

TAX EVASION DETERMINANTS: EVIDENCE FROM NIGERIA

By

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ABSTRACT

Tax evasion is a serious problem that causes government of different nations lose revenues at various levels. The main aim of this study is to determine the factors influencing tax evasion among taxpayers from the Nigerian perspective. In order to achieve this goal, the study employed a survey method, where Gombe State taxpayers had been the scope and selected respondents of this study. A self-administered questionnaire was deployed as a method of data collection. The total number of the state taxpayers was 26,313, out of which 379 were randomly selected as the sample size. Multiple regression analysis was used in analyzing the data collected to determine the correlation between the variables. The finding of the study indicates that, the tax system, income level and education level have significant positive relationship with tax evasion. On the other hand, tax rate and corruption indicates positive relationship but are not significantly correlated with tax evasion. Therefore, the study recommends that government should improve the tax system through amending and adjusting tax laws and policies that would encourage people to comply voluntarily. Similarly, enhancing the tax education will also improve the compliance behavior. Finally, the study suggests that proper check and balance method and effective tax reform will yield more compliance at different level.

Key words: *tax evasion, determinants, taxpayer, Nigeria.*

ABSTRAK

Pengelakan cukai merupakan masalah serius yang menyebabkan kerajaan pelbagai negara kehilangan pendapatan. Tujuan utama kajian ini adalah untuk menentukan faktor-faktor yang mempengaruhi pengelakan cukai di kalangan pembayar cukai dari perspektif negara Nigeria. Bagi mencapai tujuan ini, pembayar cukai di Negeri Gombe telah diskop dan dipilih sebagai responden. Soal selidik yang dipanta sendiri telah digunakan sebagai kaedah pengumpulan data. Jumlah pembayar cukai di Gombe adalah 26,313 di mana 379 daripadanya telah dipilih secara rawak untuk dijadikan saiz sampel. 'Regresi pelbagai' adalah alat statistik yang digunakan dalam menganalisis data untuk menentukan korelasi antara pembolehubah. Dapatan kajian menunjukkan bahawa sistem cukai, tahap pendapatan dan tahap pendidikan mempunyai hubungan positif yang signifikan dengan pengelakan cukai. Sebaliknya, kadar cukai dan rasuah menunjukkan hubungan positif tetapi tidak signifikan berkorelasi dengan pengelakan cukai. Oleh itu, kajian ini mencadangkan bahawa kerajaan harus meningkatkan sistem cukai dengan mengubah dan menyesuaikan undang-undang dan polisi cukai yang akan mendorong orang ramai untuk mematuhi undang-undang cukai secara sukarela. Begitu juga dengan memberikan penerangan yang mencukupi berserta pendidikan cukai juga akan meningkatkan kepatuhan orang ramai dalam pembayaran cukai. Akhir sekali, kaedah pemeriksaan dan keseimbangan yang teliti serta pembaharuan cukai yang efektif akan meningkatkan pematuhan secara menyeluruh.

Kata kunci: *pengelakan cukai , penentu, pembayar cukai , Nigeria .*

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DEDICATION

This work is dedicated to:

Alhaji Gurama Liman

Hajjah Zainabu Abubakar (Hajja babu)

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LIST OF ABBREVIATION

<u>Abbreviation</u>	<u>Description of Abbreviation</u>
EFCC	Economic and Financials Crime Commission
FIRS	Federal Inland Revenue Services
GDP	Gross Domestic Product
TE	Tax Evasion
TJN	Tax Justice Network
TR	Tax System
TS	Tax Rate
SD	Standard Deviation
SPSS	Special Package for Social Sciences
UN	United Nations
VIP	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxes are said to be an immensely vital instrument and primary source of revenues to the government. Revenues which are needed to finance critical programs (e.g. health care, education), services (e.g. law enforcement, public utilities), and infrastructures (e.g. road construction, environmental protection) which are beneficial to the society. Worlu and Emeka (2012) assert that tax revenue utilization is a basis for supporting developmental activities in less developed economies. However, collecting revenue has been a difficult matter primarily due to various forms of confrontation such as tax evasion and corruption exercises. Taxes provide government with revenue, and those who contribute have a say in the system, about how the government spends their monies. Moreover, taxes are an essential component to economic growth and social growth therefore. Hence, there is no hesitation about the need for and benefit of taxation (Oyedele, 2012).

The disbursement of taxes is a public responsibility and it is an imposed contribution by government on citizen and corporate entities to enable the running and financing of public utilities and other social needs of the nation. The desire to uplift one's society is the first aspiration of every patriotic citizen (Adebisi & Gbegi, 2013). Whenever a country's taxation system failed to establish appropriate policies to collect tax, many individuals will use this opportunity to evade paying taxes. Thus, tax evasion will occur

in the state. According to Soyode and Kajola (2006), tax evasion is an intentional and conscious practice of not disclosing and filing full taxable income in order to pay less tax. Also, tax evasion is a defilement of tax laws whereby the tax due by a taxable individual is unpaid after a minimum specified period. Equally tax evasion is obvious in situations where tax liabilities are dishonestly reduce, or false claims are filed on the revenue tax form. Therefore, in this study tax evasion is define as an illegal intentional act of underreporting, fraudulent, defilement and dishonest behavior of not paying tax to the tax authority.

Confronting tax evasion is serious to overcome illegal financial cash flows and closing channels of corruption and wrongdoing (United Nation, 2007). Therefore, widespread of tax evasion in developed and developing economy represents the persistent of the problem. Moreover, resistant from the public to pay their civil responsibility is very crucial to the country prosperity (Tijjani & Mathias, 2013). 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 underreporting of income, as well as over-claiming of a tax deduction, is an obvious example of tax evasion (Adebisi & Gbegi (2013).

Therefore, irrespective of its values, tax evasion drastically reduces the amount of state budgets every year around the countries globally. 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). Also, tax evasion most of the time entails taxpayers intentionally misrepresenting the true and fair figure of their affairs to the tax authorities in such a way to reduce their tax liability. This act includes misappropriate and dishonest of tax reporting, (for example, pronouncing less income, profits or additions than the sums earned or exaggerating reasoning). To this end, taxable income, for example, profits obligated to tax, or other taxable exercises are disguised, the sum and/or the wellsprings of income are distorted (Chiumya, 2006). Tax evasion is a global phenomenon that is sometimes practice in different countries in both developed and developing nations. According to Murphy (2011), the worth of tax evasion worldwide exceeds US\$3.1 trillion or 5.1% of global gross domestic product (GDP).

Tax evasion as stated earlier is not one country or regional problem but rather a global issue which have claimed much revenue generations and causes backwardness to different countries. According to a global financial integrity report, i.e a well-known anti-corruption campaign organization, the world top ten countries with the majority of illicit financial depletions are Mexico (\$476 billion), China (\$2.74 trillion), Malaysia (\$285 billion), Saudi Arabia (\$210 billion), Russia (\$152 billion), Philippine (\$138 billion), Nigeria (\$129 billion), India (\$123 billion), Indonesia (\$109 billion) and United Arab Emirate (\$105 billion) (Leadership June, 2013). Moreover, the report further explains that 60% - 65% of the amounts were as of a result of tax evasion activities, and these billions of dollars is taken from the period 2001 until 2010.

The focus on tax evasion in many nations including Nigeria is restricted to the monetary consequences of detection. The cause of the very act of social misconduct is usually neglected. Certain factors such as demographic and economic consideration are proposed as the factors responsible for evasion of taxes. According to Worlu & Emeka (2012), the government use of tax as a tool and mechanism of fiscal policy for achieving economic growth in various developed and developing economy would not be reliable. This is because of the deteriorating position of the revenue generation in the country and negligence from the related tax authorities.

In Nigeria, the contribution of revenue from taxes is not encouraging because the government is heavily generating revenue from crude oil. According to Ariyo (1997) over dependability of Nigerian government on crude oil revenue that was encouraged during 1973-1974 bring about neglect to other sources of government revenue such as taxes. Tax evasion is among the strongest indicators associated with small revenue generation from taxes (Ariyo, 1997). The individuals who are working in the non-formal sector of the Nigerian economy (self-employed) mostly do not pay their taxes despite being the major players in the economy (James & Moses, 2012). They are in the opinion that only the public civil servants are held responsible for paying taxes on their earnings since they are being paid by the authorities. According to Popoola (2009), the Nigerian tax system and practice is build towards achieving economic goal because the government's budget for the year are mainly outsourced from the proceeds generated from crude oil. This leads to low productivity of the Nigerian tax system and revenue proceeds from taxes. However, ineffectiveness in the tax administration and collection

procedures and a complexity of tax legislation were identified among the root causes of low tax generated. In this regard understanding and knowing why tax evasion happened, and the causes of the menace are critical in minimizing the problem. Hence, it would increase the revenue for public utilization in providing social amenities by the government.

There are various determinant factors of tax evasion studied in many countries including Nigeria that have positive relationships with tax evasion. Among the factors are tax rate, and tax system (Fakile & Uwuigbe, 2013; James, 2012), corruption, and education level (Tijani & Mathias, 2013; Fakile & Uwuigbe, 2013). Whenever the rates of taxes are high and the tax system consist of misappropriation, people tend to evade taxes. The tax authority's personnel show dishonest attitude, bribery and corruption and misused of tax collected, people will evade tax due to mistrust and lack of confidence in government (Oyedele, 2012). Similarly, lower income earners are the highest number of taxpayers who are involve in evading taxes. Thus, corruption and level of income as and level of education factors determining tax evasion (Adebisi & Gbegi, 2013; Ogunmakin, 2013; Akinyomi & Okpala, 2013; James & Moses, 2012; Fakile & Uwuigbe, 2012, Jayeola, 2010).

This study therefore, put emphasis in determining the factors of tax evasion in Nigeria. The study is important as tax evasion practice adversely hampers the government ability to provide the essential social amenities needed by the public. However, if tax evasion

continues to be unrestricted, it may lead to the failure of the government as it requires an appropriate amount of funds to complement the public expenditures. Moreover, efforts have been taken in the research to see how Nigeria is able to achieve the goal of tackling and the capability of reducing tax evasion and hence improve tax collection.

1.2 Problem Statement

Tax evasion is among the greatest problems faced by Nigeria. Asada (2010) stresses that tax evasion denotes some of the perplexing problems facing Nigerian economy. He also argues that, when the tax authority decides to enforce tax laws, individual and firms will try not to comply. According to Bismarck (2013), Nigerian authority had lost ₦90 billion equivalent to \$550 million USD to tax evasion in automobile industry alone in the year 2013. It was also reported that the Federal Inland Revenue Services (FIRS) has sued a client of evading five-year taxes amounting to ₦4.86 billion naira and for faking of tax clearance document against his company (Sadoke & Okonkwo, 2012). Moreover, Muhammad (2013) asserts that in a contemporary report by the Nigerian Economic and Financial Crime Commission (EFCC), an estimated figure of \$129 billion dollars (₦21 trillion Naira) was dishonestly taken out of the country in the last ten years (2003 to 2013). The sources of the dishonest relocation of the fund are often tax evasion, tax corruption, excessive tax avoidance, illegal mining activities, drugs and human trafficking (Muhammad, 2013).

Individual and corporate institutions in one way or another will manipulate the poor process of tax system process to reduce and evade their taxes. Action Aid, a nongovernmental organization, estimated that Nigeria and other African nations lost amount close to \$49 billion in the continent through tax evasion in 2011 (Richard, 2011). According to Chiumya (2006), cutting tax evasion is one of the most multifaceted activities in tax administration. This is often endorsed to the fact that tax evasion takes many forms and surfaces. It could be economic, political and environmental factors. Thus, one of the keys to positively reduce tax evasion is to understand the behavior of taxpayers and the reasons that cause such attitude and behavior.

