

# Observational Study of Tax Compliance and Tax Evasion in Nigeria

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**Abstract.** *This paper summarizes the arguments and counterarguments within the scientific discussion on tax evasion. The main purpose of the research is to explore how leaders in the manufacturing industries could understand the drivers of tax evasion in manufacturing companies, which may prevent sanctions from tax authorities in Lagos State, Nigeria. Systematization of the literary sources and approaches for solving the problem of low tax revenues indicated the presence of a significant number of drivers of tax evasion. The relevance of this scientific problem decision is that high levels of tax evasion can lead to a decrease in tax revenues to such an extent that it will threaten the ability of the Nigerian government to finance fiscal measures. Investigation of the topic of tax evasion in the paper is carried out in the following logical sequence: at the first stage, an analysis of taxpayers; compliance attitude in developing countries and the level of tax compliance and tax evasion was conducted. In the second stage, factors affecting tax compliance and factors influencing tax evasion were summarized and analyzed in the article, and the economic consequences of these processes were determined. Methodological tools of the research methods were the methods of generalization, analysis, and synthesis of scientific literature, formalization, and abstraction. The object of research is the theories and/or concepts of tax evasion, in particular: the theory of reasoned action and the theory of technology adoption life cycle. The article presents the results of an empirical analysis of the drivers of tax evasion, which proved that manufacturing companies deliberately fail to submit the required tax return documentation to avoid tax obligations. The study empirically confirms and theoretically proves that the list of drivers of tax evasion may also include other reasons for tax evasion for manufacturing companies, such as a lack of education and understanding of the tax documentation requirements, process issues, technology access issues, and others. The results of the research can be useful for the tax authorities in Lagos to educate other sectors that engage in tax evasion to increase the rate of overall tax compliance.*

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## Introduction

The theories and/or concepts that ground this study include the theory of reasoned action (TRA) as developed by Fishbein and Ajzen in 2010, and the technology adoption life cycle as developed by Moore in 1995. The logical connections between the framework presented and the nature of my study include TRA has been used to evaluate the individual's personality traits that influence tax compliance behavior. The TRA scholars appraised two social cognitive constructs that determine intentions to engage in a specific behavior; attitude is the personal opinion of behavior and perceived subjective norm in accepting others' judgments (Kiconco et al., 2018). The technology adoption life cycle was used as an appropriate model for e-filing adoption by tax agents in the United Kingdom (Lymer et al., 2012). I will use both TRA and the

technology adoption life cycle as a guide in developing the interview protocol, which will be used to find meanings to the research question.

### **Technological Adoption Life Cycle**

The model is used to describe technology acceptance behavior among users of technology. The behavior of e-filing of tax are categorized into (a) technology enthusiasts; where users enjoy to experiment the new processes and adopt the new technology even if the cost-benefit analysis is unsatisfactory, (b) early adopters; where the users quickly recognize the high value that the use of technology provides and accept an incomplete solution, (c) majority adopter and pragmatist; where users do not want to be the first to adopt the new technology, users only use a complete solution, and users look to the experience of others before adopting new technology, and (d) conservative or laggards; where users will only use technology solutions after a considerable time, unlikely to use a new technology unless the process is straightforward to use, they use technology when it is certain that the new technology has the same level of reliability as the existing solutions, and adopt new technology unless compelled to do so by regulation (Lymer et al., 2012).

### **Taxpayers' Compliance Attitude in Developing Countries**

The importance of tax compliance cannot be overemphasized because compliance removes uncertainties in estimating the amount of tax revenue to be mobilized by governments for financing the provision of public goods. Although, multiple tax practices top this list (Chalu & Mzee, 2018), other factors have been identified to affect taxpayers' compliance level as well. Among such factors are corruption (Amponsah & Adu, 2018), poor tax administration (Chalu & Mzee, 2018), financial condition of individual taxpayers, political instability, poor utilization of tax funds, the presence of large informal economy, high tax burden on the taxpayers, and personal decision not to comply with tax obligation.

