

# IMPLICATIONS OF UNETHICAL TAX PRACTICES ON ECONOMIC PROSPERITY IN NIGERIA

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## ABSTRACT

*The main objective of this study is to empirically ascertain the implications of unethical tax practices on economic prosperity. The methodology adopted for data collection is both primary and secondary sources. The primary data were collected through the administration of well-structured questionnaire to one hundred and twenty five (125) staff of Federal Inland Revenue Service (FIRS), Aba; State Board of Internal Revenue, Aba; NED Consultants, Aba and Abia State Polytechnic, Aba. A total number of one hundred and twenty five (125) cases (sample size) used were all questionnaire administered and collected while a fraction of this sample size (principal officers) was interviewed in order to corroborate responses from the questionnaire. The reliability test of the questionnaire was tested using Cronbach's Alpha Model. The data was analyzed in tabular form and the hypotheses were tested using Multiple Regression Model which was run using Statistical Package for Social Sciences (SPSS) version 16.0. The significance value (sig value) was used for decision making and the results show that their respective significance values at 95% confidence interval are less than 0.5: thus, all the stated null hypotheses were rejected while the alternative hypotheses were accepted which states as follows: unethical tax practices significantly hinder economic prosperity; tax evasion has significant relationship with unethical tax practices; tax avoidance has significant relationship with unethical tax practice and mismanagement of tax revenue has significant relationship with unethical practices. The results were corroborated by multiple regression values of 0.975, 0.933, 0.951 and 0.925 which indicated a good level of prediction and  $R^2$  values of 0.951, 0.870, 0.905 and 0.856 indicated that the independent variables statistically significantly explain the variability of the dependent variable. Based on the findings, the paper concluded that unethical tax practices significantly hinder economic prosperity and recommended among other things that a good database system should be put in place in order to ascertain the exact taxable persons, code of ethics and professional standards should be put in place and reviewed periodically to ensure quality regulation of the tax practices in Nigeria and the government should ensure that tax revenues are well accounted for and managed so as to avoid tax evasion and avoidance by the taxpayers.*

*Keywords: Unethical tax practices, economic prosperity, taxpayers*

## INTRODUCTION

Nigeria operates a federal structure which implies that tax administration cuts across the three tiers of government (federal, state and local governments). The Nigerian constitution provides that the powers of taxation be exercised by each tier of government to ensure adequate provision of

internal and external security, good road networks, education, healthcare services, electricity, etc. to the citizenry.

A tax system is an opportunity for the government to collect additional revenue needed in discharging its present obligations (Emelogu & Fijo, 2016). Okezie (2003) opines

that tax is a burden which every citizen must bear in order to sustain his or her government, thus enabling that government perform certain basic functions to the benefit of those it governs. Thus, taxation according to Oxford Dictionary of Accounting is a levy on individual or corporate bodies by central or local government in order to finance the expenditure of that government and also as a means of implementing its fiscal policy. According to Adams (2001), taxation is the most important source of revenue for modern governments, typically accounting for ninety percent (90%) or more of their income. Cornelius, Ogar & Oka (2016) opine that in Nigeria, the incidence of tax evasion and avoidance by taxpayers is high, leading to low level of government revenue which further reduces the level of government expenditure, culminating into a reduction in the income savings and expenditure of household and firms leading to low level of economic activities and economic growth.

Unethical tax practice is a major problem affecting the revenue yield of the country (Nigeria). This is because the government losses by way of reducing collection and the taxpayers also lose because the government was unable to provide certain amenities to them (Seyi, 2014). Unethical tax practices involve transactions, arrangements or events that result in sheltering income and capital gains that should be reported; creating or inflating tax deductions and losses, including capital losses that would not otherwise exist; misusing treaty provisions; or assessing tax incentives, credits and exemptions in an unlawful manner. Unethical tax practices undermine the integrity of tax laws and the tax base and this causes the government to lose revenue and economic prosperity being jeopardized. Hence, Baghebo (2012) reveals

that Nigeria ranks among the poorest countries in the world.