On the other hand, absence of transparency and responsibility in the overseeing public trusts has the antagonistic impact of building public trust both in the tax system and in the government (Pasher, 2005). In this manner, the ensuing impact of tax hardship may cause genuine harm to the execution of the public needs, debilitating its capacity to fund public use (Chiumya, 2006). Tax Justice Network (TJN), an organization fighting against tax evasion by multinational companies and wealthy individuals who evade taxes, reports that tax evasion and tax avoidance, and money laundering mostly cost the developing countries approximately \$28 to \$32 trillion in which Nigeria is included (This Day, 2013). The same problem of tax evasion led to shut down of three firms by Delta state government over tax evasion behavior amounting to ₦42 million (Punch, 2013). The federal government of Nigeria explains that in affirming with the introduction of e-payment for tax collection, it realizes about 350, 000 small and medium enterprises are not paying tax (Yerima, 2013).

In conclusion, tax evasion is among the major societal problems inhibiting development in developing countries. The phenomenon eroding the existing welfare state in developed economies in the world (Sikki & Hampton (2005); Olatunde (2007)). This has led to growing attention among the policy makers, developed countries, international agencies and scholars to study determinants of tax evasion. Even though there are previous studies conducted on tax evasion in Nigeria, for example (Adebisi et al., 2013, Akinyomi & Okpala 2013, Temitope et al., 2010, Olatunde 2007 and Peter & Efiatoh 2013), this study has decided to investigate tax rate, tax system, corruption, education level and income level as an independent variables in determining tax evasion in Nigeria. Other variables included in this study have been previously tested in other studies but with inconsistent findings. This study will therefore retest these variables to see their outcomes in the Nigerian context.

The main different between the current study and prior studies in Nigeria is the inclusion of income level as an independent variable which has never been tested before. In addition previous studies were established in large populated state with advance sources of revenue generation, development of social amenities and infrastructures, see for example (Jayeola 2010 and Fasina & Olowekere 2013). This study is mainly aimed to test the problem from the smaller populated state in a different region with growing potentials and less developed source of revenue generation. This would provide a state of comparism of the factors according to taxpayer's perception toward evasion. With that, this study wants to examine the problem from the Nigerian perspective taking into consideration of the new variable of the study.

1.3 Research Question

This study attempts to answer the following main questions

1. What is the level/extent of tax evasion in Nigeria?
2. What is the relationship between the tax rate, tax system, corruption, income level and education level with tax evasion in Nigeria?

1.4 Objective of the Study

The objectives of this study are as follows:

1. To examine the level/extent of tax evasion in Nigeria
2. To examine the relationship between tax rate, tax system, corruption, income level and education level with tax evasion in Nigeria.

1.5. Significant of the Study

1.5.1 Theoretical Significance

This study is designed to be important and beneficial to researchers, standard setters and student of accounting and other related disciplines. The current study includes the variable that has not been tested in Nigeria in prior research related to tax evasion. As far as this study is concerned, previous studies in Nigeria have not included income level of the taxpayers as one of the determinant factors of tax evasion. Therefore, this research will provide an important contribution to the body of knowledge by testing the factor

(income level) in Nigeria. This study will contribute to the literature of tax evasion and the possible factors that determine tax evasion.

1.5.2 Practical Significance

The current study concerns about the factors that determine tax evasion in Nigeria. The study is of high important by examining the behavior and perception of tax evaders in Nigeria. Therefore, when the problem is reduced and monitored, the revenue will increase. Thus, the provision of social amenities and infrastructures will be improved. However, if the evasive actions continue to be unsaved, sooner or later it will lead to government collapse.

Chiumya (2006) posits that restricting tax evasion is one of the utmost challenging activities in the tax system. Thus, one of the key to successfully reduce tax evasion activities is to address the issue and apprehend the behavior of taxpayers and the motive that cause such behavior. The outcome of studying determinant factors is therefore an important matter and a significant step in solving the problem and increase tax revenue.

The findings of the study would assist the tax authority in adjusting the existing policies and procedures on tax collection and practice. This is to be done by taking into consideration the factors that motivate taxpayers to evade taxes. Also, standard setters will find this study useful in understanding the attitude of people and their perceptions on

paying tax. Lastly, the study reveals the perception of taxpayers and their reason for non-compliance and practicing tax evasion. This is very crucial to tax authorities and standard setters in understanding the behaviors of taxpayers.

1.6 Scope of the Study

The research is aimed at examining the determinant factors of tax evasion in Nigeria. To consider the country as a whole is not easy due to the time constraint and other limiting factors. Therefore, the study is conducted in Gombe State located in the north-eastern part of the country. Gombe state is among the lowest populated state in the country, in contrast to previous studies which were conducted in large populated state. Therefore, this study will test the factors that determine tax evasion to find out whether taxpayers have the same perceptions on the same subject matter with different apparatus.

Even though the scope of this study is only in Gombe State, the result can be useful to the country at large. This is because there are several studies carried out in some parts of the country and the result was applied to the country at large. Lutfi (2009) for example, in his study of the determinants of tax evasion in Yemen, used the western region in the country as the scope of his study to represent the whole country. Similarly, Temitope, Olayinka, & Abdurafiu (2010) and Akinyomi & Okpala (2013), studied the ethics of tax evasion and the factors influencing tax evasion in Nigeria draw the scope of their research from Lagos State and their findings were useful to the whole country. Therefore, this study is projected to follow the path of these previous researches.

1.7 Structure of the Thesis

This study examines the determinant factors of tax evasion. The thesis is divided into five chapters; chapter one contains an introduction under which the following is covered: background of the study, problem statement, research questions and objectives, significance and the scope of the study.

Chapter two features the relevant literature reviews in the area of tax evasion. It also includes empirical studies and other related theories. The relationship between tax evasion and some selected variables are also discussed.

Chapter three presents the research method used, which contains the research design, population of the study, sample size, sampling techniques, data sources, data gathering, instrument used in the collection of data, reliability and validity of the instrument used, model specification and the estimation techniques of the study.

Chapter four explains the data analysis, interpretation, discussion and findings of the study.

Chapter five comprises of the last part which includes the summary, conclusions and recommendations as well as a suggestions for future studies.

CHAPTER TWO

LITERATURE

2.1 Introduction

This chapter reviews the related literature concerning tax evasion. The chapter also develops to show the relationship between tax evasion and the identified variables that determine the evasion behavior from the taxpayer's point of view. The literature explains the relevant theories and studies concerning the topic under discussion.

2.2 Defining Tax Evasion

Tax evasion has been a topic of discussion over a long period. Several studies have been conducted from developing countries and as well as developed countries worldwide. Different authors with numerous points of views have defined tax evasions. Tax evasion refers to all illegal activities intentionally carry out by an individual to avoid himself from the tax burden. For an instant, a process where a taxpayer fails to report or under reports his annual income to the tax authority for tax purposes (Lewis, 1982; Webley, Robben, Elffers and Hessing, 1991; OECD, 2004; Stiglingh, Venter & Hamel, 2005).

Nwachukwu (2006) stated that evasion is the general term for efforts by individual, firms, trust and other entities to evade taxes by illegal means. Therefore, tax evasion usually, is a deliberate act by taxpayers to misrepresent or hide the truth and fair position of their income affairs to the respective tax authority in order to minimize their tax liability. Also,

it is an act of dishonesty by not filing and reporting incomes such as profit, bonuses and gains as they were actually earned and/or overstating deduction.

Soyode and Kojola (2006) define tax evasion as an intentional and conscious practice of not revealing full taxable income. It is a violation of tax laws in which the tax rate due by a taxable person is unpaid after the minimum required period (Temitope et al., 2010). Tax evasion is clear evidence in a situation where taxpayers are reducing and proclaiming false statement about their tax liabilities through not complying with the tax laws and regulations with the aim of evading.

Specifically, the definition of tax evasion can be group into two categories i.e from the economic point of view and from social psychological point of view. These definitions will be discussed in the following sections.

2.2.1 Tax evasion from the economic point of view

According to Webley et al., (1991), the reasons for tax evasion are greediness. According to them, the main purpose people engage in this act is that they want to maximize their benefit. Becker (1968) added that, the main reason that motivates people to commit a crime is almost the same, what make them vary are the cost and the benefits objective. In view of tax evasion, people are treated as rational unethical decision takers that plan in other areas to maximize their benefit.

A classical model of tax evasion proposes that the attitude and the behavior of people are influenced by many reasons. The reasons include tax rate (that explain the benefit of evasion), the consequences for committing fraud and the possibility of detection (that is the cost) (Allingham & Sandmo, 1972). In this case, people have a choice on how much income they report for tax, some may declare nothing while others do otherwise. Allingham and Sandmo (1972) found that irrational and selfish taxpayers may decide to underreport their income, or rather evade tax if they are aware of non-detection. Their model views that possibility of detection would have an impact on tax evasion. It is believed that an individual will be more compliant to the tax authorities provided that if an effective tax enforcement and the possibility of detection of noncompliance. This was explained in more depth in an interactive model proposed by Benjamini & Maital (1985).

However, according to Benjamini & Maital (1985) in an interactive model viewpoint, there are other several factors in the field that are highly significant. This is because taxpayers do not always take decision in isolation. However, distortion of the tax laws and possibilities of detection can arise (sometimes) from the tax authorities, although it is important to understand the behavior of the taxpayers. Superficially, in a large group of people consisting of non-evader, this would impact the taxpayer's reputation if one was caught on evading tax. Nonetheless, taxpayers' reputation will remain unaffected if most people are used to evade taxes or underreport their income (Webley et. al., 1991).

According to Cochran model (1984) taxpayers and tax authorities are treated as the willing of two individuals. In this situation, tax authorities have two alternatives either to investigate the taxpayer or ignore the enquiry. In another development, the taxpayers have an opportunity to comply with tax laws voluntarily or decide not to comply accordingly. For this model, it is obvious that there are no simple balances, if the taxpayer decides to comply voluntarily. However, this will ease the task of the authorities and hence reduce the cost of investigation. Nevertheless, taxpayer would not comply if they know that there are no actions taken by the authorities against the choice they had made. In order to have an equilibrium stand, both parties involve need to use mixed strategies. At this end, the possibilities of evasion amongst people will decrease altogether with the size of the detection for evasion.

Justifying a decision taken in a two-way process (taxpayers and authorities) was also found in approaches that used the theories of some limitation of rationality. Kahneman and Tversky's (1979), and Kahneman and Tversky's (1984) provide a famous approach that was developed to tackle the problems in standard utility theory. For individuals who view the tax rate is lower than their expectation, then the tax rate encourages more compliance. In this case, two stages are made available for taxpayers to make a decision.

The first stage is a problem concerning the editing phase. The problem about editing phase includes a process that will change the results and probabilities, like isolation in taking decision, as well as generalization. In this approach, the main component here is

gain or a loss which relatively determines the final state of the utility or wealth. Here a person repeat alternative for him to have a simple choice. The second stage is the assessment period. The taxpayer will apply the efficiency benefit and loss, at the moment. This entails that if personal benefits are regarded more important, people will evade tax. That is a person will forecast about the problem phase and decide the right prospect (between gain and loss) with the highest value. This depends on how people frame problems according to individual preference differences.

