

# Tax Evasion and Avoidance Behaviour of the Self-Employed Nigerians

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## ABSTRACT

This paper focuses on tax evasion and tax avoidance behavior of the self – employed, using some selected states in Nigerian geo-political zone. The study attempts to ascertain the ethical view, educational attainment, mode of tax administration, religion and cultural practices and how these variables affect tax evasion and tax avoidance decisions of the self – employed. To achieve these specific objectives, we examine extant literature on the afore – mentioned issues and use the statistical tools of ANOVA and Ordinary Least Square (OLS) method of regression, to estimate the difference in means of the sampled groups in each geo-political zone and relationships between tax evasion and avoidance and the independent variables. Results reveal that respondents are of the opinion that tax evasion is ethical sometimes, and that significant relationship exists between the ethical view, mode of tax administration and cultural practices of the self employed and tax evasion and avoidance. It is therefore recommended that authorities should constantly review tax rates to reflect prevailing economic realities, make tax laws and procedures less technical, and ensure that necessary assistance is provided at all times.

**Keywords:** Tax evasion, tax avoidance, tax compliance, the self-employed, ethical view, educational attainment, religiousness, tax administration, cultural practices.

## INTRODUCTION

Taxes do not just constitute the principal source of government revenue as noted by Uadiale, Fagbemi and Ogunleye (2010) but they are in fact fundamental components of any attempts to build societies, and indeed nations. That is why Mckerchar and Evans (2009) agree that taxes build capacities to provide security, meet basic needs or foster economic development) as well as legitimacy and consent (helping to create consensual, accountability and representative government). And since it is the paramount desire of every patriotic citizen to uplift his society, one expects that tax compliance ordinarily should not demand any form of coercion. But the volume of literature that has solely been dedicated to this subject for ages suggests that willful default in tax compliance remain a major issue in every human society, especially in developing countries like Nigeria. In fact, as noted by Kiabel and Nwokah (2009), one of the greatest problems facing the Nigerian tax system is the problem of tax evasion and tax avoidance.

Tax evasion according to Uadiale et al (2010:118) 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”. It is accomplished by deliberate acts of omission or commission, which constitute criminal acts under the tax laws. Tax avoidance on the other hand is the legal utilization of the tax regime to one’s own advantage, to reduce the amount of tax that is payable by means that are within the law (Kasipillai, Aripin and Amran, 2003). The borderline obviously is legality. However, such legal jargons mean very little, really, if the ultimate goal is effective funding of government welfare programmes. As noted also by Omer and Yetman (2005), tax evasion and avoidance may differ in their legality, but it is not unreasonable to presume that they would share some common socio-economic roots and that the characteristics of a taxpayer that make him more likely to evade a tax are more likely to be the same characteristics that make him an aggressive tax avoider. This is why both tax evasion and the seemingly harmless tax avoidance must be viewed and approached in the same light because ultimately they result in less revenue to the government, and perhaps less development in the society.

With cautious confidence, one could say that most Nigerians are either traders, or business-persons, or professionals. So considering the very large number of these classes of people, who could be described as self-employed, it would not be out of place to expect a large chunk of government revenue coming from their payments. But according to Kiabel and Nwokah (2009), in spite of the fact that the self-employed out-number paid workers and they earn as much as four times that of the formal sector employees, the bulk of Personal Income Tax (PIT) accrues from employees whose salaries are deducted at source. This confirms the submission of Torgler and Schaltegger (2006) that tax evasion is more pronounced on the part of the self-employed taxpayer.

The foregoing revelation is baffling bearing in mind that personal income tax is the oldest tax in the country (Odusola, 2006). One would therefore have expected that by now our tax compliance level should be above average. The advocacy in some quarters is that the legal framework be made more robust so as to punish evaders (Sani, 2005). But the question is how effective is such strategy elsewhere, or in time past? Like it is all over the world, determining which regulatory enforcement strategy will be the most effective in gaining long-term voluntary compliance from taxpayers in Nigeria is a challenge for tax authorities. Governments after governments have continually tried to improve the current desperate situation, but all without any appreciable success. What then could be the problem? Are we really addressing the fundamental issues? Whatever the case may be, one thing is certain, authorities and scholars will not stop until the right antidote is found to this menace. This study hopes to contribute in no small measure to this noble quest by addressing the following questions:

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- What is the ethical view of an average self-employed Nigerian on tax evasion and tax avoidance?
- What role does education play in the tax compliance decision of the self-employed?
- Does tax administration in Nigeria contribute to tax evasion and avoidance among the self-employed?
- Is there any relationship between religiousness and tax evasion and avoidance in Nigeria?
- Does culture influence the decision of the self-employed on tax evasion and avoidance?

The given research questions shall be addressed within the contexts of the broad objective of finding out the fundamental reasons why the self-employed Nigerians evade and avoid tax. This definite approach is a break from the past whose focus was on the individual characteristics as each related to tax evasion and tax avoidance. It will enable us seek ways of improving compliance and boost the revenue profile of government.

#### **LITERATURE REVIEW**

Taxpayers' decision to evade or avoid tax is usually influenced by a variety of complicating factors (Cummings, Martinez – Vazquez, McKee and Torgler, 2004). Evidence from literature reveals two basic schools of thought or approaches why people do, or do not, pay their taxes (Leroy 2008; Cummings et al 2004; Verboon and Dijke, 2007; James and Alley, 2004 and Ali, Cecil & Knoblett, 2001). These approaches include economy approach and psychology approach, also known as “good citizen” approach or “accommodative” approach (Murphy, 2008).