### **Tax Compliance and Tax Evasion**

Alshirah and AddulJabbar (2020) described tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. This is so because the tax laws define and form the basis upon which taxes will be paid. The tax laws, together with the tax policy and tax administration make up the tax system, which is established as government's tool to enhance, and enforce the payment and collection of tax in a given society. Despite this, however, tax non-compliance is in fact a pervasive phenomenon in all societies and economic systems; including both developed and developing countries (Alshirah & Abdul-Jabbar, 2020; Williams & Krasniqi, 2020). By this definition, it is inferred that if a taxpayer complies with the tax laws as a result of enforcement activity then such a taxpayer is guilty of tax non-compliance. Alshirah and Abdul-Jabbar (2020) identified three forms of compliance as (a) committed compliance, (b) capitulative compliance, and (c) creative compliance, and suggested that enforced or reluctant compliance is still compliance. Alshirah and Abdul-Jabbar (2020), however, made an important distinction between committed (voluntary) compliance and capitulative (enforced) compliance, by noting that in a tax administration context, enforced compliance has a cost, and very often a significant one. Committed compliance refers to the readiness of a taxpayer to abide by the tax laws and make tax payments as and when due without complaining; capitulative compliance refers to the hesitant discharging of tax obligation by taxpayer; while creative compliance is the organizing of the taxpayer's affairs to reduce overall taxes by redefining income and deductible expenditure within the confines of the law (Williams & Krasniqi, 2020). Cladu and Mzee (2018) stated that evasion with tax laws comes in two forms which are intentional non-compliance and unintentional non-compliance. Intentional non-compliance is a deliberate move by a taxpayer to understate income, overstate expenses, misinform tax authorities, or fail to file tax return as and when due. Unintentional non-compliance occurs when the taxpayer has failed to rightly file tax returns and make tax payment as a result of ignorance, oversight or mistake (Williams & Krasniqi, 2020). The key distinction is a question of whether or not the behaviour was deliberate. Therefore, a situation where the taxpayer deliberately undermines the tax laws for his personal gains is distinguished from a case where non-compliance is as a result of ignorance, oversight or mistake in applying tax laws. It must however be stated that whether or not non-compliance is intentional, it remains unlawful as there is no ignorance in law. In law, both intentional and unintentional non-compliance are referred to as tax evasion which is a crime (Williams & Krasniqi, 2020).