The significant of tax evasion was studied in various nations including by well-known researchers such as Jackson and Milliron (1987), Schadewald (1989) and Smith & Kinsey (1987). When framing an individual tax decision, a number of factors are considered such as, the tax that are to be paid have a greater benefit compared to tax due and evaded (withheld). In some countries, it is understood that taxpayers seem to be choosing more withholding instead of strict compulsory. This posits that where tax system involves withholding by the authorities, taxpayer expects refund and perceives it as a gain to avoid the risk related with tax evasion.

In conclusion, the economic point of view concerning tax evasion moves around the taxpayer utility maximization. Individual taxpayer has motivational factors that influence their decision to evade the tax. These influential factors include tax rate, tax system as well as other factors, such as the probability of not being detected. The classical model by Allingham and Sandmo (1972) and extended by other researchers have helped in

understanding the behavior and attitude of taxpayer toward tax evasion. The model is concern about tax laws and tax authorities and how they relate with taxpayers. Effective tax system and administration would encourage tax compliance and reduce evasion and increase tax revenue.

2.2.2 Tax Evasion from the social psychological point of view

According to this point of view, two different types of theories exist that explains the reason why people evade taxes. One of the theories is that the taxpayers' interactive design procedure, which was driven from the extensive knowledge from the literature. This may sometimes be listed as a theory but is occasionally consider as a fundamental structure which the data concerning taxpaying and tax evasion can be observed. Typical example of this approach includes the design of studies by Smith and Kinsey (1987) and Groenland and Van Veldhoven (1983). The second type of psychological theory regarding tax evasion is relatively simple application (Kaplan, Reckers & Reynolds, 1986).

According to Cochran model (1984), the psychological variables such as the reputation, humiliation and social norms are to be considered towards the attitude and behaviors of some taxpayers. Benjamin and Maital (1985) posit that the model have a multiple fixed group of equilibrium in a homogeneous group of people where everybody is either entirely honest or evade taxes. However, in a heterogeneous nation, people of a particular group are mostly honest while other people from other groups usually evade. Moreover,

Vogel (1974) when relating behavior towards tax evasion confirms that peer group plays a vital role on the outcome of individual decision either positively or negatively. Similarly, Cowell (1990), has proven that decisions by individuals to evade taxes include a process in which they would choose to be honest or dishonest and they will decide how much to evade the taxes.

On the other hand, Groenland and Van Veldhoven, (1983) as in Webley et al., (1991) suggest a framework that contains attitude or behavioral model and ad hoc methods. According to them, assertiveness toward the tax system is subjective by individual difference and situational characteristics. Successively, it is an inspiration in the disposition of evading taxes. When disposition are to evade, situational characteristics directly brings an effect toward the actual behavior. Therefore, three different types of situational characteristics were identified. These are tax system, opportunity and socio-economic factors. All the three factors have direct and indirect impact and have a probability to influence taxpayers to evade taxes. Moreover, some precise information about the tax system will provide an opportunity for tax evasion especially to tax group and hence encourage attitude toward evasion.

Besides that, Smith and Kinsey (1987) provide a conceptual framework for capturing behaviors of taxpayer. Based on the work, many researchers are considering evasion as a deviance from the right path or an act of noncompliance to the authorities. For that reason, it becomes necessary to understand the motivational factors of evasion and

compliance as well. Moreover, Smith & Kinsey (1987) suggested that tax evasion factors ignore some of the social context of it, and pay attention towards the preferences and intention of the taxpayers alone. Previous studies such as Kaplan, et al., (1986) Groenland & Veldhoven, (1983) and Schadewald (1989) assumed that taxpayer's noncompliance is a result of intentional and conscious choice by individuals. Complying or not complying resulted from a number of activities such as redefining some earnings as non-taxable or purposely forget to submit tax returns. Furthermore, Smith and Kinsey (1987) have differentiated between the contents and the process of decision-making. They argue that many researchers nowadays are focusing and laying more emphasis on accounting aspect about the content view of decision making especially regarding to cheating and mostly abandon the process choice. As such it motivate individuals from their habitual behavior to form a process in which they are profoundly aware of the decision taken to evade tax.

Three stages are identified as a process in which people would often glance-through. These stages are diagnostic (that is where a position is prescribed), action (where intention are to be initiated) and implementation (where decision are made on how to carry out intention). The issue regarding this context consist of, individual who wishes to cheat and involve four factors i.e normative expectation, materials consequences, expressive and lastly social–legal expectation. These factors will be achieved under the view of prospect theory (decisions are made in terms of gain or losses from some initial reference point). Accordingly, two types of opinion exist in this situation which are the opinions towards the aims that are dependent on taxes (government spending) and those

toward the tax system. Attitude concerning government spending has the indirect impact that works via attitude toward the tax system in particular (Smith & Kinsey, 1987).

On the other hand, Kaplan et al., (1986) suggested an attribution theory regarding tax evasion. Attribution theory is a theory that concerns about how people are making decision about social life and pointing out inferences from one point to another. According to them, individuals prefer to do something because they are in need to, or because they have an opportunity to do so due to internal and environmental causes.

In conclusion, the theories of psychological point of view the describe the attitude and behavior of taxpayers. These behaviors sometimes are motivated by the environment and the society in which the taxpayer is living. If the society rejects the reputation of evader then individual will comply voluntary to avoid bad reputation. However, if the society does not value good reputation, the chances for practicing evasion will prevail. The primary concept here is how the society perceived behavior and the attitude of taxpayer toward evasion an interactive manner.

2.3 Empirical Studies

Various reasons and factors have been considered in the literature that explains the factors that determine tax evasion. Among the studies in the field are the works of Allingham and Sandmo (1972), Spicer and Becker (1980), Clotfelter (1983), Feintein

(1991), Kirchler (1997), Frey & Feld (2002), Torgler (2003) and Gamze & Erdal (2013). The most common factors examined in these studies include tax burden, tax rate, income level, source of income, tax penalties, and public expenses. In addition, tax audit, educational level, marital status, tax system, tax morale, tax administration, the public services and tax mentality have also been studied.

Several studies have shown vividly that an increase in the tax rate will cause an increase in the act of tax evasion (Clotfelter, 1983, Alm & Mckee, 1992, Saracaghu, 2008; James & Moses, 2013; Adebisi, 2013). Similarly, a positive relationship was identified in the literature between tax evasion and income level i.e when an individual income level increases, the attitude of tax evasion will also increase vis-a-vis (Crane & Nourzaid, 1990; Nor Ghani, 2012; Bashar et al., 2008; Davos, 2006 and Nor Aziah, 2006). This shows that a strong relationship exists between real income per capita and taxes reported. On the other hand, Alm & Mckee (1992) have concluded that a higher income will lead to a high compliance for paying taxes. Moreover, John and Stemrod (2008) indicates that the number of underreported taxes to the exact tax is higher from the low-income taxpayers. This means that lower income earners have low compliance to the tax authorities in paying taxes. It indicates that lower income taxpayers are more likely to evade taxes than the higher income taxpayers. Richardson (2006), when examining the relationship between the tax evasion and the complexity of tax structure, he concludes that the less complexity of the tax structure, the lower the evasion by individual and corporate organization.

Conclusively, previous studies have indicated that researchers do have some common variables in finding out the factors that determine tax evasion. These common factors are tax burden, tax rate, income level, source of income, tax penalties, public expenses, and corruption. In addition, tax audit, educational level, marital status, tax system, tax morale, tax administration, the public services and tax mentality have been included in past studies. Among these variables, only income level in relation to tax evasion was not tested in Nigeria. Studies regarding income level in other countries have also shown a mixed result. In addition to income level there are also several factors that determine tax evasion which have been studied and resulted in mixed or inconsistent findings. These factors are corruption, tax system, tax rate and education level.

Corruption for example, was tested in Nigeria and the results show a positive relationship (Akinyomi & Okpala, 2013) and a negative relationship (Tijani & Mathias, 2013) with tax evasion. Tax system as well as tax rate were also tested and the findings show inconsistent results. Education level, when tested, also the result shows a negative relationship (Peter et al., 2013 and Lutfi, (2009), inconclusive (Ranjana & Robert, (2009) and positive (Fasina et al., 2013 and Peter & Efiatoh, (2013) with tax evasion. Therefore, in this study five variables are to be used as independent variables (tax rate, tax system, corruption, income level and educational level), while tax evasion will be the dependent variable. The variables selected for this study are very important from Nigeria's perspective because of the inconsistent results (positive, negative and inconclusive), while income level has not been tested prior to this study. The following sections discuss these variables in relation to tax evasion.

2.4. Relationship between tax evasion and selected variables

This study draws a conclusion to use five variables as previously stated in section 2.4. The variables of interest have an inconsistent result, four variables with negative or positive results and another one has not been tested yet in Nigeria. Although income level has not been tested in Nigeria, studies in other countries found that it has a positive relationship with the evasion. Such studies include Alm & McKee (1992), John & Slemrod (2008) and Nor Ghani et al., (2012). The other four variables have inconsistent results. This could be due to the method used or the sample size or even the statistical tool used in analyzing the data by the previous researchers. These reasons make the results inconsistent and therefore, create the opportunity for further testing.

2.4.1 Tax System

Tax system is one of the variables used in various studies to test the taxpayers' attitude toward tax evasion. In this study it refers to a system that includes tax administration, revenue usage, tax laws, tax policies and collection of taxes in the country. Several empirical studies conducted used tax system as an independent variable in an attempt to examine the causes and problems of evasive behavior of developed and developing countries. Many studies found a positive relationship between tax evasion and tax system; see for example Mughal & Akram, (2012). Mughal & Akram (2012) in their study on tax evasion and tax avoidance in Pakistan tax system as one of their independent variables. The findings of the study show that the tax system in the country contributes positively toward taxpayers' perspective and stimulates evasion behaviors. The study also concludes

that the tax system will motivate taxpayer to comply or not to comply voluntarily with the tax authority.

However, according to Lutfi (2009) and Fakile & Uwuigbe (2013), the tax system have a negative relationship with tax evasion. Fakile & Uwuigbe, (2013) their study on the influence of tactical tax behavior on corporate governance in Nigeria shows that effective tax system are one of the vital mechanisms used by tax authorities for having excellent collection.

2.4.2 Tax rate

Tax rate is the amount of tax a taxpayer is going to pay according to the taxable item and principle of taxation. From developed and developing countries, 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). These studies concluded that the tax rate correlates with the ability of the taxpayers in behaving positively or negatively towards the perception of tax evasion. Taxpayers are using the high tax rate as a chance for evading taxes and in under reporting their income and earnings to the tax authorities. James & Moses (2012) in their study on the effect of tax management on government revenue in an emerging economy, conclude that a positive relationship exist between tax rate and tax evasion. Maria and Judith (2013) found in

their study that higher tax rate discourages tax compliance. While Mughal & Akram (2012) and Jayeola (2010), studied tax evasion & tax avoidance in Lagos state Nigeria. Both studies are in line with previous studies which show that there is a positive relationship between tax rate and tax evasion. The studies conclude that high tax rate attracts noncompliance and encourages tax evasion.

However, contrary to the above findings Nhano (2013), Fasina et al., (2013) and Adebisi et al., (2013) in their studies, found that there is a negative relationship between tax rate and tax evasion. On the other hand, Peter and Efiatoh (2013) in their study on behaviors of self-employed Nigerian concerning tax evasion, conclude that neither negative nor positive relationship exists between tax evasion and tax rate exist. Moreover, the finding of their study describes education level and tax system as factors determines tax evasion among the tested sample of the study.