It is argued and agreed theoretically that ethics seen as one's belief that moral obligations demand honesty in one's tax dealings, in addition to some other factors, could be a major determinant factor affecting taxpayers compliance decision (Bazart and Pickhardt, 2009; Murphy, 2008; Oglesby, 2008 and Wenzel, 2007). A number of empirical evidence, notably from Wenzel (2007), has indeed, supported this proposition. Strangely enough, however, studies on the ethical aspect of tax evasion have been far- and-in-between and scanty, compared to the volume of studies available on tax evasion from public finance and economic perspectives (Oglesby, 2008; McGee, 2005 and McGee, Nickerson and Fees, 2005).

Reckers, Sanders and Roark (1994) observe that individuals are significantly different in so many ways, though with some common characteristics. Reckers et al (1994) opine that the ethical behaviour of a person cannot be predicted based on general ethical standards. Instead, they maintain that ethical behaviour and ethical beliefs are situation-specific. In other words, ethical view of an individual on tax matters is a function of different variables. Expectedly, all the studies reviewed here seem to follow the dictate of the foregoing argument. It is observed, for instance, that surveys, experiments, and discussions on the ethical aspect of tax evasion are addressed from different viewpoints and on different basis, such as corruption in government, abuse of power, widespread cases of tax evasion, ability to pay, high tax rate, religion, practitioners, demography, and so on (McGee 2005 and McGee et al 2005).

Findings suggest that the ethical stance of an individual or a group of persons on tax evasion is based on circumstances, time, events, place and status. Studies have shown that there is no moral obligation to pay tax (Oglesby, 2008). McGee and Rossi (2006) did a survey of law and Business students in Argentina, where findings were not conclusive that tax evasion is ethical. Similar result was obtained in Hong Kong survey by McGee and Ho (2006).

However, Romania study by McGee (2005) indicates that respondents in Romania believe, though conditionally, that evasion of tax could be justified sometimes. Other studies conducted in some other countries, indicate that ethics could determine tax evasion (McGee and Lingle, 2005; McGee and Yuhua, 2006 and McGee and Guo, 2006).

Studies have also linked ethics to ability to pay (McGee, 1999 and 2005). Many of the participants in these studies were of the view that ethical behaviour depends on the citizens' ability to pay. In their opinion, "tax evasion is never ethical except in cases of elementary survival" (McGee et al 2005:23). However, findings on the effect of high tax rate on the ethical stance of a taxpayer are inconclusive Reckers et al (1994). In a survey of international business professors on the same issue, McGee (2005) found little support for evasion of tax under any kind of disguise. He promptly adduced this finding to an assumed reason that probably, majority of the participating professors were strong antagonists of tax evasion.

It is further submitted that demographic variables, such as sex, age and marital status have been tested as variables that determine taxpayers' ethical view. Torgler and Schaltegger (2006); McGee et al (2005); McGee (2005a and 2005b) link some of their research of ethical behaviour to gender. While McGee et al (2005) conducted his study among Argentina students; McGee (2005a) did his survey among international business professors while McGee (2005b) sought the opinion of Romanian business students and faculty. Expectedly, findings were quite dissimilar and mixed. For example both the Argentina and Romanian studies indicate that male are more strongly opposed to tax evasion while the other results suggest that the women are more ethical than men, and yet Oglesby's (2008) finding showed that no relationship was established between gender and ethics of tax evasion. The study of McGee (2005a) established a link between marital status and individuals' ethical views of tax evasion. He submits that divorcees are more ethical (in terms of paying tax) than both single and married individuals. Torgler et al (2006) further found from the US and Switzerland surveys that the married people have stronger tax morale than singles.

The ethical aspect of tax evasion has long been x-rayed from religious viewpoint. Oglesby (2008); McGee et al (2006), McGee (2005a), McGee (2005b), Reckers et al (1994) reviewed and examined The moral obligation of paying just taxes as it affected the ethical consciousness of the Catholic community for over five centuries with three major views from literature within this period. The first view took the position that tax evasion is always or almost always unethical. This view is based on the beliefs that there is a duty to our society and the fact that we also owe it a duty to God who instructs us to obey and respect those in authority (McGee et al 2005; McGee 2005a; and McGee 2005b). The second view holds that there is never or almost never a duty to pay taxes. The view is based on "an anarchist's" belief (McGee 2005a) that government, and indeed the State, is a political concept, which lacks legitimacy, while government is viewed as no more than a band of thieves who does not deserve to be given anything freely but scorn and stiff resistance. The third view says there is some ethical obligation to pay tax wherever one resides, but that duty is not absolute (McGee et al 2005). In other words, tax evasion is believed to be ethical under some circumstances (McGee 2005a). In his studies, McGee (1999) found that individuals who are highly religious appear to be more ethically upright than others because they seemed to be more tax compliant.

From the submissions above, the ethical views of individuals on the act of evading tax are mixed and varied, and yet unsettled. It is however inferred from findings that what is ethical depends on where (i.e. the place), when (the time), who (the status) and why (the reason).

Beside ethics, it is documented in literature the influence of education on compliance behaviours, albeit with some degree of inconsistency and ambiguity. Many empirical findings and results have indicated a positive relationship between education and taxpayers' attitude. While some other evidence suggests otherwise (Dubin and Wilde, 1988), reasons have been advanced to explain these conflicting findings (Devos, 2008 and 2005). Known dimensions, though difficult to separate, are used to measure education: general degree of fiscal knowledge, knowledge involving evasion opportunities, general educational achievement, and specific tax knowledge (Devos, 2008). Besides, the level of inconsistencies could also be traced to the strong and seemingly inseparable link between education itself and some other compliance variables, such as age, gender, income level, ethics, and perceptions of fairness, detection and sanctions. Ahmad, Mohd-Hanefah and Mohd-Noor (2007) and Chau and Leung (2009) identify two aspects of education: namely knowledge through common or formal education (i.e. conventional education), and knowledge towards the opportunity to evade tax. Eriksen and Fallan (1996) believe that the level of education received by a taxpayer is an important factor which gives him a better understanding about taxation, especially in the area of rules and regulation guiding taxation. In fact, they found that specific tax knowledge was positively linked to a taxpayer attitude.