Unethical tax practice is illegitimate in a fiscal context because it deviates from accepted norms and from the intention of the legislators. In Nigeria context, unethical tax practices commonly encountered according to Izedonmi (2012) include tax evasion, tax avoidance, the incidence of double taxation among tax payers, non-remittance of all or part of the monies collected, diversion of tax revenues to unacceptable quarters, mismanagement of tax revenue as well as non-accountability for tax revenues. This indicated that the taxpayers, tax practitioners as well as tax officers are all involved in unethical tax practices. Thus, unethical tax practices have strong negative implication on economic prosperity.

No country can enjoy economic prosperity when unethical tax practices abound because tax is seen as the major source of government revenue. In a nutshell, unethical tax practices result in economic set back. Therefore, the main objective of this study is to empirically ascertain the implications of unethical tax practices on economic prosperity of Nigeria and emphasis was laid on Federal Inland Revenue Service (FIRS), Aba, Board of Internal Revenue Aba, NED Consultants, Aba and Abia State Polytechnic, Aba.

#### **OBJECTIVES OF THE STUDY**

Specifically, the objectives of this study are as follows:

- (i) To find out whether unethical tax practices significantly hinder economic prosperity.
- (ii) To ascertain whether tax evasion has significant relationship with unethical tax practices.

- (iii) To ascertain whether tax avoidance has significant relationship with unethical tax practices.
- (iv) To find out whether mismanagement of tax revenue has significant relationship with unethical tax practices.

### RESEARCH QUESTIONS

In line with the objectives of this study, the following research questions are relevant:

- (i) To what extent does unethical tax practice significantly hinder economic prosperity?
- (ii) To what extent does tax evasion have any significant relationship with unethical tax practices?
- (iii) To what extent does tax avoidance have any significant relationship with unethical tax practices?
- (iv) To what extent does mismanagement of tax revenue have any significant relationship with unethical tax practices?

### RESEARCH HYPOTHESES

The following null hypotheses were formulated:

- H<sub>01</sub>: Unethical tax practices do not significantly hinder economic prosperity.
- H<sub>02</sub>: Tax evasion has no significant relationship with unethical tax practices.
- H<sub>03</sub>: Tax avoidance has no significant relationship with unethical tax practices.
- H<sub>04</sub>: Mismanagement of tax revenue has no significant relationship with unethical tax practices.

### REVIEW OF RELATED LITERATURE

#### THEORETICAL FRAMEWORK

Many theories of taxation exist, but this study presents three of those theories as follows: The Cost of Service Theory, The Benefit Received Theory and The Socio-Political Theory.

According to the Cost of Service Theory, the cost incurred by government in providing certain services to the people must collectively be met by the people who are the ultimate receivers of the service (Jhingan, 2009). This theory believes that tax is similar to price. So, if an individual does not utilize the service of the government, he/she should not be taxed.

The Benefit Received Theory of Taxation is the product of the modification of cost of service theory. This theory states that citizens should be asked to pay taxes in proportion to the benefits they receive from the services rendered by the government. This theory assumes that there is an exchange relationship between taxpayers and the government. So, the measurement of the benefits received has posed a problem to this theory. Hence, Ahuja (2012) opines that the inability to measure the benefits received by an individual from the services rendered by the government has rendered this theory inapplicable.

The Socio-Political Theory of Taxation states that socio and political objectives should be the major factors in selecting taxes. This theory advocated that a tax system should not be designed to serve individuals, but should be used to cure the ills of the society as a whole (Bhartia, 2009).

#### INDICATORS OF UNETHICAL TAX PRACTICES

There are many indicators of unethical tax practices but this study presents the major indicators as follows:

- (i) **Tax Evasion:** This is one of the indicators of unethical tax practices and it is a situation whereby a taxpayer refuses or avoids payment of tax. Choong (2002) views tax evasion as a blatant of it of a taxpayer in understating his income or overstating

his expenses by illegal means (such as false invoices, receipts or keeping two sets of accounts) with the intention of defrauding the tax authorities. Hence, Adebisi & Gbeji (2013) opine that under direct personal taxation as practiced in Nigeria, the major problem lies on the collection of the taxes especially from the self-employed.

