THE EFFECTS OF TAX EVASION AND AVOIDANCE ON THE RE VENUE GENERATION OF STATES IN NIGERIA".

(A case study of Kwara State Internal Revenue Service)

BY

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CERTIFICATION

ABDULGANIY HALIMAT This is to certify that this research work conducted by ABDULGANIY HALIMAT with matric number HND/23/ACC/FT/008 has been read and approved as meeting the requirements of the Department of Accountancy, Institute of Finance and management Studies, Kwara State Polytechnic, Ilorin for the award of Higher National Diploma (HND).

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DEDICATION

This research work is dedicated to Almighty Allah, for making it possible for me from the inception to the completion of this program, the Author and Finisher, the Alpha and Omega, the most merciful.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Tax is a financial issue and its payment is a civil duty. It is the impo sition of a financial burden for the government on individual firm and com panies. In general based, the word tax means any contribution imposed by the government upon individual and companies for the use of govern ment to provide facilities or services as rendered by the state. It is not a v oluntary payment or donation but an enforced contribution made on the pronouncement or directive of legislative authorities.

Osita (2004:1) stated, taxation may be define as the compulsory le ave by the government through it's various agencies in the income, capit al or consumption of it's subject such as salaries, business profits, intere st, dividends, commission regularities, rent etc.

It could be said that there are three main methods of financial eco nomic expedition open to meet developing countries there are:-

a. Loans

b. Grant

c. Tax and Other Current Receipt

Of these sources, tax is perhaps the most important since the level of government expenditure is to a great extent dependent on the ability of the tax system to generate the required revenue at the disposal of the government.

In spite of this benefit from tax most people still indulge in tax evasion and avoidance. Attempt to avoid some portion of liability or not to pay tax will affect the revenue of the government that is the reason why the government frown at the issue of tax evasion and avoidance, and uses it's authorities to enforce compliance.

AROWOMOLE and OLUWALAYODE (2006:39). Define tax avoidance as legal ways by which a tax payer reduces in tax liabilities.

Tax evasion is a deliberate on the part of the tax payers to reduce their tax liabilities through illegal means or an attempt not to pay tax due.

The distinction between this tax avoidance and tax evasion is that tax avoidance is not considered a criminal offence whereas tax evasion is a criminal offence.

According to ANYAELE (1990:225) a tax may be defined as a compulsory contribution imposed by a government authority on goods, individual and co-operate bodies irrespective of the exact amount of services rendered to the tax payer in return and not imposed as a penalty for our legal offence. Both direct and indirect taxes that are collected for the government inform of income tax, exercise duty, import and export duties. Purc hase and sales taxes and so on help the government to generate a lot of revenue for the smooth administration in the nation.

There are two elements in every form of taxation and that is the B ASE AND RATE. The tax base is the object which is taxed or a measure o f the private sector income or wealth that can be taxed, while the tax rat e is the percentage of the measured amount taken off from the tax base. In this case the money realized from it is used to provide social goods an d services, so that everybody both the rich and poor will have equal chan ces of making use of them, that is the goods and services. They include pipe borne water, electricity, good roads, hospital, schools etc. most peop le in Nigeria has the habit of evading or avoiding tax payment i.e. they al ways avoiding paying their taxes. With this state of affairs the various tie r of government in the country don’t usually generate enough revenue w hich will enable them to effectively execute all the development projects which are highlighted in their budgets.

It has to be pointed out that the successive Nigeria governments h ave not made adequate and sincere efforts toward informing the tax dod ger or evader on the need for them to pay the taxes. All attentions have been directed on the revenue from oil sector while taxes and agriculture, which supposed to be generating a lot of revenue to the country, are deli berately over looked.

Also the researcher wants to look into the problems of paying tax b y the public, such problem are as follows

a. Tax evasion and tax avoidance by the public

b. Poor system of tax collection

c. Inability of the government to prosecute tax evaders.

1.2 STATEMENT OF THE PROBLEM

It has been noted that tax system in Nigeria has come to play a sig nificant role, as a major source of revenue to the federal government by way of imposing tax on tax payers and it is for them to pay up the tax.

The act of evading and avoiding tax by most registered companies and some individuals has however affected the revenue base of the gov ernment especially in providing essential services in the society. People n aturally prefer to reduce their tax liabilities by deliberately overstating the ir expenses and make false entries and fictions in their books of account. Thus, their act however, causes tremendous reduction in the revenue acc ruable to the government which eventually shrinks revenue to the treasur e of government.

The inability of the revenue board to collect substantial amount of money from tax is as a result of evasion and avoidance of tax. This resea rch work examines the problems facing the revenue department in collec ting taxes and levies under their jurisdiction with a view to identifying pos sibilities at minimizing or even eradicating tax evasion and avoidance.

1.3 RESEARCH QUESTION

To what extent does tax evasion effect on government revenue generation.

