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The Effect of Tax Evasion and Avoidance on Nigeria's Economic Growth

Onyeka, Virginia Nnenna
Department of Accountancy, Enugu State University of Science and Technology (ESUT), Enugu, Nigeria

Nwankwo, Carol
Department of Accountancy, Enugu State University of Science and Technology (ESUT), Enugu, Nigeria

Abstract
This paper examined the impact of tax evasion and avoidance on growth of the Nigerian economy. The study adopted the *ex-post facto* research design and data were obtained from Central Bank of Nigeria Statistical Bulletin for the period 1999 - 2012. The Ordinary Least Square Regression (OLS) model was used to test the hypothesis. The result emanating from the findings suggests that tax evasion and avoidance had negative significant impact on growth of the Nigerian economy. The study thus recommends amongst others that government policies and measures as it pertain fiscal policies in Nigeria should be streamlined to stimulate economic growth and development by ensuring that there tailored towards growth of the economy.
Keywords: Tax Evasion, Tax Avoidance, Economic Growth

1.0 Introduction

Taxes, and tax systems, are fundamental components of government revenue generation. Brautigam (2008) has noted, taxes underwrite the capacity of states to carry out their goals; they form one of the central arenas for the conduct of state-society relations, and they shape the balance between accumulation and redistribution that gives states their social character. Thus, taxes build capacity to provide security, meet basic needs or foster economic development and they build legitimacy and consent helping to create consensual, accountable and representative government. A key component of any tax system is the manner in which it is administered (Naiyeju, 2010). Bahi and Bird (2008) states that no tax is better than its administration, so tax administration matters a lot, and an essential objective of tax administration is to ensure the maximum possible compliance by taxpayers of all types with their taxation obligations. Unfortunately, in many countries, tax administration is usually weak and characterized by extensive evasion, corruption and coercion. In many cases overall tax levels are low, and large sectors of the informal economy escape the tax net entirely (Brautigani, Fjelftand and Moore, 2008).

A nation's tax system is often a reflection of its communal values and the values of those in power (Ross, 2007). Thus, to create a system of taxation, a nation must make choices regarding the distribution of the tax burden and how the taxes collected will be spent. In democratic nations where the public elects those in charge of establishing the tax system like Nigeria, these choices reflect the type of community that the public or government wish to create. Parkin (2006) states that in countries where the public does not have a significant amount of influence over the system of taxation, that system may be more of a reflection on the values of those in power as governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as businesses, or to redistribute resources between individuals or classes in the population in addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy, or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive (Parkin, 2006).

In a report of the Federal Inland Revenue Services (FIRS) and presented to the federal executive council on National Tax Policy for 2009, it says that sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs thus, in this context sustainable development refers to the pattern of revenue generation, which is able to meet the needs of the present generation of Nigerians, without negatively impacting the ability of future generations to meet their own needs. Generally, taxation is regarded as a sustainable source of Government revenue due to the stability and certainty of the tax system (Aguolu, 1999). Unlike other sources of revenue, taxes are constantly available in so far as economic activity is carried on in the society (Cobham, 2005). However, recent developments in the global and local economy which have significantly impacted Government revenue has directed focus on taxation as a sustainable source of income (FIRS, 2009). It is in line with this that the National Tax Policy intends to create awareness on the importance of the role, which taxation can play in securing a stable flow of revenue for the

Government. Nigeria is currently viewed as a mono-product economy with significant reliance on oil revenue due to historical developments in the Nigerian economy (FGN, 2009).

However, taxation has been identified as an alternative to oil revenue and a more reliable source of' revenue (McKerchar, 2003). The tax policy shall therefore promote and encourage a shift in focus from non-tax revenue to tax revenue by Governments at all levels of the Nigerian economy (FGN, 2009). Following from the above, the tax policy shall also promote and encourage healthy competition amongst tax and revenue authorities in Nigeria at the Federal and State level to facilitate rapid development of the tax sector in Nigeria. The focus of the competition shall be to maximise tax revenue within the jurisdiction of each Government in line with Constitutional and statutory provisions. It is expected that there would be increased collaboration as a result of the need to grow tax revenues by each level of Government and that improved collaboration would enhance tax yield between and among Federal, State and Local

