

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

Tax is the system of raising money in form of taxes paid by the citizens of the country in return for the services rendered by the government.

The present tax laws in Nigeria emanated from the Raisma's commission in 1957. Before this time we only had what was called the income tax ordinance for the colonies and which was rather common in all the colonies and the provisions were very similar. Raim's recommendation was the basis of provision in the Nigerian constitution order council of 1960 section 70(1) which conferred an exclusive power upon the parliament to make laws for Nigeria or any part thereof with certain uniform principles in respect of personnel income tax.

During 1963 when Nigeria became a republic, the mid-western region was created out of the western region and they adopted the western region tax law accordingly with the amendments, the position under the republican constitution of 1963 and that the regions (now divided into states) assumed jurisdiction over the income tax of person other than companies. While the federal government assumed jurisdiction over the taxation of companies, the uniform principles under the income tax management act and the regional taxes in the federal territory of Lagos.

The Nigerian economy has been and is currently being characterized by a reasonable degree of openness, hence its performance can be improved through the development of the external sector. The Nigerian external sector has always been dominated by primary commodities which have the well known basic characteristics of low price and income elasticity of demand, low growth of demand, terms of trade and instability of export earnings (Lakan, 2006). This mono-culture situation brought untold hardship on the people of the country. For instance, from 1970 to date, oil exporting has constituted on the average of 90% of the total foreign exchange earnings. The adversity of the fluctuation in oil price has in no small measure stalled the developmental efforts of the various governments. For instance, fiscal operations of the government were disrupted in 2009 as the federally-collected revenue declined by 38.4% (CBN, 2009) in the year due largely to lower oil prices in the international market caused by the global economic meltdown. This has made the Nigerian economy to swing from the "oil boom era", as exemplified by the buoyant economy of the period with massive infrastructural development and the Udoji award followed by the "oil doom" period which arose from oil glut in the world oil market since 1981 only led to the neglect of the non-oil export productive base. This has led to panic measures by successive governments from the economic stabilization Act of 1982, Counter trade policy of Buhari/Idiagbon regime and the introduction of Structural Adjustment Programmes (SAP) by the Babangida Administration. Furthermore, in the wake of the recent global economic crisis, the government had to adopt policy measures to address the problems and prevent the crisis from throwing the economy into recession. The policy measures adopted were mainly on three broad fronts, namely monetary easing, fiscal easing, and trade policy.

No matter the nature of the type of government a country practices, it is clear that government clearly identifies its sources of revenue and how to allocate mobilized funds to various expenditure centres and projects that will positively impact on the lives of its people (Shah and Shah, 2006; Ola and Offiong, 1999). Sources of government revenue contain elements of compulsion and voluntary. However, the major sources

of revenue open to a local government include: 1) tax income; 2) administrative revenues (for example fees, licenses, fines, tax on profits of certain activities of the private sectors); 3) public debts or loans, and 4) Commercial revenues (or income from investments in municipal bonds and receipts from government business enterprises). As a matter of fact, taxes are part of the measures through which governments cause the public to pay for its services (Ola and Offiong, 1999). Taxes are compulsory payments levied by government on individuals and corporate bodies in the form of personal income tax, corporate income tax, excise duties, import duties, value added tax (VAT), and so forth. Direct taxes are compulsory in the sense that they are deducted at source, from the income of employees. In this case, tax evasion becomes impossible. Now, it has become a problem that every year billions of naira are lost due to tax evasion and avoidance by the self-employed people in Nigeria. Both the federal and state governments have previously applied various measures to checkmate this challenge, but all to no avail.

This can be looked at or ascertained from the annual tax revenue generated or mobilized, over the years, from the self-employed people in the Federal Capital Territory of Nigeria, Abuja. Statistics have revealed that the amount of tax revenue generated over the years from the self-employed people (otherwise called the private sector) has been below expectations (Ndulue, 2005). The prevalence of tax evasion and avoidance especially among the self-employed people has forced some state governments to engage the services of tax contractors in a bid to generate the much needed income. This hardly yielded any appreciable fruits because of the nefarious activities of these contractors which are detrimental to the economy.

## **1.2 STATEMENT OF THE PROBLEM**

There is high incidence of tax evasion and avoidance by tax payers. This may affect the economic performance and amount of revenue collectible by the government for the running of administration. Furthermore, Direct taxes are compulsory in the sense that they are deducted at source, from the income of employees. In this case, tax evasion becomes impossible. Now, it has become a problem that every year billions of naira are lost due to tax evasion and avoidance by the self-employed people in Nigeria and it is hoped that people were wrongly assessed and the assessment sometimes result to regressive taxation.