Does tax evasion have any significance effect on government revenue generation

How does perceived corruption affect government on tax evasion.

1.4 OBJECTIVES OF THE STUDY

The objectives of this study is to identify the effect of tax evasion on government revenue generation and suggest ways of establishing mechanism to curb the problem in Oyo state. Other specific objectives include

i. To examine the effects of the evasion on government revenue generation.

ii. To ascertain the effects of perceived corruption in government on tax evasion and avoidance

1.5 RESEARCH HYPOTHESIS

The following hypotheses were formulated in the course of this study.

Hi: Tax evasion and avoidance has no significant effort on government revenue generation.

H2: There is no effect of perceived corruption in government on tax evasi on and avoidance.

1.6 SIGNIFICANT OF THE STUDY

This research work would be relevant to various tax authorities; the Federal Board of Inland Revenue, Local Government revenue committee as well as their tax officials who are responsible to collect tax on individu al or corporate bodies. It gives them insight on how to improve the tax ad ministration.

The research would also help the professional bodies like the chart ered institute of taxation of Nigeria and the Institute of CharteredAccoun tants of Nigeria as well as their members to see the areas of deficiency i n the collections and call for improvement in tax revenue.

This research would also be relevant to the future researchers and the dents of accounting, economic, business administration and other so cial and management sciences as well as the legislations which will also benefit immensely from this research because it will form basis of tax po licy formation, implementation and administration.

1.7 SCOPE OF THE STUDY

Since no single research can validly cover all areas of the topic the researcher tends that thrust of this project will be limited within the scop e of how tax payer’s performance on tax are influenced by the choice of i ts tax system. The study will focus primarily on Kwara State to be precise to enable the researcher carryout on extensive investigation on this subject. The state to be studied is: Kwara State.

1.8 LIMITATION OF THE STUDY

It is not unusual for research to encounter some difficulties in course at their research and these may include.

1. Finance: This is always a major limitation in a study of this nature, since the individual may not have enough money to carryout all the necessary research.
2. Lack of Data: There are areas where data is available butwhich the researcher cannot lay hands on because the relevant information is sometimes termed confidential and unavailable tooutsiders.
3. Lack of Co-operation: By some of the respondents whom he administered certain copies of his questionnaire and vocal interview.
4. Delay in giving back its copies of the questionnaires for some of the respondents.

1.9 DEFINITION OF TERMS

In order to aid understanding of this research work by the user, special term used in this study are defined, TAX: This is a compulsory contribution imposed by government on individual and corporate bodies for the use of government to provide facilities or service in the nation.

TAX EVASION: This is the attitude adopted by tax payers to deliberately misrepresent the true state of their affairs to the tax authorities or include dishonest tax report such as declaring less income, profit or gains to escape tax liability wholly or partially by breaking the law.

TAX AVOIDANCE: This is a legal way by which a tax payer reduces his tax liabilities.

TAX LIABILITY: This is the amount that is borne by the tax payer.

PAYE (PAY AS YOU EARN): This type of tax is based as the earning of the tax payer.

CAPITAL GAIN TAX: This is the type of tax that is based on the gain realized from the sale of capital goods.

CORPORATE TAX: This is the type of tax that is based on the profit a company.

CASINO REVENUE: This is the amount of the levy paid by people who operate at public being rent to gambler or for other amusements.

TAX LAWS: These are acts decree or regulations guiding the assessment and collection of taxes in the country.

STATE INLAND REVENUE: The body responsible for the collection of tax at state level.

FEDERAL INLAND REVENUE: The body responsible for the collection of tax at federal level.

REVENUE: Amount of money realized by an individual or group or company.

PERSONAL INCOME TAX DECREE 1993: The law guiding the assessment and collection of personal income tax.

COMPANY INCOME TAX ACT 1990:The law regulating the assessment and collection of tax of corporate bodies.

CHAPTER TWO

LITERATUREREVIEW

2.1 PREAMBLE

In every government set-up, there is an expectation that citizens ar e to contribute part of their earning as tax to the development of nation. The value collected is to be utilized and managed well. The board of Inla nd Revenue in mandated to come-up with the estimate and ensure that t arget has been achieved. Managing the tax will in term play a great role t owards economic growth of any nation. This is because, tax is part of the nation's source of income and it's from this revenue that the government uses in providing goods and services. Therefore, if tax is well managed, it will impact on nation's development. Tax management in this context ref ers to the way and manner upon which the board inland revenue is able t o raise the expected amount of revenue and managed it to the extent that at the end it will be impacted on the economy of the nation (Ibrahim, 2011).

2.2 CONCEPTUAL FRAMEWORK

Edwin, (2007) defined tax evasion as an intentional effort by people, corporate bodies, trust and other institutions to illicitly refuse to pay their tax and reporting true and fair value of their earning by a means of evading. Tax evasion is characterized as an intentional wrongful attitude, or as a behavior involving a direct violation of tax laws, norms and ethics regarding citizenry obligation to escape the payment of tax. The intentional under reporting of income, as well as over claiming of a tax deduction, is an obvious example of tax evasion (Adebisi & Gbegi, 2013).

