



## Impact of tax evasion and tax avoidance on revenue generation in Nigeria

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### Abstract

This research examined the impact of tax evasion and tax avoidance on the Nigerian revenue generation. The study adopted ex-post facto research design and data were obtained from Central Bank of Nigeria annual Statistical report and Federal Inland Revenue Service revenue statistical report for the period 2005 - 2024. Ordinary Least Square (OLS) Regression model was used to analyse data and test the hypotheses. Result of the data analyses revealed that there is no both relationship between tax evasion and tax avoidance and the Nigerian revenue generation. Both tax evasion and tax avoidance indicate an insignificant relationship with Nigerian revenue generation. The study concluded that tax evasion and tax avoidance do not have any significant impact on Nigeria's revenue generation. In fact, tax evasion and tax avoidance reduce the quantum of funds available to the country to meet with its economic and financial obligations to the citizens. Based on the findings, it is thus recommended that a lasting solution to the menace of tax evasion and tax avoidance is necessary. Also recommended that, 'carrot and stick' approach should be adopted to solve the problem. Finally, proper utilization of tax revenue will also improve /boost tax compliance level in the Country.

**Keywords:** Tax evasion, tax avoidance, revenue generation, gross domestic product

### Introduction

The desire to uplift one's society is the priority of every patriotic citizen. Tax payment is a demonstration of such a desire. The payment of tax is a civic duty and an imposed contribution by government on her subjects and companies to enable her finance or run public entities and perform other social responsibilities. Taxes constitute the principal source of government revenue (Ekenze, 2018) <sup>[10]</sup>. Beside, one of the major functions of any government especially in developing countries such as Nigeria is the provision of infrastructural services such as; electricity, pipe-borne water, hospitals, schools, good roads, rise in per capita income as well as poverty alleviation to mention a few. For these services to be adequately provided, government should have enough revenue to finance them. The task of financing these enormous responsibilities is one of the major problems facing the government. Based on the limited resources of government, there is need to carry the citizens (governed) along hence the imposition of tax on all taxable individuals and companies to augment government financial position. To this end, government have always enacted various tax laws and reformed existing ones to stand the taste of time. These include; Income Tax Management Act (ITMA), Companies Income Tax Decree (CIID), Joint Tax Board (JIB) etc. (Nnadi & Ugwu, 2017) <sup>[17]</sup>.

Despite government effort in tax collection, one of the greatest problems facing Nigerian Tax System and indeed other African countries is the problem of tax evasion and tax avoidance. Tax evasion is the willful and deliberate violation of the law in order to escape payment of tax which is unquestionably imposed by law of the tax jurisdiction. While tax avoidance is the active means by which the taxpayer seeks to reduce or remove altogether his liability to tax without actually breaking the law (Cordelia, 2020). These "twin devils" have created a great disparity between actual and potential revenue. The government has for a long time complained of the widespread incidence of tax evasion and avoidance in the state as companies and other taxable

persons employ various tax avoidance devices to escape or minimize their taxes. They deliberately employ fraudulent ways and means of evading tax sometimes with the active connivance of the tax officials (Adebisi & Gbegi, 2018) <sup>[11]</sup>.

Based on the forgoing, it is very paramount to note that one of the effects of evading and avoiding tax by most registered companies and some individuals has been the downward revenue base of the government especially in providing essential services in the society (Cordelia, 2020). Accordingly, Rynoids (2015) <sup>[27]</sup> opined that since tax is a principal source of government revenue, if persons are able to escape by legal or illegal means the tax to which they should logically be subject under the general scope of the tax, the theoretical equity of the tax to a large measure is lost. Tax evasion and avoidance no doubt deny any government the tax revenue due to her, which results in a gap between the potential and actual tax collections. Considering the effect of tax avoidance and tax evasion on revenue generation, this study aimed at examining the effect of tax avoidance and tax evasion on revenue generation in Nigeria.

### Problem Statement

Tax evasion and avoidance are problems faced by every tax system. The Nigerian situation seems unique when viewed against the scale of corrupt practices prevalent in Nigeria (Ogbonna & Appah, 2016) <sup>[4, 20]</sup>. Under direct personal taxation as practiced in Nigeria, the major problem lies in the collection of the taxes especially from the self-employed such as the businessmen, contractors, professional practitioners like lawyers, doctors, accountants, architects and traders in shops among others. As observed by Ayua (2010) <sup>[6]</sup> these persons blatantly refuse to pay tax by reporting losses every year. According to the researcher, many of these professionals live a lifestyle inconsistent with reported income, which is usually unrealistically low for the nature of their businesses. Civil servants and salary workers are the only class of people that actually pay tax in Nigeria.

However, even among the salary workers, many have turned the statutory personal allowances and relief into a fertile ground for tax evasion. Almost all Nigerian taxpayers are married with four children.

