Factors Influencing Tax Evasion in Gombe State Nigeria

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Abstract

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Tax evasion is a problem inhabiting revenue generation of developing countries over a long period of time. Literature exposes that tax evasion denote some of the difficulties in raising revenue in Nigeria. The consequence of tax evasion is tax revenue loss, which finally may undermine public utilities, capability and proper performance of government functions. This study assessed the factors that influenced tax evasion in Gombe State (a state in Nigeria). The study was conducted through a survey research design. A questionnaire was used to gather primary data from 303 randomly selected public and private sector personal taxpayers in Gombe. The results of the analysis show that tax system, income level and education level have significant positive relationship with tax evasion. On the other hand, tax rate and corruption have positive but insignificant relationship with tax evasion. This study recommends that necessary measures should be taken by the tax authority to improve accountability, transparency and management of revenue collection to reduce tax evasion. It is also proposed that campaign against corruption, public enlightens on tax matters and revision of tax processes should be undertaken.

Keywords: Tax evasion; Gombe State; Nigeria.

1. Introduction

According to Worlu & Emeka (2012), tax revenue utilization is a basis for supporting developmental activities in less developed economies. However, it has been difficult to maximize tax revenue collection due to various forms of tax evasions. According to Eschborn (2010), tax evasion is an issue that is conceivable as longstanding as taxation alike. Tax evasion occurs when people or organizations deliberately fail to abide by their tax responsibility (Simser, 2008).

Irrespective of its values, tax evasion denies every government the tax revenue due to the system, which results in a gap between the potential and actual tax collection (Adebisi & Gbegi, 2013).

According to Murphy (2011), the worth of tax evasion worldwide exceeds US$3.1 trillion or 5.1 percent of global gross domestic product (GDP). In Nigeria, Asada (2010) stresses that tax evasion denotes some of the perplexing problems facing Nigerian economy. According to Bismarck (2013), Nigerian authority had lost N90 billion equivalent to $550 million USD to tax evasion in automobile industry alone in the year 2013. Moreover, Muhammad (2013) asserts that, in a contemporary report by the Nigerian Economic and Financial Crime Commission (EFCC), it shows an estimated figure of $129 billion dollars (N21 trillion Naira) was dishonestly taken out of the country in the last ten years 2003-2013 through tax evasion. Studies on tax evasion have also been conducted in Nigeria (see for example Olatunde, 2007; Temitope et al., 2010; Peter & Efiafoh, 2013; Adebisi et al., 2013; Akinyomi & Okpala, 2013).

This study investigates tax rate, tax system, corruption, education level and income level as factors determining tax evasion in Nigeria. Tax rate, tax system, corruption and education level have been previously tested in other studies but with inconsistent findings. The main different between the current study and prior tax evasion studies in Nigeria is the inclusion of income level as a factor that determines tax evasion, which has never been tested before. In addition, previous tax evasion studies in Nigeria were established in largely populated state with advance sources of revenue generation, development of social amenities and infrastructures (see for example Jayeola, 2010; Fasina & Olowekere, 2013). This study has chosen the taxpayers of Gombe State with a main aim of studying the problem in a smaller populated state in a different region with growing potentials and less developed source of revenue generation. This would provide a state of comparison of the factors influencing tax evasion according to the taxpayers' perceptions.

2. Literature review

Tax evasion is a word used to describe efforts of individuals and corporate entities towards dishonest reduction of tax liabilities. It has been described by Alm & Martinez-Vazquez (2001) as a thoughtful and eagerly practices of not unveiling comprehensive taxable income in order to reimburse lesser tax. Kiabel & Nwokah (2009) suggested that tax evasion is the fraudulent, insincere, intentionally concealment of realities and numbers in order not to pay due taxes.

Tax system is one of the variables used in various studies to test taxpayers' attitude toward tax evasion. It refers to a system that includes tax administration, revenue usage, tax laws, tax policies and collection of taxes in the country (Mughal & Akram, 2012). Mughal & Akram (2012) have found a significant relationship between tax evasion and tax system in Pakistan. In other studies by Lutfi (2009) and Fakile & Uwuigbe (2013), tax system has a negative relationship with tax evasion.

