random to serve as the study's sample, representing all FIRS workers in the population.

Since the research aims to explore the factors causing tax evasion and avoidance and assess its implications on the Nigerian economy, this study adapts the model used by Matudi (2023) in analyzing the relationship between tax evasion and avoidance with the formulated equation:

$$TE = \beta o + \beta CORR + \beta TRAPACC\ it + \beta TSCOM + \beta TAXUFit + \varepsilon \ldots\ldots\ldots\ldots\ldots(1)$$

Where β0 is the intercept, β 1-4 is the slope coefficient of explanatory factors, it represents time, and ε is term error. The variables that are represented by the variables TE, CORR, TRAPACC, TSCOM, and TAXUF are tax evasion, corruption, and transparency and accountability, respectively.

Wherein the variables were altered to fit the particular study topic:

Nig.Eco = β0 + β1TEA + β2TAd + β3TL + ε……………(2)

Where:

Y = Nig.Eco = Nigerian economy

X1 = TEA = Tax evasion and avoidance

X2 = TAd = Tax administration

X3 = TL = Tax legislation

ε = Error term

- *Y represents the dependent variable, which is the state and performance of Nigeria's economy.*
- *X1, X2, X3 and X3 are the independent variables, representing the factors that influence the economy through taxation. These include tax evasion, tax avoidance, tax legislation, and tax administration.*
- *β0, β1, β2, β3, ..., βn are the coefficients that indicate the strength and direction of the relationship between the dependent variable (Y) and each independent variable (X1, X2, X3,X4).*
- *ε represents the error term, accounting for any unexplained variation or random error in the model.*

Based on the data collected, appropriate regression techniques (e.g., multiple linear regression) was used to estimate the values of the coefficients (β0, β1, β2, β3, ..., βn) and determine the significance of the relationships between the dependent and independent variables.

Employees of specific companies were given a closed-ended questionnaire as the research tool for this study. The purpose of the questionnaire was to allow respondents to respond to inquiries about tax avoidance and evasion and their impact on the growth of Nigeria's economy. The research aims and developed research hypotheses of this study were taken into consideration when designing the research questions. A five-point Likert-Summated rating scale with multiple sections was used in the designed questionnaire in order to elicit and provide answers to the objectives. The alternatives for the assertions were placed in a Likert scale continuum of 5 to 1; strongly Agree (SA), Agree (A), Neutral (N), Disagree (D), and Strongly Disagree (SD). Software for statistics, such as SPSS, will be used to analyze the survey data. Frequencies, percentages, and means are examples of descriptive statistics that will be used to summarize quantitative data. The relationships between the variables and test hypotheses will be examined using inferential statistics, such as regression analysis and correlation.

Data Presentation and Discussion of Results

Using the percentage table, a thorough analysis of the data analyses was conducted based on field data collection. Parts A and B of the questionnaire's questions served as the foundation for the analyses. One hundred (100) copies of the questionnaire in total were distributed to respondents; all of the copies were collected from the respondents and utilized in the analyses. The demographic data was presented in tables and percentages; tables are the most appropriate way to evaluate data for ease of comprehension.

Table 1: Frequency and percentage on the possible impact of and relationship between tax evasion and avoidance on the Nigerian economy

Tax evasion and avoidance lead to significant revenue loss for the Nigerian government.	**Frequency**	**Percentages**
Strongly Agree	52	52%
Agree	32	32%
Neutral	12	12%
Disagree	4	4%
Strongly Disagree	0	0%
Total	**100**	**100%**
Widespread tax evasion and avoidance negatively impact economic growth and development in Nigeria.		
Strongly Agree	40	40%
Agree	32	32%
Neutral	24	24%
Disagree	1	1%
Strongly Disagree	0	0%
Total	**100**	**100%**
Widespread tax evasion and avoidance negatively impact economic growth and development in Nigeria.		
Strongly Agree	40	40%
Agree	32	32%
Neutral	24	24%
Disagree	1	1%
Strongly Disagree	3	3%
Total	**100**	**100%**
Tax evasion and avoidance undermine public service delivery and infrastructure development in Nigeria.		
Strongly Agree	52	52%
Agree	26	26%
Neutral	20	20%
Disagree	2	2%
Strongly Disagree	0	0%
Total	**100**	100%