To this end, and against the background of Education-Evasion stance, a series of studies have been conducted in Malaysia. The results of which have further helped to illuminate some grey areas as far as education and tax compliance is concerned. Ahmed et al (2007) conducted a study to examine the effects of knowledge on tax compliance behaviours. They found that there was a significant difference in tax compliance behaviours between respondents with knowledge about income tax and respondents without tax knowledge. In another study conducted in Malaysia by Kasipillai and Abdul Jabbar (2006), where academic qualification was one of the variables used, a significant positive relationship between level of education and taxpayer behaviour was also established. One interesting thing noted in the Malaysian studies reviewed here is that the findings seem to be consistent.

So many other surveys and experiments have been carried out by other scholars, yet with mixed results. For instance, in a study conducted by Lin and Carrol (2000) to find the relationship between enhanced tax knowledge and attitudes towards compliance among taxpayers in New Zealand, it was found that intensification in tax knowledge did not have a significant relationship with tax compliance. But Chan, Troutman and O'Bryan (2000) found, in a survey to compare compliance behaviour between Hong Kong and US taxpayers that education, apart from taxpayers' age, positively influenced attitude at least in the US. The study revealed particularly that higher education is directly linked to increased tax compliance.

Taxation could be viewed as a two-way concept, which involves revenue authority (representing government) on one hand and taxpayers on the other hand (Ronan, 2007). Ideally, the tax authority is expected to adopt policies and strategies that would ensure maximum cooperation, or optimum compliance, from the other party (i.e. the taxpayers). For this is only when their operation could be described as being effective or successful. This, obviously, is a daunting task because, as we know it, tax is like a bitter-pill no one likes to swallow (Torgler and Schaltegger, 2006; Murphy, 2008; Braithwaite 2004; Wenzel, 2007 and 2004). With the full knowledge of this challenge, relevant authorities, ordinarily, are expected to fashion out the best way to structure tax laws and guidelines; the best way to get taxpayers acquainted with these rules, and the best procedures to be followed in the overall administration of tax matters so as to make payment less arduous than it already seems. But, the question is, does it really matter the way and manner tax matters are being administered? Would more people decide to be tax compliant for example if extant laws are made accessible and simple? Unfortunately, available literature could not offer much in terms of empirical evidence to help our curiosity. The few ones available, however, are telling enough.

Chan et al (2000), for instance, is of the view that increasing complexity in tax laws is one of the major reasons for tax evasion in many developing countries. They submit that such complexity in tax laws are in the form of excessive detail in the tax rules and numerous computations required. In this regard, Clotfelter (1983) find out that complexity of tax system is significantly and positively linked with underreporting of tax and tax evasion. This finding is corroborated by Richardson (2006) and Odusola (2006). Odusola (2006; 25) specifically comments that "tax laws in Nigeria are complex and difficult for the common taxpayer to understand, and some cases are problematic even for literate officials. In addition to lack of understanding, many taxpayers are unaware of the existence of certain taxes". This is an obvious problem, because it is a direct opposite of what Mckerchar et al (2009) found in their studies, where it was revealed that voluntary compliance in a self assessment regime would most likely succeed when the tax system is simple both for taxpayer to understand and for the revenue authority to administer. Torgler and Schaltegger (2006) and Abbric and Doussy (2006) in South Africa share the same opinion. However, Witte the Woodbury (1985) found that the impact of complexity on compliance varies with individual's taxpayer characteristics such as perception of fairness, opportunity to evade, and education.

Aside from the influence the nature of tax system might have on taxpayers' compliance level, some studies have also been conducted to ascertain the impact fair treatment might have. Frey (2003) in his survey in Switzerland, reveals that if the tax administration is seen as being honest, fair, informative, and helpful, and the revenue authorities act as a service institution and treating taxpayers as partners and not "inferiors in a hierarchical relationship", then taxpayers would have a stronger tendency to pay taxes honestly.

Torgler (2004) and Torgler and Murphy (2004) link the findings of Frey (2003) to certain policy shift in countries as Japan and Australia respectively. They pointed out the salutary effect noticed from the increased emphasis on quality customer service as well as reasonable and fair treatment of taxpayers in those countries. According to Torgler and Schaltegger (2006), Australia and Japan are proudly in the league of few countries with high degree of tax morale. In contrast, a tax system where officials are known to collude with tax defaulters certainly cannot be described as effective. Rather, if anything, such a scenario could lead to a case of perceived distributive injustice (or horizontal inequity) whose ultimate implication is low morale among taxpayers (Verboon et al, 2007)? Where there is perceived

widespread cheating in tax payment, there is usually a low tendency for continued compliance, even among honest taxpayers (Torgler et al 2006). This is in consonance with the findings of Onah (1995) in which bribery and corruption were identified on the part of tax assessors as one of the major factors respondents gave as reasons for high evasion incidence in their locality. Mckerchar and Evans (2006) and Odusola (2006) also agree that if cases where evaders prefer to bribe officials rather than pay taxes are left unchecked, then, the current level of non-compliance in Nigeria might get even worse.