- (ii) **Tax Avoidance:** This is another indicator of unethical tax practices. This is a situation where a taxpayer pays less tax than what it/he is supposed to pay. This is achieved when a taxpayer understates its/his income, overstates expenditure, makes false claims for allowances and relieves as well as omitting changeable income from tax returns (Slemrod, 2000; Kircher, 2008; Emelogu & Imo, 2013).
- (iii) **Non-Remittance / Diversion of Tax Revenues:** Non-remittance/ diversion of tax revenues either to private individuals or to unacceptable quarters is a serious indicator of unethical tax practices. This unethical tax practice is usually seen among tax officers saddled with the responsibility of collecting taxes (Izedonmi, 2012). The reason behind this is the corrupt nature of this society coupled with the non-existence of control measures to checkmate the activities of those fraudulent personnel. Hence, fighting of corruption in Nigeria is the main agenda of President Mohamadu Buhari.
- (iv) **Non Collection/Delay in Collection of Taxes:** Tax officers sometimes do not collect taxes on time and this could be an intentional act on the side of the tax officials to sanction erring taxpayers at the end. This practice according to

Izedonmi (2012) is unethical because it is the duty of the tax officers to ensure that all taxes due to the government are collected within a reasonable time.

- (v) **Non-Accountability of Tax Revenues:** Non-Accountability of tax revenues by the various governments' agents is also unethical as the taxpayers deserve to know how their taxes are being spent.
- (vi) **Tax Non-Compliance:** Tax non-compliance is the ability of taxpayers to voluntarily comply with the relevant tax laws and regulations of the country (Emelogu & Fijo, 2016). Hence, it constitutes one of the indicators of unethical tax practices. The reasons for tax non-compliance are numerous and include lack of knowledge to willful default, negligence, etc.
- (vii) **Mismanagement of Tax Revenue:** Mismanagement of tax revenue is a strong indicator of unethical tax practices that discourages taxpayers from payment of taxes. This is because if after payment of taxes, the taxpayers could not enjoy good road networks, good health care facilities, potable water, electricity, etc, they will be discouraged from further payments.

#### CAUSES AND IMPLICATIONS OF UNETHICAL TAX PRACTICES

There are so many causes of unethical tax practices according to Izedonmi (2012); Cornelius, Ogar & Oka (2016). But this study presents the major causes of unethical tax practices as follows:

- Lack of significant professional commitment on the part of the tax practitioners.
- Aggressive tax planning by the taxpayers.
- Lack of adequate awareness of ethical codes on citizens' social responsibility.

- Lack of good database to ascertain the number of taxable persons in the country.
- Falsification of record by the taxpayers in order to pay little or no tax.
- Lack of adequate sanctions on any taxpayer and or tax practitioner that is involved in any form of unethical tax practices.
- Corruption is one of the major causes of unethical tax practices of tax revenue into private or unauthorized accounts.

The implications of unethical tax practices include reduction of tax revenue which further reduces the level of government spending, income savings, economic activities as well as economic prosperity. Moreover, a reduction in the financial resources of the government as a result of unethical tax practices may lead to reliance on grants and loans from foreign sources and thus leads to the renunciation of some of the government's economic and political independence. It also undermines the integrity of tax laws and the tax base, hence, economic prosperity is jeopardized.

#### **METHODS AND MATERIALS**

This paper adopted the survey research design in order to achieve the objectives of this study and the methods of data collection were both primary and secondary sources. The primary data were collected

through the administration of well-structured questionnaire and personal interview. A five point likert scale was used in the questionnaire to arrive at a conclusion where five being the highest and one being the reliable test of the questionnaire was tested using Cronbach's Alpha Model. The questionnaire were distributed to one hundred and twenty five (125) respondents also known as cases which include some staff of Federal Inland Revenue Service (FIRS), Aba, NED Consultants Aba and Abia State Polytechnic Aba while a fraction of this sample size (principal officers) were interviewed in order to corroborate responses from the questionnaire.