Kiabel and Nwokah (2009) say although tax evasion are problems that face every tax system, the Nigerian situation seems unique when viewed against the scale of corrupt practices prevalent in Nigeria. Under direct personal taxation as practiced in Nigeria, the major problem lies in the collection of the taxes especially from the self-employed such as the businessmen, contractors, professional practitioners like lawyers, doctors, accountants, architects and traders in shops among others. As observed by Ayua (1999) self-employed persons blatantly refuse to pay tax by reporting losses every year and many of them live a lifestyle inconsistent with reported income, which is usually unrealistically low for the nature of their businesses. Civil Servants and other salaried workers are the only class of people that actually pay tax in Nigeria. However, even among the salaried workers, he observed, many have turned the statutory personal allowances and relief into a fertile ground for tax evasion. Almost all Nigerian taxpayer is married with four children! Similarly, despite the tax provision meant to plug loopholes through which taxable persons can minimize tax liability the self-employed persons employ all kinds of avoidance schemes to minimise or escape tax liability and makes you wonder whether there are still any tax officials working in that capacity. Such scenarios, no doubt, say a lot about tax administration system in Nigeria both in its design and in the disposition of some taxpayers towards taxation.

While it immediately presupposes that there are legal framework put in place to punish tax evaders it perhaps raises a poser on the efficiency and effectiveness of tax laws and tax administration in Nigeria (Uche and Ugwoke, 2003). Some state governments in an effort towards solving this problem had even gone to the extent of engaging the services of tax consultants. This government effort, notwithstanding, the problem of tax evasion and avoidance still persists (Alabi, 2001). There is no doubt that revenue due any government will be reduced by the unpatriotic act of tax evaders which can be attributed to corruption.

Tax evasion and avoidance have adverse effect on government revenue. Tax avoidance generates investment distortion in the form of the purchase of assets exempted from tax or under-valued for tax purposes (Klabel and Nwokah, 2009). Avoidance takes the form of investment in arts collection, emigration of persons and capital. And as observed by Toby (1983) the taxpayer indulges in evasion by resorting to various practices. These practices erode moral values and build up inflationary pressures. This point can be buttressed with the fact that because of the evasion of tax, individuals and companies have a lot of money at their disposal and companies declare higher dividends and individuals have a high take home profit. This increases the quantity of money in circulation but without a corresponding increase in the goods and services, this then build up what is known as inflationary trends where large money chases few goods (Toby, 1983).

The importance of taxation in governance albeit good governance cannot be overemphasized, the realization of this has a long history in Classical Economics. Beginning from Adams Smith, through other classical economists like David Richardo and John Stuart Mill, the place of taxation in the running of successful government, has been recognized. Sowell (1974) quoted David Richardo as having argued that an economic principle could only be considered useful if it directs Government to the right measures of taxation. lie equally said that, it is in order to emphasise the prominence of taxation, that both Richardo and Mill, put revenue first, in the division of public finance into three, viz "revenue, expenditure and public debt" Therefore it could be seen that, government through effective taxation carry out developmental and growth policies that impact positively the life of it citizens. Revenue generation is viewed as the primary and most important role of taxation. Taxation is however not only a means of revenue generation for Government, it can also be used to stimulate other sources of Government revenue and develop other areas of the economy from which Government can realize revenue. However, when there are leakages in tax collection through evasion, no development can take place, thus in most countries where, there is high rate tax evasion and avoidance, it is usually associated with high unemployment. Therefore, this study seeks to investigate the effect of tax evasion and avoidance on Nigeria's economic growth.

The subsequent sections are divided into four. In section two, empirical literature were examined. In section three methodology adopted was explained. Section four presents our analysis and the paper concludes and recommended in section five.

2.0 Literature Review

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 taxpayer's income from greater liability which would have been otherwise incurred (Kiabel, 2001). Ani (1983) 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 property as to enable the Inland Revenue to put the largest possible shovel 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 (Kiabel and Nwokah, 2009:12).*

Thus, it is clear that tax avoidance is legal or at least not illegal since one is mostly probably using the tax laws to limit his tax liability under the same laws. Examples of tax avoidance include: Seeking professional advice; reducing one's income by submitting claims for expenses in earning the income: increasing the number of one's children (in Nigeria the maximum allowable is four) and taking additional life assurance policies.