2.4.3 Corruption

Corruption is an act by taxpayer to pay something to somebody in order to relief the taxpayer from taking part in paying tax or evading the taxes. Some literature indicates a positive relationship between tax evasion and corruption. Akinyomi and Okpala (2013), for example assess the factors persuading tax evasion and avoidance in Nigeria through a survey. Their findings have proven that the level of corruption has a positive relationship with tax evasion. Taxpayers are being rational in taking decision about their income and

reporting to the appropriate authority for tax assessment. If corruption exists among the tax collectors and tax authorities, then taxpayers can easily evade.

However, Tijani and Mathias (2013), when studying expert viewpoint of tax evasion in Nigeria, conclude that a negative relationship exist between corruption and tax evasion. Their respondents were tax agent, tax lawyers, tax practitioners and tax accountant. Therefore, there is a need to study the corruption level in relation to tax due to these mixed results. This may help to further identify and understand the taxpayers view point on complying with the tax laws and authorities.

2.4.4 Income level

Income is the primary source by which taxpayer is taxed for the purpose of financing public activities. Different modes are used when imposing taxes to determine how much a citizen should pay according to their earnings. Some evidence from the literature posits that low-income earners are highly engaged in the attitude of tax evasion (John & Slemrod, 2008). They further stated that a number of significant underreported taxes came from low-income earners. According to Alm & McKee (1992), high-income earners are less evasive i.e high income encourages and increases compliance. Therefore, the literature shows that there is a positive 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) in Malaysia, Bashar et al., (2008) and Devos (2006) in Australian & New Zealand. Nor Aziah et al. (2006), in their study on tax evasion in Yemen, found that income level has a significant relationship with tax evasion i.e, how much a person earns define the way he thinks in reporting and complying with the tax authorities.

On the other hand Lutfi, (2009) found that income level has no significant relationship with tax evasion. This means that, high or low income earnings, will not affect the taxpayers decision to evade taxes. According to the study, other factors are held responsible for non-compliance and not income status of the taxpayer.

2.4.5 Education level

Researchers have also used educational level as a factor to determine the relationship between tax evasion and the attitude of taxpayers. Peter and Efiatoh (2013) studied tax evasion and avoidance of the self-employed in Nigeria, concluded that there is a positive relationship between educational level and tax evasion. The level of knowledge of the taxpayer determines the attitude to evade taxes.

Similarly, Fasina et al. (2013) conducted a study about taxpayers' education in Lagos state, Nigeria and found that the knowledge level of taxpayer is one of the key

determinant factors of tax evasion. These studies show that low level knowledge taxpayers are more likely to evade taxes because of inadequate awareness of the implication of doing so (Devos, 2006; Nor Aziah et al., 2006). However, other studies in this area such as Lutfi, (2009) on causes of tax evasion, in Yemen and Peter et al., (2013) who found negative relationship exist between tax evasion and income level. On the other hand, Ranjana and Robert (2009), when conducting a study on tax evasion in New Zealand, found a non-conclusive relationship between education level and tax evasion. Taxpayer knowledge therefore, influences them to comply voluntarily or otherwise.

2.5 Literature Gap

From the above discussion on the topic and the relevant published studies available, there is enough evidence to carry out this study in Nigeria. Previous studies conducted in Nigeria include that of Adebisi and Gbegi (2013); Tijani and Mathias (2013); Ogunmakin (2013); Peter and Efiatoh (2013); Fasina (2013); Akinyomi and Okpala (2013); James (2012); Fakile and Uwuigbe (2012), Jayeola (2010); Temitope, Olayinka and Abdurrauf (2010). However, none of these studies have tested income level in relation to tax evasion. Nevertheless, income level has been tested in other countries and found to have a positive relationship with tax evasion. Therefore, this research will test the variable from Nigeria point of view. Similarly, due to some negative, positive and inconsistent findings from other studies in different countries as well as Nigeria, this study is going to test again the variables that have conflicting findings. The variables are tax system, tax rate, corruption and educational level. This will help in understanding the factors determining tax evasion from the taxpayers' perception.

2.6 Summary of the Chapter

In this chapter, discussions are made about the definition of tax evasion and the theoretical point of view from the Economic and Psychologist perspectives toward tax evasion. The chapter also includes factors determining tax evasion such as tax rate, tax system, corruption, income level and educational level. Consequently, literature gap is also discussed from the Nigerian point of view. The therefore study will help to understand the factors that influence and motivate Nigerian taxpayers toward tax evasion.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

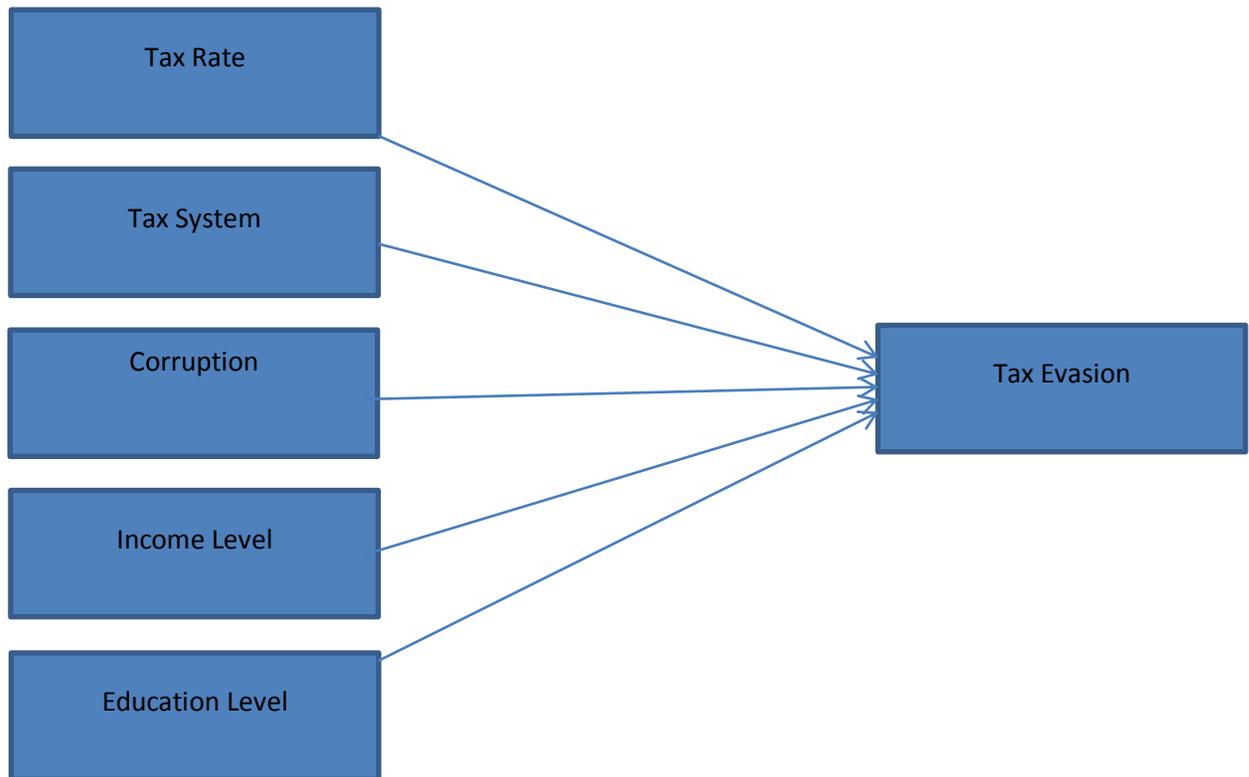
This chapter explains the methods and procedures that the study would use to derive its data. The chapter specifically consists of research design, research framework, hypothesis development, sources of data, collection of data, population and sample selection, and finally, variables measurement of the study.

3.2 Conceptual framework

This study use tax evasion as a dependent variable. The independent variables on the other side are tax rate, tax system, corruption, income level and education level. This study has developed a model (as illustrated in figure 3.1) to demonstrate the relationship between the tax evasion and selected variables accordingly. The model assists in greater understanding of the independent variables which provides more value to the tax authority in curbing tax evasion.

Figure 3.1

Research Frameworks for the Relationship between Variables



3.3 Hypotheses development

3.3.1 Dependent variable

The dependent variable in this study is tax evasion. Tax evasion behavior differs widely among taxpayers (Friedman et al., 1978). Tax evasion refers to the illicit event intentionally issued by a taxpayer to permit himself from the tax load (Venter and Hamel, 2005). The decision to underreport income appears to be influenced by different factors that predict the extent of underreporting. Since income tax is based on the principle of the

ability to pay, it is sensitive to tax evasion since more income or better income result in higher taxes paid.

3.3.2. Independent variables

3.3.2.1 Tax rate

In this study, tax rate is used as one of the independent variables. Allingham and Sandmo (1972) demonstrate that a possibility of detection or a higher likelihood of identification has a tendency to discourage evasion and a higher tax rate will instigate more tax evasion. Spicer and Becker (1980) found that tax rate is the most responsible factors to tax evasion when the sample in the study was told that their tax rate is higher than any normal taxpayer. On the other hand, evasion is lower when the sample was told that their tax rate was the lowest among normal tax payers. This result is consistent with several other studies which also indicate that the tax rate has a positive influence on tax evasion (Friedland et al., 1978; Clotfelter, 1983; Mason and Calvin, 1984; Collins et al., 1990; Bayer, 2006; Papp, 2008).

Clotfelter (1983) finds that non-compliance is positively identified with tax rate. Feinstein (1991) however, discovered a negative effect. Therefore, this study developed the following hypothesis:

H_1 : There is a positive relationship between tax rate and tax evasion.

3.3.2.2 Tax system

In this study, tax system is used as the independent variables. Tax systems in many different countries were studied and identified as the contributor factor that motivates taxpayers toward evading taxes. This study defines tax system from the perspective of fairness, efficiency, tax laws and policies and tax administration. Mughal and Akram (2012) suggested that tax system motivates taxpayers toward tax evasion. This is caused by the lack of trust and confidence in the tax system that motivates the taxpayers to hide and underreport their income for tax assessment. Similarly, Fakile and Uwuigbe (2013) in their study, concluded that poor and inefficient tax system in the country is one of the vital tools used by taxpayers to evade taxes.

Some previous studies found that tax system have a negative significant relationship with tax evasion (Lutfi, 2009; Mughal and Akram, 2012; Fakile and Uwuigbe, 2013). Studies have also proven that people evade taxes when they perceive that they are being treated unfairly (Webley et al., 1991, Cowell, 1992; Kim, 2002; Richardson, 2006). Spicer (1974) and Song and Yarbrough (1978) show that a positive relationship was found in a biased and unfair tax system and tax administration and tax evasions. Belkaoui (2004) also concludes that satisfaction towards efficient and effective tax laws have a positive impact with the level of tax reporting compliance. This shows that the tax system of a country is among the determinants variables in measuring the tax evasion among the taxpayers. Therefore, this study has developed the following hypothesis:

H_2 : There is a negative relationship between tax system and tax evasion.

3.3.2.3 Corruption

Corruption is also used as an independent variable in this study. Previous researchers studied this variable and the findings indicate that corruption is related to tax evasion. Akinyomi and Okpala (2013) found that taxpayers are more skeptical about corruption and it is among the main reasons for not complying with the tax authorities in reporting their taxes. The taxpayers are on the opinion that the high level of corruption among the tax personnel, corrupted tax system and administration encourage them to hide their income and thus motivates them toward tax evasion.

However, Tijani and Mathias (2013), when studying expert point of view of tax evasion using corruption as independent variable, discovered a negative relationship between tax evasion and corruption. They concluded that corruptions are not the factor that contributes and motivates taxpayers towards tax evasion. Other factors like tax administration and tax laws are to be blame. Therefore, this study developed the following hypothesis:

H_3 : There is a positive relationship between corruption and tax evasion.