A significant number of researchers have carried out studies on the relationship between tax rate and tax evasion. Their results show that a positive relationship does exist (Bashar et al., 2008; Lutfi, 2009; Aloys, 2010; Jayeole, 2010; James, 2012; Mughal & Akram, 2012; Tijani & Mathias, 2013; Guldana, 2013; Richard, 2013; Maria & Judith, 2013; Friedrich et al., 2013). However, contrary to the above findings, Nhano (2013), Fasina et al. (2013) and Adebisi et al. (2013) found that there is a negative relationship between tax rate and tax evasion. On the other hand, Peter & Efiafoh (2013) concluded that neither negative nor positive relationship exists between tax evasion and tax rate.

Corruption is an act by taxpayer to pay something to somebody in order to relief the taxpayer from taking part in paying taxes or evading taxes. Akinyomi & Okpala (2013) for example, assess the factors influencing tax evasion and avoidance in Nigeria through a survey and found that the level of corruption has a positive relationship with tax evasion. However, Tijani & Mathias (2013) when studying expert viewpoint of tax evasion in Nigeria, concluded that a negative relationship exist between corruption and tax evasion. Therefore, there is a need to study corruption level in relation to tax evasion due to these mixed results.

Income is the primary source by which taxpayer is taxed for the purpose of financing public activities. Some evidence from the literature posits that low-income earners are highly engaged in the attitude of tax evasion (John & Slemrod, 2008). According to Alm & McKee (1992), high-income earners are less evasive. Therefore, the literature shows that there is a negative relationship between income level of taxpayers and tax evasion. Other studies that show the existent of relationship between income level and tax evasion include the work of Nor Ghani et al. (2012), Bashar et al. (2008) and Devos (2006). Nor Aziah et al. (2006), in their study on tax evasion in Yemen, found that income level has a significant relationship with tax evasion. On the other hand, Lutfi (2009) found that income level has no significant relationship with tax evasion. Previous studies on tax evasion conducted in Nigeria (see for example, Adebisi & Gbegi, 2013; Tijani & Mathias, 2013; Ogunmakin, 2013; Peter & Efiafoh, 2013; Fasina, 2013; Akinyomi & Okpala, 2013) have not tested income level in relation to tax evasion.

Researchers have also used educational level as a factor to determine the relationship between tax evasion and the attitude of taxpayers. Peter & Efiafoh (2013) concluded that there is a positive relationship between educational level and tax evasion. Similarly, Fasina et al. (2013) found that knowledge level of the taxpayer is one of the key determinant factors of tax evasion. Studies have also shown that taxpayers with low knowledge level are more likely to evade taxes because of inadequate awareness of the implication of doing so (Devos, 2006; Nor Aziah et al., 2006). Other studies such as Lutfi (2009) and Peter et al. (2013) found negative relationship between tax evasion and education level. On the other hand, Ranjana & Robert (2009) found a non-conclusive relationship between education level and tax evasion.

Due to some inconsistent findings from other studies, this study is going to evaluate the variables that have conflicting findings in relation to tax evasion i.e. tax system, tax rate, corruption, income level and educational level. Hence, this study developed the following hypotheses:

H1: Tax rate has a positive relationship with tax evasion in Gombe State.

H2: Tax system has a negative relationship with tax evasion in Gombe State.

H3: Corruption has a positive relationship with tax evasion in Gombe State.

H4: Income level has a negative relationship with tax evasion in Gombe State.

H5: Education level has a negative relationship with tax evasion in Gombe State.

3. Research methodology

The research adopts a survey research design. The questions in the questionnaire are adopted from James & Moses (2012), Amirah (2011) and Jayeola (2010). Five-point likert-scale questionnaire with Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A) and Strongly Agree (SA) was employed

to collect data from 379 randomly selected public and private sector taxpayers in Gombe State, Nigeria. However, only 303 questionnaire representing 80% of the sample were duly completed, returned and usable. The data collected was analysed using SPSS version 20. Multiple regression models were used to analyse the data generated.

4. Result and discussion

Table 1 reflects the descriptive statistics for this study. The result indicates that tax rate has a mean value of 3.20 and a standard deviation of 1.02, tax system has a mean value of 2.85 and a standard deviation of 0.88, corruption level has a mean value of 3.29 and a standard deviation of 1.03, income level has a mean value of 3.17 and a standard deviation of 1.39 and education level has a mean value of 3.55 and a standard deviation of 0.96.