The data was analyzed using table and the stated hypotheses were tested using Multiple Regression Model which was run using Statistical Package for Social Science (SPSS) Version 16.0. The significant values (sig values) were used for decision making.

**Decision Rule:** When Cronbach's Alpha value is above 0.7, we therefore accept that the questionnaire was well represented and are not as a matter of chance. Secondly, if the significant value (sig value) is less than 0.5, null hypotheses will be rejected and the alternative accepted. For easy analysis, the questions in the questionnaire were coded as follows: UTPHEP, TEHSUT, TAHSR, MTRHS, UTPMP, UTPRR, UTPUI, UTPIDT, NATRHS and NRTCHS.

**ANALYSIS, RESULTS AND DISCUSSION**

This section takes care of the analysis of data, results of test of hypotheses stated

earlier as well as discussion of relevant findings.

**ANALYSIS OF DATA**

	5	4	3	2	1	Total
UTPHEP	60	45	8	6	6	125
TEHSUT	55	58	6	4	2	125
TAHSR	59	55	6	3	2	125
MTRHS	63	47	4	6	5	125
UTPMP	58	55	2	6	4	125
UTPRR	45	60	6	8	6	125
UTPUI	65	48	6	3	3	125
UTPIDT	71	49	2	2	1	125
NATRHS	60	65	-	-	-	125
NRTCHS	55	58	8	4	-	125

**Key:**

5 denotes Strongly

Agree

4 denotes Agree

3 denotes Undecided

2 denotes Disagree

1 denotes Strongly

Disagree

Source: Field Survey, 2018

**CASE PROCESSING SUMMARY TABLE**

Valid active cases	125
Active cases with mission values	0
Supplementary cases	0
Total	125
Cases used in analysis	125

**RELIABILITY STATISTICS**

Cronbach's Alpha	Cronbach's Alpha based on Standardized Items	N of items
.984	.986	10

Source: Researcher's Computation using SPSS Version 16.0

**Decision:** Since Cronbach's Alpha value of 0.984 is higher than 0.7 this implies that the questionnaire was well represented and was not as a matter of chance.

The following hypotheses were tested:

**Hypothesis 1**

H<sub>01</sub>: Unethical tax practices do not significantly hinder economic prosperity.

H<sub>i1</sub>: Unethical tax practices significantly hinder economic prosperity.

Variables used in testing hypothesis 1 are UTPHEP (dependent variable), UTPRR and UTPMP (independent variables).

**MODEL SUMMARY TABLE**

Mode	R	R Square	Adjusted R Square	Std. Error of Estimate	Change statistics				
					R Square Change	F Change	df <sub>1</sub>	df <sub>2</sub>	Sig.
1	.975	.951	.950	.240	.951	1173.250	2	121	.000

Source: Researcher's Computation using SPSS Version 16.0

**Decision:** Since the significance value (Sig. Value) above is less than 0.5, the null hypothesis is therefore rejected while the alternative hypothesis is accepted which states that unethical tax practices significantly hinder economic prosperity. Also, the “R” value of 0.975 indicates a good level of prediction and the “R Square ( $R^2$ )” value (also known as the coefficient of determination) of 0.951 indicates that the

independent variables explain 95.1% of the variability of the dependent variable.

### Hypothesis 2

$H_{02}$ : Tax evasion has no significant relationship with unethical tax practices.

$H_{i2}$ : Tax evasion has significant relationship with unethical tax practices.

Variables used in testing hypothesis 2 are UTPHEP (dependent variable), UTPIDT and TEHSUT (independent variables).

### MODEL SUMMARY TABLE

Mode	R	$R^2$	Adjusted $R^2$	Std. Error of Estimate	Change statistics				
					$R^2$ Change	F Change	$df_1$	$df_2$	Sig.
1	.933	.870	.868	.391	.870	405.307	2	121	.000

**Source: Researcher’s Computation using SPSS Version 16.0**

**Decision:** Since the significance value (Sig. Value) of .000 is less than 0.5, the null hypothesis is therefore rejected while the alternative hypothesis is accepted which states that tax evasion has significant relationship with unethical tax practices. Also, the “R” value of 0.933 indicates a good level of prediction and the “R Square ( $R^2$ )” value of 0.870 indicates that the

independent variables explain 87% of variability of the dependent variable.

