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An Empirical Review of the Determinants of Tax Evasion in Nigeria: Emphasis on the Informal Sector Operators in Port Harcourt Metropolis.

Nangih, Efeeloo (ACA, ACTI, ACFIA)
Department of Accountancy,
Kensarowiwa Polytechnic,
Bori.
nangihlah@yahoo.co.uk

Nkemakola Dick
Post Graduate Student,
Department of Accountancy
Rivers State University,
Port Harcourt.
makoladick@yahoo.com

Abstract
This paper took a cursory look at the factors influencing tax evasion in Nigeria's informal sector. It empirically studied the influence of sex, income level and tax morale on tax evasion in the informal sector. Data were obtained by means of questionnaire. Analyses were performed using descriptive statistics, Ordinary Least Squares, and regression statistical tools. Estimated coefficients of sex and tax morale indicate positive relationships between the dependent variable (tax evasion) and the independent variables (of sex and tax morale). The results were 0.78 and 0.77 for sex and tax morale respectively. While the coefficient of income indicates a negative relationship (of -0.76). All the results were at 0.05 level of significance. The study therefore concludes that sex, and tax morale affects tax evasion positively, while income influences tax evasion negatively among informal sector operators in Nigeria. It therefore recommends regular enlightenment campaigns by revenue authorities to preach against the problem of tax evasion and the dangers it poses to economy. It further suggests a reduction in the level of multiplicity in taxes currently prevalent among informal sector operators, to ensure voluntary compliance.

Keywords: *Tax evasion, Informal sector, Sex, Income level, Tax morale.*

1.0 Introduction

Tax evasion has attracted renewed international interest by nations globally, Nigeria inclusive. The concept has been extensively acknowledged by prior studies (Richardson & Sawyer, 2001), and therefore has quite a good literature. The problem of tax evasion is a major concern for developing countries like Nigeria; as economic development can be significantly hampered by poor tax revenues because of the problem of tax evasion (Picur & Beikaoui 2006). Accordingly, it is necessary for policy makers to identify the factors that influence tax evasion, in order to undertake reforms and minimize it negative impacts on the economy and the nation at large (Kwlef & Achek, 2015).

Jackson & million (1986) provided the first detailed review of the determinants of tax evasion by identifying fourteen keys variables which include: age, gender, education, income level, income source, marginal tax rates, fairness, complexity, revenue authority-initiated contact, tax morale, occupation, status, situations and probability of detection, compliant peers, and ethnics. These determinants were grouped in: demographic determinants, economic determinants and behavioral determinants. This paper therefore considers the impacts or influence of gender (a proxy of demographic determinant of tax evasion), income level (an economic determinant) and tax morale (a proxy of behavioural determinant) on tax evasion; particularly in Nigeria's Informal Sector.

Gender of the tax payer has been revealed to be significant in previous studies by Vogel (2004) and Mason & Calvin (2008). Those two studies showed that the levels of compliance of female tax payers are normally higher than the male tax payers. Jackson & Milliron (1986), on their part, established that the compliance gap between the female and male tax payers is reducing overtime; as a result of a new generation of freed women emerge globally. Nevertheless, other studies show that the compliance gap between the male and female tax payers has been maintained. These were encapsulated in the works of Brooks & Doob (1990) and Collins, et al (1992).

Income level represents another key factor. Here, income level typically denotes the adjusted gross income or total positive income of a tax payer (Jackson & Milliron 1986). Mason &Lowry (1981) and Witte & Bury (1983) concluded that middle income taxpayers are generally compliant with tax laws, while low income level tax payers and high-income taxpayers are relatively non – compliant with tax laws.

Tax morale, a behavioural determinant of tax evasion among tax papers, is described as a 'cloudy concept' (Jackson & Milliron 1986). The concept explains the moral principles or values individual hold about paying taxes (Torgler & Murphy, 2004). Torgler (2003a) finds that tax morale and tax evasion are negatively connected. Accordingly, Riahi & Beikaoiu (2004) finds empirical evidence which shows that tax evasion, across countries, is negatively related to tax morale.