## Factors Affecting Tax Compliance

Tax compliance is of great interest due to its complexity and multidimensionality, since there are many factors that may affect how citizens react to taxation. Lois et al. (2019) appraised tax revenues as most governments' greatest revenue source, which they use to fund the necessary public infrastructures and services for their citizens. Tax compliance is of paramount importance for governments to provide public goods and reallocate wealth. Collecting tax income stabilizes economies and alleviate states from public debt. Government revenue collection may suffer from tax evasion and high tax collection costs, and thus they often battle the corrupt practices of procurement officials (Sadress et al., 2019). The increased spending and shrinking revenues caused by corruption can lead to budget deficits. Sadress et al. (2019) laid the foundation for academic discourse on the subject of compliance and non-compliance when he submitted that optimal policies (punishments, which serve as a form of deterrence) to combat illegal behaviour (non-compliance with established laws) are part of an optimal allocation of resources. Musimenta et al. (2017) identified fourteen important factors that have to do with the subject of tax compliance, which are classified the factors into four categories, namely (a) demographic, (b) age, (c) gender, and (d) education; non-compliance opportunity is income level, income source and occupation; attitudes and perceptions: fairness of the tax system and peer influence; and tax system/structure: complexity of the tax system, probability of detection, penalties and tax rates. Sadress et al. (2019) identified some gaps and hence incorporated an important environmental factor such as culture and the interaction effect between non-compliance opportunity and tax system/structure on tax compliance. Sadress et al. (2019) posited that culture is a powerful environmental factor that affects the taxpayer's compliance; claiming that different social norms and ethical values will create different incentives for tax compliance. Yee et al. (2017) contended that ethical values influenced by social norms may prohibit taxpayers from engaging in tax evasion. On the issue of the interaction effect between non-compliance opportunity and tax system/structure on tax compliance, they considered income level, non-compliance opportunity and tax rate, tax system and structure and submitted that when these two factors are considered together as one instead of two distinct factors, they have a much greater influence on tax compliance than any of them could have, standing alone (Yee et al., 2017). In proposing a tax compliance model for Nigeria, the Fischer's model is adopted by including perceived tax service quality, public governance quality as well as moderating effect of personal financial condition and risk preference (Musimenta et al., 2017). The concept of public governance quality takes into cognizance the benefits derivable by taxpayers as a result of tax payments, in a *quid pro quo* tax arrangement (Yee et al., 2017). The perceived tax service quality considers the way and manner taxpayers are treated and responded to by the tax offices and officials. Similarly, in respect of service quality, Yee et al. (2017) argued that a respectful treatment of taxpayers supports and possibly even raises tax morale. Lios et al. (2019) categorized factors affecting tax compliance into economic and non-economic factors. The economic factors include level of actual income, tax rate, fines, audit probabilities, tax benefits, tax audit, and penalties; while the non-economic factors include attitudes towards taxes, personal, social and national norms, as well as perceived fairness of tax system. This is in agreement with the findings of several other authors (Lois et al., 2019; Sadress et al., 2019).

**Demographic factors.** Demographic factors include age, gender and education. Chong et al. (2019) noted that the Fischer model suggests that demographic variables affect taxpayer compliance indirectly by their influences on non-compliance opportunities and attitudes and perceptions. This implies that age, gender and education have a direct influence on income level, income source and occupation, as well as on perceptions of fairness of the tax system and peer influence; these in turn shapes taxpayer compliance. Specifically, on the issue of gender differences in tax compliance there are mixed results: while some report no significant differences (Ching et al., 2019).

**Non-compliance opportunity.** Non-compliance opportunity refers to the economic factors, which include income level, income source and occupation. The Fischer model proposed that non-compliance opportunity, income level, income source and occupation affect tax compliance directly, as well as indirectly through attitudes and perceptions (Stark & Kirchler, 2017). This evidence reveals that the relationship between non-compliance opportunity and tax compliance is in two different ways. Directly, the level of income available to a taxpayer; the source of such income and his occupation have been found to influence his willingness to comply with tax payment. Indirectly, these factors influence the taxpayer's perception of the tax system and affect his attitude as well; these in turn influence tax compliance (Stark & Kirchler, 2017). While the source of income refers to the relative ease with which taxpayers got their income whether with little or much hard work submitted that taxpayers were less compliant when they reported income earned relatively easily than

when they reported hard-earned income, and that taxpayers are reluctant to lose their hard-earned money by getting into avoidable squabbles, gambling with tax authorities. On the relationship between income effects source, level, or occupation and tax compliance Stark and Kirchler (2017) held that definite conclusions cannot be drawn, as there are inconsistent and ambiguous results.

**Attitudes and Perceptions.** Sadress et al. (2019) held that attitudes can also be referred to as tax morale, or the intrinsic motivation to pay taxes. Sadress et al. (2019) submitted that positive attitudes will lead to trust in authorities and hence will enhance voluntary tax compliance. Lois et al. (2019) held that high economic freedom, important equity market, effective competition laws and low serious crime rate contribute to boosting tax morale such as attitudes and perceptions towards tax compliance, which in turn serves as a strong deterrent to tax evasion. This implies that attitudes and perceptions, if positive, can influence tax compliance (Lois et al., 2019).