One might be tempted to undermine the power and influence of religion in the affairs of man if one (like most philosophers) dwelt too much on Karl Max's remark that religion is the opium of the people. That, perhaps, explains why economists and other social scientists seem to be avoid the study of religion, as asserted by Stark, Iannaccone and Finke (1996). As acquiesced by Murphy (2008), Devos (2008), Sour (2004) and Reckers et al (1994), tax evasion and tax avoidance is a moral issue.; and one obvious source of morality is religion (Torgler, 2003). Since virtually all major religions in the world today believe in the existence of one divine God (Hull, 2000 and Hull and Bold, 1994), who, better than God Himself, can decide what is right and what is wrong? It is upon this belief, probably, that the theory that actions are right solely because God commands them is based. The ethical rulebooks for the Christians and Muslims (i.e. the Holy Bible and the Holy Quran) share at least one thing in common (Hull and Bold, 1994), which is the classical teaching that God will reward the righteous with the joy of heaven and consign the wicked to the torments of hell. Thus, it could be argued that what makes actions right or wrong is the fact of divine reward and retribution. These beliefs help to structure people's value (Hull, 2000) and reduce their inclination to do wrong (Margolis, 1997). It is logically expected therefore that people who adhere strictly to their religious rules and rites, should exhibit better positive tax attitude than those who do not. This is more so considering the remarks of Torgler (2003) that religion as a sanctioning system legitimizes and reinforces social values.

The influence of cultural practices by individuals and even countries has been documented in literature. Researchers have long identified that individuals are influenced by the kind of culture in which they live (Torgler and Schneider, 2004). Various studies have been conducted overtime, specifically, to explain the problem of tax evasion and avoidance, and to explore people's general attitude to taxation from the viewpoint of culture. But it might be difficult to appreciate the impact of culture on human life style if we do not understand what it entails. Torgler et al (2004) defines culture as information stored in people's heads which can be transmitted among individuals. This information can be thought of as the ideas, values, benefits, behavioural strategies...that reside in individual brains, and can be learned by other individual through imitation, observation (plus inference), interaction, discussion and/or teaching.

In a nutshell, our culture dictates our actions and inactions in all matters of life, including tax matters. That is why Chan et al (2000) identify that culture is a powerful environmental factor that affects taxpayer's compliance. Perhaps it is now better understood why our fore-fathers would retreat into the bush at the sight of tax officials just to avoid or evade paying of tax (Onah, 1995) -It was simply not their way of life. Expectedly, the pattern of tax evasion or attitude found is as diverse as culture itself, Cummings et al (2004). Uadiale et al (2010) opine that the various cultural contents which shape a person's interpretation of events may assist in influencing his attitude towards tax evasion. They assert further that culture is reflected to varying degrees in general values and specific behavioural norms. These values, they submit, are reinterpreted during a person's everyday social contact, which can either increase or decrease tax evasion. The most widely used cultural framework to explain taxpayers' compliance attitude is that of Chan et al (2000; Uadiale et al (2010).

The study conducted by Uadiale et al (2010) on culture-tax compliance relationship showed that culture has a strong positive and significant relationship with tax evasion. The findings of Chan et al (2000) also suggest that culture of the taxpayers has an impact on taxpayer compliance decisions. Torgler et al (2004), unlike many other researchers, focused on the impact of culture on tax morale, within culture, instead of on tax evasion, usually done across culture. Using data from the World Value Survey (WVS 1995-1997) and European Value Survey (1999-2000), they obtained empirical evidence from some European countries (i.e. Belgium, Spain, and Switzerland) with characteristically plural culture. Their results failed to show any link between cultural background and tax morale, even though evidence somewhat established a strong relationship between culture and democratic institution.

Some other authors have also tried to throw more light on the association between culture and taxpayers' compliance attitude. Regardless of Torgler et al (2004), it is admitted that empirical and experimental evidence on the effects of culture is scarce. One of such few studies was conducted by Cummings, Martinez-Vazquez, McKee, and Torgler (2004), where, in their combine experimental and survey data from the US, Botswana, and South Africa, they found

that the observed differences in tax compliance behaviour and tax moral can be traced to the differences in the fairness of tax administration, in the perceived equity of the fiscal exchange, and in the overall attitude towards their respective governments. Torgler et al (2003) also found in a compliance experiment done in Switzerland and Costa Rica that the significant differences among the countries was due to time factor.

Nigerian cultural environment legitimizes “family pressure”, the other, being low income as a result of establishment and maintenance of small business ( Onah,1995) Nigerians (especially the self employed) are expected to be influenced, in their tax compliance decisions, by the cultural practice of maintaining a large extended family couple with the burden of not having a high income from their predominantly peasant business.

Based on the review of literature, we restate our hypotheses in a null and alternative form as thus:

**Null Hypotheses one to five ( $H_{0,1-5}$ ):** There is no significant difference in means between the ethics, education, religion, tax administration and culture of the self-employed Nigerians and tax evasion and tax avoidance in the geo-political zones

**Alternative Hypotheses one to five ( $H_{A,1-5}$ ):** There is significant difference in means between the ethics, education, religion, tax administration and culture of the self-employed Nigerians and tax evasion and tax avoidance in the geo-political zones.

#### METHODOLOGY AND DATA

The self-employed Nigerians constitute the population for the study. However, a sample size of six hundred (600) respondents spread among the six geo-political zones in Nigeria was made. The judgmental sampling method was used in the selection of the states. This was to allow for equal representation of all the zones in the country in the sample. States selected were Anambra, Benue, Bornu, Edo, Kaduna and Lagos States. The choice of the representative states was based on their cosmopolitan nature. One hundred copies of the survey questionnaire were distributed in each of the geo-political zones.

This study used basically primary data, which were obtained with the aid of carefully structured questionnaire. Questionnaire was used to gather data for the study because it guarantees a high degree of anonymity of individuals as well as ensures the use of standardized questions for all the respondents. The survey questionnaire used for the data collection consisted of thirty-six (36) questions, subdivided into six (6) sections. There were seven questions on demographic information and twenty-nine on the relevant variables (i.e. ethics, education, tax administration, religiousness and culture). A sample of the questionnaire is shown in Appendix 6.