Tax avoidance arises in a situation where the tax payer arranges his financial affairs in a way that would make him pay the least possible amount of tax without infringing the legal rules, in short it's a term used to denote those various devices which have been adopted with the aim of saving tax and thus sheltering the tax payer's income from greater liability which would have been otherwise incurred (Kiabel, 2001).

Ani (1983) had described tax avoidance as follows:

The tax payers knowing what the law is decide not to be caught by it arranges his business in such a manner as to escape tax liability partial ly or entirely. It is a lawful trick or manipulation to evade the payment of tax. The meaning of tax avoidance is vividly captured in the case involving the Federal Inland Revenue Services.

Tax avoidance is this considered to be a matter of being sensible, while the law regards tax avoidance as a legitimate game tax evasion is seen as immoral and illegal. Tax evasion is an outright, dishonest action whereby the tax payer endeavours to reduce his tax liability through the use of illegal means.

Taxation has been given various definitions by different author's some of these definitions are as follows.

OKEKE (1994:254) Defines tax as a payment compulsorily made to individuals, companies, cooperate bodies by the government or governmental agency for the public use.

STEIN (1991:14) defines tax as a means by which the government raises revenue to meet its expenditure. It may also be used as a means of influencing or controlling the economy.

OSITA (2004:1) defines tax as the compulsory levy by government through the various agencies in the income, capital consumption of its subjects.

ONAOLAPO (1988:3) defines taxation generally as hew process or machinery by which communication or group of persons are made to con tributes part of their income in some agreed quantum or method for the purpose of the administration and development at the society as a whol e.

AGYEI (1983:2) defines taxation as transfer of resource from the pr ivate sector in order to accomplish some of the nations economics and s ocial goal.

2.1.1 PRINCIPLES OF TAXATION

These are guiding principles of governing the various tax systems we have today and even in the past.

According to ADAMS SMITH (1996:87), there are major principles o f taxation among these principles of taxation are the following:

1. **EQUALITY OF PAYMENT:-**This principles state that incomeearned the same level and with the same responsibility should pay the same a mount of money in tax. This also means that people should pay ta x according to their ability of pay (PAYE) pay as you earn.

2. **CERTAINTY:** This principle holds that the amount of tax to be paidby one tax payer should be made known to him or her and how it is worked out should be clearly explained to him or her.

3. **CONVENIENCE:** This means that tax payment should bearranged so as to be convenient to the tax payers.

4. **ECONOMY:** The tax system should be arranged to make itpossible to send little amount of money in tax collection. Any system, where by a proportion of the tax money is spent on its collection, is not a good tax system that is to say that the tax authorities should be efficient in their collection of taxes.

5. **SIMPLICITY:** The tax system or principle should be simple enoughfor everybody especially the payer to understand.

6. **FLEXIBILITY:**A good tax system must be easily changed. Thesetax system concerned must be capable of being easily or conveniently adjusted as occasion warrants.

7. **IMPARTIALITY:**In this case, there shall not be any partiality in taxassessment. This means that tax officials should not discriminate against tax payer while assessing them for tax payment.

8. **PRODUCTIVITY:**In tax principle the amount realized from taxshould be sufficient to cover some government expenses. According to AND

Y (2001:199), this is otherwise referred or known as the principle of fiscal adequacy.

In his own contribution in the subject under consideration, FALDDU META (1877:212-213) agrees with the above principle of equality, there a re two nations of equality. These are horizontal equity (i.e.) equal treatm ent for equal and vertical equality, which is the poor and rich. In the autho rs view, the principle of equality often envisages a transfer of income fro m the very rich to the poor. Progressive income tax is devised to achieve such redistribution. It takes a greater proportion of income from the rich t han from the poor. The principle of equality or ability to pay reflects a con cern fro the poor members of the society.

9. **NEUTRALITY:** In the case of neutrality, a particular tax system sho uld not interfere with the demand and supply of goods and service s. This implies that the system involved does not have to be in suc h a way as to hinders consumers and producers from demanding a nd supplying various goods and services, also it should not discour age the payers from working, investing and of cause saving.

2.1.2 TYPES OF TAX

Tax according to AGYEI (1983:3) and OKEKE (1994:259) is generally grouped into DIRECT AND INDIRECT TAX. Tax is also classified as propor tion, progression and regressive tax.