**Factors Influencing Tax Evasion.** Kim and Han (2019) evaluated social norms as social rules by which members of a society self-regulate, think or act irrespective of government laws or sanctions. The violation of these social rules according to Kim and Han can lead to guilt and shame. Chalu and Mzee (2019) described social norms as one of the most significant factors that define social life. Kim and Han (2019) described social norms as a set of rules that are neither introduced by acts of parliament or constitutions nor enforced by law-enforcement agencies. What all these positions connote is that, within a society, certain behaviours are considered the right thing to do so people conform. Other ways of behaving are frowned at and people likewise desist from such actions. Doing what the generality of societal members approve will be rewarded with approval and acceptance among members of the society as doing things otherwise will attract rejection and sanctions by societal members. However, social norms vary from one society to another. Chalu and Mzee (2018) appraised people to act based on what others around them are doing. Could this translate to the fact that people will pay income tax when they see others paying? This study argues that this is likely. Shafer et al. (2018) analyzed the result of series of letters sent by the British tax authorities to defaulters reminding them to pay up their tax liabilities. In Nigeria, where it has already been argued that income tax performance is very low, noncompliance is almost assuming the status of a social norm.

### **Tax Knowledge and Education**

Adu and Amponsah (2020) described tax knowledge as a significant factor that influenced tax compliance behaviour. Adu and Amponsah (2020) mentioned that tax laws are complex, highly abstract and contains technical jargons. They also cited Lewis (1982) as saying, by the end of the 1970s, comprehending tax issues in Britain required about 13years of education while 12.5years is considered the benchmark in the USA and Australia's estimate was 17years. Given the low level of literacy in Nigeria and other developing countries, it is doubtful whether a large proportion of prospective income tax payers meet this educational requirement. Yuniarta and Purnamawati (2020) appraised that the introduction of the self-assessment system globally further underscores the need for educated tax payers. He posited that since income tax payers are expected to compute their tax liabilities and file returns, they must possess minimum educational skills.

Yuniarta and Purnamawati (2020) studied the effect of education on tax compliance. Yuniarta and Purnamawati (2020) found that the effect of education on tax compliance to be positive. While level of education could be attributed to years of formal education and earned certificates, tax knowledge involves passing information and creating awareness about tax policies and programs of government. Yuniarta and Purnamawati (2020) studied tax-payers' education in Nigeria which reviewed literature on compliance and found out that educated tax payers appear to cooperate more with tax authorities since they understand the necessity for raising revenue to finance public services.

### **Perceived Audit Probability and Effectiveness**

Tax audit is crucial to effective tax administration. Before alternative models for explaining the complexities of tax compliance evolved, the classical study on tax compliance by Abdullah and Sapiei (2018) utilized the economics-of-crime model of Becker in 1968. This approach stated that the individual tax payer is involved in a rational economic decision while contemplating paying tax. He weighs the risky prospect of being caught with attendant penalty and the favorable prospect of escaping undetected thereby making economic gain. Abdullah and Sapiei (2018) used projects audit as a deterrent to possible noncompliance since audit portends the danger of being caught. Many tax compliance researchers have since put forward alternatives compliance models to explain tax compliance behaviour (Adu & Amponsah, 2020). A common thread that runs through these alternative models is that the economics of crime approach, with its emphasis on audit, is

not enough to explain the dynamics of tax compliance. Abdullah and Sapiei (2018) stated that the number of tax returns subjected to audit in most countries is considerably less than 1 per cent of all returns. Yet, in America, the about 83percent compliance could not have been explained by the disproportionate amount of audit. However, despite reaching a consensus that audit alone does not account for a large number of tax compliance, researchers have not downplayed the role of audit in ensuring compliance. Abdullah and Sapiei (2018) stated that deterrence, tax equity/fairness and tax morals are the predominant factors that scholars have attributed to compliance decisions-deterrence is linked to audit.