Exactly six hundred (600) questionnaires were administered (one hundred questionnaires for each geo-political zone). The questionnaires were personally administered in Edo, Lagos and Anambra while the questionnaires for Benue, Bornue and Kaduna were distributed at some other time other time, and with the assistance or some learned research assistants. The data collection process resulted in the data as shown in the below:

**Table 1: Administration of Questionnaires**

Geo-political zones State	Representative	No of Questionnaires Administered	No. Returned	Percentage
North-Central	Benue	100	57	57
North-East	Bornu	100	53	53
North-West	Kaduna	100	59	59
South-East	Anambah	100	63	63
South –South	Edo	100	98	98
South-West	Lagos	100	93	93
<b>Total</b>		<b>600</b>	<b>423</b>	<b>70.5</b>

**Source:** Field Survey by the author

Most of the questionnaires administered in Edo and Lagos states were retrieved on the spot, while the cases in the other states were retrieved by agents deployed for this purpose. This perhaps accounted for the uneven rate of returns across the zones.

Responses derived from the questionnaires were coded, entered and analyzed by the use of Statistical Package for Social Scientists (SPSS). Hypotheses were tested using Analysis of Variance (ANOVA) and Regression Analysis. The statistical tools were, particularly, suited for these tests because the focus was on the comparison of the impact of independent variables (i.e. ethics, education, religion, tax administration, and culture) on the outcome variable (tax evasion and avoidance) possible.

#### **DESCRIPTIVE STATISTICS**

**Research Question One:** The Ethics of the self-employed Nigerian on tax evasion and avoidance

Appendix 1<sup>A</sup> shows the mean score of responses to TEV<sub>ethics-1</sub> to TEV<sub>ethics-10</sub> (i.e. ethics-related statements). It shows an overall average mean score of 2.7. It also shows that four statements (i.e. TEV<sub>ethics-3</sub>, TEV<sub>ethics-5</sub>, TEV<sub>ethics-8</sub> and TEV<sub>ethics-10</sub>) have a response mean score (X) of less than 2; and the remaining six statements have a response mean score (X) which is greater than 2 but less than 4. This study adopts the method used by McGee et al (2006) to discuss similar data in their study. Therefore, we may conclude from the descriptive statistics that an average self-employed Nigerian believes that evasion of tax is sometimes ethical.

In addition, appendix 1<sup>B</sup> shows the mean scores of responses to ethics-related statements as per geo-political zones. It shows that while four (4) zones (i.e. Middle- belt, North-east, North-west and South-east) have response mean score of sub-2 both South-south and South-west have response means score of exactly 3. We may conclude from this data that the sometimes ethical view is common to all the geo-political zones, even though it appears that both the South-south and South-west zones are bit more ethical in their view. This is followed by appendix 1<sup>C</sup> which shows the mean scores of responses to ethics-related statements as per gender. It shows that both the male (mean score- 2.5) and female (mean score -2.8) gender believe that tax evasion is sometimes ethical. However, the male seems to be less ethical than their female counterpart. This result is similar to that of the international business professor study by McGee (2005) and the Guatemalans business and law students study by McGee & Lingle (2005).

Furthermore, appendix 1<sup>D</sup> shows the mean scores of responses to ethics-related statements as per marital status. It shows that the singles have average mean score of 2.3, married individuals have average mean score of 3.1 and the divorcees have a response average mean score of 2.6. This result is an indication that the married individuals are the most ethical among the lot. This result is similar to the findings of Torgler et al (2006). Appendix 1<sup>E</sup> shows the mean scores of responses to ethics-related statements as per religion. It shows that both the Christian (mean score of 2.8) and the Moslem respondents (mean score of 2.7) share similar ethical view on tax evasion. Following this are the mean scores of responses to ethics-related statements as per educational status (appendix 1<sup>F</sup>). It shows that individuals with Ordinary National Diploma (OND) and above (average mean score of 3.2) are far more ethical in their views than all the other groups. Individuals with secondary school certificate (SSCE), for example, have an average mean score of 2.4, while First School Leaving Certificate holders have an average mean score of 2.3.

**Research Question Two:** Education and tax evasion and avoidance among the self employed

According to appendix 1<sup>G</sup>, 34% of the respondents agree or strongly agree that the low knowledge indeed may contribute to the incidence of tax evasion; 236 (i.e. 56%) of them disagree or strongly disagree with this statement, while forty five (i.e. 11%) are undecided on the issue.

**Research Question Three:** Tax administration in Nigeria and tax evasion and avoidance among the self employed

An average of 48% of the respondents either agrees or strongly agrees (appendix 1<sup>H</sup>) that the mode of tax administration in Nigeria is an important determinant factor to their decision either to pay, or not to pay, their taxes. It also shows that an average of 40% of the respondents either disagrees or strongly disagrees to this notion.

**Research Question Four:** Religion and tax evasion and avoidance among the self employed.

An average of 11% of the respondents either agrees or strongly agrees that their religion affects their tax paying decision. It also shows that an average of 87% of the respondents do not see any relationship between the decision to pay, or not to pay, their taxes (appendix 1<sup>I</sup>).

**Research Question Five:** Culture of the self-employed on tax evasion and avoidance

An average of 54% of the respondents either agrees or strongly agrees that identified cultural practices have an impact in their decision to evade, or not to evade, taxes. An average of 36% of them either disagrees or strongly disagrees with such view (appendix 1<sup>J</sup>).

#### **HYPOTHESIS TESTING**

**Restatement of Hypotheses one to five (H<sub>1-5</sub>)**

**Null Hypotheses one to five ( $H_{0,1-5}$ ):** There is no significant difference in means between the ethics, education, religion, tax administration and culture of the self-employed Nigerians and tax evasion and tax avoidance in the geo-political zones

**Alternative Hypotheses one to five ( $H_{A,1-5}$ ):** There is significant difference in means between the ethics, education, religion, tax administration and culture of the self-employed Nigerians and tax evasion and tax avoidance in the geo-political zones.