Tax avoidance is thus considered to be a matter of being sensible. While the law regards tax avoidance as a legitimate game tax evasion is seen as immoral and illegal. Tax evasion is an outright, dishonest action whereby the taxpayer endeavours to reduce his tax liability through the use of illegal means. According to Farayola (1987), tax evasion is the fraudulent, dishonest, intentional distortion or concealment of facts and figures with the intention of avoiding the payment of or reducing the amount of tax otherwise payable. Tax evasion is accomplished by deliberate act of omission or commission which in them constitutes criminal acts under the tax laws. These acts of omission or commission might include: failure to pay tax e.g. withholding tax; failure to submit returns; omission or misstatement of items from returns; claiming relief (in Personal Income Tax), for example, of children that do not exist; understating income; documenting fictitious transactions; overstating expenses; failure to answer queries (Aguolu, 1999).

The most common form of tax evasion in Nigeria is through failure to render tax returns to the Relevant Tax Authority. A tax evader may be charged to court for criminal offences with the consequent fines, penalties and at times imprisonment being levied on him for evading tax (Faseun, 2001). And as observed by Sosanya (1981): Tax evading has become the favourite crime of the Nigerian, so popular that it makes armed robbery seem like minority interest. It has become so widespread that there now exist a cash economy of vast proportions over which the taxman has no control and which is growing at several times the rate of the national economy. No doubt, tax evasion and avoidance had robbed the Nigerian government of substantial tax revenue. According to the Nigerian Stock Exchange, 85 percent of corporate tax revenue in the country accrues from the 257 companies listed on the exchange compared to the 30,000 companies registered with the Corporate Affairs Commission. This is a serious indictment of the administrative machinery and capacity of the tax authorities in Nigeria.

Mookheree (1997) investigates the effect of bonus tax systems on revenue generation. He opines that the possible gain in tax revenues following from the fact that the position of corrupt tax officers is strengthened, this way of justifying bonus systems should be rejected because it does not capture the long-term effects of an increase in corruption on tax revenues and government legitimacy. It highly implausible that sustained development can grow from an institutional framework that fosters corruption and extra-legal tax enforcement. He therefore justified that an increases in tax revenues is possible due to the bonus tax system.

Cobham (2005) explored the effect of overall tax system in Latin American countries on employment generation. He posits that the richer countries of the world have grown their overall tax revenues since the 1970s. The EU countries are characterized by total central government revenues of around one-third of GDP. The direct tax take increased from the 1970s to 1980s, but overall growth was primarily due to increases in the revenue from sales taxes but in contrast, the US exhibit lowers overall revenues and shows continuing growth in direct taxation only. Cobham (2005) therefore summarized that Latin America and the Caribbean saw fairly stable direct tax revenues, falling trade tax with trade liberalisation taking hold and increasing reliance on sales tax. East Asia, at roughly similar levels of per capita income, exhibited a similar pattern, thus, with lower trade tax and hence overall revenues (around 2% and 14% of GDP respectively in East Asia, compared to around 4% and 17% in the former).

The Middle East and North Africa is a general exception, showing a significant and sustained reduction in each tax component, most notably in direct tax. This is driven by those countries whose vast resource wealth eases revenue mobilisation. South Asia exhibits by far the lowest contribution from direct taxation of any region, and by far the lowest total tax revenue. Despite managing notable increases in sales taxes during the period, the overall growth has been constrained by a fall in the originally dominant share of trade tax. Sub-Saharan Africa also increased sales tax revenues, but a fall in already low direct tax revenue from the 1 980s to 1990s has restricted the overall growth here. In both these poorest regions of the world, trade taxes are responsible for more than a third of total tax revenue. The difference in the ability of rich countries to obtain direct tax revenues (around 12- 18% of GDP) and that of poor countries (typically 2-6%) is stark. A possible implication is that much more economic activity in the latter takes place out with the scope of direct tax structures - in the informal economy.

There are important differences between the different regions of poorer countries, which drive important differences in ultimate policy recommendations. Cobham (2005) deals with these in more detail, but two main points can be noted: Low-income countries primarily in Sub-Saharan Africa and South Asia face a critical constraint to their development in the form of low overall revenues; no successful development path can be envisaged which does not eventually lead to sufficient domestic revenue mobilisation to ensure fiscal independence; Middle-income countries are less revenue-constrained but face other problems - in the Middle East of weak political representation linked at least in part to 'resource curse' effects of oil wealth (Ross, 2004) and in Latin America of poverty resulting so much from low absolute incomes as from high inequality in the distribution of income. In both cases, increasing direct tax revenues is likely to be important.

