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PERCEIVED EFFECT OF TAX AVOIDANCE ON REVENUE GENERATION: AN EMPIRICAL ANALYSIS OF BORNO STATE BOARD OF INTERNAL REVENUE SERVICE

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ABSTRACT

This study examine the Perceived Effect of Tax Avoidance on Revenue Generation: An Empirical Analysis of Borno State Board of Internal Revenue Service. Primary source of data was used in gathering the required information for the study with the aid of structured open-ended questionnaire. Purposive sampling technique was used to arrive at

Introduction

Revenue generation is a source through which government of a country earns huge amounts of money to carry out developmental projects for the welfare being of its citizenry. These collections may be at the local, state or federal government. However, revenue generation is not a uniform issue in that the sources of generation might differ from country to country and state to state. In Nigeria for instance, quite a number of sources of generating revenues exists among which are custom and excise, crude oil sales, taxation ranging from petroleum profit tax, personal income tax, company income tax, capital gains tax stamp duties and many other forms of collections. Within the states as well, various forms of taxes are collected which form the basis of their revenue generation though some of these states have varying revenue collection capacity which depends on the commercials activities being carried out in the states.

Taxation in Borno State is considered as a sou rce if not a major source of generating revenue. Taxation is a compulsory levy imposed by the government through its agents on its subjects or his property to achieve some goals (Ariwodola, 2001). These goals are usually directed towards improving the general standard of living in the country. In the same vein, Arnold and Mclntyre (2002) define taxation as a compulsory levy on income, consumption and production of goods and services as provided by the relevant legislation. Government needs funds to provide developmental projects and social services and as a result, imposes various taxes on its citizens, properties and companies that fall within the tax bracket.

In addition, taxation is viewed as a compulsory levy imposed by the government to its citizenry and is based on the ability of the tax payers, those with higher incomes pay high amounts of tax than those within the low income

a sample size of fifty (50) drawn from the total population of ninety-five (95) respondents. Simple linear regression was employed to predict whether the predictor variable namely, tax avoidance has significant effect or not on the dependent variable, that is, revenue generation. It was found that tax avoidance have significant effect on revenue generation evidence from the state board of internal revenue Maiduguri, Borno State implying that the internally generated revenues drastically fall due to the attitudes of taxpayers'. The study recommends that the State Board of Internal Revenue Service should ensure an enforcement of penalties for tax defaulters, avoidance and these penalties should be made clearer and public. This will create real threat and actual carrying out of audit inspection, inquiry, penalty and punishment for an errant taxpayer. The current tax procedure should be amended to provide for establishment of a professional and independent tax tribunal that could hear matters of fact and law in relation to the assessment under appeal.

Keywords: *Tax Avoidance, Revenue Generation, Taxation.*

bracket. This enable the state government to use the funds collected from tax to utilise them in the provision of social amenities for the benefit of all citizens. One thing is to levy tax to tax payers within a tax bracket and another thing is to be able to collect the levied taxes. Tax collections are associated with factors such as tax evasion, tax avoidance and tax payers' enlightenment. Tax evasion is the deliberate attempt on the part of the tax payers' not to pay tax. Tax avoidance is a manipulation of tax by a tax payer in paying lower amount of tax to the tax authorities and tax payers' enlightenment means calling the attention of the tax payers in terms of campaign to understand the importance of tax payment. In this study, tax avoidance is the main focus. Thus, these factors may hinder proper revenue generation if not well administered in the state. Tax administration is concerned with the administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws or related statutes and tax conventions. In most developing countries, tax administration has been the critical and most important aspect in ensuring that there is enough revenue for the operation of the government. The ability of the government to administer tax determines the available revenue via taxation for the business of governance (Bird, 2015; Pantamee & Mansor, 2016). Thus, tax administration is a veritable tool for improved revenue generation in any given economy. This research, therefore, this study seeks to examine the perceived effect of tax avoidance on revenue generation: an empirical analysis of Borno State internal revenue service.

Research Question

The research is guided by this question

i. What is the effect of Tax Avoidance on Revenue Generation in Borno State?

Objectives of the Study

This study seeks to examine the perceived effect of Tax Avoidance on Revenue Generation: An Empirical Analysis of Borno State Internal Revenue Service. However, the specific objective is to:

i. examine the effect of Tax Avoidance on Revenue Generation in Borno State.

Research Hypothesis

The research was guided by this hypothesis

Ho_1: Tax Avoidance does not have significant effect on Revenue Generation in Borno State.