Therefore, despite the tax provision meant to plug loopholes through which taxable persons can minimize tax liability the self-employed persons employ all kinds of avoidance schemes to minimize or escape tax liability and makes one wonder whether there are still any tax officials working in that capacity. Such scenarios no doubt say a lot about tax administration system in Nigeria both in its design and in the disposition of some taxpayers towards taxation. While it immediately presupposes that there are legal framework put in place to punish tax evaders it perhaps raises a poser on the efficiency and effectiveness of tax laws and tax administration in Nigeria. Alternatively, some state governments in Nigeria in an effort towards solving this problem had even gone to the extent of engaging the services of tax consultants. This government effort notwithstanding, the problem of tax evasion and avoidance still persists (Ayodele, 2016) <sup>[5]</sup>. There is no doubt that revenue due to any government will be reduced by the unpatriotic act of tax evaders thereby affecting revenue generation.

From the theoretical perspective, many studies were conducted to examine the effect of tax evasion and tax avoidance on revenue generation. According to its importance, scholars like Ogbonna and Appah (2016) <sup>[4, 20]</sup> observed that several economic theories have been proposed to run an effective system. Taxes are generally classified under three different theories as given; ability to pay theory, benefit received theory and equal distribution theory. This research unlike the previous studies will give more concern on ability to pay theory.

The justification is to provide a comprehensive view of the impact of tax evasion and tax avoidance on revenue generation in Nigeria. This study if embark would give empirical evidence to individuals, government, corporations and other stakeholders engagement. In terms of research, the study will go a long way to add to existing literature, which can be used for further research.

### Objective of the Study

The main objective of this research work is to examine the impact of tax evasion and tax avoidance on revenue generation in Nigeria. The other specific objectives are:

1. To examine the impact of tax evasion on economic growth of Nigeria.
2. To examine the impact of tax avoidance on economic growth in Nigeria.

### Research Questions

1. Do tax evasions have a significant positive impact on Nigerian economic growth?
2. Does tax avoidance have a significant positive impact on Nigeria's economic growth?

### Research Hypotheses

In an effort to determine the impact of tax evasion and tax avoidance on revenue generation in Nigeria, the following hypotheses are postulated to enable the researcher have good focus on the study:

1.  $H_0$  Tax evasion has insignificant impact on revenue generation in Nigeria.

2.  $H_0$  Tax avoidance has insignificant impact on revenue generation in Nigeria.

## Literature Review

### Concept of Taxation

Taxation has been a global concern as it affects every economy irrespective of national differences (Omodero, 2019) <sup>[23, 24]</sup>. Tax is a compulsory Charge imposed by government on the income of individuals and companies as stipulated by the government decrees, acts or cases laws irrespective of the exact amount of services rendered to the payer in return (Omodero & Dandago, 2019) <sup>[23, 24]</sup>. Specifically, tax is a compulsory levy imposed by government on its member citizens purposely to provide common goods and services for the benefit of all members (Omodero, 2019) <sup>[23, 24]</sup>. Tax is designed to raise revenue required for expenditure authorized in a government budget expectation. It is also a veritable instrument for promoting social and economic justice and equality amongst citizens of a state or members of an organization.

Tax is not a voluntary payment, it is a compulsory pecuniary burden placed upon the subjects of a given country to support the people (Adebisi, 2013). It is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society (Ola, 2019) <sup>[22]</sup>. Tax is imposed on all residents living in, as well as non-residents doing business, within a tax jurisdiction (Okwara & Amori, 2017) <sup>[21]</sup>.

However, it should be noted that, tax is not levied on a citizen by government because it has rendered specific services to him or his family. Nevertheless, there are various taxes collected by the government such as company income tax, personal income tax, petroleum profit tax, value added tax, capital gain tax, custom and excise duties, education tax as well as other levies. These include:

1. **Personal Income Tax (PIT):** This is a type of tax charged on the income of individual. The chargeable income of an individual is the aggregate amount from all sources (whether from employment, investment, profit from trade, profession or vocation etc.) after deducting all non-taxable incomes and relief granted.
2. **Company Income Tax (CIT):** Company Income Tax is regulated by Companies Income Act 2004. All income accruing to a company chargeable to CITA is taxed on preceding year basis not on actual year basis. Therefore, companies income tax is a tax imposed on the profit of companies (excluding profit from companies engaged in petroleum operations) accruing in, derived from, brought into or received in Nigeria in respect of any trade or business, rent, premium, dividends, interest, royalties and any other source of annual profit. The tax is charged at the rate of 30%.
3. **Petroleum Profit Tax (PPT):** Petroleum profit tax involves the charging of tax on the income accruing from petroleum operations. It is a tax applicable to upstream operations in the oil industry (Ellawule, 2017) <sup>[19]</sup>. The importance of petroleum to the Nigeria economy give rise to the enactment of the different law regulating the taxation of incomes from petroleum operations. This means that companies engaging

petroleum operations will not be subjected to tax on the CIT, but rather on the Petroleum Profit Tax Act. For this reason, the Petroleum Profits Tax Act, cap.