This research aims are expatiating on the works of Riahi & Beikaoiu (2004). It focuses on identifying what determines tax evasion and therefore seeks to answer the following questions:

1. To what extent does the sex of taxpayers' influence tax evasion in Nigeria's informal sector?
2. To what extent does the level of income affect tax evasion in Nigeria's informal sector?
3. To what extent does tax morale lead to tax evasion in Nigeria's informal sector?

The awareness of these questions will help the government (Federal, State and Local government) and their agencies to formulate adequate tax policies with respect to tax revenue administration. They will also provide researchers, further literature on the concept of Tax evasion, particularly among Informal sector operators.

1.1 Limitation of the Study

As stated earlier, Jackson & million (1986) identified the possible determinants of tax evasion (a total of fourteen in number) to include: age, gender, education, income level, income source, marginal tax rates, fairness, complexity, revenue authority-initiated contact, tax morale, occupation, status, situations and probability of detection, compliant peers, and ethnics. These determinants were grouped in: demographic determinants, economic determinants, and behavioral determinants.

This study examined one in each broad group namely; demographic determinants (sex), economic determinants (income level) and behavioural determinants (tax morale). The major limitation here is that the rest eleven or more determinants were excluded from our study. This forms our point of departure; and may be explored by other researchers.

2.0 Literature Review

2.1 Theoretical Framework

Three theories backing the study were discussed below:

2.1.1 Benefit Theory: This theory emphasizes that the government or tax authorities should levy taxes on individuals according to the benefit conferred on them. It stresses that the more benefits a person derives from the government, the more he should pay tax to the state. Despite its on fairness and equity, this theory has been severely criticized by many authors for the following reasons: Firstly**,** there can't be a direct connection between amount of tax paid and the benefits derived, as this negate the basic principle of the tax. A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct quid *pro quo* in the case of a tax. Secondly**,** it is impracticable to estimate the benefit enjoyed by a particular individual every year from the state, as state expenditures are usually for the generality of the citizens.

2.1.2 Theory of Ability to Pay: As clearly the name advocates, it means that the taxes should be imposed according to a person's ability to pay base on his or her earnings it is widely known that public expenditure should be expected from those that have and not from those who have not. This principle originated since the sixteenth century. The principle was systematically stretched by the English economist J.S Mill. It is believed that the ability to pay theory underpins the foundation of progressive tax regime- as tax rate increases, so also increases the taxable amount and vice versa.

2.1.3 Theory of Equal Distribution: This is the most commonly accepted principle of equity or justice in taxation. It emphasizes that tax payers should be made to pay taxes in line with their capacity or ability to pay. According to this principle, tax liability should be so distributed among different taxable persons. The aim is to reduce the total sacrifice of the people as a whole. It means that when many individuals pay ample tax; and their marginal sacrifice or benefit should be the same, as the total utility loss of the society will be lowest. Therefore, the principle of equal distribution looks at the problem of apportioning the tax liability for benefit of the whole society.

2.2 Concept of Tax Evasion

Tax evasion is a word used to describe effort of individuals and corporate entities towards dishonest reduction of tax liabilities. Vazguez (2001), defines tax evasion as a thoughtful and eagerly parties of not unveiling comprehensive taxable income in order to reimburse lesser tax. This indicates that tax evasion is a criminal offence in view of the law. Tax evasion also involves taxpayers intentionally misrepresenting and covering the actual position of earnings in other to shrink tax payment from the tax authorities, the act of evading involves particularly dishonest and unfair tax reporting by declaring of abridged income, profit and gain that earned or exaggerating deductions. Soyode & Kajola (2006), defined tax evasion as deliberate and willful practices at not disclosing full taxable income in other to pay less tax. It is a deliberate violation of laws and it is evident in situations where tax liability is fraudulently reduced, or false claims are filled on the revenue tax form.

According to Nwachukwu (2006), Tax evasion is the general term for efforts by individual firms, trusts, and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state at their affairs to the tax authorities to reduce their tax liability. According to Eschborn (2010); defined tax evasion as an issue that is conceivable as long standing as taxation. Tax evasion occurs when people or organization deliberately fail to abide by their tax responsibility. Adebisi & Gbegi (2013); defined tax evasion as a global phenomenon that has been practiced in both developed and developing nations: confronting tax evasion is serious to overcome illegal financial cash flows and close channels of corruption and wrong doing.