**Decision :** Results shown in hypothesis one (in appendix 5<sup>A</sup>) indicate that  $F_{\text{calculated}}$  of 7.37 is greater than  $F_{\text{critical}}$  of 2.579 at 5% level of significance. Based on this, we reject the null hypothesis one and accept the alternative hypothesis ( $H_{A,1}$ ) that there is a significant difference in means between the ethical view of the self-employed Nigerians and tax evasion and tax avoidance.

Other hypotheses ( $H_{0,2-5}$ ) are similarly rejected at 5% level of significance: the  $F_{\text{calculated}}$  value in each case is greater than  $F_{\text{critical}}$  value. For instance, the  $F_{\text{calculated}}$  values for  $H_{2-5}$  are respectively 15.64; 58.56; 9.88 and 4.43 ; while the associated  $F_{\text{critical}}$  values are respectively 3.48; 2.87; 2.69 and 3.06 .We accept the  $H_{A,2-5}$  that there is a significant difference in means between the variables of education, religion, tax administration and culture of the self-employed Nigerians and tax evasion and tax avoidance in the geo-political zones

Given the overall relationships, the coefficient of determination ( $r^2$ ) of 0.178 indicates 17.8% proportion of the variation in tax evasion and tax avoidance that has been explained by changes in the independent variables. While the remaining 82.2% remains unexplained and accounted for by the disturbance term.

#### **SUMMARY OF FINDINGS:**

The objective of this paper is to test the significance in differences in means between the groups of samples in the six-geopolitical zone. The following constitute the summary of findings

- An average self-employed Nigerian is of the opinion that tax evasion and tax avoidance is ethical sometimes;
- There is a significant difference in means between the ethics, education, religion, tax administration and culture of the self-employed Nigerians and tax evasion and tax avoidance in the geo-political zones
- There is a significant (at 5% level) relationship between the level of education attained by the self employed and their decision on tax evasion;
- There is a significant relationship between tax evasion and tax avoidance decisions among the self-employed and the mode of personal income tax administration in Nigeria;
- There is a relationship between a taxpayer's religion and his or her tax evasion and avoidance decisions
- There is a significant relationship between cultural practices and taxpayers' decision on tax evasion and avoidance.

#### **DISCUSSION OF FINDINGS:**

The results and findings of this study suggest some direction which reflects similarity and/or dissimilarity with previous research work.

Our findings on ethical view of the self-employed are consistent with McGee (2005), whose study focuses on Romania; with McGee and Lingle (2005) whose study used Guatemala as a focal point; McGee and Yuhua (2006) and McGee and Guo (2006) both in China; as well as the result of McGee and Maranjyan (2006) conducted in Armenia. This occasional justification of tax evasion also somewhat agrees with the main view that has been reported in the theological and philosophical literature over last 500 years, according to McGee et al (2006). To this extent, and given our assumptions in this study, findings on ethics-tax compliance relationship are consistent, thereby giving a boost to a body of theory in this aspect of research.

Findings on the level of education and tax evasion and tax avoidance is in consonance with the results of Kasipillai et al (2003); Kasipillai et al (2006); and Ahmed et al (2007), all in Malaysia; as well as Houston and Tran (2001) and Devos (2005), both in Australia, which suggest a positive relationship between the level of educational attainment and taxpayers' attitude to tax compliance. However, it disagrees with the findings of Lin and Carrol (2000) in their study in New Zealand, where it is found that intensification in tax knowledge does not really have significant relationship with tax compliance.

The finding on the mode of income tax administration and tax evasion and tax avoidance is in line with theories, discussions, and findings of scholars such as McKerchar et al (2009), Chan et al (2000), Odusola (2006), and Frey (2003), who all find a positive relationship in their respective studies.

Besides, our finding on cultural practices is consistent with Torgler Schaltegger and Schaffer (2003) and Chan et al (2000).

On religion, our finding indicates its influence on tax evasion and tax avoidance and confirms the remarks of Torgler (2003) that 'religion as a sanctioning system, legitimizes and reinforces social values'.

#### **IMPLICATIONS OF FINDINGS:**

Based on the findings, it is acknowledged that the overall implications of findings find expression in the tax evasion and / or avoidance by the self-employed owing to a number of factors including certain cultural practices, religion, mode of tax administration and the ethical view of the tax payers. Government's low level of income results in inadequate infrastructural and social developments which derive from high tax rates. The government is faced with the perceived marginalization in the location and spread of beneficial projects; obvious cases of unchecked level of corruption by government officials and their associates/surrogates; low probability of detection; and low level of income for the government, amongst others.

#### **RECOMMENDATIONS**

In the light of the findings and given the implications, the following recommendations are made:

- Government should ensure that taxation is a fiscal policy instrument not just as an instrument of revenue generation. Besides, tax rates reflect economic realities.
- The Nigerian tax authorities and government officials should be transparent and accountable in the collection and use of tax proceeds: tax proceeds should be channeled to projects and programmes that are people-oriented.
- The Audit Unit of the Revenue Authority should be further strengthened for optimum performance. This is to enable an effective audit to be carried out to deter tax cheats and tax defaulters
- Government should strive to boost the economy and reduce the level of poverty among its citizens because where the majority of the people are poor, tax evasion becomes inevitable. Government should systematically develop the social and infrastructural sectors to enable the people, especially the self-employed, increase their capacity in the area of production. Further, a welfare programme should be instituted particularly for the vulnerable (such as young school leavers and the aged) so as to mitigate the burden of those working.
- Members of religious bodies should encourage their members to pay tax to enable the government to bring about developments to the people. Yet the people, just as the wind of democratic change is blowing from within the Middle-east, should insist on accountable leadership
- Nigerians at all spheres should be educated on their civic responsibility to pay tax. Coupled with this, governments should make an overall review of tax laws especially, the personal income tax laws, and then the personal allowances which are no longer in tune with economic realities. In addition, existing tax laws with unnecessary technicalities in the assessment and collection procedures should be reviewed to make them have human face and to encourage voluntary compliance.