4. **Value Added Tax (VAT):** Value added tax is a tax on consumption which is collected at each point of sales of goods and services from production to consumption but eventually borne by the final consumer. Each person is required to charge and collect VAT at a flat rate of 5% on all invoiced amounts. VAT was introduced by the Federal government of Nigeria in January 1993 (Tijjani & Ogundeji, 2013). Analyst says that the tax was intended to be a super tax to eradicate completely many other taxes related to goods and services especially sales tax. Under the Value Added Tax Act 1993 as amended, every person whether resident in Nigeria or nonresident in Nigeria who sells goods or render services in Nigeria under the VAT Act is obligated to register for VAT within six months of its commencement of business in Nigeria. Registration is done with the Federal Board of Inland Revenue (FBIR).

### Tax Evasion

Tax evasion is the general term for efforts by individuals, firms, trusts and other entities to evade taxes by illegal means (Adebisi & Gbegi, 2018) <sup>[1]</sup>. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability. It also includes, in particular, dishonest tax reporting such as declaring less income, profits or gains than actually earned or overstating deductions. Tax evasion apart from being a moral wrong also amounts to a breach of the tax laws. According to Soyode and Kajola (2016) <sup>[28]</sup>, tax evasion is perceived as a deliberate and willful practice of not disclosing full taxable income in order to pay less tax. It is a deliberate violation of tax laws and it is evident in situations where tax liability is fraudulently reduced or false claims are filled on the revenue tax form. From the comparison of various definitions given in the literature, it can be seen that paying less tax or not at all than what one is legally obliged to is described as tax evasion while tax avoidance is an act of doing everything possible within the confines of the tax law to reduce the tax paid. Therefore, the main difference between the two is the legality of the payer's action (Fatoki & Ajayi, 2014) <sup>[12]</sup>.

Tax evasion is considered as an outright dishonest action whereby the taxpayer endeavors to reduce his tax liability through the use of illegal means (Uadiale, 2010) <sup>[30]</sup>.

### Tax Avoidance

Tax avoidance may simply be defined as the reduction or minimization of a person's tax liability by carefully arranging one's affairs in such a way as to take advantage of loopholes in the tax law provisions. In other words, tax avoidance is the intentional act of a tax payer to pay less than what he ought to pay to the tax authority (Nzotta, 2017) <sup>[18]</sup>. Tax avoidance is a legal ways by which a tax payer reduces his tax liabilities. It is possible by fully complying with the tax laws and meeting tax liabilities. Thus tax avoidance takes the advantages of the loopholes in the existence fiscal laws. The avoider is just smart tax payer who exploits loopholes in the tax laws (and related laws) to reduce tax liability (Ezeanyej, 2015) <sup>[11]</sup>. Thus, according to the scholar it is clear that tax avoidance is legal or at least

not illegal since is mostly probably using the tax laws to limit his tax liability under the same laws.

In the course of examining the attitude of the court and the legislature towards tax avoidance Professor Wheat craft observed that "tax avoidance is an art of winning games without actually cheating; thereby beating the internal revenue and the government to their own game". Similarly in *Ire vs. Duke of Westminster*, Lord Tomlin observed in respect of tax avoidance that: "Everyman is entitled, if he can, to order his affairs so that the tax attaching under the appropriate act is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, of Inland Revenue or his fellow tax payers may be of his ingenuity, he cannot be compelled to pay an increased tax" (Nnadi & Ugwu, 2017) <sup>[17]</sup>.

### Causes of Tax Evasion and Avoidance in Nigeria

There are many causes for tax avoidance and tax evasion in Nigeria as outlined by Nnadi and Ugwu, (2017) <sup>[17]</sup>. They include;

1. **High Rates of Taxation:** The prevailing high rates of taxation are one of the main causes of evasion and avoidance. The high tax rates in the top income brackets are said to be tolerated only because, considerable evasion take place there. But the tax rates by themselves are not to be blamed for the large extent of the evasion in any country for even if the rates are reduced, evasion will still continue, because it exists at all levels of income.
2. **Complexity in Tax Laws:** The complicated provisions of the Direct Taxes Act, not all of which are easily intelligible were also stated to be responsible to some extent, for tax avoidance as well as evasion. The average tax-payer has inevitably to seek the assistance of tax experts and their advice is not always disinterested but to help the tax-payer for evasion and avoidance.
3. **Shortage of Experienced Personnel:** Another reason for avoidance is said to be the dearth of experienced personnel in the department. It is, therefore, necessary to have in the department sufficient numbers of trained and experienced personnel to cope with the current as well as arrear load of assessment and investigation work. Simultaneously, the organization and procedures of the department should be imposed so as to bring it with highest pitch of efficiency.
4. **Moral and Psychological Factors:** Certain moral and psychological factors have also been pointed out as responsible for tax avoidance in various countries. Unfortunately, all citizens do not realize their duties to the state and the necessity of paying the correct amount of taxes and paying them in time. Only a reformed moral outlook and the development of better civic conscience can improve matters in this respect.
5. **Attitude of Income-Tax Department:** It should also be agreed that income-tax department is not much responsible for the present state of affairs.
6. **Officers of the Department should be men of Integrity:** It has also been said that lack of integrity in

some of the officers of the department is partly responsible for tax avoidance. It should be stressed that “Not only should the department officials be honest but they must also be above suspicion and should so conduct themselves in their private as well as official life that no wrong motives could be attributed to any of their actions.”