Curbing tax evasion and avoidance could provide more resources for investments and stimulus spending.		
Strongly Agree	40	40%
Agree	44	44%
Neutral	16	16%
Disagree	0	0%
Strongly Disagree	0	0%
Total	100	**100%**
There is a strong negative correlation between tax evasion/avoidance and government revenue	**Frequency**	**Percentages**
- Strongly Agree	52	52
- Agree	32	32
- Neutral	12	12
- Disagree	0	0
- Strongly Disagree	4	4
Total:	100	**100%**
High rates of tax evasion and avoidance lead to significant shortfalls in actual tax revenue collected.		
- Strongly Agree	56	56
- Agree	32	32
- Neutral	8	8
- Disagree	4	4
- Strongly Disagree	0	0
Total	100	**100**
Tax evasion and avoidance practices directly reduce the overall tax revenue available for government expenditures.		
- Strongly Agree	36	36
- Agree	48	48
- Neutral	12	12
- Disagree	0	0
- Strongly Disagree	4	4
Total	100	**100%**
Closing loopholes and strengthening enforcement could increase tax revenue and reduce budget deficits.		
- Strongly Agree	60	60
- Agree	24	24
- Neutral	8	8
- Disagree	8	8
- Strongly Disagree	0	0
Total	100	**100%**
The government loses billions in revenue each year due to widespread tax evasion and avoidance.		
- Strongly Agree	44	44
- Agree	44	44

- Neutral	8	8
- Disagree	4	4
- Strongly Disagree	0	0
Total	100	**100%**

Source: Field Survey, 2024

The possible effects and connections between tax avoidance and evasion on the Nigerian economy were examined in Table 1. The majority of respondents (84%) agreed or strongly agreed that tax avoidance and evasion cause the Nigerian government to lose a substantial amount of income, which has a detrimental effect on the country's ability to expand and develop economically. A sizable majority (72%) concurred that widespread tax evasion and avoidance have a detrimental effect on Nigeria's infrastructure development and public service delivery. A strong negative association was also shown in Table 4.5 between tax evasion and government revenue, with 84% of respondents agreeing or disagreeing that high rates of tax avoidance and evasion result in appreciable shortages in real tax revenue collected. Furthermore, 84% of respondents agreed or agreed that tax avoidance and evasion tactics directly lower the total amount of tax income that is available for government spending. It also discovered that tightening enforcement and addressing loopholes might raise tax collection and lower budget deficits. The vast majority (84%) agree or strongly agree that widespread tax evasion and avoidance causes the government to lose billions of dollars in revenue annually. In conclusion, the analysis reveals a strong consensus among respondents regarding the detrimental impacts of tax evasion and avoidance on the Nigerian economy. It highlights the widespread belief that these practices lead to significant revenue loss, hinder economic growth and development, exacerbate income inequality, and undermine public service delivery and infrastructure development. Additionally, there is a consensus on the negative correlation between tax evasion/avoidance and government revenue, as well as the potential for increasing revenue by closing loopholes and strengthening enforcement. These findings underscore the importance of addressing tax evasion and avoidance for economic stability and growth in Nigeria.

Table 2: Frequency and Percentage on the impact of inadequate tax administration on the Nigerian economy

Weak tax administration and enforcement promotes tax evasion and avoidance.	**Frequency**	**Percentages**
- Strongly Agree	60	60
- Agree	32	32
- Neutral	8	8
- Disagree	0	0
- Strongly Disagree	0	0
Total:	**100**	**100%**
Lack of resources for tax authorities hinders effective monitoring and auditing.		
- Strongly Agree	36	36
- Agree	40	40
- Neutral	16	16
- Disagree	8	8
- Strongly Disagree	0	0
Total	100	100
Outdated processes and technology limit tax administration efficiency and revenue collection.		
- Strongly Agree	64	64
- Agree	24	24
- Neutral	8	8
- Disagree	4	4
- Strongly Disagree	0	0
Total	**100**	**100%**
Complex regulations and loopholes make tax administration more difficult in Nigeria.		
- Strongly Agree	56	56
- Agree	40	40
- Neutral	4	4
- Disagree	0	0
- Strongly Disagree	0	0
Total	**100**	**100%**
Improving tax administration could significantly increase tax revenue and compliance.		
- Strongly Agree	64	64
- Agree	20	20
- Neutral	12	12
- Disagree	4	4
- Strongly Disagree	0	0
Total	100	**100%**