Table 1. Descriptive statistics

Variables	N	Mean	Standard deviation
Tax rate	303	3.20	1.02
Tax system	303	2.85	0.88
Corruption	303	3.29	1.03
Income level	303	3.17	1.39
Education level	303	3.55	0.96

The regression equation result for this study is shown in Table 2. The result indicates that tax rate, tax system, corruption level, income level and education level have positive relationships with tax evasion. However, the result shows that only tax system, income level and education are significantly related with tax evasion.

Table 2. Analysis of coefficients or weights of the regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.428	.649		2.199	.029
TR	.168	.125	.082	1.348	.179
TS	.306	.114	.171	2.679	.008
CR	.119	.105	.067	1.131	.259
Income level	.146	.080	.111	1.830	.068
Education level	.343	.109	.182	3.147	.002

Based on the result in Table 2, only Hypotheses 1 and 3 are accepted (the predicted directions are proven even though the results are not significant) while Hypotheses 2, 4 and 5 are rejected. Hypotheses 2, 4 and 5 are rejected because the predicted directions of the relationships between tax system, income level and education level with tax evasion could not be supported. It was found that all these three variables have positive relationships with tax evasion, which contradicted the proposed hypotheses.

In the study on Gombe State, it was found that tax system has a positive relationship with tax evasion. This indicates that Nigerian taxpayers consider an effective and efficient tax system is meaningless without the existence of effective and efficient tax administration. Moreover, according to Ariyo (1997) and Abiola & Asiweh (2012), when the tax system lacks effective administration and proper implementation, taxpayers would not be concerned with reporting the true position of their income and tax evasion will increase simultaneously.

The result in this study also shows an opposite finding with the hypothesis proposed i.e. taxpayers with high income are more complying with the tax authorities compared to the taxpayers with low-income earnings who evade more taxes. On the contrary, in Nigeria, high income earners are minimizing their taxes paid through excessive claims of tax liabilities and exemptions (tax reliefs) to avoid paying the tax due. This finding is supported by Ahunwa (2009). In addition, some of the earnings of these taxpayers are gained through misappropriation of income and not abiding with the tax laws (Asada, 2010). High income earners are the more influential people in the society with diverse sources of income which are not disclosed to the tax authority. This allows them to underreport the income tax for assessment purposes (Popoola, 2009).

Studies have shown that an adequate knowledge of taxes leads to a good understanding of tax laws and policies hence facilitates tax compliance and discourages tax evasion (see for example, Devos, 2006; Nor Aziah et al., 2006). This is because the level of education positively affects the attitude and behavior of individuals. However, in this study, the outcome shows a positive and significant relationship between education level and tax evasion. This indicates that the more knowledge the taxpayers possess would intensify their ability to interpret and manipulate the tax law to their own advantages with the aim of reducing the amount of tax liability. This is because people will always try to minimize their cost in order to maximize the benefits through exploiting the environmental and economic factors (Smith & Kinsley, 1987).

5. Conclusion, limitation and future research

This study examined the factors which affect tax evasion in Gombe State. The findings of the study show that: (i) tax rate positively but not significantly influence tax evasion in Gombe state; (ii) tax system positively and significantly influence tax evasion in Gombe State; (iii) corruption positively but not significantly influence tax evasion in Gombe State; (iv) income level positively and significantly influence tax evasion in Gombe State; and (v) education level positively and significantly influence tax evasion in Gombe state.

The findings of this study are highly significant to academic researchers and other parties. For the academic researchers, the findings of the study provide new evidence regarding the factors determining tax evasion particularly the income level which has not been tested before in Nigeria. The result is also useful to tax practitioners and other stakeholders of tax administration.

Several limitations exist in this study. Firstly, the sample of this study only considers public and private sectors employees instead of other group of taxpayers. In addition, this study is limited to Gombe State taxpayers. Therefore, future study should consider a larger sample size consisting of self-

employed and other taxpayers such as pensioners and go beyond one state as the country has six geopolitical regions and at least one state should be chosen from each region.

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