7. **Political Vendetta:** People avoid tax if they are being oppressed by the party in power. Sometimes, the political party in power may witch-hunt their opponents by imposing heavy taxation on their business interests or personal income tax. This leaves the opponent with no other option than to evade the tax. Sometimes also, the opponent may refuse to pay income tax if the party in power is not favorable to him or he does not support that government (Appah, 2016)<sup>[4]</sup>.

#### Effects of Tax Avoidance on Revenue Generation

Tax evasion and avoidance have adverse effect on government revenue. Tax avoidance generates investment distortion in the form of the purchase of assets exempted from tax or under-valued for tax purposes.

- a. Tax evasion and tax avoidance hamper the social welfare. It obliges the government to borrow loan that effects the economic development.
- b. Economic growth is correlated with budget and large budget helps to accelerate economic development of a country. But due to tax evasion and avoidance, a huge amount of revenue is not collected. As a result the government has to short-out the budget.
- c. In capitalist mixed economy, private sector is supposed to play vital role in investment and development. But sometimes direct investment by governments is necessary. Due to tax evasion and tax avoidance the government cannot supply the expected fund for investment.
- d. The government has to take various plans for economic development. But due to lack of fund, the plan cannot be implemented. If the people would not evade tax, the government could implement the plans as they would have enough resources with them for their purpose.
- e. The government needs fund to create employment opportunities to its citizen. But due to tax evasion and tax avoidance, the government cannot ensure the employment opportunity due to paucity of funds.
- f. It also hampers structural development such as roads bridges, transportation, industrial development etc.
- g. Development expenses fall due to tax evasion and tax avoidance. It affects the distribution function of wealth of the government and adversely affects the economic development of a country.

#### Method of Checking Avoidance and Evasion of Tax

Ezeanyej, (2015)<sup>[11]</sup> identified the methods that could be adopted for combating avoidance are different from those required for eliminating evasion. Avoidance could be checked only by plugging the loopholes in the law and by careful drafting of all new legislations.

- a. **Reduction in Tax Rates:** It has been pointed out that prevalence of high tax rates is the first and foremost reason for tax evasion in any country. This makes the tax evasion profitable and attractive in spite of the attendant risks. The high rates of taxation create a

psychological barrier to greater effort, and undermine the capacity and will to save and invest. Hence, it is suggested that there should be reduction in the present tax rates.

- b. It is also suggested that there should be minimization of controls and licenses in the economy. To this end, a committee of experts should be appointed to enquire into the utility of existing controls, licensing and permit systems and suggest elimination of some of these as they are no longer considered necessary.
- c. It is also suggested that there should be regulation of donations to political parties. However, it is suggested that reasonable grants-in-aid should be given to political parties and the accounts of political parties should be audited and published annually.
- d. The practice of being too meticulous in small cases, where no worthwhile revenue is involved, has done much to damage the image of the department in the public eye. It is therefore suggested that confidence be created among small tax payers. It means that the small tax payers should not be harassed unnecessarily.
- e. **Changes in penal provisions:** Penalty serves its purpose only so long as it is within reasonable limit. A penalty based on income instead of tax hits the smaller taxpayer harshly. Hence, it is suggested that there should be changes in the penal provisions in different countries. It is also recommended that the minimum penalty impossible for concealment of income should be the amount of tax sought to be evaded and the maximum penalty impossible should be fixed at twice the said amount.
- f. **Public opinion:** It is suggested that public conscience is to be aroused against tax evasion and the evaders should be ostracized by the society. But it is possible only when the public is convinced that tax evasion is anti-social.
- g. **Vigorous Prosecution:** It is also suggested that the department should completely re-orient itself to a more vigorous prosecution itself to a more vigorous prosecution policy in order to instill a wholesome respect for the tax laws in the minds of the tax-payer. Further, where there is a reasonable chance for securing a conviction, the tax dodger should in variably be prosecuted.
- h. **Arousing Public Conscience:** A special drive should be undertaken to arouse public conscience by enlisting the co-operations of leaders in the various walks of life.

#### Theoretical Review

Taxation has always been an issue for the government and taxpayers alike from the early years of civilization (Adebisi & Gbegi, 2013). The issue of taxation has generated a lot of controversy and severe political conflicts over time. Considering the importance of tax to socioeconomic development of countries several theories have been proposed to run an effective system. Taxes are generally classified under three different theories as given; ability to pay theory, benefit received theory and equal distribution theory. However, this study is guided by the “ability to pay theory” and “benefit received theory”.

#### Ability-to-Pay Theory

The ability to pay theory supported that the taxation should be levied according to an individual's ability to pay. The

theory affirms that, public expenditure should come from “him that hath” instead of “him that hath not”. The principle originated from the sixteenth century, the ability-to-pay principle was scientifically extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), the French political economist Jean- Baptiste Say (1767-1832) and the English economist John Stuart Mill (1806-1873). This is indeed the basis of ‘progressive tax,’ as the tax rate increases by the increase of the taxable amount. This principle is indeed the most equitable tax system, and has been widely used in industrialized economics. The usual and most supported justification of ability to pay is on grounds of sacrifice. An individual is to pay taxes just because he can, and his relative share in the total tax burden is to be determined by his relative paying capacity. This theory ensures justice or equity in taxation (Musgrave & Musgrave, 2004; Bhartia, 2010; Jhingan, 2012; Ogbonna & Appah, 2016)<sup>[4, 20]</sup>.