Source: Field Survey, 2024

Table 2 reveals that inadequate tax administration in Nigeria has a significant impact on the economy. A majority of respondents (92%) strongly agree that weak tax administration promotes tax evasion and avoidance. The lack of resources for tax authorities hinders effective monitoring and auditing, indicating a significant barrier to effective tax administration. Outdated processes and technology limit tax administration efficiency and revenue collection, emphasizing the need for modernization. Complex regulations and loopholes also pose challenges to tax administration, making it more difficult in Nigeria. A significant majority (96%) agree that improving tax administration could significantly increase tax revenue and compliance. This highlights the importance of enhancing administrative capacity for improving tax outcomes. The findings suggest that weak administration promotes tax evasion and avoidance, hinders effective monitoring and auditing, limits efficiency and revenue collection due to outdated processes and technology, and makes administration more difficult due to complex regulations and loopholes. However, there is optimism about the potential for increased tax revenue and compliance through improvements in tax administration. These results highlight how crucial it is to deal with administrative issues in order to improve tax compliance and revenue collection in Nigeria. The analysis as a whole emphasizes the necessity of better tax administration to guarantee economic growth and compliance in the nation.

Table 3: Frequency and Percentage on the impact of inadequate tax legislation on the Nigerian economy

Ambiguous tax laws enable companies and individuals to avoid taxes legally.	**Frequency**	**Percentages**
Strongly Agree	52	52
Agree	28	28
Neutral	8	8
Disagree	4	4
Strongly Disagree	8	8
Total	100	**100%**
Loopholes in tax legislation allow many to pay less than their fair share.		
Strongly Agree	52	52
Agree	36	36
Neutral	4	4
Disagree	8	8
Strongly Disagree	0	0
Total	**100**	**100%**
Overly complex tax codes make compliance difficult and evasion easier.		
Strongly Agree	44	44

Agree	40	40
Neutral	8	8
Disagree	4	4
Strongly Disagree	4	4
Total	**100**	**100%**
Weak enforcement of tax laws encourages non-compliance and evasion.		
Strongly Agree	48	48
Agree	40	40
Neutral	8	8
Disagree	4	4
Strongly Disagree	0	0
Total	**100**	**100%**
Simplifying legislation and closing loopholes could boost tax compliance.		
Strongly Agree	52	52
Agree	36	36
Neutral	4	4
Disagree	4	4
Strongly Disagree	4	4
Total	**100**	**100%**

Source: Field Survey, 2024

Based on table 3, the majority of respondents (80%) agree that ambiguous tax laws enable companies and individuals to legally avoid taxes. Loopholes in tax legislation allow many to pay less than their fair share, indicating a perception of the impact of legislative gaps on equitable taxation. Overly complex tax codes also facilitate tax evasion, making compliance difficult and evasion easier. A significant majority (84%) agree that weak enforcement of tax laws encourages non-compliance and evasion, suggesting a belief in the importance of enforcement in deterring tax evasion. A significant majority (88%) agree that simplifying legislation and closing loopholes could boost tax compliance. These findings highlight the significance of clear, enforceable, and fair tax laws in deterring tax evasion and avoidance in Nigeria. Ambiguous laws, loopholes, complexity, and weak enforcement are perceived as factors contributing to tax evasion and avoidance. Overall, the findings suggest a consensus among respondents regarding the impact of inadequate tax legislation on tax evasion and avoidance. However, there is optimism about the potential effectiveness of legislative reforms to enhance tax compliance.

Table 4: One sample T-test result

One-Sample Test						
	Test Value = 0					
					95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Tax_Evasion_and_Avoidance	51.463	99	.000	4.320	4.15	4.49
Tax Administration	70.271	99	.000	4.520	4.39	4.65
Tax Legislation	40.978	99	.000	4.200	4.00	4.40

Source: Computed by author using SPSS 23.0

To determine the significance of the mean differences seen in the tax evasion and avoidance questions (question 1), the one-sample T test was performed, tax administration (question 15), and tax legislation (question 20). The test was applied to compare the mean differences against a test value of 0. By analyzing the mean differences and their corresponding confidence intervals, we evaluated whether the observed differences were statistically significant.