## **1.3 OBJECTIVES OF THE STUDY**

This study will therefore aim at ascertaining the key causes of tax and economic performance in Nigeria. The objectives of this study include the following:

- (a) To examine the causes and reasons for high tax evasion on economic performance of Nigeria.
- (b) To evaluate government revenue generation to financing ever-increasing economic needs of the state.
- (c) To assess economic growth and development in Nigerian.
- (d) To examine the effect on economy and high rate of tax evasion and avoidance.
- (e) To resolve adequate tax incentives and taxpayer education in the state

## **1.4 STATEMENT RESEARCH QUESTIONS**

- a. To what extent does high tax evasion or avoidance affect economic performance in Nigeria?
- b. Does the implementation of tax revenue generate finance for ever-increasing economic performance in Nigeria?
- c. Does Government sustain economic growth and development in the emerging Nigerian economy?
- d. Does the prevalence of tax evasion and avoidance engage the services of tax contractors in a bid to generate income?

## **1.5 RESEARCH HYPOTHESES**

$H_0$  That there is no significant relationship between tax evasion, avoidance and economic performance in Nigeria

$H_1$ : That there is significant relationship between tax evasion, avoidance and economic performance in Nigeria

$H_0$ : Tax revenue do not generate finance for ever-increasing economic performance in the state

$H_1$ : Tax revenue generate finance for ever-increasing economic performance in the state

## **1.6 SIGNIFICANCE OF THE STUDY**

This study will review and assist tax and economy performance in Nigeria, it will educate the entire public on how the federation could encourage economic development and also how a reduced tax could promote the standard of living of the tax payer and increases his capital formation and investment thereby, resulting in a higher gross National Product (GNP) of the economy (country) and also promote the industrial development of the nation and Lagos state in particular.

The study will be of immense benefit to the following group of persons.

- (a) Government of the federation of Nigeria, especially the Lagos State Government.
- (b) The business community for the purpose of companies income tax.
- (c) The tax experts especially the practicing professional accountants.
- (d) Lagos state university community.
- (e) The Nigerian Institute of Management and Nigerian Statisticians.
- (f) The economist and financial analysts or capitalist.
- (g) The students of Accountancy profession and other allied professions.
- (h) The tax-payers, especially the employers of labour and the employees of various organisations.
- (i) Tax researchers.

## **1.7 SCOPE OF THE STUDY**

This research is intended to analyze the tax and growth and the level of economic performance in Nigeria.

## **1.8 DEFINITION OF TERMS.**

**TAX:** Is a financial charge or other levy imposed upon a taxpayer by a state or the functional equivalent of a state such that failure to pay is punishable

**PERFORMANCE:** The accomplishment of a given task measured against preset known standards of accuracy completeness, cost and speed.

**ECONOMICS** A social science that studies how individuals governments, firms and nations make choices on allocating scarce resources to satisfy their unlimited wants

**I.T.M.A:** Income tax management Act of 1961, which deals with chargeable income and how they are administered.

**C.I.T.A:** Companies income tax Acts of 1979 which deals with profit chargeable in respects to companies.

**P.I.T.D:** Personal income tax degree/Act of 1993 as amended deals with profit chargeable in respect of individuals.

**HYPOTHESIS:** It is an idea or suggestion put forward for reasoning or explanation .subject to confirmation or rejection.

**LAW OF TERRITORY:** This means any enforce in a particular territory example, state, or country.

**METHODOLOGY:** It is the science or study of methods or ways to be adopted in a given direction.

**TAX EVASION:** This means trying to escape tax liability by an individual.

**DIRECT TAXES:** This means that taxes are levied on income and property of individuals or group of individuals who bears their full burden.

**INDIRECT TAXES:** These are the taxes levied on goods and services and are paid by individuals by virtue of their associating with the goods and services.

**EARNED INCOME:** It is the income which the tax payer actually earned, which may require mental and physical exercise such as salaries, wages, etc.

**UNEARNED INCOME:** This income accrues whether or not the tax payer is there or not, example, rent, interest, royalties, and dividends.

**OTHER INCOMES:** It is the income which comes once in a while and they are not regular, thereby undetermined example, gift of windfall income, lottery winnings etc.

## **TAX AND ECONOMIC PERFORMANCE IN NIGERIA**

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