### Benefit Received Theory

This theory dictates that the state should levy taxes on individuals according to the benefit they derived from government expenditure. The more benefits a person derived from the activities of the state, the more he should pay tax to the government. In other words this theory proceeds on the assumption that there is basically an exchange or contractual relationship between a tax payer and the state. Tax revenue is expected to be used by the government to provide common benefit to the citizen. It is not intended to provide a direct or specific benefit to any individual. One of the objectives of taxation is to redistribute income by taxing the rich more than the poor. It then means that if the benefit received theory is to be applied; the poor will end up paying more tax than the rich because most of the government expenditures are intended to benefit the poor more than the rich. Secondly, taxation based on the benefit theory will not yield enough revenue to the government because many people who can afford to pay high taxes may end up paying less since they do not receive much benefit from government activities. This theory therefore kicks against the principle of justice (Ogbonna & Appah, 2016<sup>[4, 20]</sup>; Adebisi & Gbegi, 2018)<sup>[1]</sup>.

### Empirical Review

#### Tax Evasion and Revenue Generation

Nnadi and Ugwu (2017)<sup>[17]</sup> evaluate the effect of tax avoidance and tax evasion on revenue generation in Nigeria: 2006-2016. Regression model was employed to establish the relationship between the dependent and independent variables. The study made use of economy approach in estimating the relationship between tax avoidance with economic growth and development in Nigeria. The study revealed that there is no significant relationship between revenue generation and tax evasion and tax avoidance in Nigeria. The work also revealed that tax avoidance has no significant positive effect on revenue generation. Simon and James (2020) conducted research on tax evasion and tax avoidance on the Nigeria revenue generation. The findings from the analysis using regression statistics techniques reveal that tax evasion and avoidance have adversely affected economic growth and development in Nigeria. Ellawule (2019)<sup>[19]</sup> evaluated the effect of tax evasion on the economic development of Yobe state. This studies which was necessitated by the fact that the Yobe was not

generating enough revenue through taxation relied on secondary sources for data which were analyzed using Chi-Square revealed that tax evasion has the significant effect of the economic development of the state. It is recommended among others that the state government should improve the governance and to reduce the insurgency in the state. Martinez (2019)<sup>[16]</sup> carried out empirical study on tax evasion and tax avoidance evidence from Nigeria. It was revealed that there exist a significant positive impact of tax evasion and tax avoidance and the Nigerian economic growth. The study also shows that tax evasion and avoidance are major hindrances to revenue generation in Nigeria.

Ogbonna and Appah (2016)<sup>[4, 20]</sup> examine the effect of tax administration and revenue on economic growth of Nigeria. Data were analyzed using relevant regression analysis. The results reveal that there is a significant relationship between Personal Income Tax Revenue (PITR) and per capita income. Hence, the study concludes that tax administration and revenue does affect the economic growth of Nigeria for the period under study.

#### Tax avoidance and Revenue Generation

Adebisi and Gbegi, (2019) examined the effect of tax avoidance and tax evasion on personal income tax administration in Nigeria. The Analysis of Variance (ANOVA) was used to test the hypotheses. The research findings disclose that enlightenment and adequate utilization of tax revenue on public goods will discourage tax avoidance and tax evasion, high tax rates encourage tax avoidance and tax evasion, personal income tax generation has not being impressive and personal income tax rates are too high. The researcher therefore concluded that there is a direct and positive relationship between tax avoidance, tax evasion, tax rates and personal income tax administration in Nigeria.

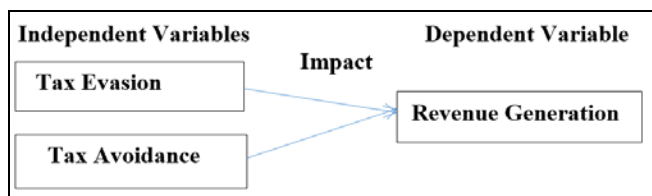
Ibadin and Eiya (2020)<sup>[14]</sup> studied tax evasion and avoidance behavior of the self-employed Nigerians. The study sampled the opinions of Nigerians in selected geo-political zones and states using ethical views, educational attainment, mode of tax administration, religion and cultural practices and how each variable affected the decision of the self-employed Nigerian to evade and avoid tax payment. The results from the regression analysis indicated that the respondents deemed tax evasion to be ethical especially within the context of the situation they found themselves. The issue of deeming tax evasion to be ethical should be attributed to lack of good governance in Nigeria.