Almost every region increased the contribution of direct taxes during the 1980s, but then saw this reversed during the I990s. This was the period, as Emran and Stiglitz (2002) detail, during which the orthodoxy of switching to VAT-type taxation emerged. This orthodox view states that since these taxes impose a lower administrative burden on governments than systems of direct taxation, and since models show they can be relatively undistortionary, they represent the easiest option for developing countries to increase their tax revenues not least when they are already losing trade tax revenues through liberalisation. More recently, empirical analysis by IMF researchers has shown that most low-income countries were completely unable to achieve even such a welfare-reducing compensation for lost trade tax revenue. Baunsgaard and Keen (2005) show that on average, low-income countries replaced less than 30% of the lost revenues, In other words, trade liberalisation systematically undermined the attempts of low- income country governments to mobilise domestic revenues it increased, in fact, their dependence on relatively volatile external aid finance.

The relationship between economic development and growth in government expenditures has a long history, beginning from Wagner (1890). This seminal work gave rise to the popular Wagner Law, which states that there is a long run tendency for state activities to grow relative to the growth of national income. Since Wagner's epochal work, several studies have been undertaken on his conclusions. Most of these studies, according to Essien (1997) dwell on:

a. Appropriate measure of public sector growth.
b. Correct interpretation of the Law\
c. Finding an index of government size to facilitate companion between countries and
d. Testing the law by adopting a case-effect relation to estimate the income elasticity of government expenditure.

Essien (1997) is in itself a study on the "test of Wagner's Law on the Nigeria economy i.e. the extent to which the size of Government would grow, relative to increase in National output". Hinrichs (1966) examined for industrial countries, the thesis of a rising government share of expenditure during development.

It should be recognized that Wagner (1890) did not offer clearly reasons for "the growing share of state activity" Bahl and Kinn (1998). However, subsequent studies attempted a filling of this gap. For instance, Peacock-Wiseman displacement thesis concluded that government expenditures undergo a shift in response to major crisis of distribution. An explanation of the upward shift in government's share has been tested statistically with some success for a number of industrial countries are seen in Gupta (1967). For a small sample of developing countries the same result was found Goffrnan and Mahar (1971) but Bahi, Kinn and Park (1986) estimated a downward displacement for growing government expenditures between 1961 and 1964 in Korean.

From Adebayo (2000) the following government activities, which have pronounced implications for poverty reduction and development, may be linked to increase in government expenditures. First is "Expenditure on Poverty Reducing Activities". Specifically the activities are those in the Education, Health and Social services sectors. The rule of the thumb is; the higher the expenditure on these activities, the lower the incidence of absolute poverty. The second is the meeting of the basic needs of the poorest 40% - 50% of the population. This is often referred to as The Basic Needs Approach to development. Indicators of the basic needs are usually;

a. Food, calorie - supply per head or calories supply as a percentage of requirements of proteins.
b. Literacy rates, primary school enrolment (as a percentage of the population aged 5 - 14).
c. Health: Life expectancy at birth infant mortality (per thousand at birth).
d. Water Supply: Percentage of the population with access to potable water and
e. Housing

3.0 Methodology

We adopted the *ex-post facto* research design. For this paper, secondary data were source from the Central Bank of Nigeria Statistical Bulletin. Gross Domestic Product (GDP) is the total value of goods and services produced in a country over a specified period. It equals the total income of everyone in the economy, and the total expenditure on the economy's output of goods and services. GDP is a gauge of economic of economic performance because it measures something people care about their incomes. Similarly, an economy with a large output of goods and services can better satisfy the demands of households, firms and the government. In line with the work of Rahman and Islam (2003) this seminal paper will adopt the natural log gross domestic product as proxy for the productivity of the Nigerian economy.

Tax evasion and 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 or completely refuses to pay tax. For this seminal paper, the natural log between the difference of total budgeted tax revenue and actual tax revenue was used as a measure of tax evaded and avoided in Nigeria for the period 1999 to 2012.

The simple regression equation is stated thus;

$$Y = B_1 + B_2X_2 + u \quad \text{.......................................} (1)$$

Where, Y =dependent variable; X =explanatory variable; B_1 =intercept of Y; B_2 =slope coefficients; U =stochastic variables (Gujarati, 1995).

Therefore, in writing the model equation, the following proxies and symbols will be used in this research.

Gdp	=	Gross Domestic Product
Tea	=	Tax Evaded and Avoided
a	=	Regression equation intercept
b	=	Regression equation coefficient
μ	=	error term

Equation (1) will be re-written to suit the study along the four hypotheses.
Thus, Tax Evasion and Avoidance do not have positive significant impact on Gross Domestic Product of Nigeria, it is represented as:

$$Gdp = a + bTea + \mu \quad \text{.......................................} (2)$$

4.0 Analysis

Table 1 presents the quantum values of the model proxies.