He (AGYEI) went further to define DIRECT TAX as those taxes levied on factor of production, in world this consist of the following.

a) Personal income tax

b) Companies income tax

c) Petroleum profit tax

d) Capital gain tax

e) Capital transfer tax

f) General property tax

g) Expenditure tax

h) Stamp duties

i) Poll tax

j) Gift tax

k) Estate duties and inheritance/death duties

l) Capitation tax

Some of these taxes are not levied in Nigeria and Africa as a whole, the ones levied in Nigeria include.

a) Personal income tax (payee)

b) Companies income tax

c) Capital gains tax

d) Capital transfer tax

e) Sales tax and petroleum

f) Profit tax and so on

He also mentioned that INDIRECT TAX are those tax levied against goods and services, example of these in Nigeria include the followings.

a) Sales tax

b) Import duties

c) Export duties

d) Excise duties

e) Purchase tax

f) Value added tax (VAT)

2.1.3 TAX ADMINSTRATION

According to AUYAFO (1996:122) taxation is administrated as belo w:

1. AT THE FEDERAL LEVEL: The federal boards of Inland Revenue are in

charge of Companies Income Tax and Petroleum Profit Tax and the federal board of customs and excise in the case of import, export and excise duties.

2. AT THE STATE LEVEL: It is administered by the state tax board in respect of personal income tax (PIT), capital gain tax resident, casino, vehicle and drivers incense, sales tax, capital, transfer tax etc.

3. AT THE LOCAL LEVEL: It administered the flat income (Poll tax) cattle tax, community tax, property tax etc.

FUNCTIONS OF TAXATION

The three (3) main function of taxation were explained by SIUS (1972:522 -523) as:

a. **REVENUE:-** A tax extracts money from people or organizations and provides revenue for government. This makes it possible for individuals to have less money for spending while the government has more to spend. The reduction in the spending potential of the public sector and the corresponding increase in the potential of the public sector are clearly by power of taxation hence tax was solely introduced to help the government out of financial needs rather than from a public objective of reducing the citizen's spending power.

b. **RESOURCE RE-ALLOCATION:-** Tax can alter the product mix gener ated within the private sector. The imposition of taxes may make certain commodities expensive. Example includes TOBACCO, LIQUOR etc. whereas the use of subsidies or negative tax could make certain c ommodities of essential nature less expensive. As a result of this, people will tend to use more of the later group and less of the farm er. The tax includes charge in the product mix which comes about t hrough the effects of taxes on prices and qualities produced. Also, the potential income tax purposely leaves some gains subject to lit tle or no tax and thereby encouraging source activities.

c. **INCOME REDISTRIBUTION:** Economic power as measure by income or wealth could be redistributed through the use of taxation. When ta x is substantially progressive, it takes an increasing proportion of in come.

2.1.4 EFFECTS OF TAXATION

The effect of taxation is conceived to cover all the changes in the e conomy resulting from the imposition of tax. Generally, the presence of t ax distorts the patterns of production, consumption, investment and emp loyment thus giving validity to what HARPER (1963:213) calls the concep ts of “general fiscal rationality”.

Taxation has effects on the following

a. **INCENTIVE TO INVEST:-**Heavy taxes may reduce the preventive to inv est especially if the tax heavily on savings and profits. All the discri mination features of the companies income tax stems from the fac t that company's net income is the base. By definition of tax, all uni ncorporated activities are exempted and even within the corporate sector of the economy. The tax falls more heavily on activities with low rations of debt and it is a deductible expense. The consequenc e of this discrimination is the distortion of the economic structure f avoring non-corporate sector, there is distortion favoring those acti vities which can readily be financed in large measure by dealt capit al over those that cannot. However, the Nigerian companies incom e tax attempts to attract investment in certain preferred sectors by giving tax incentive to firms engaged in such activities.

b. **INFLATION &TAXATION:**- taxation as a fiscal tool available to the gove rnment can be used to fight inflation, deflation, stage-flation and ot her undesirable trends. For example, an increase in the rate of both companies and personal income taxes during inflationary period ca n reduce expenditure from the private sector thereby reducing pres sure on the market and curtailing inflation. The chief of inflation on taxation as noted by EREASER (1980:116) is to change and often in crease its filed in money terms without the need to adjust tax.

c. **INCENTIVES WORK:**- Heavy direct tax may reduce incentive to work if the amount paid too much, the tax payer quite the job or at least w ork less. A highly progressive and steep tax structure may serve as demonization from working harder once it has reached a certain in come level because and additional increase income after that level will more proportionality increase tax of the individuals.

d. **IT REDUCES PRODUCTION:** if exercise duties are high, production will be adversely affected.

e. **IT WILL ALTER DEMAND SUPPLY:**- When few goods are produced and their prices high as a result of indirect taxes demand and supply wil l be low.

f. **CAUSES SCARCITY OF GOODS:**- Taxation reduces the quality of goods produced locally an imported thereby causing scarcity of goods.

2.1.5 TAX AVOIDANCE AND EVASION

No tax contains to accept standard at equity if it cannot be adminis trated with a high degree of effectiveness. If persons are able to escape by legal or illegal means the tax to which they should locally be subjected to under the general scope of the tax, the theoretical equity of the tax to a large measure is lost.