### **Socio-economic Conditions**

Vanchukhina et al. (2020) drew attention to the role of financial condition as a factor influencing tax compliance in developing countries. Adu and Amponsah (2020) claimed that the moderating effect of personal financial condition as it affects tax compliance is more pronounced in developing countries generally and Nigeria where poverty is pervasive coupled with high family responsibilities. Yuniarta and Purnamawati (2020) demonstrated the positive correlation between countries income per capita and amount of tax they collect positing that developing countries collect little income tax because of their relatively low income per capita and the preponderance of small businesses in the informal sector. Yuniarta and Purnamawati (2020) argued that a key motive for these informal activities is to evade tax. This postulation aptly describes the Nigerian scenario. Yuniarta and Purnamawati (2020) addressed why low income earners avoid contributing to the state's common pool and the role financial condition play in tax evasion decisions of income earners in a poverty-stricken nation like Nigeria and how does social circumstances blend with economic factors to foster the socio-economic conditions fueling tax evasion in Nigeria.

Abdullah and Sapiei (2018) used financial condition as a variable in determining tax evasion in Nigeria, this study proposed socio-economic condition arguing that some social metrics are behind the financial conditions that affect people. This construct is also used by the National Bureau of Statistics in 2014. The social factors that contribute to worsening financial conditions in Nigeria are inadequate government expenditure on healthcare thereby forcing income earners to provide their own healthcare at very exorbitant and inefficient rate (Abdullah & Sapiei, 2018). Adu and Amponsah (2020) posits that the funding of education in Nigeria is far below the benchmark recommended by UNESCO thereby creating a situation where income earners spend so much in providing education to their dependents. Adu and Amponsah (2020) puts the unemployment rate for 2011 at about 24% projecting an increase to 30% in 2014. The large unemployed population of people coupled with a large population of rural dwellers all depend on the middle class urban dwellers for sustenance based on the extended family system practiced in Nigeria (Abdullah & Sapiei, 2018).

### **Informal Economy**

The shadow economy exists all over the world though to a varying degree in each country (Shafer & Simmons, 2018). A lot of literature and studies are available on this issue but a definite agreement has not been reached on the exact definition and scope of the informal economy. It is also difficult to compile a comprehensive and reliable database on this phenomenon because operations in the informal economy are shrouded in secrecy (Kim & Han, 2019). Kim and Han (2019) asserted that the informal economy is composed of the production and distribution of illegal goods and services and non-reporting of legal economic activities. Shafer and Simmons (2018) posit that the informal economy constitute a problem to governments worldwide as the higher the percentage of the informal economy to the GDP, the lower the amount of tax revenue accruing to the government. The explanation for the below average performance of income tax in Nigeria can arguably be situated in this abnormally high percentage of the informal sector compared to other countries worldwide and even Africa.

### **Comparison of Tax Evasion and Tax Avoidance**

**Tax evasion.** The greater the extent to which tax evasion occurs in a nation, the greater that nation's government budget deficit tends to be, and, over time, the greater its outstanding national debt tends to be, *ceteris paribus*. This circumstance had led to a number of studies of the degree of aggregate tax evasion. Interestingly, Cebula (2020) appraised income tax evasion and non-compliance is neither modest in magnitude nor uniform across nations. In the USA, aggregate federal personal income tax evasion consists most extensively of taxable income that is either unreported or at least underreported to the Internal Revenue Service (Salahi et al., 2020). Scholarly research into the issue of personal income tax evasion falls into three distinct broad categories. The first of these categories consists largely of theoretical mathematical models of

personal tax evasion behavior. However, despite the extensive breadth and depth of this tax evasion literature, to date, no scholarly study has addressed drivers of Tax non-compliance by manufacturing companies in Lagos, Nigeria, which has led to tax evasion, causing sanctions on manufacturing companies that fail to file tax returns to the appropriate government authorities. In any event, failure to address the federal personal income tax evasion issue and the related issue of income tax evasion-induced crowding out as well as the budget deficit issue in an efficient fashion arguably puts the Nigeria economy at risk (Ozili (2020). That risk can take a variety of forms in addition to interest rate risk imposed upon bond holders and any concomitant negative wealth effects deriving from that interest rate risk in the light of higher/rising interest rates. More specifically, these risks potentially include, but are not restricted to, the following: a reduced aggregate rate of capital formation, a reduced aggregate growth rate of job opportunities, a reduced ability to compete in the global economy, lower long-term aggregate per capita economic growth and a lower average standard of living over time (Ozili, 2020).