The data obtained from the survey responses were utilized to calculate the mean differences for each variable and conduct the one-sample T test. Specifically, the frequencies and percentages provided in Tables 1, 2, and 3 were used to compute the mean differences, which were then subjected to statistical analysis. Through this study, we were able to ascertain the importance of the observed disparities and make deductions about the effects on the Nigerian economy of tax avoidance and evasion, insufficient tax administration, and tax laws.

Discussion of findings

The study's findings provide insight into how tax laws, insufficient tax administration, and tax evasion and avoidance affect the Nigerian economy. We will contrast as well as compare these results with the perspectives provided by other writers in the theoretical and empirical review in order to provide context and enhance the findings. A foundation for creating tax structures that strike a balance between social welfare and economic efficiency is provided by the optimal taxation theory. Akerlof et al. (2019) and Keen

& Konrad (2013) emphasize the importance of balancing equity and efficiency objectives in tax design. The findings of our study align with this theory, indicating that tax evasion and avoidance have significant implications for economic distortions in Nigeria. Public Choice Theory examines political decision-making through an economic lens, highlighting self-interested motivations and rent-seeking behaviors. Our findings resonate with this theory, as weak enforcement of tax laws and rent-seeking behaviors contribute to tax evasion and avoidance, as suggested by Snyder et al. (2021).

The Principal-Agent Theory examines how taxpayers and the government interact, focusing on agency issues and information asymmetry. Torgler (2022) and Mascagni (2016) discuss how taxpayers strategically respond to incentives and enforcement measures. Our findings support this theory, indicating that inadequate tax administration leads to information asymmetry and undermines compliance efforts. According to the Fiscal Exchange Theory, there is a reciprocal relationship between taxpayers and the government, and opinions about how well the government performs and provides services have an impact on compliance. Castro and Scartascini (2015) draw attention to how perceived advantages encourage tax compliance. Our results support this notion by showing that tax compliance behavior is influenced by opinions about how well the government is performing. Decisions about tax compliance are influenced by psychological, social, and emotional aspects, according to behavioral economics. Alm (2019) discusses how factors like tax morale and fairness perceptions influence compliance. Our findings support this perspective, highlighting the role of social norms and trust in government in shaping tax compliance behavior.

Deterrence Theory posits that the threat of punishment can deter criminal behavior, including tax evasion. Hoopes et al. (2018) discuss the effectiveness of enforcement measures in deterring tax evasion. Our findings align with this theory, indicating that weak enforcement encourages non-compliance and evasion. The Slippery Slope Framework suggests that minor acts of non-compliance can lead to more serious evasion over time. Williams and Horodnic (2017) emphasize the importance of reinforcing compliance norms to prevent ethical erosion. Our findings resonate with this framework, indicating that addressing minor non-compliance is crucial to prevent sliding towards aggressive evasion. Game Theory views taxpayer compliance as a strategic choice influenced by predictions about the actions of others. Alm (2019) discusses how perceptions of social norms shape compliance behavior. Our findings support this perspective, indicating that promoting voluntary collaboration and social norms reduces non-compliance.

Our findings corroborate and extend the insights from the theoretical and empirical review. While theoretical frameworks provide a conceptual understanding of tax compliance behavior, our empirical findings offer specific insights into the Nigerian context. We observe similar patterns of tax evasion and avoidance behavior as documented in other developing countries, suggesting the universality of compliance challenges. However, our study also highlights unique contextual factors and challenges faced by Nigeria, such as weak enforcement, complex regulations, and sub-national variations in compliance behavior.

Through the integration of theoretical concepts and empirical evidence, this study offers a thorough knowledge of the effects of tax avoidance and evasion on the economy of Nigeria. Our findings highlight the significance of using a multifaceted strategy to solve compliance issues, combining theoretical concepts with useful policy solutions specific to the Nigerian environment. To fill up the knowledge gaps and improve our comprehension of tax compliance behavior in Nigeria, more study is required.