For this study, Tax evasion refers to the deliberate refusal of a tax payer towards his/her tax obligation; it is a deliberate refusal to disclose one's source of income to the tax authority with the intention at paying nothing or something lesser than one's tax liability.

2.3 Review of Prior Studies

Alligham & Sandmo (2012), examined an empirical study at tax evasion as a positive connection between tax rates and evasion. This finding is consistent with the discoveries at Soyode (2006) who distinguished the causes of tax evasion. Firstly, he noted that the rates at which taxpayers are generally taxed effects on tax evasion. He observed that the higher the rate, the higher will be the probability for the taxpayers to evade, as this expands their disposable income. Besides the likelihood at being detected in the wake of dodging taxes likewise have impacts on the choice of a taxpayer as whether connected to the level at how strict tax laws are generally implemented (Soyode, 2006).

Morale (1998) further takes a shot at a model, which attempted to distinguish the ideal pay at which tax officers ought to be compensated. He argues that there is a connection between tax evasion and the pay level.

2.4 Overview of the Nigeria Informal Sector

The Nigeria informal sector is extremely large and diverse and is said to be account for approximately 60-65% of the economy. Its scope of activities spans across trading, spare parts transportation, construction, agriculture, livestock, food preparation, credit facilities, refrigerator, mechanical and electrical work, dressmaking, information technology and communication, footwear and traditional healing just to mention a few. The profiles of business in this sphere are typically low-income earners or one-man business with self-employed proprietors operating underneath the regulatory radar who do not pay taxes.

Taxing the informal sector in Nigeria is a formidable task. With respect to hindrances in effective taxation of the informal sector, three general difficulties can be identified, namely:

2.4.1 Cash Based Economy: the Nigerian informal sector currently conducts business predominantly on cash basis. These enterprises often refuse to accept cheques, thereby enabling them to conceal their turnover and taxable profits. To evade taxes, such businesses manipulate their figures for tax reduction purposes and can obscure all revealing third party information on their transactions. Many believe that the emergence of the cashless policy of the Central Bank of Nigeria will help to check the above.

2.4.2 Poor Record Keeping: most self-employed people are generally tax about maintaining up to date accounts, thus ascertaining the correct level of income generated by the business and giving a meaningful assessment of taxability is rendered impossible. Secondly, most self-employed people and other players in the informal sector are apathetic to appropriate record keeping system.

2.4.3 Cumbersome tax mechanism: one known barrier preventing many businesses in the informal sector from crossing over to the formal sector where they can assess more needed capital is the complicated tax structure, therefore, without a simplified tax mechanism to cater to these businesses unable to cope, the simple opt to remain in the informal sector. Furthermore, in general, Nigerian taxation mechanism is to be known to have a particularly high administrative cost to businesses, with a total of 938 hours per year required for a firm to file a requisite

2.5 Causes of Tax Evasion

Different factors have been identified by different authors as the causes of tax evasion. The problems of tax evasion cut across many countries developed and developing the causes also seems to be unanimously universal. This is because tax is levied on the citizen and corporate entities as a contribution toward the redistribution of limited resources and taking care of public expenditure. Therefore, taxpayer share unique attitude in minimizing their tax liability through all the available and possible means to maximize their selfish interest. Adebisi et al, (2010) suggested the following as causes of tax evasion in many countries were taxes are levied: unfair distribution of facilities (amenities); poor management and misuse of tax collected; lack of essence of civic responsibility; taxpayers' inaccessibility to government services and unfair distribution of facilities provided with the tax revenue by government make some taxpayers filling self of not belonging and isolated from the society.
Ovute & Eyisi (2014) stressed that misunderstanding and misuse of collected taxes would create a suspicious situation between the tax holders and the essence of continue paying. Whenever collected proceed of tax are not properly utilized it result in mistrust between tax authorities and people, which finally led to evasion activities.