Eja, Idaka and Ogar-Abang (2019)<sup>[9]</sup> examined the inhibiting factors to tax revenue generation in Cross River State with specific focus on tax evasion and avoidance. Data for the study was collected using structure questionnaire which was administered on a sample of 169 staff of Cross River State board of internal revenue and analyzed using ordinary least square multiple regression technique. From the analyses it was discovered that there is a negative and insignificant correlation between lack of infrastructural facilities and government tax revenue in the State; also, there is a negative and significant relationship between tax evasion and avoidance and government tax revenue in the state. Based on these finding the study recommends that government should encourage tax payers’ morale through the provision of quality infrastructural facilities and other incentives to enhance its revenue generation.

It was also reviewed by Fatoki and Ajayi (2019) <sup>[12]</sup> reviewed the effect of tax administration and revenue on economic growth in Nigeria. A survey research design was adopted and responses were obtained through the use of a well-structured questionnaire administered to 150 Nigerians, out of which are tax payer and tax evader. Findings from the analysis using statistics techniques reveal that tax evasion and avoidance have adversely affected economic growth and development in Nigeria. Also, that lack of good governance and unpatriotic act of tax payer is the basis for which tax evasion and tax avoidance activities is perpetrated. Folayan and Adeniyi (2019) <sup>[13]</sup> conducted a study in order to identify the effects of tax evasion on government revenue generation in Oyo State. Structured questionnaire was used to collect data from a sample of 165 respondents and supplemented with secondary data from National Bureau of Statistics (NBS) and Office of Budget and Economic Planning. Data collected were analyzed using descriptive and inferential statistical tools. The findings showed that internally generated revenue between 2011 and 2018 did not meet the estimates revenue as it was expected. The results also revealed that, the tax evasion has adverse effect on government revenue generation in Oyo state which typically results in revenue loss.

Al-Mustapha and Hamza (2019) investigated the determinants of informal sector tax evasion in Sokoto metropolis. A survey was conducted using a seven-point Likert scale that included 13 arguments and the research instrument was distributed to a sample of 317 tax payers within Sokoto metropolis. The collected data was analyzed using regression analysis. The results of the study showed that taxation and fiscal factors, economic factors and administrative factors, among other factors are statistically significant for individuals' tax-evasion behavior. Similarly, Adedeji and Oboh (2019) examined the economic implication of tax leakages on the Nigerian economy using a survey research design and data collected through the structured questionnaire administered to 185 respondents. Findings from the empirical analysis using Kendall's w-test and Chi-square test statistics revealed that tax evasion and avoidance have adversely affected economic growth and development in Nigeria, and also, that lack of good governance is the basis for which tax leakages activities is perpetrated. The study therefore recommends that the government should embrace and promote good governance so as to encourage voluntary compliance of tax liability by the citizenry.

**Research Framework**



**Methodology**

This section covers the methodology adopted for the study, which is ex post facto research design since the study relies on already existing time series secondary data. This makes it impossible for the researcher to manipulate the data used in the study. Other sub themes covered in this section include the source of data, variables of the study, model specification and methods of data analysis.

**Source of data**

Time series secondary data for the study variables covering the period 2005 to 2024 were collected from various annual reports from the Central Bank of Nigeria (CBN) Statistical Bulletins. These sources are considered the most reliable data sources for this type of study. The period covered by the study is 20 years, which was considered long enough for the researcher draw meaningful conclusions.

**Variables of the study**

The aim of this study was to examine the effect of exchange rate volatility and trade balance on economic growth in Nigeria using secondary data for the period from 2005 to 2024. The study adopted gross domestic product (GDP) as proxy for economic growth and the dependent variable. While exchange rate (EXR) and Trade balance (TBA) with the addition of inflation (INF) as an intervening factor were used as the explanatory variables.

**Gross domestic product (GDP)**

GDP is used to proxy economic growth which is viewed as an increase in per capita national output or net national product over a long period of time. It is considered as growth if the rate of increase in total output (goods and services) is greater than the rate of growth of the population. It is the quantitative increase in the monetary value of goods and services produced in the economy within a given year, and can be measured as a percentage change in the gross domestic product or gross national product.

**Exchange rate (EXR)**

This is the price one currency against another. It is the number of units of a currency that is required to purchase another currency. It can be expressed as units of a local currency per unit of foreign currency or the other way round. For example the Nigerian Naira exchanged for N305.00 to a US Dollar in 2017. Exchange rate determines the relative prices of domestic and foreign goods as well as the strength of external sector participation in the international trade (Obansa *et al*, 2013). Since the collapse of the generalized fixed exchange rate regime and the adoption of a generalized floating system by the developed economies in 1973, most countries Nigeria inclusive, have experimented with various types of exchange rate arrangements ranging from the peg system to weighted currency basket to managed floating, and more recently to monetary zone arrangement (Mordi, 2006).

According to Mordi (2006) exchange rate volatility refers to the swings in exchange rate over a period of time or the deviations from a benchmark or equilibrium exchange rate. The latter which also reflects the misalignment of exchange rate could occur where there is multiplicity of markets parallel to the official market. Exchange rate volatility is measured in terms of the coefficient of variation which is the standard deviation divided by the mean for a series. Price volatility may be measured on any time scale, from yearly to daily.