TAX AVOIDANCE: Means legally reducing one's tax liability and it's another term for tax planning. Tax planning describes the techniques whi ch tax payer minimizes or escape tax liability. The tax payer seeks to tak e full advantage of all exemptions, deduction, concessions, rebates, allo wances, and other tax relies or benefits permitted by law.

According to ANYAFA (1996:138), tax avoidance is an attempt to e scape the liability by circumventing the law, not by breaking it.

Professor wheat craft says, in the attitude of the legislature and th e court to tax avoidance, that tax avoidance is the act of winning games without actually cheating, thereby beating the internal revenue and the g overnment to their own game.

According to ARONONDOLE (2006:39) defined tax avoidance is a le gal ways by which a tax payer reduces his tax liabilities.

TAX EVASION

According to ANYAFA (1996:138) tax evasion is an attempt to esca pe tax (wholly or particular) by breaking the law. It is essentially, a crimin al act since it is achieved principally by making false declaration such as under reporting income or over reporting relief and allowances.

The Red Cliff commission defined tax evasion as a situation which donates all those activities which are responsible for a person not paying the tax that are existing change on his income.

ASPREY COMMITTEE stated that the phrase “tax evasion” describe d an act in contravention at the law whereby a person who derives a taxa ble income either pay no tax or pay less tax then he should otherwise be bound to pay tax evasion include the failure to disclose in a return the tru e amount of income derived.

The definition offered by the Canadian Department at National rev enue as quite comprehensive and at immense assistance in the quest fo r an acceptable definition. They stated that: “tax evasion is the commissi on or omission at an act knowingly with internet at decisive, so that the r eported by the tax payer is less than the tax parable under the law, or a c onspiracy to commit such an offence. This may be accompanied by delib erates misrepresentation, concealment or with holding of material fact.

In determining the question, what is TAX EVASION?

LORD HOB HOUSE pointed out in SIMMS vs. REGISTRAL OF PROB ATES that:

It does not appear to their lordship that an examination of the deci sion in which the word “EVADA” has been the subject of comment lead to any tangible result. Everybody agrees that the word is capable of begin u sed in two sense, one which suggests understand are dealing, and the ot her which mean nothing more than the institutional avoidance of someth ing disagreeable. (Seminar by the Chattered Institute of Taxation at Nigeria and joint it on board on tax evasion and tax avoidance 2001:4).

Tax evasion was also considered in the case of BULLETIN VS WIN SCOSN BY JUSTICE OLIVER WENDELL Holmes where he said: We do not speak of evasion because when the law draws a line the cause is on it, or the other hand if no the safe side, it is more than the worse legally that a party has availed himself to the full, of what the law permits lather on act is condemned as an evasion what is meant is that it is on the wrong side of the line indicated by the policy, it is not by mere letter of the law.

CAUSES OF TAX AVOIDANCE AND EVASION

The practices of tax evasion and tax avoidance is not pearl or new in Nigeria. It is a phenomenon found everywhere. Nationally man is always pleased to receive but always unwilled to give. Therefore, tax payer will do everything within their tax liability (Liman 2003).

The reasons or causes of tax evasion and tax avoidance are numerous but some relevant one for Nigeria are:

1. **TAX RATE:** Even though the rates in Nigeria are net highcompared to other countries, tax payers will still complain of high rate of taxes, these liabilities. Ayodele (Op cit).

2. **GREED AND SELFISHNESS:** On the part of some tax payerseven thoug

h many Nigeria tax payer live from hand to mouth, there are these that by an international standard they are rich. Those people who are rich in order to make themselves richer and to ensure that the wide gap between them and the poor is not only maintained but further widened, so that they will continue to control and manipulate the masses through the power of money.

3. **LOOPHOLES IN TAX LAW:-** This also encourage the practiceof tax avoidance (i.e.) tax payers take the advantage of the loop holes in the tax laws to minimize their tax liabilities in the belief that it is a law act.

4. **LACK OF QUALIFIED PERSONAL:-**According to RABIU (1984)and (2003) rising of correct assessment and prompt collection of tax largely depends on quality and efficiency of the staff of the revenue departments. In most revenue department qualified and competent staff are inadequate tax payers, who do not want to pay their taxes will be happy to see a revenue officer who cannot raise connect assessment.

5. **NO PUNISHMENT FOR EVADERS:-**Though tax evasion is said to be acriminal act, evades are supposed to be punished when caught but it has not been the practice in Nigeria. This situation does not only make taxevades to continue in the act but also encourage other tax player to emulate themselves (ADENALE, 1999).