Table 1 Quantum Values of Model Proxies

Year	Budget Tax Revenue (N)m	Actual Tax Revenue (N)m (A)	Tax Evaded and Avoided (N)m	GDP (N)m
1999	1,877,283	707,400	469,883	310,890.10
2000	1,299,268	839,794	459,474	312,183.50
2001	1,319,907	995,731	324,176	329,178.70
2002	1, 369,334	701,307	668,027	356,994.30
2003	1,426,553	764,895	661,658	433,203.50
2004	2,845,143	802,910	2,042,233	477,533.00
2005	2,847,671	989,950	1,857,721	527,576.00
2006	2,892,370	994,117	1,898,253	561,931.40
2007	2,925,837	1,117,728	1,808,109	595,821.60
2008	3,107,595	1,174,488	1,933,107	634,251.10
2009	3,737,949	1,228,017	2,509,932	674,889.00
2010	3,894,540	1,309,943	2,584,597	718,977.33
2011	4,233,325	1,531,776	2,701,549	775,525.70
2012	4,811,063	2,199,687	2,611,376	834,161.83

Source: CBN Statistical Bulletin (Various Years)

As revealed from the table above, the growth rate of Nigeria's GDP has been increasing over the years. From 1999 to 2012, GDP growth rate had remained over the 5% growth rate mark yearly. In 2001, GDP increased to by 5.44% to ₦329,178.70million and further grew by 8.45% in 2002 to ₦356,994.30million. In 2003, GDP growth rate grew by 21.35% (₦433,203.50million) which was the highest growth rate over the period of this study. In 2005, the growth rate was 10.23% (₦527,576.00million). From 2005 to 2012, the growth rate again, was consistent and remained in the region of 6% to 7%. In 2006, the growth rate was 6.51% (₦561,931.40million), in 2007, it grew by 6.03% (₦595.821.60million), in 2008, grew by 6.45% (₦634,251.10million), in 2009, it again grew by 6.41% (₦674,889.00million), in 2010, grew by 6.53% (₦718,977.33) and climbed to the 7% mark in 2011 and 2012. Specifically, in 2011, it grew by 7.87% to ₦775,525.70million and in 2012, grew by 7.56% to ₦834,161.83million.

Table 2 Regression Result

Dependent Variable: Gdp

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Tea	-4.390065	2.061081	2.129982	0.0452
C	0.216555	2.399287	0.090258	0.9289

R-squared	0.839874	Mean dependent var	5.858400
Adjusted R-squared	0.731285	S.D. dependent var	4.862100
S.E. of regression	4.531715	Akaike info criterion	6.005725
Sum squared resid	431.2653	Schwarz criterion	6.200745
Log likelihood	-71.07156	F-statistic	2.209000
Durbin-Watson stat	1.571733	Prob(F-statistic)	0.117033

Source: E-view Results

As revealed from table 2, Tax evasion and Avoidance has negative and significant impact on Nigeria's gross domestic product (coefficient of Tea = -4.39, t-value = 2.130). This indicates that a one percent decrease in economic growth in Nigeria is due to 4.39 percent decrease in tax evasion and avoidance. The probability value of $0.0452 < 0.05$ confirms the significance of the result. The coefficient of determination which measures the goodness fit of the model as revealed by R-square (R^2) indicates that 84% of the variations observed in the dependent variable were explained by variations in the dependent variable. The test of goodness of fit as indicated by R^2 was properly adjusted by the Adjusted R-Square to 73.1%.

5.0 Conclusion and Recommendation

As stated earlier, taxes, and tax systems, the theoretical basis for this seminar paper is based the relationship between finance and economic growth. According to Brautigam (2008) taxes underwrite the capacity of states to carry out their goals; they form one of the central arenas for the conduct of state-society relations, and they shape the balance between accumulation and redistribution that gives states their social character. Thus, taxes build capacity to provide security, meet basic needs or foster economic development and they build legitimacy and consent helping to create consensual, accountable and representative government. Thus, as revealed by Okafor (2012), tax revenue and growth of the economy have positive and significant relationship. This is consistent with the findings of this study that tax evasion and avoidance stifle the growth of the economy.