### Hypothesis 3

$H_{03}$ : Tax avoidance has no significant relationship with unethical tax practice.

$H_{i3}$ : Tax avoidance has significant relationship with unethical tax practice.

Variables used in testing hypothesis 3 are UTPHEP (dependent variable), UTPUI and TAHSR (independent variables).

### MODEL SUMMARY TABLE

Mode	R	$R^2$	Adjusted $R^2$	Std. Error of Estimate	Change statistics				
					$R^2$ Change	F Change	$df_1$	$df_2$	Sig.
1	.951	.905	.903	.334	.905	576.787	2	121	.000

**Source: Researcher’s Computation using SPSS Version 16.0**

**Decision:** Since the significance value (Sig. Value) of .000 is less than 0.5, the null hypothesis is therefore rejected while the alternative hypothesis is accepted which states that tax avoidance has significant relationship with unethical tax practices. Also, the “R” value of 0.951 indicates a good level of prediction and the “R Square ( $R^2$ )” value of 0.950 indicates that the independent variables explain 90.5% of variability of the dependent variable.

### Hypothesis 4

$H_{04}$ : Mismanagement of tax revenue has no significant relationship with unethical practices.

$H_{i4}$ : Mismanagement of tax revenue has significant relationship with unethical practices.

Variables used in testing hypothesis 4 are UTPHEP (dependent variable), NATRHS and MTRHS (independent variables).

**MODEL SUMMARY TABLE**

Mode	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Error of Estimate	Change statistics				
					R <sup>2</sup> Change	F Change	df <sub>1</sub>	df <sub>2</sub>	Sig.
1	.925	.856	.854	.411	.856	359.445	2	121	.000

**Source: Researcher's Computation using SPSS Version 16.0**

**Decision:** Since the significance value (Sig. Value) of .000 is less than 0.5, the null hypothesis is therefore rejected while the alternative hypothesis is accepted which states that Mismanagement of tax revenue has significant relationship with unethical practices. Also, the "R" value of 0.925 indicates a good level of prediction and the "R Square (R<sup>2</sup>)" value of 0.856 indicates that the independent variables explain 85.6% of variability of the dependent variable.

**CONCLUSION**

An unethical tax practice is a crime and the best way of prevention is to understand why it occurs. Unethical tax practitioners generally look for an opportunity for exploiting a weakness in the tax laws/system. Unethical tax practice is a major problem affecting revenue yield of the country and it undermines the integrity of tax laws and the tax base thereby causing the government to lose revenue and economic prosperity being jeopardized.

This paper highlighted on three theories of taxation and identifies the major indicators of unethical tax practices which include; tax evasion, tax avoidance, non-remittance/diversion of tax revenues, non-collection/delay in collection, tax non-compliance, non-accountability of tax revenues and mismanagement of tax revenue.

The paper also identified the major causes of unethical tax practices. In line with the findings of the study, it has therefore shown that all the independent variables

statistically, significantly explain the variability of the dependent variable. Hence, the results indicate that unethical tax practices significantly hinder economic prosperity.

**RECOMMENDATIONS**

In line with the findings of this study, the researchers made the following recommendations:

- Code of ethics and professional standards should be put in place and reviewed periodically to ensure quality regulations of the tax practices in Nigeria.
- A good database system should be put in place in order to ascertain the exact taxable persons and the existing ones should be made functional so that its aim will not be defeated.
- There should be appropriate sanctions on anybody caught in unethical tax practices.
- Government should ensure that tax revenues are well accounted for and managed so as to avoid tax evasion and avoidance by the tax payers.
- Taxpayers should from time to time seek professional assistance in order to avoid any form of unethical tax practices.
- Tax authorities should create adequate awareness of ethical codes on citizen's social responsibility and the need to pay tax correctly.
- The welfare package of the tax officers should be entered as to avoid any form of unethical practice.



- There should be regular training and re-training of tax practitioners in order to be acquainted with the new trend of things and to enhance their level of competence.

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