EFFECT OF TAX EVASION AND TAX AVOIDANCE ON THE ECONOMY OF KWARA STATE

It has been pointed out earlier that taxation is the most important of all sources of revenue to any state like Kwara State and to its economical development. Annual expenditure budgets are based largely as the projected tax revenue of the state. Where tax evasion and avoidance are the order of the day relevant tax authorities finds it difficult to meet their target collection resulting in less revenue to the state and details and this has serious effect on the state's economy.

There are two effects of tax evasion and avoidance identified in Kwara state, and they are as follows.

1. **INADEQUATE SUPPLY OF BASIC SERVICE:-** The Kwara state government finds it difficult to execute its socio-economic programme like the provision of social amenities such as portable water supply, electricity security (etc) for the general well being of the people.

2. **DECREASE IN REVENUE:** This is drastic decrease in the amount of

money that would have been realized by the government of Kwara state as revenue through taxation. The revenue loss owing to evasion and tax avoidance it's enormous although it cannot be accurately estimated.

METHOD OF TAX AVOIDANCE AND EVASION

Whilst it is not possible to provide an exhaustive list of the various methods adopted to evade tax, apparently because new one's come into pay now and then, there are some common forms of tax evasion and avoidance and they are as follows:

1. Failure to furnish a return, statement or information or to keep records required.

2. Making an incorrect return, omitting or underwriting any income to tax.

3. Giving away incorrect information in relation its matters or affecting the liability to tax a taxable person.

4. Refusing or neglecting to pay tax. Although there are statutory provision in the personal income tax Act 1993 and the companies income act 1990 to check the above abuses and fraudulent practices, the reality is that they are implemented half heartedly.

The general principle is that to prevent tax evasion. It is necessary that each tax payers tax is property assessed and paid. This cannot be d one merely by imposing penalties against those who failed to pay their ta xes but also by introducing measure which make it possible for tax autho rities.

DIFFERENCES BETWEEN TAX EVASION AND TAX AVOIDANCE

S/N	TAX EVASION	TAX AVOIDANCE
i.	Criminal act	Not criminal act
ii.	Tax evaders may be liable to fine s and penalties and at time impri sonment in addition to the payme nt of the tax lost through the tax payment act.	Tax avoiders cannot be liable t o fine either penalties or impris onment since no offence has b een committed
iii.	Form of anti-tax evasion tool is ba ck duty	Back duty cases do not arise w ith tax avoidance
iv.	Tax payer may not show up to ta x authorities and therefore may n ot be subjected to any assessme	Tax payer will show up and pre sent all necessary paper to the revenue authorities and subse

	nt.	quent assessment will be settl ed.

2.2 THEORETICAL FRAMEWORK

Theory of social influence as propounded by GALDINI is a psycholo gical theory but will, however be used as a framework for this study. The theory of social influence as accessed from changing mind explains thus in 1984.

GALDINI (2009) published influence, where he discussed on topic like; re ciprocity social proof, liking, authority and scarcity.

Reciprocity: it is a belief that when you give you expect in return. It's natu ral that when taxes are paid government should put the funds to judiciou s use. Consistency and commitment; this is an idea where government made promises to provide amenities, when this is done the tax payers ar e inclined to pay their taxes. Social proof; this shows lack of policy imple mentation where people evade tax and are not punished, copy and the c ycle continue liking; when the citizens see good governance they fell like d and are obliged to do their civic duties.

Authority: when a citizen knows that by not paying his tax, there is consequences for not paying he has no option that to pay. Scarcity: if gov ernment knows without acting in order to generate money through tax to day, then the inevitable will happen, that is lack of money to run the stat e.

Several economic theories have been proposed to run an eff ective tax system according to its importance. Taxes are generally classi fied under different theories as given: ability to pay

theory, benefit received theory, socio political theory and equal distributio n principle as well

as economic of crime model.

2.2.1 ABILITY-TO-PAY THEORY

As the name suggests, it says that, the taxation should be levied a ccording to an individual's ability to pay. It also says that, public expendit ure should come from "him that hath" instead of "him that hath not". This principle is indeed the basis of 'progressive tax,' as the tax rate increases by the increase of the taxable amount and most equitable tax system, an d has been widely used in industrialized economics. The usual and most supported justification of ability to pay is on grounds of sacrifice. The pay ment of taxes is viewed as a deprivation to the taxpayer because he surr endered money to the government which he would have used for his ow n personal use. However, there is no solid approach for the measuremen t of the equity of sacrifice in this theory, as it can be measured in absolut e, proportional or marginal terms. Thus, equal sacrifice can be measured as: (i) Each taxpayer surrenders the sane absolute degree of utility that she/he obtains from her/his income; (ii) Each sacrifice the same proportion of utility she/he obtains from her/his income; (iii) Each gives up the same utility for the last unit of income; respectively.