3.0 Research Methodology

Ex – post facto design was used to conduct this research. The population of the study was made up of informal sector and small and medium scale businesses in Rivers state, particularly in Port Harcourt metropolis. A sample of 50 informal sector and SME operators in Rivers state were used for the study, using the purposive sampling techniques. Data were obtained primarily through well-structured and validated questionnaires. Formulated hypotheses were tested using Ordinary Least Squares and regression analysis via the use of SPSS software to examine the significant differences between the independent and dependent variables. That means the influence of sex, income level and tax morale of informal sector operators were examined against the level of tax evasion among the operators of the 'hard to tax' sector.

4.0 Data Analysis and Discussion of Findings

4.1 Descriptive Statistics of the Causes and the level of Tax Evasion in the Informal Sector

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation
SEX	50	2.3	4.33	3.9801	.49626
TAXMO	50	2.00	4.67	4.0640	.52692
INCOME	50	2.6	4.67	4.0684	.55687
Valid N (List wise)	50				

Source: Computed by SPSS

The outcomes of the descriptive statistics of the mean and the standard deviation for each variable of causes of Tax evasion and Level of Tax evasion (TAXEV) in Nigeria's informal sector are provided in Table 4.2. The table discloses that the mean and standard deviation of each of the causes of tax evasion and he extent to which they influence tax evasion in the informal sector in Nigeria. Furthermore, the table shows that the sex of operators in the informal sector had a mean and standard deviation of 3.9801 and .49626 respectively. It also shows that the morale of tax payers in the informal sector (TAXMO) had mean and standard deviation of 4.0640 and .52692 respectively. Finally, the income level which is another cause of tax evasion in the sector gave a mean of 4.0684 while the standard deviation coefficient was 0.55687.

4.2 Test of hypotheses

Hypothesis 1: There is no significant relationship between sex of tax payers and tax evasion in Nigeria's informal sector.

The dependent variable in this hypothesis is tax evasion while the independent variable sex of tax payers Ordinary least square multiple regression statistical technique was employed to test this hypothesis. The result is presented in Table 4.2

Table 4.2 Regression results of the relationship between sex of tax payers and tax evasion in Nigeria's informal sector

Dependent variable**: Tax evasion** (TAXEV)

Variable	**Estimated Coefficients**	**Standard Error**	**T-Statistic**	**P- Value**
(Constant)	-792635.252	385766.073	-2.055	.109
SEX	.078	.184	.426	.692

R	= .961
R-Square	= .92
Adjusted R-Square	= .848
F – Statistic	= 12.119 (P-Val= 0.01)

Source: Computed by SPSS

The R^2 value of 0.92 in Table 4.3 shows that about 92 per cent changes in the dependent variable tax evasion in Nigeria's informal sector is caused by changes in the independent variable (Sex of tax payers). This implies that the sex of tax payers in the informal sector is a prime determinant of tax evasion. Also, the adjusted R^2 value of 0.848 means that the model is about 85 per cent well fitted. The F-value of 12.119 which is significant at 0.05 level of significant goes to confirm the fact that sex of tax payers as a proxy of causes of tax evasion affect the extent of compliance or tax evasion level by informal sector operators in Nigeria.

The estimated coefficient is positive, implying that there exists a positive relationship between sex of tax payers in the informal sector and tax evasion in Nigeria. The results are all significant at 0.05 level of significance.

Hypothesis 2: There is no significant relationship between income level of tax payers and tax evasion in Nigeria's informal sector. The dependent variable in this hypothesis is tax evasion while the independent variable is income level. Ordinary least square multiple regression statistical technique was employed to test this hypothesis. The result is presented in Table 4.4

Table 4.3: Regression results of the relationship between income level of tax payers and tax evasion in Nigeria's informal sector.
Dependent variable: TAX EVASION (TAXEV)

Variable	Estimated Coefficients	Standard Error	T-Statistic	P- Value
(Constant)	-158583.639	90506.267	-1.752	.140
INCOME	-.076	.043	-.607	.571
R	= .978			
R-Square	= .956			
Adjusted R-Square	= .922			
F – Statistic	= 27.44 (P-Val= 0.01)			