3.3.2.4 Income level

In this study, one of the independent variables examined is the income level. John and Slemrod (2008), show that taxpayers with a low income have the highest possibility in evading taxes. They also added that a significant number of underreported taxes came from low-income earners. Similarly, Alm and McKee, (1992) found that the rate of

compliance with tax laws is much higher among the taxpayers with high-income earnings. This shows a negative relationship where high-income earners are less likely to evade tax, and they have a high rate of reporting their due taxes.

On contrary, other studies such as Nor Ghani et al., (2012), Bashar et al., (2008), Devos, (2006) and Nor Aziah et al., (2006) in their studies using income level as an independent variable, found that income level have a positive relationship with tax evasion. They conclude that high income earning through misconduct and fraudulent sources encourage underreporting and increase evasion. Therefore, this study has developed the following hypothesis:

H_4 : There is a negative relationship between income level and tax evasion.

3.3.2.5 Educational level

Education level is one of the independent variables in this study. Educational contentment is another vital determinant of tax evasion. Past studies demonstrated that tax knowledge are extremely fundamental to expand the in-depth of tax submission (Richardson, 2006; Kirchler et al., 2008). Park and Hyun (2003) recommended that tax education is one of the successful apparatus to acquaint taxpayers from a non-compliance behavior. Moreover, tax information will additionally diminish the capability of evasion. A cross-country study by Richardson (2006) involving 45 countries found a negative relationship between education and tax evasion. It indicates that taxpayers tendency towards tax evasion will decrease with the level of education. A negative relationship

between education level and compliance has also been found in studies by Dubin & Wilde (1988), Tan & Chin-Fatt (2000); Ritsema et al., (2003) and Adebisi and Gbebi (2013). Therefore, this study has developed the following hypothesis:

H_5 : There is a negative relationship between education level and tax evasion.

3.4 Method of Data Collection

A survey design was used to achieve the objectives of this study. Survey design is the best method in explaining prevailing characteristics of a large group of individuals. A survey is a way to attain self-reporting information about the assertiveness, ideas, opinions and behavior and other characters of the population (Sekaran, 2013). This study has collected data through a survey using a cross-sectional method. The data for this study was been analyzed using SPSS version 20.

3.5 Questionnaire Design

Questionnaire is one of the primary tools for data collection from the respondents in this study. The nature and design of the questionnaire that are employed relies on the studies that have been carried out previously. The questionnaire of this study consists of close-ended as well as open-ended questions. The questions were adopted from previous studies which have been modified and verified. Section A and B relate to the information concerning the independent variables. Section C consists of the question on dependent the variable.

Pilot study was first conducted prior to the current research to test the reliability, of the questionnaire. A sample of 30 questionnaires was self-administered and dully completed by the target respondents. The respondents were public and private sectors taxpayers in Gombe state. The respondent population was collected from the tax authority Gombe state internal revenue services. The analysis as shown in Table 3.1 depicted that the reliability Cronbach’s Alpha for all the variables are acceptable as they range from 0.603 to 0.702.

Table 3.1

Pilot study reliability test result

Variables	No. of Item	Cronbach’s Alpha
Tax rate	5	0.603
Tax system	5	0.665
Corruption	5	0.697
Tax evasion	5	0.702

The result shows that the Cronbach’s Alpha is more than 0.6 in the study which indicates that the questions are consistent and reliable in capturing the information from the respondent. According to Zikmud (2003) reliability test means the extent to which measurement tools are free from error and therefore produce consistent finding.

The entire questions are based on a five-point Likert scale adopted from previous studies of James & Moses (2012), Amirah (2011), and Jayeola (2010). The questionnaires consist of 30 items. The questionnaires were self-administered to 379 taxpayers in the

Gombe State including both public and private sectors taxpayers. Public taxpayer refers to government employees while private taxpayers are employees of private sectors such as bank and firms or company. The sample size was determined based on Sekaran (2013) (please refer to appendix B of this thesis).

3.6 Sources of Data Collection

According to Sekaran (2013), the primary data is the information obtained about the variables of interest for a particular or specified purpose of the research. For the purpose of this research, primary data was used and collected by employing structured questionnaire. The taxpayers were asked to answer the entire question, and the questionnaires have to be returned after they had been filled. A total number of 303 questionnaires representing about 80% of the sample were duly completed and returned accordingly. This respond rate is sufficient for data analysis according to Sekaran (2013).

3.7 Population of the Study and Sample Size

Due to the time, budget and geographical distance constraint, it was not possible to collect data from the entire population of Gombe state taxpayers. The population of this study consists of individual taxpayers from both the public and private sectors employees which involve 26,313 taxpayers registered with state board of internal revenue service (Gombe State Board of Internal Revenue, 2014). Based on the population size, the appropriate sample size chosen for this study is 379. This is in accordance with the sample size proposed by Sekaran (2013).

3.8 Sampling Technique

According to Sekaran (2013), sampling is the process of selecting a sufficient number of elements from the population so that it would be possible to generalize the characteristics of the population based on simple random sampling technique. By using this sampling technique, 379 samples were randomly selected from the entire population. The questionnaires were self-administered to the respondents from both public and private employees selected at their various employment premises.

3.9 Variables Measurement

This study aims to outline the factors that contribute to tax evasion in Nigeria. In gathering a complete data, questionnaires were distributed randomly to the respondent. These questionnaires have three sections which are to be filled by the respondents. The measures used were adapted from past studies and amended to suit the present study. These measurements are explained according to the following sections.

SECTION A

The section includes the questions that are related to the independent variables which contribute to tax evasion. It consists of variables such as tax rate, tax system and corruption. The factors that contribute to tax evasion on these three areas were measured by adopting the measurement used by James & Moses (2012), Amira (2011) and Jayeola (2010). Fifteen statements were developed to cover the three areas, which are five statements for tax rate, five statements for tax system and five statements for corruption.

In this section, the questions are also in the form of Likert-Scale of five points (1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree) to show the correlation between factors that contribute to tax evasion. Questions in this section are stated as below.

Table 3.2

Items for Factors that Contribute to Tax Evasion

3.2.1 Tax rate

Dimensions	Items/Statement
Tax rate	Tax evasion is acceptable if the tax rate is too high. Tax evasion is acceptable even if the tax rate is too low. It is worth to evade tax if the tax rate is high It is worth to evade tax even if the tax rate is low Tax evasion is acceptable if the tax rate is low because the government is not entitled to take as much as it is taking from me

3.2.2 Tax system

Dimensions	Items/Statement
Tax System	Tax evasion is acceptable if the tax system is unfair Tax evasion is acceptable if the tax system is fair Tax evasion is acceptable even if all the money collected is spent wisely Tax evasion is acceptable even if most of the money collected is spent wisely Tax evasion is acceptable if the money collected is misused by the tax collectors

3.2.3 Corruption

Dimensions	Items/Statement
Corruption	Tax evasion is acceptable if there is too high corruption in the tax administration Tax evasion is acceptable if there is little corruption in tax administration Tax evasion is acceptable even if the money am to collected is used wisely without corruption Tax evasion is acceptable even if there is no corruption in the system Because of corruption I have the rights to evade tax

SECTION B

This section consists of the questions about the respondents' educational level and income level. The section contains two items which have dichotomous and multiple-choice answers. The respondents were asked to tick the appropriate income level group that they belong to. Measurement of this variable was adopted from James and Moses (2012) and Amira (2011).

Table 3.3

Factors that Attributes to Tax Evasion

3.3.1 Income level

Dimensions	Items
Income	₦ 220, 000 and below ₦ 221, 000 - ₦ 250, 000

level	₦ 251, 000 - ₦ 400, 000 ₦ 401, 000 - ₦ 700, 000 ₦ 701, 000 and above
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3.3.2 Educational level

Dimensions	Items
Educational level	BSSC, SSC, Diploma, Bachelor degree/ HND Postgraduate.

SECTION C

Dependent Variable

This section asks the questions that are related to the dependent variable which is tax evasion. The dependent variable measured the taxpayers' opinion about the percentage of people who are evading taxes in Nigeria. Five-measurement were adapted to measure tax evasion from the opinion of the respondents. First, the percentage of Nigerian who evades taxes. Second, the acceptance level of percentage of tax evasion in Nigeria. Next, the percentage of tax evasion in Nigeria. Fourth, the percentage of public servant who are evading taxes in Nigeria. Finally, the percentage of private employees who are evading taxes in Nigeria. For the five measurements, the scale from 1-100 percent was used. This measurement was further assigned into ten groups with the respective values of 1 to 10. The measurement was adapted from Alm and Torgler (2006) and Zaid (2009).

Table 3.4

Dependent Variable Measurement Scale

Values	Percentages
Value 1	From 1 per cent to 10 per cent
Value 2	From 11 per cent to 20 per cent
Value 3	From 21 per cent to 30 per cent
Value 4	From 31 per cent to 40 per cent
Value 5	From 41 per cent to 50 per cent
Value 6	From 51 per cent to 60 per cent
Value 7	From 61 per cent to 70 per cent
Value 8	From 71 per cent to 80 per cent
Value 9	From 81 per cent to 90 per cent
Value 10	From 91 per cent to 100 per cent

Note: value from 1 to 10 represents the severity of tax evasion i.e value 10 highest and value 1 lowest.

Value 1 represents the percentage of evasion from 1 per cent to 10 per cent which is the lowest value in the scale for tax evasion level. Value 10 represents the percentage of evasion with a range of 91 per cent to 100 per cent which is the highest (severity) in describing and rating the tax evasion level.

3.10 Method of Data Analysis

The data in this study was analyzed using a multiple regression model after conducting the reliability test, multicollinearity test, variance inflation factor, descriptive statistics and Pearson correlation. The multiple regression result provides the extent of significant relationship between the independent and dependent variables. The model is as follows:

$$\text{TE} = (\text{Constant}) \beta_0 + \beta_1 \text{rate} + \beta_2 \text{system} + \beta_3 \text{corruption} + \beta_4 \text{income} + \beta_5 \text{education} + \epsilon$$

Where,

TE= tax evasion

Rate= tax rate

System= tax system

Corruption= corruption

Income= income level

Education= education level

β_0 =variables that are held constant

ϵ =other variables which are not tested in this study

3.11 Summary of the Chapter

This chapter discusses the research methodology used in the study. The research model and hypotheses developed are explained accordingly. Similarly, the method of data collection as well as questionnaire design is explained clearly. The sources of data collection, population of the study and sample size, sampling technique are also covered. In addition, the variable measurements of the study are also discussed. Finally, this chapter serves as a basis for the next chapters of the thesis.

CHAPTER FOUR

DATA ANALYSIS AND RESEARCH FINDINGS

4.1 Introduction

This chapter focuses on analyzing the data generated and the interpreting the result of the study. The result and research finding according to the research objectives and hypotheses in the study are also discussed. The data collected was analyzed using Special Package for Social Sciences (SPSS) version 20.

4.2 Reliability Test

Reliability is the extent of which an experiment, test or even measurement process is expected to yield the same outcome on a recurrent trial. According to Zikmund (2003), reliability simply means the extent to which measurement tools are free from error and therefore, produce a consistent result.

According to Sekaran (2013), any reliability factor that shows less than 0.60 will be considered as poor. The minimum acceptable factor should be in the range of 0.60. There are various measurements of reliability coefficients such as split half reliability, Guttman, parallel, strictly parallel and Cronbach's alpha. However, the most frequently used is Cronbach's alpha because it can be interpreted as a correlation coefficient and ranges in value ranging from 0 to 1 (Coakes and Steed, 2003). Therefore, in this study, Cronbach's alpha was used as a measure of reliability for each variable to be used in analyzing and interpreting the data.