2.2.2 BENEFITS-RECEIVED THEORY

This assumes an exchange or contractual relationship between the state and the tax-payers. Certain goods and services are provided by the state and the cost of such goods and services are contributed in the proportion of the received benefits, thus, the benefits received present the basis for distributing the tax burden in specific manner. This theory overlooks the possible use of tax policy for bringing about economic growth or stabilization. Chigbu, Akujuobi & Appah (2012) see the cost of service theory as very similar to the benefits-received theory. The theory emphasis on semi commercial relationship between the state and the citizens to a greater extents. The implication according to Chigbu, *et.al*, (2012) was that the citizens are not entitled to any benefits from the state and if they do receive any, they must pay the cost thereof. In this theory, costs of services are scrupulously recovered unlike the benefits-received theory where a balanced budget is implied.

2.2.3 SOCIO POLITICAL THEORY OF TAXATION

Ogbonna and Appah (2012) affirmed this reasoning justifies the imposition of taxes for financing state activities and for the provision of a basis for apportioning the tax burden between members of the society. They see the theory that advocates for a tax system which is not designed to serve individuals but one that cures the ills of the society as a whole. The society is made up of individuals but is more than the sum total of its individual members; consequently, the tax system should be directed towards the health of the society as a whole, since individuals are integral part of the broader society (Chigbu, *et.al*, 2012)

2.2.4 THE ECONOMICS OF CRIME MODEL

The basic theory used in nearly all compliance research builds on "the economics of crime model" was first applied to tax compliance by (Allingham and Sandmo, 1972) cited in Macharia (2014).Nehemiah (1997) stressed that, a rational individual maximises the expected utility of the tax evasion gamble, balancing the benefits of successful cheating against the risky prospect of detection and punishment. This approach concludes that compliance depends purely on audit verifications and the severity of penalties handed out to culprits. The model gives a sensible result that, compliance depends on enforcement and it is straightforward to show with comparative analysis that declared income increases with an increase either in the probability of detection, penalty rate and frequency of audit and verification. However, it is clear to any observer that compliance can not be explained entirely by such purely financial considerations especiall y those generated by the level of enforcement considerations.

2.3 EMPIRICAL REVIEW

Tax evasion can be drawn back to the pioneer's study of Allinghan and Sandmo (1972) in his work printed as income tax evasion, the study observed a positive connection between tax rates and evasion. The findi ng is additionally consistent with the discoveries of Soyode (2006) which distinguished causes of tax evasion. Firstly, he noted that the rates at wh ich tax payers are generally taxed effects on tax evasion. He observed th at the higher the rate, the higher will be the probability for the tax payer t o evade, as this expands their tax load and subsequently brings down th eir disposable income besides the likelihood of being detected in the wak e dodging taxes likewise has impacts on the choice of a taxpayer as whe ther to evade or not.

This is straight forwardly connected to the level of how strict tax laws ar e generally implemented (Allinghan & Sandmo, 1972, Soyode, 2006). Lite rature likewise gives a connection between tax evasion and different.

Acconnia et. al. (2003) exceptional that the level of debasement and tax evasion relies on upon such components as the wealth of the tax payer a nd the pay of the tax officers. Morale (1998) further takes a shot at a model, which attempted to distinguish the level pay at which tax officer sought to be compensated. The argue that government confront the difficulty of distinguishing, a pay level which will guarantee that its tax officers are not tempted to pay off, as there is a connection between tax evasion and the pay level of tax officer, though defilement (Acconnia et.al., 2003; Morale, 1998).

According to Pashev, (2005), the disappointment of the government to give fundamental bases which should be subsidized by the taxes being gathered may disturb tax evasion. Absence of straight forwardness and responsibility in the utilization of open trust has the impact of building open doubt both in the tax framework and additionally the government. Thus, this is accepted to expand the level of tax evasion (Pashev, 2005). Some of the studies Armstrong & Robinson (1998), Divia (1998), McGee (2006) and Smartrakaleu (1998) have taken diverse opinions on tax evasion. All these studies have one or more opinion depicted in their studies. These opinions incorporate philosophical opinion, expert's opinion and religions opinions joined together.

In the investigation of Morale (1998), tax evasion was examined from a philosophical perspective by social affair proof from Mexican specialists it is study inferred that Mexican specialists have a mere vital obligation to their family than to the state. This perspective is also accepted to have a religions underlining as it has a holding on for the catholic religious literature as recognized by Crowe in 1994 (Armstrong & Robinson, 1998; Olivia, 1998; McGee, 2006; Smartrakaleu, 1998, McGree & A., 2006; Crowe, 1994).

Few empirical studies have been conducted on the impact of government. Ehule, (2015) studied the relationship between internally generated revenue and performance of a public sector. Data were collected using questionnaire with a five point like response scale from 125 staff of Obial Akpor local government council drawn from a random sample the person product moment was used to determine the nature of relationship. The results show that permits and rates have a positive significant relationship with performance of ObiolAkpor local government council. Edogbonya et. al. (2013) studied the impact of revenue generation on government development efforts.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

It is not out of place that an action pre-supposed planning. Hence, this chapter focuses on planning with respect to method and techniques employed in carryout this study.