**Tax avoidance.** Ozili (2020) held that tax evasion is like a spectrum of tax planning strategies with legal tax evasion such as investment in bonds at one end and tax evasion, tax aggressiveness and more generally illegal tax evasion at the other end. However, in the narrower definition, tax evasion is a legal measure to reduce tax liabilities. Based on this definition, tax evasion is done within the framework of tax laws and taxpayers would not worry about the potential exploration of their actions (Cebula, 2020), while tax evasion is to run any criminal activities by civil penalties that is intended to reduce the taxation incidents.

In the meantime, evasion tax has caused tax revenues to be lower than what has been estimated (Ozili, 2020). Clearly, tax evasion is a kind of legal violation, tax laws to reduce taxes.

### **Taxpayers Compliance Appraisal**

The purpose of this qualitative exploratory case study is to explore how leaders in the manufacturing industries could understand the drivers of tax evasion in manufacturing companies, which may prevent sanctions from tax authorities in Lagos state, Nigeria.

The function of valuation within a property tax system is to determine the relative proportion of the tax burden to be shared by each taxable property. Ideally, the tax burden should be distributed amongst all tax payers *de jure* and *de facto* according to the ability of individual to pay (Paraduhita & Mustikasari, 2018). It is a universal principle that a government should not use tax as an instrument for expropriation of property or of a significant part of it. Moreover, high tax rate discourages property investment and maintenance. The essential components of the valuation model for property tax purpose are (a) the tax base, (b) the basis of valuation (c) the method of valuation (d) the approach to valuation, and (e) adjustments to valuation list and roll (Paraduhita & Mustikasari, 2018).

The tax base is a policy statement which for most developing countries, have been found to depend on historical precedence and administrative feasibility (Paraduhita & Mustikasari, 2018). The tax base is usually broadly defined to include all land, all buildings, or both, not expressly exempted. Countries like Ghana, Tanzania and Mozambique tax only buildings/improvements; Jamaica, Bermuda, Kenya, and New Zealand tax only land; most other countries tax both land and buildings (Nigeria, East and Southeast Asian countries, Namibia, Zimbabwe and Latin America), while countries like South Africa practice a mix. Some countries provide for more than one tax base to cater for variety of property class, e.g. agricultural lands, rural and urban properties (Paraduhita & Mustikasari, 2018).

Once the tax base has been determined, the next step is to determine the basis of assessment. The basis of valuation is a statement of the fundamental measurement principles of a valuation (Babawale, 2013). The tax base therefore determines the relative proportion of total tax to be paid by each property based on either the property's physical characteristics such as land area or property value. Where properties are weighted by value, the tax law may provide for either unimproved site value, improvement value or a combination of site value and improvement value. A number of countries use self-assessment (Paraduhita & Mustikasari, 2018).

### **Electronic Taxation and Tax Compliance**

The unprecedented rise in e-commerce across the globe has led to the creation of a new form of trading where goods and services may be traded online from anywhere in the world. In this regard, various factors are responsible for online provision of goods and services ranging from efficient international logistics, communication network, country-to-country collaboration, the opening up of some conservative economies as well as a secure international payment system (Umar & Masud, 2019). Consequentially, it follows that

with the increase in activity on the technological platform, governments across the globe are coming up with fiscal measures to ensure that businesses pay their fair share of taxes in the country in which they operate (Umar & Masud, 2019). Nevertheless, these fiscal measures have to be designed in a manner which enables the government to raise revenue while at the same time, establish an appropriate environment conducive to the flourishing of the e-commerce sector.