Theoretical and Empirical Review

Conceptual Issues

Taxation as Ogundele (1999) posits, it is the process or machinery by which communities or groups of persons are made to contribute in some agreed quantum and method for the purpose of the administration and development of the society. In a similar description, Soyode and Kajola (2006) explained tax as a compulsory exaction of money by a public authority for public purposes. Nightingale (1997) described tax as a compulsory contribution imposed by the government. In addition, these various authors concluded that it is possible for tax payers not to receive anything identifiable for their contribution but that they have the benefit of living in a relatively educated, healthy and safe society. The parliament designates taxes according to its understanding of equity, while following the prevailing constitution, which also prescribes the purpose of taxation and confirms that the rightful ownership of tax receipts ultimately lies with the citizens (Fagbemi, Uadiale & Noah, 2010)

In many ways the raising of tax revenues is the most central activity of any state. Most essentially, revenue from taxation is what literally sustains the existence of the state, providing the funding for everything from social programs to infrastructure investment, Prichard and Bentum, (2009). Of all the powers of government, other than its authority to declare war, none bears so incisively upon the welfare of citizens, both privately and in their economic enterprise, as does its power to tax.

The effect of taxation is that subjects are forced to give up hard earned earnings or possessions, or, in the early days, also payments in kind,

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without receiving visible benefits in return, (Coetzee, 1993). Thus, of all the needs and the benefits accrued from tax, people evade tax.

Tax Avoidance

Tax avoidance may simply be defined as the reduction or minimization of a person's tax liability by carefully arranging one's affairs in such a way as to take advantage of loopholes in the tax law provisions, it is the intentional act of a tax payer to pay less than what he ought to pay to the tax authority. It is legal. In the course of examining the attitude of the courts and the legislature towards tax avoidance professor wheat craft observed that "tax avoidance is an art of winning games without actually cheating; thereby beating the internal revenue and the Government to their own game". Similarly in Ire v. Duke of Westminster, Lord Tomlin observed in respect of tax avoidance that: "Everyman is entitled, if he can, to order his affairs so that the tax attaching under the appropriate act is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, of Inland Revenue or his fellow tax payers may be of his ingenuity, he cannot be compelled to pay an increased tax".

Alm and Martinez (2001) noted that, tax avoidance is a legal reduction in tax liabilities by practices that take full advantage of the tax code, such as income splitting, postponement of taxes and tax arbitrage across incomes that face different treatments (Alm and Martinez, 2001). Tax avoidance includes not only the use of strategies that allow for the search of strategies to exploit deficiencies or ambiguities in the law (Known as aggressive tax planning strategies).

Tax avoidance arises in a situation where the taxpayer arranges his financial affairs in a way that would make him pay the least possible amount of tax without infringing the legal rules. In short it is a term used to denote those various devices which have been adopted with the aim of saving tax and thus sheltering the taxpayers' income from greater liability which would have been otherwise incurred (Kiabel, 2001). Adebisi and Gbegi (2013) quote how Ani (1978) had described tax avoidance as follows: the taxpayers knowing what the law is decide not to be caught by it; arranges his business in such a manner as to escape tax liability partially or entirely. It is a lawful trick or manipulation to evade the payment of tax.

The meaning of tax avoidance is vividly captured in the case involving Ayrshire pullman motor services and David M. Ritchin vs. Commissioner of Inland Revenue when the Lord president Lord Clyde held that: No man in this country is under the smallest obligation, moral or otherwise so to arrange his legal relations to his business or to his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shoved into his stores. The Inland Revenue is not slow and quite rightly to take every advantage, which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket and the taxpayer is in like manner entitled to be astute to prevent so far as he honestly can the depletion of his means by the Revenue.

Effect of Tax avoidance on Revenue Generation

Tax avoidance arises in a situation where the taxpayer arranges his financial affairs in a way that would make him pay the least possible amount of tax without infringing the legal rules. In short it is a term used to denote those various devices which have been adopted with the aim of saving tax and thus sheltering the taxpayers' income from greater liability which would have been otherwise incurred this has drastically had diverse effect on government revenue generation. (Kiabel, 2001).

Adebisi and Gbegi (2013) quote how Ani (1978) had described tax avoidance as follows: the taxpayers knowing what the law is decide not to be caught by it; arranges his business in such a manner as to escape tax liability partially or entirely. It is a lawful trick or manipulation to evade the payment of tax. The meaning of tax avoidance is vividly captured in the case involving Ayrshire pullman motor services and David M. Ritchin vs. Commissioner of Inland Revenue when the Lord president Lord Clyde held that: No man in this country is under the smallest obligation, moral or otherwise so to arrange his legal relations to his business or to his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shoved into his stores. The Inland Revenue is not slow and quite rightly to take every advantage, which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket and the taxpayer is in like manner entitled to be astute to prevent so far as he honestly can the depletion of his means by the Revenue.