Research methodology embrace at the process involved in obtaining and analyzing observation or information relevant to the study. In fact for any star to be reliable and veritable, it must be backed up with data systematically to the end. This chapter sets out to explain the method and rules observed in carrying out the study.

3.1 RESEARCH DESIGN

Research design answers the fundamental question of how the study objects will be brought into the scope of the research design are the case study and the survey methods. This study will use study method to investigate the impact of tax avoidance and evasion to the economic development of a nation, Kwara state as the case study.

It describes the instrument used in determining information from the responders, the procedure for collecting it. It involves a method of data analysis, collection method and formula. For the purpose of this research exercise, a case study approach is adopted being descriptive and evaluated in nature. The research design comprises a combination of oral interview existing data and structural questionnaire.

3.2 SOURCE OF DATA

The Primary Method: Of data collection was used for this study, this was obtained through the use of the questionnaire (a) asking people and putting their responding down.

The Secondary Method;- Was also obtain through the review of rel evant literature (a) textbook, journals, articles in newspapers, governmen t gazettes, magazines, lectures notes and information from libraries and also the tax returns at the tax authorities.

3.3 POPULATION OF THE STUDY

The population suppose to be made up of the entire taxation indivi duals and organization in Kwara state and since everyone cannot be easi ly reached the researcher personally served the questionnaire by hand a nd collected them back through the same means and the total member of questionnaire administrated were 90 (55 for the tax authorities and 45 to tax payers).

The 55 questionnaires where able by the researcher to send were (30 for the tax authorities and 25 to the tax payers), but 55 which represe nt 61.1% of the 90 questionnaire administered were collected and analyz ed.

X = means of population

S^2 = variance of population

N = total population

3.4 SAMPLE SIZE AND TECHNIQUES

A sample size is a part of a population and the techniques for selec ting these samples referred to as sampling procedures in determining the judgmental samples techniques, the researcher adopted Taro Yamani's formula.

$$n = \frac{N}{1 + N(e)^2}$$

Where n= sample size n= population size

e= level of significance (acceptable error/limit 5%)

1= constant

$$n = \frac{90}{1 + 90\ (0.05)^2}$$

$$n = \frac{90}{1 + 90\ (0.0025)}$$

$$n = \frac{90}{1 + 90\ (0.225)}$$

$$n = \frac{90}{1.225}$$

$n = 73.47 \simeq n = 73.$

The simple random sampling allows for generalization to take place. The researcher used Bowley's proportional formula in allocating questionnaires to the respondents.

$$nh = \frac{n}{N} \times Nh$$

Where;

nh = Number of questionnaire allocated to each respondent.

n = total sample size

Nh =number of employees in each unit of the firm. N=population size.

3.5 RESEARECH INSTRUMENT

Questionnaire is administered to gather information needed for thi s study. This is designed and given to the staff of the Federal Inland Reve nue Service, Ilorin. In order to enhance high response rate, the entire que stionnaire is administered by hand.

3.6 METHOD OF DATA ANALYSIS

The sample percentages were used for the analysis of the informa tion get through the primary sources, mainly the questionnaire; the data generated were converted into percentages.

This enables the research to know the percentage number of resp onder gave particular responses to each of the question in the numbers. The various responses, frequency of response and their percentage were triturated. This help in sampling the analysis, so that the first glance will be easily understand the information being conveyed.

3.7 MODEL SPECIFICATION

Budget implementation is captured by the actual revenue generated by the states under investigation while tax avoidance incidence is provided by the difference between the actual revenue generated and the expected or estimated revenue to be generated from VAT, PAYE, CAPITAL GAIN TAX AND WITHHOLDING TAX.

However, the data gathered will be modeled using panel regression. The adopted model is specified as follows:

$B_I M_{it}$ = a + $B_{it} VAT_{it}$+BitPAYEit +Bit (GTit + Bit WITit + A_1+βi+Ci)

Bimit Government budget implementation and expected developed of the state or economy.

VATH = Tax Avoidance/Evasion Incidence through Value Added Tax

PAYE = Avoidance through Non-remittance of pay as you earn.

CGT = Avoidance through Capital Gain Tax

WIT = Avoidance through withholding tax

Parameter (a) represents the overall constant in the model, while Ai and Bi represent cross-section or period specific effects (random or fixed).

S = No of entities

Y = No. of time period (years).

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 INTRODUCTION

In this chapter the research presented the result of the analysis of the data collect from various respondent through the questionnaire distri buted to them, the data was analyze with the use of the simple percenta ge technique.

4.2 DEMOGRAPHIC CHARACTERISTICS RESPONDENTS

TABLE 1: AGE DISTRIBUTION

AGE	FREQUENCY	PERCENTAGE %
21years – below	20	36