CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

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

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

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

The Nigerian economy has been and iscurrently being characterized by a reasonable degree of openness, hence itsperformance can be improve through the development of the external sector. TheNigerian external sector has always been dominated by primary commodities whichhave the well known basic characteristic of low price and income elasticity ofdemand, low growth of demand, terms of trade and instability of export earnings(Lakan, 2006). This mono-culture situation brought untold hardship on thepeople of the country. For instance, from 1970 to date, oil exporting hasconstituted on the average of 90% of the total foreign exchange earnings. Theadversity of the fluctuation in oil price has in no small measure stalled thedevelopmental efforts of the various governments. For instance, fiscaloperations of the government was disrupted in 2009 as the federally-collectedrevenue declined by 38.4% (CBN, 2009) in the year due largely to lower oilprices in the international market caused by the global economic meltdown Thishas made the Nigerian economy to swing from the "oil boom era", as exemplifiedby the buoyant economy of the period with massive infrastructural developmentand the Udoji award followed by the "oil doom" period which arose from oil glutin the world oil market since 1981 only led to the neglect of the non-oilexport productive base. This has led to panic measures by successivegovernments from the economic stabilization Act of 1982, Counter trade policyof Buhari/Idiagbon regime and the introduction of Structural AdjustmentProgrammes (SAP) by the Babangida Administration. Furthermore, in the wake ofthe recent global economic crisis, the government had to adopt policy measuresto address the problems and prevent the crisis from throwing the economy intorecession. The policy measures adopted were mainly on three broad fronts,namely monetary easing, fiscal easing, and trade policy.

No matter thenature of the type of government a country practices, it is clear thatgovernment clearly identifies its sources of revenue and how to allocatemobilized funds to various expenditure centres and projects that willpositively impact on the lives of its people (Shah and Shah, 2006; Ola andOffiong, 1999). Sources of government revenue contain elements of compulsionand voluntary. However, the major sources of revenue open to a local governmentinclude: 1) tax income; 2) administrative revenues (for example fees, licenses,fines, tax on profits of certain activities of the private sectors); 3) publicdebts or loans, and 4) Commercial revenues (or income from investments inmunicipal bonds and receipts from government business enterprises). As a matterof fact, taxes are part of the measures through which governments cause thepublic to pay for its services (Ola and Offiong, 1999). Taxes are compulsorypayments levied by government on individuals and corporate bodies in the formof personal income tax, corporate income tax, excise duties, import duties,value added tax (VAT), and so forth. Direct taxes are compulsory in the sensethat 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 yearbillions of naira are lost due to tax evasion and avoidance by theself-employed people in Nigeria. Both the federal and state governments havepreviously applied various measures to checkmate this challenge, but all to noavail.

This can belooked at or ascertained from the annual tax revenue generated or mobilized,over the years, from the self-employed people in the Federal Capital Territoryof Nigeria, Abuja. Statistics have revealed that the amount of tax revenuegenerated over the years from the self- employed people (otherwise called theprivate sector) has been below expectations (Ndulue, 2005). The prevalence oftax evasion and avoidance especially among the self-employed people has forcedsome state governments to engage the services of tax contractors in a bid togenerate the much needed income. This hardly yielded any appreciable fruitsbecause of the nefarious activities of these contractors which are detrimentalto the economy.

1.2 STATEMENT OF THE PROBLEM

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

1.3 OBJECTIVES OF THE STUDY

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

(a)To examine the causesand reasons for high tax evasion on economic performance of Nigeria.

(b)Toevaluate government revenue generation to financing ever-increasing economicneeds of the state.

(c)To assess economic growth and development in Nigerian.

(d)Toexamine the effect on economy and high rate of tax evasion and avoidance.

(e)To resolve adequate tax incentives and taxpayereducation in the state

1.4 STATEMENTRESEARCH QUESTIONS

a. Towhat extent does high tax evasion or avoidance affect economic performance inNigeria?

b. Doesthe implementation of tax revenue generate finance for ever-increasing economicperformance in Nigeria?

c. DoesGovernment sustain economic growth anddevelopment in the emerging Nigerian economy?

d. Doesthe prevalence of tax evasion and avoidance engage the services of taxcontractors in a bid to generate income?

1.5 RESEARCHHYPOTHESES

H_0 That there is no significant relationship betweentax evasion, avoidance and economic performance in Nigeria

H_1: That there is significant relationshipbetween tax evasion, avoidance and economic performance in Nigeria

H_0: Taxrevenue do not generate finance for ever-increasing economic performance in thestate

H_1: Tax revenue generate finance forever-increasing economic performance in the state

1.6 SIGNIFICANCE OF THE STUDY

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

The study willbe 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 ofcompanies income tax.

(c) The tax experts especially the practicingprofessional accountants.

(d) Lagos state university community.

(e) TheNigerian Institute of Management and Nigerian Statisticians.

(f) The economist and financial analysts orcapitalist.

(g) The students of Accountancy profession andother allied professions.

(h) The tax-payers, especially the employers oflabour and the employees of various organisations.

(i) Tax researchers.

1.7 SCOPE OF THE STUDY

This research isintended to analyze the tax and growth and the level of economic performance inNigeria.

1.8 DEFINTION OFTERMS.

TAX: Is a financial charge or other levyimpose upon a taxpayer by a state or the functional equivalent of a state suchthat failure to pay is punishable

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

ECONOMICS Asocial science that studies how individuals governments, firms and nations makechoices on allocating scarce resources to satisfy their unlimited wants

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

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

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

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

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

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

TAX EVASION: This meanstrying to escape tax liability by an individual.

DIRECT TAXES: This meansthat taxes are levied on income and property of individuals or group ofindividuals who bears their full burden.
INDIRECT TAXES: These are the taxes levied on goods andservices and are paid by individuals by virtue of their associating with thegoods and services.
EARNED INCOME: It is the income which the tax payer actuallyearned, which may require mental and physical exercise such as salaries, wages,e t c.
UNEARNED INCOME: This incomeaccrue whether or not the tax payer is there or not, example, rent, interest,royalties, and dividends.
OTHER INCOMES: It is theincome which comes once in a while and they are not regular, therebyundetermined example, gift of windfall income, lottery winnings e t c.

TAX AND ECONOMIC PERFORMANCE IN NIGERIA