In the same vein, tax avoidance means legally reducing one's tax liability and it's another term for tax planning. Tax planning describes the techniques which tax payer minimizes or escape tax liability. The tax payer seeks to take full advantage of all exemptions, deduction, concessions, rebates, allowances and other tax relies or benefits permitted by law. Tax avoidance is an attempt to escape the liability by circumventing the law, not by breaking it. Tax avoidance is a legal way by which a tax payer reduces his tax liabilities. Tax liability by the tax payer or his agent by efficient tax planning. It is possible by fully complying with the tax laws and meeting tax liabilities. Thus tax avoidance takes the advantages of the loopholes in the existence fiscal laws.

The avoider is just smart tax payer who exploits loopholes in the tax laws (and related laws) to reduces tax liability. Thus, it is clear that tax avoidance is legal or at least not illegal since is mostly probably using the tax laws to limit his tax liability under the same laws.

Tax avoidance is an act of doing everything possible within the confines of the tax law to reduce the tax paid. It implies an arrangement of tax payer's affairs using the tax shelters in the tax law, and avoiding tax traps in the tax laws to enable him pay less than he ought to pay. The tax payer takes advantages of loopholes in tax laws and reduces the normal tax he supposes to pay. Tax avoidance can take any he supposed to pay.

Tax avoidance can take any of the following forms:

- Incorporating the tax payers' sole proprietor or partnership into a limited liability company.
- The ability to claim allowances and reliefs that are available in tax laws in other to reduce the amount of income or profit to be subjected to tax.
- Minimizing the incidence of high taxation by acquiring a business which has sustained heavy loss and set off the loss against future profit.

- Investing in capital assets (through new form corporate financing by equipment leading). Also through capital allowances as it minimizes tax liability.
- Sheltering part of the company's taxable income from income tax by capitalizing profit through the issue of bonus shares to the existing members at the (deductible) expenses to the company.
- Creation of a trust settlement for the benefit of children or other relation in order to manipulate the martinet tax rate such that a high income bracket tax payer reduces his tax liability.
- Buying on article manufactured in Nigeria thereby avoiding import duty on importation articles.

Empirical Studies

Akinyele and Ogunmakin (2016) examined the effects of tax avoidance on government budget implementation in Southwest Nigeria for the period 1999-2014. The outcome of their results showed that, 61 percent of the expected revenue of the states was hampered by avoidable consequence of tax avoidance through non-compliance with collection and remittances, and the level of tax avoidance through implementation of tax laws and policies in Southwest Nigeria reveals a negative performance of government budget implementation and as such affected the development of the economies of sampled states. Mehrara and Farahani (2016) wrote on the effects of tax evasion and government tax revenues on economic stability in OECD countries using data from 1990- 2013. They found that, tax evasion lead to economic instability and more tax revenues will be beneficial to a better economic condition.

In addition, Obafemi (2014) conducted study on the effects of tax avoidance and tax evasion on Nigeria economic development. The study adopted survey research design and responses were obtained through a well-structured questionnaire administered to 150 Nigerians, out of which are tax payer and tax evader. He found that, tax evasion and avoidance have adversely affected economic growth and development in Nigeria.

Modugu and Omoye (2014) appraise the evasion of personal income tax in Nigeria using primary data obtained through administration of 160 questionnaires to some selected self-employed individuals in Edo State comprising businessmen, contractors, professional practitioners like lawyers, doctors, accountants, architects and traders in shops as well as staff of Federal Inland Revenue Service in Benin City, Edo State, Nigeria. The study used the spearman rank correlation due to the qualitative nature of the data. The result revealed that the tax payers' relationship with tax authority and weak penalties have a significant influence on tax evasion in Nigeria. Tax rate showed a positive relationship with tax evasion. This means that the higher the tax rate the higher the tendency of tax evasion. The study recommended that tax authority should intensify tax payer education and maintain a harmonious relationship capable of fostering voluntary compliance. In addition, efforts should be made towards entrenching stiff penalties for evaders. Finally the prevailing tax rates should be reviewed optimally as not to serve as disincentives to compliance.

Ibadin and Eiya (2013) examined tax evasion and tax avoidance behavior of the self - employed, using some selected states in Nigerian geo-political zone. The results revealed that, respondents are of the opinion that tax evasion is ethical sometimes, and there is significant relationship exists between the ethical view, mode of tax administration and cultural practices of the self-employed and tax evasion and avoidance.

Theoretical Framework

Several economic theories have been proposed to run an effective tax system according to its importance. However, this Ability-to-Pay Theory underpin this study because of its advantages over other theories.

Ability-to-Pay Theory

As the name suggests, the theory pointy that that, the taxation should be levied according to an individual's ability to pay. It also says that, public expenditure should come from "him that hath" instead of "him that hath not". This principle is indeed the basis of 'progressive tax,' as the tax rate increases by the increase of the taxable amount and most equitable tax system, and has been widely used in industrialized economics.

The justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use. However, there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as: (i) Each taxpayer surrenders the sane absolute degree of utility that she/he obtains from her/his income; (ii) Each sacrifice the same proportion of utility she/he obtains from her/his income; (iii) Each gives up the same utility for the last unit of income; respectively.

Methodology

The research study adopted a primary source of data collection. A closed-ended questionnaire was designed on a 5-Point Likert-scale and administered on the respondents. Purposive sampling technique was used to arrive at a sample size of fifty (50) from the total population of ninety-five in the Borno State Board of Internal Revenue Service. Simple linear regression was employed to predict whether the predictor variable namely tax avoidance has significant effect or not on the dependent variable, that is, revenue generation.

Linear Regression Model

The hypothesis was tested using simple linear regression

Model Specification

The model used Revenue Generation as the dependent variable and Tax Avoidance as the independent variable.

$$RG = Bo + B_{TA} + E$$

Where: RG = Revenue Generation, TA = Tax Avoidance, Bo = Constant, E = Error Term, B = Coefficient of independent variable.

The decision rule: Reject the null hypothesis if $P < 0.05$ (5%)

Empirical Results and Discussion

H_{01}: Tax Avoidance does not have significant effect on Revenue Generation in Borno State

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Table 4.1 Model Summary

Model	R	R. square	Adjusted R. square	Std. Error of the estimate	Durbin Watson
1	0.8317[a]	0.7816[a]	0.6125	2.64537	1.860

Source: SPSS Version 20.0
a. Predictors (constant), tax avoidance
b. Dependent variable: revenue generation

Table 4.1 shows a strong correlation between tax avoidance and revenue generation, with an R-value of (0.8317) which is 83.2%, the R-square value of 0.7816 which shows that 78.2% of the variability in tax avoidance are explain by revenue generation. It indicates that there is positive correlation between tax avoidance and revenue generation.
Therefore, R-square had a value of 0.7816 (78.2%) and adjusted R-square is 0.6125 approximately 78.2% of the variation in the dependent variable was explained by the independent variables.

Table 4.2 Regression Coefficient [a]

Model	Unstandardized coefficient		Standardized coefficient	T	Sig.
	B	Std. error	Beta		
Constant	19.676	1.001		19.938	.000
Tax avoidance	.376	.221	.087	1.584	.000

Source: SPSS, Version 20.0

Table 4.2 shows that standardized beta weight of the r-coefficients and part correlation signifying the correlation between tax avoidance and revenue generation with a p-value < 0.05 which implies that tax avoidance has significant relationship on revenue generation in the study area. Therefore, the null hypothesis which states that tax avoidance does not have significant effect on revenue generation is not accepted.

Decision: Since the R-square value of (0.7816) which represent 78.2% by which the variables explain the model fits of the data. However, T-value

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of the coefficient of the regression is 1.584. Therefore, the Beta value of coefficient is (.087) which is 87% of the coefficient in response to p-value of regression coefficient are also significant at level of (0.000) which is less than alpha value of (0.05) that is $P < 0.000$ $P < 0.05$. This concludes that the null hypothesis is rejected and the result shows that tax avoidance have significant effect on revenue generation.

Discussion of Findings

This study concludes that tax avoidance have significant effect on revenue generation in the state given that $P < 0.000$ $P < 0.05$. The findings of this study is in line with that of Ogbueghu (2016) who found tax avoidance and evasion reduces government revenue. Also, Usman (2019) found a statistically significant effect of tax avoidance and tax evasion on revenue generation of the Nigerian economy. This shows that the effect could be on all forms of tax collected in the state which heavily distort revenue generation by the Board of Internal Revenue Service in the state.

Conclusion

The result of the study concluded that tax avoidance significantly affects revenue generation in the state. There is need for the board to display measures that can reduce having such an attitude on the part of the taxpayers. This means the government through the board of internal revenue service must take such an appropriate measure to ensure provision of punishment to tax payers that involved themselves in such illegal act which eventually reduces tax payment which have a negative effect on internally generated funds of the state.

Recommendation

Based on the findings of the study, the following recommendations are made.

The State Board of Internal Revenue Service should ensure an enforcement of penalties for tax defaulters, avoidance and these penalties should be made clearer and public. This will create real threat and actual carrying out of audit, inspection, inquiry, penalty and

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punishment for an errant taxpayer. The current tax procedure should be amended to provide for establishment of a professional and independent tax tribunal that could hear matters of fact and law in relation to the assessment under appeal.

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Frontier for Further Studies

Further studies can be conducted to cover the effect of tax payers' enlightenment and tax evasion on revenue generation in Borno State Board of Internal Revenue Service. At the same time, a similar studies need to be carried out on comparative study on the effect of tax payers' enlightenment and tax evasion on revenue generation: an empirical analysis of some selected states in Nigeria.

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