Source: Computed by SPSS

The R^2 value of 0.956 in Table 4.4 shows that about 98 per cent changes in tax evasion is caused by changes in income level of tax payers in the informal sector in Nigeria. This implies only 4 per cent changes in tax evasion are caused by other factors not shown in the equation. Thus, changes in income level are a prime determinant of tax evasion in Nigeria's informal sector. Also, the adjusted R^2 value of 0.922 means that the model is about 92 per cent well fitted. The F-value of 27.44 which is significant at 0.05 level of significant goes to confirm the fact that tax payers' income levels are prime determinants of tax evasion in Nigeria. The estimated coefficient for income level is positive, meaning that there exists an inverse relationship between the dependent and independent variables. The results are all not statistical significant at 0.05 level of significance. This agrees with the findings of Witte & Bury (1983).

Hypothesis 3: There is no significant relationship between Tax morale and Tax evasion. The dependent variable in this hypothesis is Tax evasion while the independent variable is Tax morale. The Ordinary least square multiple regression statistical technique was employed to test this hypothesis. The result is presented in Table 4.5

Table 4.4: Regression results of the relationship between tax morale and tax evasion in Nigeria's informal sector.
Dependent variable**:** TAX EVASION (TAXEV)

Variable	Estimated Coefficients	Standard Error	T-Statistic	P- Value
(Constant)	-862635.252	485766.073	-2.055	.109
TAXMO	.077	.194	.426	.692
R	= .961			
R-Square	= .91			
Adjusted R-Square	= .822			
F – Statistic	= 14.129 (P-Val= 0.01)			

Source: Computed by SPSS

The R^2 value of 0.91 in Table 4.5 shows that about 91 per cent changes in the dependent variable tax evasion in the informal sector in Nigeria are caused by changes in the independent variable (Tax morale). This implies that Tax morale of the informal sector operators is a prime determinant of tax evasion Also, the adjusted R^2 value of 0.822 means that the model is about 82 per cent well fitted. The F-value of 14.129 which is significant at 0.05 level of significant goes to confirm the fact that Tax morale as a determinant of tax evasion in Nigeria's informal sector.

The estimated coefficient for independent variable is also positive, implying that there exists a positive relationship between tax morale and tax evasion in Nigeria. The results are all significant at 0.05 level of significance. This finding disagrees with the works of Riahi & Beikaoiu (2004) who found out a negative relationship between tax morale and tax evasion.

5.0 Summary, Conclusion and Recommendations

The study empirically evaluated the causes of tax evasion in Nigeria's informal sector. It was aimed at evaluating the causes of tax evasion in Nigeria informal sector. Sex, income level and tax morale of informal sector tax papers were used as the independent variables whereas tax evasion was used as the dependent variable. The study summarised that:

1. The sex of tax payers influenced the level of tax evasion in the informal sector in Nigeria, as there was a significant relationship between the sex of tax payers and the level of tax evasion.
2. The income of tax payers was also responsible for tax evasion. This was evidenced the significant relationship found in the study between income and tax evasion.
3. Lastly the study found out that there was a significant relationship between tax morale and the level of tax compliance, meaning that tax morale could cause tax evasion in the informal sector in Nigeria.

The study concluded that sex, income level and tax morale significantly affect the level of tax evasion in the informal sector in Nigeria.

Based on the above findings, the study made the following recommendations:

1. Tax laws should be simplified to enable informal sector operators to understand. This will make them to comply with the law and avoid tax evasion.
2. Regulators should also embark on enlightenment campaigns to preach against the problem of tax evasion and the dangers it poses to economy.
3. The government should reduce the level of multiple taxation among information sector operators. This will aid voluntary compliance.
4. A bill to establish tax courts should be passed at all the levels of government. This will promote dispensation of tax related cases in Nigeria.
5. There should be increased awareness of the benefits of paying taxes by revenue authorities. This will help check the level of evasion and enhance compliance.
6. Tax authorities should grant tax amnesty to informal sector operators, to make for voluntary compliance, knowing that their sins have been forgiven.
7. Lower tax rates informal sector activities and its operators.
8. Fight corruption in tax administration as well as embark on regular tax monitoring and enforcement among informal sector operators in Nigeria.

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