Again as observed by Okafor (2012) that over the years that income tax revenue has generally been grossly understated due to improper tax administration arising from under assessment and inefficient machinery for collection. This fact has been collaborated by Ola (2001), Oluba, (2008) and Adegbie and Fakile (2011) when they state that in Nigeria revenue derived from income taxes has been grossly understated due to improper tax administration, assessment and collection. This could be due to persons and companies are known to routinely evade and avoid taxes due to corrupt practices and the existence of various loopholes in the tax laws. Thus, according to Naiyelu (1996), the success or failure of any tax system depends on the extent to which it is properly managed; the extent to which the tax law is properly interpreted and implemented. The finding of this study again is consistent with the assertion of Okafor (2012), Ola (2001), Oluba, (2008) and Adegbie and Fakile (2011).

Tax evasion is an illegal act of intentionally reducing accrual taxes or completing skipping the payment of such taxes by under reporting income, overstating expenditures, deductions or exemptions (Aguolu, 2010). Tax evasion is a serious problem in Nigeria which arises from many sources including outright ignorance of extent tax laws, lack of faith in the ability of government to utilize tax revenue well and high tax rates which make evasion very attractive and economical. Thus, as stated by Kiabel and Nwokah (2009), the problem of tax evasion and avoidance have reduced government revenue which have led to government inability to create employment opportunities for her teaming populace.

Tax evasion and avoidance is a problem which seemed to have defied solution, some people argue that the Nigerian tax system has not been right from the colonial times. While some have blamed the situation on the tax authorities for not living up to expectation with regards to tax administration, others attribute it to the unpatriotic attitude of the taxpayers. It is in line with the above issues that the researcher examines the effect of these interlocking problems on economic development and growth of the Nigerian economy, government revenues and unemployment rate as measures of development and growth indicators in Nigeria. Thus, this study contributes significantly to the volume of literature available in this area of accounting as it pertains the perception of tax evasion and avoidance in Nigeria.

A nation's tax system is often a reflection of its communal values and the values of those in power (Ross, 2007). Therefore, to create a system of taxation, a nation must make choices regarding the distribution of the tax burden and how the taxes collected will be spent. In democratic nations where the public elects those in charge of establishing the tax system like Nigeria, these choices reflect the type of community that the public or government wish to create. Parkin (2006) states that in countries where the public does not have a significant amount of influence over the system of taxation, that system may be more of a reflection on the values of those in power as governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as businesses, or to redistribute resources between individuals or classes in the population in addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy, or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive (Parkin, 2006).

Tax evasion and avoidance have adverse effect on government revenue. Tax avoidance generates investment distortion in the form of the purchase of assets exempted from tax or under-valued for tax purposes (KIabel and Nwokah, 2009). Avoidance takes the form of investment in arts collection, emigration of persons and capital. And as observed by Toby (1983) the taxpayer indulges in evasion by resorting to various practices. These practices erode moral values and build up inflationary pressures. This point can be buttressed with the fact that because of the evasion of tax, individuals and companies have a lot of money at their disposal and companies declare higher dividends and individuals have a high take home profit. This increases the quantity of money in circulation but without a corresponding increase in the goods and services, this then build up what is known as inflationary trends where large money chases few goods (Toby, 1983).

Therefore, taxation thus does not only a means of revenue generation for Government, it can also be used to stimulate other sources of Government revenue and develop other areas of the economy from which Government can realize revenue. However, when there are leakages in tax collection through evasion, no development can take place, thus in most countries where, there is high rate tax evasion and avoidance, it is usually associated with high unemployment. This was buttressed from the findings of this study that tax evasion and avoidance have negative and significant impact on growth of the Nigerian economy, lowers government revenue and leads to low employment rate in Nigeria.

This study thus recommends as follows:

1. The overriding objective of any tax system should be to achieve economic growth and development. As such, the system should allow for stimulation of the economy and not stifle growth. Thus, this study recommends that government policies and measures as it pertain fiscal policies in Nigeria should be streamlined to stimulate economic growth and development by ensuring that there tailored towards growth of the economy.
2. Secondly, this study recommends that there should be strict adherence to the tenets of fiscal federalism, which will include the basic understanding of which revenue functions and agencies are best centralized, which should run concurrently and which are better placed under the sphere of decentralized levels of Government.
3. Essentially, since taxpayers are the single most important group of stakeholders in the tax system as they are the bedrock of the tax system and the source of all revenue generated by tax authorities. The study recommends that in other to ensuring growth of the Nigerian economy, fund generated from tax revenue should be strictly employed to creation of employment opportunities to Nigerians.

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