Table 4.1

Result of Reliability Test

Variables	No. of Items	Cronbach's Alpha
Tax rate	5	0.603
Tax system	5	0.725
Corruption	5	0.734
Tax evasion	5	0.745

According to Maslach and Jackson (1986), the reliability analysis result will be accepted provided that the Cronbach's Alpha coefficient range is between 0.6 and 1.0. Therefore, from Table 4.1, result shows that Cronbach's Alpha of tax rate, tax system, corruption and tax evasion are 0.603, 0.725, 0.734 and 0.745 respectively. The result shows that there are consistency, reliability and stability in the answers provided by the respondents of the questionnaires.

4.3 Multicollinearity

Multicollinearity refers to a situation in which two or more descriptive variables in a multiple regression model are extremely linearly connected. Therefore, multicollinearity is used to find out whether there is any relationship among the independent variables. This can be explained by the degree of which any variable impact can be predicted with the other variable (Hair, Anderson, Tatham and Black, 1998). Multicollinearity will be a serious issue in multiple regressions because of the difficulties of identifying the effect of

each independent variable on the dependent variable. However, a common approach used for measuring multicollinearity is the Variance Inflation Factor (VIF) for each independent variable. The independent variable is considered to be highly related if the value of variance inflation factor (VIF) is above 10, resulting in a problem of multicollinearity (Silver, 1997). Pallant (2005) suggests that multicollinearity is in order if the values of VIF are less than 10.

Table 4.2

Variance Inflation Factor

Variables	Tolerance	VIF
Tax rate	.82	1.217
Tax system	.75	1.347
Corruption	.87	1.162
Income level	.78	1.217
Educational level	.85	1.099

Table 4.2 shows the Variance Inflation Factor (VIF) for tax rate, tax system, corruption, income level and education level are 1.217, 1.347, 1.162, 1.217 and 1.099 respectively. This shows that there is no multicollinearity problem as the VIF value for each variable is not more than 10. This shows that the multicollinearity assumption is not violated ($VIF < 5 / \text{tolerance} > 0.20$; condition index < 30) (Hair, Sarstedt, Ringle, and Mena, 2012).

4.4 Assumption Test

Normality, linearity, histogram and independence of residuals are investigation of residual scatter plots to test the assumption (Coakes and Steed, 2003).

Figure 4.1 Histogram of Dependent Variables (TE)

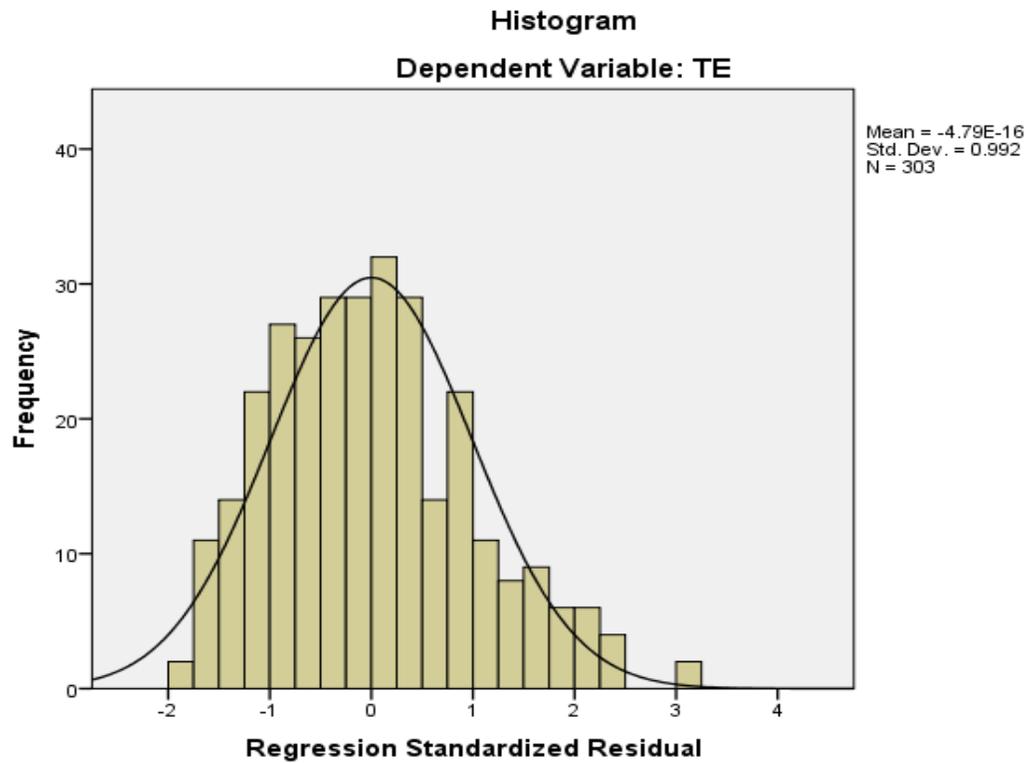


Figure 4.2 Normal P-P plot of Regression Standardized Residual

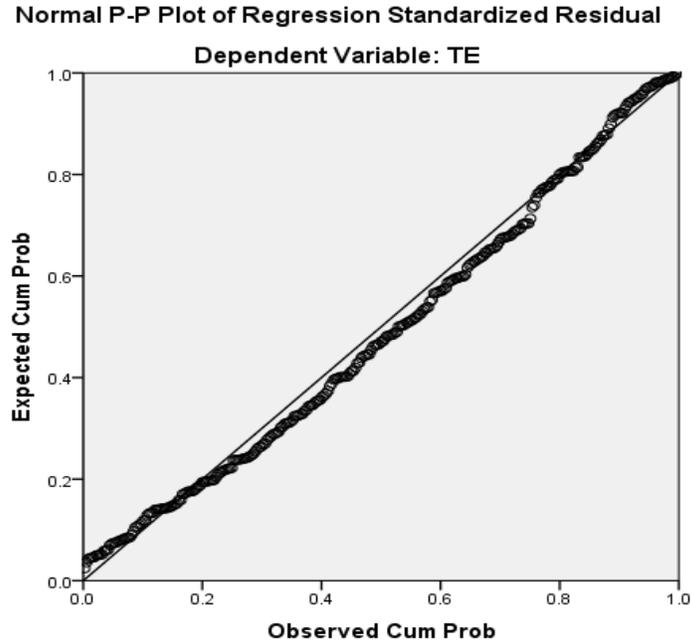


Figure 4.1 and 4.2 show that the normal plot of regression standardized residuals for the independent variables is relatively normal distributions. This indicates that there are the variables that significantly predict tax evasion.

4.5 Descriptive Statistics

Descriptive analysis i.e., means and standard deviations are used to obtain the interval-scaled of the dependent and independent variables. The means and standard deviations used in this study for all the variables are stated below in Table 4.3 and Table 4.4.

Table 4.3*Result for Dependent Variables*

Variables	N	Mean	Standard deviation
The acceptance level by people on tax evasion	303	8.06	1.68
Percentage of the people in Nigeria evade tax	303	8.19	1.92
The level of tax evasion in Nigeria	303	7.67	1.82
Percentage of public service who evade tax	303	5.23	1.13
Percentage of private service who evade tax	303	7.09	1.32

Table 4.4*Result for Independent Variables*

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

In Table 4.3, the items for the dependent variable were measured based on a 10-point scale. The result indicates that the mean value for the acceptance level by people on tax evasion is 8.06 with a standard deviation (SD) of 1.68. Percentage of the people in

Nigeria who evade tax has mean value of 8.19 and SD of 1.92. The level of tax evasion in Nigeria has mean value of 7.67 and SD of 1.82. Percentage of public civil service who evade tax has mean value of 5.23 and SD of 1.13, and the percentage of private service who evade tax has mean value of 7.09 and SD of 1.32. This indicates clearly the way Nigerian taxpayers perceived the level of tax evasion in the country. Moreover, the highest among the five questions with the highest percentage is the level of tax evaders in Nigeria with a mean of 8.19 (81.9%). Similarly, the lowest in the list is the public service employees with a mean of 5.23 (52.3%). From this analysis, it is clear that the majority of Nigerian's are evading taxes. This may be due to the government which does not pay much attention to personal income taxes as compared to the heavy reliance on crude oil revenue (National Tax Policy, 2008; Ariyo, 1997). In addition, the percentage of public service employees who evade taxes was the lowest (52%) because their taxes have been deducted at source from their salaries. The result also shows that the percentage of tax evasion acceptance level is high as depicted in Table 4.3. Finally, the private employee's have a relatively high number of evaders because not all of them are reporting the true and fair value of their income for tax purposes (Fasina & Olowokere, 2013).

In Table 4.4, the independent variables were examined based on a 5-point Likert-scale. The findings show that the tax rate mean value was 2.85 and SD was 0.88, tax system mean value was 3.20 and SD was 1.02 corruption mean value was 3.29 and SD was 1.03. Income level mean value was 3.17 and SD and 1.39 and education mean value was 3.55 and SD was 0.968

Table 4.4.1***Result for Tax Rate***

S/No	Statements	Frequency	Mean	Rank
1	Tax evasion is acceptable if the tax rate is low, because the government is not entitled to take as much as it is taking from me.	77 25.4 %	3.07	1
2	It is worth to evade tax if the tax rate is high	56 18.5%	2.92	2
3	Tax evasion is acceptable if the tax rate is too high	72 23.8%	2.90	3
4	Tax evasion is acceptable even if the tax rate is too low	60 19.8%	2.77	4
5	It is worth to evade tax even if the tax rate is low	38 12.5%	2.63	5

Table 4.4.2***Result for Tax System***

S/No	Statements	Frequency	Mean	Rank
1	Tax evasion is acceptable if the tax system is unfair	64 21.1%	3.37	1
2	Tax evasion is acceptable if the money collected is misused by the tax collectors	70 23.1%	3.32	2
3	Tax evasion is acceptable if the tax system is fair	56 18.5%	3.24	3

4	Tax evasion is acceptable even if all the money collected is spend wisely	73 24.1%	3.08	4
5	Tax evasion is acceptable even if most of the money collected is spend wisely	40 13.2%	3.03	5

Table 4.4.3

Result for Corruption

S/No	Statements	Frequency	Mean	Rank
1	Because of corruption I am right to evade tax	73 24.1%	3.46	1
2	Tax evasion is acceptable if there is too high corruption in tax administration	68 22.4%	3.43	2
3	Tax evasion is acceptable if there is low corruption in tax administration	62 20.5%	3.27	3
4	Tax evasion is acceptable even if there is no corruption in the system	42 13.9%	3.17	4
5	Tax evasion is acceptable even if money collected is used wisely without corruption	58 19.1%	3.13	3

The statements in Table 4.4.1, 4.4.2 and 4.4.3 were all recorded as negative statement. That is a positive statement was converted to negative statement and a negative statement remains as it is. Table 4.4.1 is the result for tax rate. Statement **1** has a frequency of 76 or

25.4% and a mean value of 3.07. From the analyses, the finding shows that statement **1** ranks the highest by the taxpayers. This means that even if tax rate is low 25.4% of Nigerian are evading taxes because they view that the government has already been collecting a large amount of taxes from them. It is then followed by the statements number **2, 3, 4** and **5** in the table. This indicates how taxpayers are geared seriously about the rate they are paying on income tax.

Table 4.4.2 shows the result of tax system. Statement **1** has a frequency of 64 or 21.1% and a mean value of 3.37. The finding indicates that statement 1 gains the highest consideration in relation to other statements under the variable. This could be cause by taxpayers considering that the unfair, ineffective and poor administration of the tax system would lead them to pay high taxes, hence they try to reduce and underreport their earnings which eventually resulted in evading the taxes completely.