**Trade balance (TBA)**

Trade balance is the difference between the value of a country's imports and exports for a given period. It is the largest component of a country's balance of payments. In public sector accounting and finance literature, trade balance is used to measure a country's relative strength in

the comity of nations. It is also referred to as balance of payments, balance of trade or international trade balance. The term trade surplus is used to refer to a country that exports more goods and services than it imports in monetary value; and the reverse is called trade deficit.

**Inflation (INF)**

Inflation can be defined as a sustained significant increase in the general price of goods and services. It responds to the forces of demand and supply. The demand pressure arises from changes in monetary aggregates, while the supply pressure comes from the existing structural conditions in the economy. Some of the macroeconomic factors giving rise to inflation include increase in prices of goods and services, income levels, capital inflow, persistent deficit budgeting and increase in money supply (Ujuju & Etale, 2016).

**Methods of data analysis**

Ordinary Least Square (OLS) method of regression was adopted in estimating the variables in the model and the impact of independent variables on the dependent variable. In testing our hypotheses the decision rule is that we accept the null hypotheses and reject the alternate hypotheses if the Probability value is greater than assumed value. However, we accept the alternate and reject the null hypotheses if the probability value of the independent variables is less than the assumed value 0.05. This means that we tested the relationship at 5% level of significance.

**Model Specification**

$$Y = \beta_1 + \beta_2 X_2 + u \tag{1}$$

Where,

- Y = dependent variable
- X = explanatory variable
- $\beta_1$  = intercept of Y
- $\beta_2$  = slope coefficients
- U = stochastic variables

Therefore, in writing the model equation, the following proxies and symbols will be used in this research.

$$GDP = a + \beta TEAX_2 + \mu \tag{2}$$

- GDP = Gross Domestic Product
- TEA = Tax Evaded and Avoided
- a = Regression equation intercept
- $\beta$  = Regression equation coefficient
- $\mu$  = error term

**Result and Discussion**

**Descriptive Analysis**

This section discusses the descriptive analysis of the study. Accordingly, Table 4.2 depicts the result of the yearly descriptive analysis for the variables of the study. As outline previously, revenue generation is the dependent variable and it's proxied by GDP. While, Tax evasion (TAXE) and Tax avoidance (TAXA) are the independent variables.

As revealed in Table 4.2, the growth rate of Nigeria's GDP has been increasing over the years. From 2010 to 2024, GDP growth rate had remained over the 5% growth rate mark yearly. In 2011, GDP increased by 5.3% to ₦57,511.04 billion. GDP reached the maximum level in between 2018 and 2019 at ₦71,387.81 billion with a minimum value of ₦54,612.26 in 2010.

**Table 4.2** Descriptive statistics of GDP, TAXE and TAXA

	Minimum	Maximum	Mean	Std. Dev.	Variance
TAXE	43.18	1,132.05	2.5363E2	181.47598	2.5436E2
TAXA	81.45	2,408.41	4.5069E2	301.40964	5.4354E3
GDP	54612.26	71387.81	6.5279E4	5603.60031	3.140E7
Observations	20				
Sample	2005 –2024				

Source: IBM SPSS Computed result 2025.

However the amount of tax evaded in Nigeria between the periods 2010 to 2020 had the highest amount in 2019 (₦1,132.05 billion) with the least amount is ₦43.18 in 2020. Moreover, the minimum amount of tax avoided within the period is ₦81.45 billion and the maximum value of ₦2,408.41 billion. The GDP has a mean value 6.5279E4 and standard deviation 6.5279E4. TAXE indicated standard deviation of 181.47598 and mean value of TAXA 4.5069E2.

**Correlation Analysis**

The result of the correlation analysis as depicted in Table 4.3 indicated a negative correlation between dependent variable (GDP) and tax evasion ( $P = -0.024$ ). Similarly, a negative correlation was found between GDP and tax avoidance in Nigeria ( $P = -0.203$ ). However, the strength of relationship between GDP and tax evasion and tax avoidance in Nigeria was not statistically significant (R-value of TAXE = 0.472 and 0.275 TAXA).

**Table 4.3** Correlation Analysis

	GDP	TAXE	TAXA
Prob. GDP	1.000	-.024	-.203
TAXE	-.024	1.000	.945
TAXA	-.203	.945	1.000
Sig. GDP	.	.472	.275
TAXE	.472	.	.000
TAXA	.275	.000	.
N	20	20	20

Source: Author's IBM SPSS Computed result 2025.

**Regression Analysis**

This chapter discusses the result of regression analysis for the study. Therefore, the result of the regression analysis is as presented in the Table 4.4. As displayed in the Table 4.4. The probability value of 0.099 implied that the impact of tax avoidance has considerable impact on the Nigerian economy. The coefficient of determination which measures the goodness fit of the model as revealed by R-square ( $R^2$ ) indicates that 55.10% of the variations observed in the dependent variable (GDP) were explained by variations in the independent variables. The test of goodness of fit as indicated by  $R^2$  was properly adjusted by the Adjusted R-Square to 30.3%.