Conclusions and Recommendations

This study has highlighted the critical challenges of tax compliance in Nigeria, revealing an urgent need to address the pervasive issues of tax evasion and avoidance. These problems are deeply intertwined with weaknesses in both tax administration and legislative frameworks, posing significant threats to the economic stability and growth of Nigeria. The implications of these challenges are far-reaching, affecting revenue mobilization, exacerbating income inequality, and diminishing public trust in government institutions.

The findings from this research resonate strongly with recent scholarly works that explore similar issues in tax systems worldwide. Recent and relevant studies have shown that countries facing similar challenges often suffer from reduced government revenue, hindering their ability to fund essential public services and invest in developmental projects. These studies underscore that without effective tax compliance, the capacity of a nation to achieve sustainable economic growth and equitable wealth distribution is severely compromised.

Reflecting on these findings, it can be deduced that the persistent tax compliance challenges in Nigeria are symptomatic of deeper structural issues within the nation’s governance and economic frameworks. The root causes of these challenges are multifaceted, involving historical, cultural, and political dimensions that complicate straightforward solutions. For instance, the legacy of corruption and mismanagement in government can erode public trust, which is crucial for voluntary tax compliance. Similarly, if taxpayers perceive the tax system as unfair or believe that public funds are not being used effectively, their willingness to comply diminishes.

Moreover, these challenges persist because addressing them requires not only technical and administrative reforms but also a shift in societal attitudes and norms regarding taxation. Building a robust tax system is as much about changing public perceptions and fostering a culture of compliance as it is about reforming policies and institutions. Therefore, in tackling these issues, a multi-dimensional approach is necessary. This should include policy reforms aimed at simplifying the tax code to make it more understandable and less burdensome for taxpayers. Additionally, there should be efforts to strengthen the institutional capacities of tax authorities, improving their ability to enforce laws and collect taxes efficiently. Importantly, there should be a concerted effort to enhance transparency and accountability in how tax revenues are utilized, thereby rebuilding trust between the government and its citizens.

Furthermore, public awareness campaigns can play a critical role in changing societal norms about taxation. By educating citizens on the importance of tax compliance for national development and the direct benefits it can provide to communities, it is possible to gradually shift public perceptions and encourage more voluntary compliance.

In summary, addressing the challenges of tax evasion, inadequate tax administration, and legislative loopholes in Nigeria requires a coordinated and comprehensive effort from various stakeholders, including the government, tax authorities, civil society, and the citizens themselves. By adopting the recommendations outlined in this study and drawing on the insights from recent research, Nigeria can enhance its revenue mobilization strategies, promote sustainable economic growth, and ultimately foster a more equitable and prosperous society. Through such transformative approaches, the nation can hope to achieve a more compliant and resilient tax system that supports its developmental goals and the well-being of all its citizens.

The analysis's conclusions led to the following recommendations being made:

(a) Strengthen tax administration: A comprehensive strategy combining institutional building, behavioral interventions, and policy reforms is needed to solve these issues. Enacting comprehensive tax changes is necessary to streamline tax laws, eliminate loopholes, and improve accountability and transparency in the tax administration procedures.

(b) Implement incentives and penalties: Concurrently, funding capacity-building programs is essential to improve the efficiency of tax authorities in observing, prosecuting, and penalizing noncompliant taxpayers in order to discourage tax evasion and guarantee the integrity of the tax system.

(c) Encourage accountability and openness in tax administration processes to build public confidence in the tax system. Targeted public awareness efforts should also be launched to educate taxpayers on their rights, responsibilities, and the benefits of compliance. Encourage international cooperation: To effectively combat cross-border tax evasion and illicit financial flows, cooperation with international organizations and partner nations must be strengthened.

(d) Review and simplify tax legislation: conduct a comprehensive review of existing tax laws to identify loopholes and ambiguities that facilitate tax avoidance.

(e) Conduct regular evaluations and reforms: Continuously review and update tax policies and administrative procedures to adapt to changing economic conditions and emerging compliance challenges. Additionally, long-term structural reforms aimed at strengthening governance, improving public service delivery, and fostering economic development are essential to address the root causes of tax compliance challenges.

By adopting these recommendations, the Nigerian government can enhance revenue mobilization efforts, promote economic growth, and build a more equitable and inclusive society for all citizens. These measures are crucial for achieving sustainable development and ensuring the prosperity of the Nigerian economy in the long run.

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