Table 4.4.3 shows the result for corruption. Statement **1** has a frequency of 73 or 24.1 % and a mean value of 3.46, which is the highest score as compared to other statements. The finding indicates that statement **1** is considered the most serious by taxpayers. The higher the corruption level in the tax administration and tax system, the more taxpayers would evade paying taxes. Corruption decreases compliance level and encourages evasion practice among people. In this study, statement 5 has the lowest mean value where the taxpayers are less agreeable that tax evasion is acceptable even if the money collected is used wisely without corruption.

4.6 Pearson Correlation Analysis

Pearson Correlation matrix shows the direction, significant and strength of the bivariate associations between the variables in the study. Table 4.5 shows the relationship between tax evasion (dependent variable) and the five variables (independent variables).

Table 4.5
Correlation Matrix between Dependent and Independent Variables

		TE	TR	TS	CR	income level	education level
TE	Pearson Correlation	1					
	Sig. (1-tailed)						
	N	303					
TR	Pearson Correlation	.138**	1				
	Sig. (1-tailed)	.008					
	N	303	303				
TS	Pearson Correlation	.173**	.401**	1			
	Sig. (1-tailed)	.001	.000				
	N	303	303	303			
CR	Pearson Correlation	.133*	.144**	.242**	1		
	Sig. (1-tailed)	.010	.006	.000			
	N	303	303	303	303		
income level	Pearson Correlation	.137**	.004	-.201**	.214**	1	
	Sig. (1-tailed)	.008	.470	.000	.000		
	N	303	303	303	303	303	
education level	Pearson Correlation	.172**	-.129*	-.137**	-.062	.251**	1
	Sig. (1-tailed)	.001	.013	.008	.141	.000	
	N	303	303	303	303	303	303

** . Correlation is significant at the 0.01 level (1-tailed).

* . Correlation is significant at the 0.05 level (1-tailed).

From Table 4.5, the result shows that corruption has a positive significant correlation of 0.133 with tax evasion at a level of 0.05. While education level, income level, tax system (TS) and tax rate (TR) correlate significantly with tax evasion at 0.172, 0.137, 0.173 and 0.138 respectively at a level of 0.01. The finding shows that only corruption that has a positive relationship with tax evasion at a significant level of 0.05. The other four variables (tax rate, tax system, income level and education level) all have positive correlations with tax evasion at a significant level of 0.01. The findings indicate positive collection between the dependent variable and the independent variables at different significant levels. The findings are discussed further in the following sections. Overall there is no negative correlation between the independents and dependent variables in this study. A one-tailed test was used in this study to weigh the relationship between the variables to confirm the hypotheses and the t-value was used to evaluate the significant level.

4.7 Multiple Regression Analysis

In this section, the discussions are more focus on the relationship between the dependent variable and the independent variables in this study by deploying multiple regression techniques. Multiple regression is the most common technique used in a situation whereby the research is aimed to predict a single continuous dependent variable by a

given continuous or classified independent variables (Genser et al., 2007). Thus, the result of multiple regressions analyses of the regression model is shown in Table 4.6.

Table 4.6

Summary of the Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.695 ^{a)}	.484	.397	1.85408

a) Predictor (constant), tax rate, tax system, corruption, income level, education level

b) Dependent variable: tax evasion TE

The results as measured by R^2 which indicate the effect of the independent variables over the dependent variable. This explains the independent variable value of 0.397 variance in tax evasion as depicted in Table 4.6. The adjusted R^2 of 39.7% indicates that the variables in this study contributed a portion in determining their relationship with tax evasion. The result also describes the extent to which tax evasion impacts on taxes collected and how taxpayers perceived the taxation process.

Table 4.7 shows the Coefficients that provides the optimum weights in the regression model of the study.

Table 4.7

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
1 CR	.119	.105	.067	1.131	.259
income level	.146	.080	.111	1.830	.068
education level	.343	.109	.182	3.147	.002

As proposed by Lind, Marchal and Wathen (2013) and Kumar, Talib and Ramyah (2013), the t-value > 1.645 shows that the relationship between independent and dependent variables are significant and thus, the hypothesis cannot be rejected and thus accepted.

According to the result presented in Table 4.8, the multiple regressions can be expressed as follows:

$$TE=1.428+.168rate+.306 system+.119corruption+.146income +.343education$$

With:

$$TE=\text{tax evasion}$$

(Rate=tax rate, System=tax system, Corruption=corruption, Income=income level and Education=education level).

From the regression equation, the result indicates that the level of tax evasion is positively associated with tax rate, tax system, corruption, income level and education level. The coefficients (B) indicate that the impact of the dependent variable (tax evasion) of a unit is fluctuating between decreasing and increasing in any of the independent variables.

However, the value of adjusted R^2 for all the variables generated from the multiple regression analysis is not high i.e 39.7%. This indicates that the independent variables in this study explain the factors determining tax evasion in less than 40%. However, the small contribution of the variables could be due to the geographical location, political and economic factors of the taxpayers which could not be included in this study due to the constraint and limitation of the research which are discussed in chapter 5 of this thesis.

On the other hand, the coefficient analysis result shows that the tax rate, tax system, corruption, income level and education level have significant influences toward tax evasion. That is, the independent variables are positively correlated with tax evasion at 0.05 and 0.01 level. The findings of the study indicate that the independent variables are representing the opinion of the taxpayers regarding the factors influencing the evasion. Hence, understanding and tackling the factors that determine taxpayers' perceptions toward evasion would improve the process of collecting taxes in the country.

Table 4.8*Hypotheses and Variables Findings*

Hypotheses	Variable	Beta	SE	t-value	p-value	Findings
H1	Tax rate	.082	.125	1.348	.179	Accepted
H2	Tax system	.171	.144	2.679	.008	Rejected
H3	Corruption	.067	.105	1.131	.259	Accepted
H4	Income level	.111	.080	1.830	.068	Rejected
H5	Education level	.182	.109	3.147	.002	Rejected

In Table 4.8 the results from the hypotheses tested in this study are summarized. First, **Hypotheses 1** stated that there a positive relationship between tax rate and tax evasion. As shown in Table 4.9, the result indicates that there is a positive relationship between tax evasion and tax rate. Thus, the value of $P=0.179$ is positive while $\beta=0.082$; $t= 1.348$; $p > 0.10$.

This shows that tax rate has a positive effect towards tax evasion which indicates that the taxpayers highly regarded the rate of tax in deciding whether to comply or not to comply. The higher the rate of taxes imposes, the higher taxpayers' non-compliance increases. On the other hand, when the rate of tax is low, taxpayers are expected to comply more with

the tax authority. Therefore, the hypotheses stated for the study is accepted and supported. The result of this study is supported by previous researches of Friedland et al., (1978) and Clotfelter (1983), Mason & Calvin (1984), Collins et al., (1990), Bayer (2006) and Papp, (2008). The reason for positive but insignificant result could be that the majority of the Nigerian taxpayers are public and private sectors employees. The self-employed and informal businesses who are the major economic players in the country are the major evaders of taxes. However, they are not included in the scope of this study. Therefore, based on the result of this study, hypotheses 1 is accepted.

Secondly, **Hypotheses 2 stated** that there is a negative relationship between tax evasion and tax system. As shown in Table 4.9, the result shows positive and significant relationship between tax system and tax evasion where the P value is 0.008, $\beta = .171$; $t = 2.679$; $p < 0.10$.

In many developing nations such as Nigeria, the taxpayers are evading taxes due to the nature of their income and administration of the tax system in the country. There are many instances where a taxpayer suffers a double tax resulting in them looking for other alternative to underreport their income or over claim their expenses (tax relief). Poor tax administration and inefficient tax personnel (mistrust in tax personnel) can change the perception of individuals toward the tax system of a country like Nigeria and their compliance level determine (Ayodele 2006). This indicates how taxpayers are highly conscious and consistently worried about the effectiveness of the tax system. The

unfairness and the mistrust in government and tax administrators are some of the motive that encourages taxpayers to evade paying their taxes despite the tax system is well organized. Moreover, whenever the tax system lacks effective administration and proper implementation, taxpayers would not pay attention toward reporting the true position of their income thus, evasion will increase simultaneously (Ariyo, 1997 and Abiola and Asiweh, 2012). The result of this study is in lined with previous studies that have found a positive significant relationship between the tax system and tax evasion. Among the studies include Cowell (1992), Kim (2002), Richardson (2006), Lutfi (2009), Mughal and Akram (2012), and Fakile and Uwuigbe (2013). However, the hypothesis on this variable will be rejected and cannot be supported by the finding of this study. This indicates that Nigerian taxpayer's considers an effective and efficient tax system without an effective and efficient tax administration would not discourage evasion. On the other hand, a poor, ineffective and inefficient tax system will also motivate evasion and contributes towards non-compliance. Therefore, hypothesis 2 is rejected and cannot be supported.

Thirdly, **Hypotheses 3** states that there is a positive relationship between corruption and tax evasion. As shown in table 4.9, the finding of the study shows a positive relationship exist between corruption and tax evasion with a P value of 0.259; $\beta=0.067$; $t= 1.131$; $p >0.10$.

The result indicates that the corruption within the boundaries of taxes reduces the level of compliance. The result of the study shows that a positive relationship exists between

corruption and tax evasion at a t-value of 1.131. The result is supported by Akinyomi and Okpala (2013). Hypothesis 3 is stated in a positive manner and the result concludes that it is positive. Therefore, hypothesis 3 is accepted. This is an indication that corruption is positively correlated with tax evasion. That is, having a high corruption in the tax administration, taxpayers are more likely to evade taxes.

Fourthly, **Hypotheses 4** stated that the income level have a negative relationship with tax evasion. As shown in Table, 4.9, however, the result shows a positive relationship between income level and tax evasion with a P value of 0.068; $\beta=0.111$; $t= 1.830$; $p >0.10$.

The result shows a contrary 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 evades more taxes. On the contrary, in Nigeria, high income earners are minimizing their taxes paid through excessive claims of tax liabilities and exemption (tax relief) to avoid paying the tax due this finding is supported by Ahunwa (2009). In addition, some of the earnings of the taxpayers are gained are through misappropriation of income and not abiding the tax laws. If reported, the taxpayer would be found guilty and would be executed (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 authorities. This allows them to underreport the income tax for assessment purposes (Popoola, 2009). The perception of taxpayers regarding taxes differs depending

on the level of taxpayer income. In this study, the P value is greater than 1.00 but the relationship is still significant. According to Lind, Marchal and Wathen (2013); Kumar, Talib and Ramyah (2013), the t-value > 1.645 demonstrates that the relationship is significant and the hypothesis can be accepted. Nigeria is a developing nation, where the income level is a crucial determinant factor of tax compliance. This is because Nigerian is weighing the cost and benefit they are expecting from tax compliance. In this instance, the respondents income profiles in this study indicate that the percentage of low-income earners is between 13.5 to 18.2%. While the percentage of the middle and/to high-income earners ranges between 21.5 to 23.8 per cent. Therefore, the level of individual earnings determines the compliance evasion level as suggested by previous studies (Devos, 2006), The finding of the study was supported by previous studies of Alm and McKee (1992), Nor Aziah et al., (2006) and John & Slemrod (2008). Others are Bashar et al., (2008); and Nor Ghani et al., (2012). Therefore, hypotheses 4 as proposed in this study are rejected.