As revealed in table 4.4, there is an insignificant relationship between tax evasion and GDP. The relationship between the variables is not statistically significant. This implied that the impact of tax evasion on the Nigerian economy is not statistically significant. Furthermore, the result of the regression analysis shows a negative and insignificant impact of tax avoidance on GDP. The coefficient of regression for tax avoidance is -31.282, that means a unit increase in tax avoidance will lead to 31.282 units decrease to the GDP in Nigeria. The result was also statistically insignificant.

**Table 4.4** Regression Analysis

Variable	B	Std. Error	t-Statistic	Sig.
C	67115.972	2933.599	22.878	0.000
TAXE	-48.344	27.867	-1.735	0.121
TAXA	-31.282	16.779	-1.864	0.099
R-squared	0.551		Mean dep. var.	3.702
Adjusted R-squared	0.303		S.D. dep. var.	3.078
S. E. of Regression	5229.		F-statistics	1.203
Sum of Square	3.140		Prob. (F-St)	0.301

Source: Author’s IBM SPSS Computed result 2025.

**Analysis and Test of Hypothesis**

$H_1$  Tax evasion and tax avoidance have a significant positive impact on revenue generation in Nigeria.

$H_0$  Tax evasion and tax avoidance have no significant positive impact on revenue generation in Nigeria.

**Decision Rule**

We reject the null hypothesis and accept the alternate hypothesis if the calculated (P-value) is less than the assumed value (0.05). Also we accept the null hypothesis and reject alternate hypothesis if the calculated (P-value) is greater than the assumed value (0.05).

**Discussion of Findings**

The broad objective of the study is to examine the impact of tax evasion and tax avoidance on the economic growth and development of Nigeria from 2005 to 2024. The hypotheses were formulated and have been tested with the relevant tools of analysis in order to arrive at conclusion. The results of the analysis revealed that, tax evasion and tax avoidance have negative and insignificant impact on economic growth in Nigeria. The probability value of  $0.121 > 0.05$  (TAXE) and  $0.099 > 0.05$  confirm the level of significance. However, there is a negative but significant correlation between tax evasion and GDP in Nigeria as P-value 0.024 is less than the assumed value (0.05). Similarly, a negative and insignificant correlation was found between tax avoidance and GDP in Nigeria. Therefore null hypothesis accepted and alternate hypothesis rejected for the hypotheses one hypothesis two. This means that, tax evasion and tax avoidance are not positively and statistically significant on economic growth in Nigeria. The result of the analysis is in agreement with the findings of previous studies such as Nnadi and Ugwu (2017) <sup>[17]</sup>, Simon and James (2020), and Ellawule (2019) <sup>[19]</sup>. The findings also contradicted the findings of Ogbonna and Appah (2016) <sup>[4, 20]</sup>, Adebisi and Gbegi, (2019) and Eja, Idaka and Ogar-Abang (2019) <sup>[9]</sup>.

**Summary and Conclusion**

The results are presented using Tables and subsequently discussed. Analysis conducted for the study includes; descriptive analysis, correlation and regression analysis. Descriptive analyses depicted minimum and maximum data, mean and standard deviations. The correlation analyses indicated the strength of the relationship between the independent and dependent variables. The regression analyses predicted the impact of tax evasion and tax avoidance on gross domestic product in Nigeria.

The study concluded that tax evasion and tax avoidance have negative and insignificant impact on the Nigerian revenue generation. Thus, increase in the occurrence of tax evasion and tax avoidance will not have any significant impact on revenue generation in Nigeria. This is because, tax evasion and tax avoidance reduce the quantum of funds

available to the country to meet with economic and financial obligations to the citizens. However, the extent of the impact of tax evasion and tax avoidance on the Nigerian economy is quite minimal. With this, the Nigeria appears to loss more revenue through tax avoidance than by tax evasion if the measures and actions have not taken by the appropriate authority.

**Recommendations**

Based on the research findings and conclusion reach, the following recommendations were made;

1. It is thus recommended that FIRS need to find a lasting solution to the menace of tax evasion in Nigeria. According, it is suggested that the FIRS should adopt the 'carrot and stick' approach to solve the problem. This should take the form of offering incentives to prospective tax payers in the small and medium scale enterprises. These include reduction in tax liabilities for wiling tax payers and official recognition by the FIRS for such businesses which can serve as publicity for the concerned businesses.
2. It is also recommended that there should be widely publicized punishment for those who choose to evade and avoid their tax obligation to the government. Punishment should include incarceration, stiff financial penalties and black listing of such companies. It is important that such punitive measures are widely circulated and publicized in order to make references in dealing with tax defaulters and thus deter them from such behaviors in the future.

**Limitations and Frontier for Further Studies**

This study examined the impact of tax evasion and tax avoidance on the economic growth and development of Nigeria. It should be noted that there are other variables that are likely to have significant impact on economic growth. Not all the variables were used in the study. The only variables used are GDP, tax evasion and tax avoidance. Therefore, there is need for further research to look into tax administration, tax policy, tax laws one affecting economic growth and development in Nigeria.

**This Work Was Supported By**



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