#### **CONCLUSION**

The crux of this study is to examine the determinants of tax evasion and tax avoidance among the self-employed, using some states in the geo-political zones in Nigeria. The findings indicate that self-employed Nigerians share a similar view like their counterparts in some countries: that is: that tax evasion and avoidance are justifiable under certain circumstances. This view, in addition to the interplay of certain identified variables, such as cultural practices and modes of tax administration, among others, significantly influences tax compliance decisions among the self-employed. However, given the constraints of using only the geo-political zone and a sample size of six hundred (600), generalization of findings may be done with some caution. It is recommended for future research work, a larger sample size and the inclusion of other testable variables to improve results.

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**APPENDIX**

**1<sup>A</sup> : Mean Score of Responses to Ethics-related Statements**

Statement	Mean Score (X)
TEV <sub>ethics-1</sub>	2.5
TEV <sub>ethics-2</sub>	3.4
TEV <sub>ethics-3</sub>	1.8
TEV <sub>ethics-4</sub>	3.8
TEV <sub>ethics-5</sub>	1.9
TEV <sub>ethics-6</sub>	3.6
TEV <sub>ethics-7</sub>	3.3
TEV <sub>ethics-8</sub>	1.6
TEV <sub>ethics-9</sub>	2.9
TEV <sub>ethics-10</sub>	1.9
Average mean score	2.7

Source: Field Survey

**1<sup>B</sup> : Mean scores of Responses to Ethics-related Statements as per Geo-political Zones**

STATEMENT	MIDDLE-B MS	NORTH-E MS	NORTH-W MS	SOUTH-E MS	SOUTH- S MS	SOUTH-W MS
TEVethnics-1	2.2	2.4	2.1	2.0	3.1	3.2
TEVethnics-2	3.0	3.6	3.1	3.5	3.8	3.4
TEVethnics-3	1.9	1.6	1.7	1.5	2.0	2.1
TEVethnics-4	3.8	3.7	3.4	3.7	4.2	4.0
TEVethnics-5	1.8	1.5	2.1	1.7	2.0	2.3
TEVethnics-6	3.4	3.5	3.3	3.7	3.9	3.8
TEVethnics-7	3.1	3.5	2.9	3.0	3.6	3.7
TEVethnics-8	1.4	1.6	1.2	1.6	1.8	2.0
TEVethnics-9	2.8	3.0	2.5	2.7	3.3	3.1
TEVethnics-10	1.7	1.6	2.0	1.8	2.2	2.1
Ave. Means S	2.5	2.6	2.4	2.5	3.0	3.0

**1<sup>C</sup> : Mean Scores of Responses to Ethics-related Statement as per Gender.**

STATEMENT	MALE MEAN SCORE	FEMALE MEAN SCORE
TEV <sub>ethics-1</sub>	2.4	2.6
TEV <sub>ethics-2</sub>	3.2	3.6
TEV <sub>ethics-3</sub>	2.0	1.6
TEV <sub>ethics-4</sub>	3.5	4.1
TEV <sub>ethics-5</sub>	1.9	1.9
TEV <sub>ethics-6</sub>	3.3	3.9

TEV <sub>ethics-7</sub>	3.1	3.5
TEV <sub>ethics-8</sub>	1.5	1.7
TEV <sub>ethics-9</sub>	2.6	3.2
TEV <sub>ethics-10</sub>	1.5	2.3
Ave. Mean Score	2.5	2.8

Source: Field Survey

**1<sup>D</sup> : Mean Scores of Responses to Ethical Statements as per Marital Status.**

STATEMENT	SINGLES MEAN SCORE	MARRIED MEAN SCORE	DIVORCEE MEAN SCORE
TEV <sub>ethics-1</sub>	2.5	2.8	2.2
TEV <sub>ethics-2</sub>	3.0	3.9	3.3
TEV <sub>ethics-3</sub>	1.3	2.2	1.9
TEV <sub>ethics-4</sub>	3.7	4.0	3.7
TEV <sub>ethics-5</sub>	1.3	2.6	1.8
TEV <sub>ethics-6</sub>	3.4	3.7	3.7
TEV <sub>ethics-7</sub>	2.9	3.5	3.4
TEV <sub>ethics-8</sub>	1.1	2.0	1.7
TEV <sub>ethics-9</sub>	2.3	3.6	2.8
TEV <sub>ethics-10</sub>	1.4	2.6	1.7
Ave. Mean Score	2.3	3.1	2.6

Source: Field Survey

**1<sup>E</sup> : Mean Score of Responses to Ethical Related Statements as per Religion.**

STATEMENT	CHRISTIANITY MEAN SCORE	ISLAM EAN SCORE(MS)	UNKNOWN ELIGION MS
TEV <sub>ethics-1</sub>	2.7	2.3	2.5
TEV <sub>ethics-2</sub>	3.8	3.6	2.8
TEV <sub>ethics-3</sub>	1.7	1.6	2.1
TEV <sub>ethics-4</sub>	3.6	3.9	3.9
TEV <sub>ethics-5</sub>	2.0	1.9	1.8
TEV <sub>ethics-6</sub>	3.9	3.7	3.2
TEV <sub>ethics-7</sub>	3.3	3.4	3.2
TEV <sub>ethics-8</sub>	2.0	1.7	1.1
TEV <sub>ethics-9</sub>	3.1	2.9	2.7
TEV <sub>ethics-10</sub>	1.9	1.9	1.9
Ave. Mean Score	2.8	2.7	2.5