Next, **Hypotheses 5** stated that there exist a negative relationship between education level and tax evasion. As shown in Table 4.9, the positive relationship between tax evasion and education level are with a P value of 0.002; $\beta = .182$; $t = 3.147$; $p < .10$.

The taxpayer's knowledge concerning the tax reported is critical in determining the perception of taxpayer education level toward the tax evasion. An adequate knowledge of taxes leads to a good understanding of tax laws and policies and hence facilitates compliance and paying taxes voluntarily. This is because, naturally, the level of

education affects the attitude and behavior of individual positively. Nigeria has been a developing country but the taxpayers are not highly aware about tax policy and laws (Fakile & Olowokere, 2013). This in turn affects the behavior and perception of people towards tax evasion. However, the more the knowledge taxpayer possess would determine the ability of manipulation and interpretation of tax law in reducing the amount to paid for tax. Because people will always try to minimize their cost and to maximize the benefits through exploiting the environmental and economic (Smith & Kinsley 1987). In this study, the reason for selecting the respondent sample of public and private employees is their perception level of education toward tax evasion. The outcome shows a positive and significant relationship between tax evasion and the education level. The finding is supported by previous studies of Park and Hyun, (2003) and Guldana (2013). Hypothesis proposed in this study is therefore not supported and rejected.

4.8 Summary of Findings

Having presented and discussed the results from the regression analyses and test of the significant levels Table 4.10 summarizes the findings of the 5 hypotheses tested.

Table 4.9

Summary of Findings

Hypothesis	Statement	Findings
H1:	There is a positive relationship between tax rate and tax evasion	Accepted
H2:	There is a negative relationship between tax system and tax evasion.	Rejected
H3:	There is a positive relationship between tax corruption and tax evasion	Accepted
H4:	There is a negative relationship between income level and tax evasion	Rejected
H5:	There is a negative relationship between education level and tax evasion	Rejected

Based on the above analysis, the research questions and objectives of this study can be addressed as follows:

Research question 1: What is the level/extent of tax evasion in Nigeria?

The research question as well as research objective has been addressed by measuring the extent of tax evasion from respondents' point of view. The respondent of this study clearly indicate the level of evasion as shown in Table 4.3. The acceptance level of evasion by people has a mean of 8.06 or 80.6 per cent of the sample. Similarly, the percentage of people who are evading taxes in Nigeria is 8.19 representing 81.9 per cent of the sample. The extent of tax evasion in Nigeria has a mean of 7.67 representing 76.7 per cent of the sample all out 100 percent. Finally, the percentage of public service

taxpayers who evade taxes has a mean value of 5.23 per cent representing 52.3% and those from private sector taxpayers have a mean value of 7.09 representing 70.9 per cent of the sample in the study. From this analysis, the question and objective one have been addressed. This research succeeds in determining the level of tax evasion from five different perspectives. There is no doubt from the findings that tax evasion is one of the major problems in Nigeria.

Research question 2: What is the relationship between tax rate, tax system, corruption, income level, education level and tax evasion in Nigeria?

This question and objective have been addressed by correlating the variables and conducting a regression analysis on the variables. Firstly, from the finding of the analysis, the result shows that there is a positive but insignificant relationship between tax rate and tax evasion. Secondly, the relationship between the tax system and tax evasion was found positive and significantly associated. Thirdly, the relationship between corruption and tax evasion shows a positive but insignificant association. Fourthly, the relationship between income level and tax evasion was positively significant. Finally, the relationship between education level and tax evasion was tested and found positively related.

Overall, from the above research questions objectives, no negative relationship was found between the dependent and independent variables. The findings of the study are also

supported by previous studies that were conducted to determine the relationship between tax evasion and selected variables. Moreover, this study reflects the previous researchers' work who shares the same findings and conclusion on the tested variables toward tax evasion.

4.9 Summary of the Chapter

In this chapter, the result of the study was analyzed and presented by using statistical tools to reach the findings. The chapter starts by testing and ensuring the reliability/normality of the data and ensure that the linearity assumption of multiple regression is achieved. This is to avoid the problem of multicollinearity when testing the data using regression analysis. Descriptive statistics were also analysed to explain the means and standard deviations of the dependent and independent variables of the study. Pearson correlation was also tested to verify the relationship between the dependent and independent variable and to finding out the significant level of correlation. The findings of the regression analysis were used to test the acceptability of the hypotheses. Discussion of the findings was provided and the research questions as well as objectives of the study were achieved.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This study investigates the relationships between tax rate, tax system, corruption, income level and education level with tax evasion. This chapter presents the summary of the empirical findings based on the research objectives and research questions of this study. Furthermore, the significant of the findings in terms of theory, practical and implication to policy makers and other stakeholders presented. Finally, the study provides conclusion and recommendations for future research.

5.2 Summary

This study examines the relationship between tax rate, tax system, corruption, income level and education level as independent variables and tax evasion as the dependent variable. In chapter four, the analyses of the data and research findings are presented. The finding shows that positive relationship exists between tax rate and tax evasion. This indicates that Nigerian taxpayers are more concerned about the rate of their taxes in determining tax compliance. The second variable i.e tax system has a positive significant relationship with tax evasion. The taxpayers' perception of the tax system shows that they are concerned committed whether the tax administration are efficient and effective when reporting their income for tax purposes. It also indicates that inadequate and ineffective tax administration contributes positively toward tax evasion. The relationship between corruption and tax evasion was also found positive but insignificant. This indicates that

the level of corruption is affecting tax evasion. The higher the corruption in the tax authorities, the more taxpayers evade taxes. With regard to the relationship between income level and tax evasion a positive and significant relationship was observed. The relationship indicates that the income of the taxpayer determines the level of his compliance. From the research findings, high-income earners are less compliance with the tax authority and are more likely to evade taxes. Finally, the relationship between education level and tax evasion shows a positive and significant association. Level of education is an indicator of compliance by the taxpayers'. Understanding the tax laws and policies does facilitate tax compliance.

From the hypothetical point of view, two of the hypothesis proposed in this study is accepted, while another three are rejected. Hypothesis 1, proposed a positive relationship between tax rate and tax evasion. The result also indicates a positive association exists between the two variables. Thus, hypothesis 1 is accepted. Hypothesis 2 proposed that there is a negative relationship between tax system and tax evasion. The result of the analysis indicates that positive relationship exists between the variables. Therefore, the hypotheses is not supported and rejected. Hypotheses 3 proposed that there is a positive relationship between tax evasion and corruption. The outcome of the analysis show that a positive relationship exists between the variables. Therefore, the hypotheses three is supported and hence accepted. Hypotheses 4 proposed that a negative relationship exists between income level and tax evasion. The result of the study shows that a positive association exists between the variables, thus, hypothesis 4 is not supported and rejected. Finally, Hypotheses 5 proposed that a negative relationship exists between education

level and tax evasion. The finding of the study indicates that there is positive relationship between education level and tax evasion. Therefore, hypothesis 5 is not supported and rejected. Overall, the research findings indicate that hypothesis 1 and 3 are supported and accepted, while hypotheses 2, 4 and 5 are not supported and rejected.

The objective of this study is to determine the relationship between tax evasion and five identified determinant variables. This objective was achieved by empirical analysis and the findings of this study. Similarly, the research questions of the study have been answered as the relationship between the variables were established and confirmed by the findings. The level of tax evasion was also measured and confirmed by the result as discussed in chapter four of this study. Therefore, both the research objectives and research questions have been addressed.

5.3 Theoretical Implication of the Study

The purpose of this study is to examine the relationship between tax rate, the tax system, corruption, income level and education level with tax evasion. However, the outcomes of the research indicates that the tax rate, corruption and education level have positive significant relationships with the tax evasion. Corruption and income level have positive in significant relationships with tax evasion. Therefore, this study adds to the existing tax evasion literature from perspective of Nigerian taxpayers. The result shows that high tax rate and corruption increase the level of tax evasion in Nigeria. Whenever the tax system is associated with corruption, taxpayers' may resist and shun away from paying taxes.

Tax system and income level have positive but insignificant relationship with tax evasion. Assuming that other factors are held constant, these variables are contributing toward tax evasion. The significant level may depend on and influence by other factors such as social, environmental, and political development of the country.

From the above discussion, the findings of this study are highly significant to academic researchers, student, as well as tax stakeholders. For the academic researchers, the findings of the study provide new evidence from Nigeria regarding the factors determining tax evasion particularly the income level. The result also provides a new dimension in understanding the tax evasion and its determinant. For the student in taxation, the study provides additional knowledge regarding the variables tested and how they are related to the tax evasion. The study provides a new development from Nigeria particularly on the variable that has not been tested before i.e the income level. Overall, this study is paramount to all the stakeholders from academic researchers as well as student in taxation.

5.4 Practical Implication of the Study

The findings of this study primarily have practical implications in explaining the relationship between the variables that are examined in this study. It is clear that tax evasion decrease and erode the revenue generated used to support government function. Also, it is critical to note that taxpayers are rationally and mentally ready to comply with the tax authority, but other factors influences their behavior and changes their individual

perception toward taxes and evasion. Besides, understanding the factors which influence tax evasion, the study also has practical implication to the government in curbing the phenomenon through effective tax laws and policies and incentives for voluntary compliance. This study provides further evidence on exploring the relationship between tax evasion and tax rate, tax system, corruption, income level and education level among the Nigerian taxpayers.

The result indicates that Nigerians are sensitive about the factors analyzed in this study in determining their compliance in paying their taxes. The results of the study are beneficial to the tax authorities as well as government. Tax authorities and government can use the findings to amend and formulate tax laws and policies by considering the implication and effect on tax evasion. Similarly, the result is also useful to tax practitioners and other stakeholders of tax administration. Finally, the study provides the level of tax evasion in the country according the perception of people toward the level of evasion in Nigeria, which include the perceptions of public and private sector employees, the acceptance level of tax evasion and the percentage of people evading taxes in the country.

5.5 Limitation and Recommendation for Future Research

Several limitations exist in this study. Firstly, the sample of this study that only considers public and private sectors employees instead of other group of taxpayers. In addition, this study is limited to Gombe State taxpayers which represent one out of 36 states in Nigeria.

This makes it difficult to generalize the research finding due to different factors and geographical locations. Therefore, future study should consider a larger sample size consisting of self-employed and other taxpayers like pensionneers. Also, the scope should go beyond one state as the country has six geopolitical region and at least one state should be chosen from each region.

Another limitation is the sampling technique and the method of data collection used in this study. The information collected from the public and private sectors employees is not enough to represent the whole population in Gombe State. This is because the number of the public and private sectors taxpayers in the state is low as compared to other group of taxpayers. Therefore, future research should consider other sampling techniques and used other data collection method such as mixed methods.

Lastly, this study only examines five independent variables in relation to tax evasion. This is due to the constraints faced by the author in terms of time limit as well as financial limit. Future research should consider other variables by increasing the number of independent variables to cover more aspect that have not been tested or have conflicting results. In addition, future research can include mediating variables to examine whether they have any influence on tax evasion.

5.6 Conclusion

Tax evasion has become a worldwide problem that affects the revenue generated for developed and developing nations. Considering this problem, this study was carried out to investigate the determinant factors of tax evasion from Nigerian perspective. The result of the study provides substantial evidence about the factors determining taxpayers' behavior and perception toward tax evasion in the country. Apart from that, the result also shows that therefore, government should increase the efficient and effectiveness of the tax administration and tax system to facilitate compliance. Proper and effective management of taxes will reduce evasion and hence facilitate and increase voluntary compliance. Therefore, government and the entire stakeholders in tax administration and tax practitioners should take note of the factors that influence people to evade their taxes and try to reduce the problems.

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