Source: Field Survey

**2<sup>A</sup> : Mean Scores of Responses to Ethics-related Statements as per Educational Status.**

STATEMENTS	OND & ABOVE MEAN SCORE	SECONDARY CERT. MEAN SCORE	FSLC MEAN SCORE	UNKNOWN STATUS MEAN SCORE
TEV <sub>ethics-1</sub>	3.4	1.9	1.8	2.9
TEV <sub>ethics-2</sub>	4.1	3.0	2.8	3.7
TEV <sub>ethics-3</sub>	2.7	1.4	1.4	1.7
TEV <sub>ethics-4</sub>	4.3	3.5	3.6	3.8
TEV <sub>ethics-5</sub>	2.0	2.0	1.5	2.1
TEV <sub>ethics-6</sub>	4.0	3.4	3.4	3.6

TEV <sub>ethics-7</sub>	3.8	3.1	2.8	3.5
TEV <sub>ethics-8</sub>	2.1	1.2	1.4	1.7
TEV <sub>ethics-9</sub>	3.4	2.8	2.4	3.0
TEV <sub>ethics-10</sub>	2.3	1.7	1.9	1.7
Ave.Mean Score	3.2	2.4	2.3	2.8

Source: Field Survey.

### 2<sup>B</sup> : Knowledge on Record Keeping and Tax Liability Computation on Tax Compliance

Statement	No of Respondent	Agree and Strongly Agree		Undecided %		Disagree and Strongly Disagree	
		No	%	No	%	No	%
TEV <sub>ed-2</sub>	424	143	34	45	11	236	56

Source: Field Survey

### 3<sup>A</sup> : Responses to Tax Administration- related Statement

Statement	No of Respondent	Agree and Strongly Agree		Undecided %		Disagree and Strongly Disagree	
		No	%	No	%	No	%
TEV <sub>adm-1</sub>	424	166	39	30	7	228	54
TEV <sub>adm-2</sub>	424	177	42	47	11	200	47
TEV <sub>adm-3</sub>	424	237	56	23	5	164	39
TEV <sub>adm-4</sub>	424	332	78	21	5	71	17
TEV <sub>adm-5</sub>	424	173	41	87	20	164	39
TEV <sub>adm-6</sub>	424	146	34	95	22	183	43
Ave Total	424		48		12		40

Source: Field survey

### 3<sup>A</sup> Religion and tax evasion and tax avoidance

Statement	No of Respondents	Agree and Strongly Agree		Undecided		Disagree and Strongly Disagree	
		No	%	No	%	No	%
TEV <sub>rel-3</sub>	424	67	16	11	2	346	82
TEV <sub>rel-5</sub>	424	23	5	5	1	296	93
Ave Total	424		11		2		87

Source: Field Survey

### 4<sup>J</sup> Culture and tax evasion and tax avoidance

Statement	No of Respondent	Agree and Strongly Agree		Undecided %		Disagree and Strongly Disagree	
		No	%	No	%	No	%
TEV <sub>adm-1</sub>	424	202	48	74	17	148	351
TEV <sub>adm-2</sub>	424	250	59	14	3	160	38
	424		54		10	308	36

Source: Field Survey

## APPENDIX 5: HYPOTHESIS TESTING

### 5<sup>A</sup> : Ethics and tax evasion tax avoidance

Mean	N	Std. Dev
141.100	10	92.92 SA
99.600	10	37.58 A
12.100	10	7.08 UN
101.700	10	53.28 D
69.500	10	51.47 SD
84.800	50	68.84 Total

One factor ANOVA

Source	SS	Df	MS	F	p-value	fori
Treatm	91,937.20	4	22,984.300	7.37	.0001	2.579
Error	40,246.80	45	2.579			
Total	232,184.00	49				

### 2<sup>B</sup>: Education and Tax Evasion and tax avoidance One factor ANOVA

Mean	N	Std. Dev
22.000	3	11.79 SA
67.000	3	40.95 A
34.667	3	11.68 UN
182.000	3	34.60 D
118.833	3	31.79 SD
84.800	15	65.66 Total

Source	SS	Df	MS	F	p-value	fori
Treatt	52,039.07	4	13,009.767	15.64	.0003	3.48
Total	60,358.40	14				

### 2<sup>C</sup>:Religion and tax evasion and tax avoidance One factor ANOVA

Mean	N	Std. Dev
15.200	5	11.69 SA
23.400	5	8.02 A
7.000	5	3.08 UN
134.600	5	40.55 D
243.800	5	51.70 SD
84.800	25	97.95 Total

Source	SS	Df	MS	F	pvalue	fori
Treatment	212,140	4	53,035.	58.56	9	2.87
Total	230,252	24				

**2<sup>D</sup>:Tax Administration and tax evasion and tax avoidance** ONE FACTOR ANOVA

Mean	N	Std. Dev
50.571	7	26.51 SA
132.000	7	65.23 A
50.714	7	29.93 UN
149.143	7	51.75 D
41.571	7	28.87 SD
84.800	35	61.88 Total

Source	SS	Df	MS	F	p-value	fori
Treatment	73,989.89	4	18,497.471	9.88	3.20E-05	2.69
Error	56,189.71	30	1,872.990			
Total	130,179.60	34				

**2<sup>E</sup> :Culture and Tax evasion and tax avoidance** ONE FACTOR ANOVA

Mean	N	Std. Dev
39.250	4	37.77 SA
97.000	4	71.23 A
24.250	4	33.47 UN
190.500	4	104.40 D
73.00	4	30.00 SD
84.800	20	81.78 Total

Source	SS	Df	MS	F	p-value	fori
Treatment	68,806.70	4	17,201.675	4.43	.0146	3.06
Error	58,262.50	15	831.933			
Total	127,069.20	19				

**APPENDIX 3:Regression analysis**

**ANOVA table**

Source	SS	Df	MS	F	p-value
Regression	0.0670	3	0.0223	4.43	7364
Total	0.3757	9			

$R^2 = 0.178$

Adjusted  $R^2 = 0.000$

$R = 0.422$

Std. Error 0.227

10 observations

3 predictor variables

T is the dependent variable

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