Amongst the various tax challenges that occur on the digital space is the absence of local presence of foreign suppliers of digital services in the country where the service is being provided. As taxation is based on a residence concept although this trend is now changing focus, foreign suppliers of electronic services use this principle as a leeway to avoid paying taxes in the host country. Accordingly, foreign suppliers of digital services are increasingly engaged in anti-avoidance taxation schemes and manoeuvres which results in loss of tax revenue for governments of host country where the services are being provided. This is the case for Netflix which generates 80% of its revenue from international subscribers (Umar & Masud, 2019). While Netflix does not pay any tax in countries where it provides its services due to the absence of physical presence, the local providers and cable operators in these countries have accused the company of promoting unfair competition since the latter have to pay taxes in the same countries. Another example of this unfair competition is the case of some social networking platforms such as Facebook which basically have two main functions which are to promote certain applications and provide messaging free of charge to consumers across the globe. In fact, Facebook collects its revenue from advertisement provided to suppliers who would like to target customers in some specific geographic regions and in the second quarter of the year 2020, Facebook generated US\$18.7b through advertising (Umar & Masud, 2019).

Consequently, governments imposing digital taxes on foreign suppliers have to consider the trade-offs of tax revenue against the negative impacts entailed by digital taxes. For this purpose, it is imperative to design the laws on digital taxes in a manner that ensures efficiency in cost of collecting taxes, avoid over-taxation of digital activities and that would minimize the adverse effects on the economy of the country (Umar & Masud, 2019). Nevertheless, as there are always two sides of a coin, international agencies such as the OECD and the EU are in favour of introducing digital taxes on foreign services, which the following part of the literature review will address.

The international taxation landscape is undergoing major changes due to the accelerated expansion of the digital economy. In broad terms, a digital economy relies heavily on information technology while conducting trade through the internet in a manner as if the goods sold on traditional shopping centres shelves and services rendered by individuals or corporates, have now been shifted to virtual shelves found on the World Wide Web. Indeed, the growth of the ecommerce sector is evidenced by the E-commerce Statistics (2020) which provides that e-retail sales accounted for 14.1% of all retail sales worldwide and these figures are expected to arrive at 22% in 2023 (Umar & Masud, 2019).

Tax evasion has been perpetrated since the beginning of taxation, and it is also a worldwide phenomenon. However, developing countries are the worst affected. Tax evasion leads to inadequate tax revenues so much that it is threatening the existence of many developing countries. Some of these countries have been classified as fragile states because of inadequate tax revenue (OECD, 2014a). The problem of low tax revenue generation in developing countries has been a global concern for many decades (Umar & Masud, 2019).

### **Tax Evasion Cost**

The pervasiveness of tax evasion remains a serious concern to most tax authorities around the world. The negative impact of tax evasion on the economy and the evolving nature of the Malaysian corporate tax system have motivated this study.

This study found that the significant predictors of tax non-compliance of SMCs are marginal tax rate, company size and types of industry. The findings support the economic deterrence theory that corporate tax rate does affect tax evasion. In addition, this study found that the two most predominant industries that engaged in tax evasion are services and construction industries. Tax defaulters like other criminals should be punished adequately according to the severity of the offence in order to deter them from repeating it and at the same time to serve as a stern warning to others who have the intention to cheat.

## **Role of Taxpayer Education in Voluntary Compliance**

Education, when viewed as a demographic factor, refers to the general knowledge possessed by the taxpayer. It highlights the taxpayer's capability to understand, basically, what the tax laws are saying and to be able to abide by such laws as a result of such basic understanding (Nwidobie, 2018). For a taxpayer to hand over his hard earned money willingly, it is important that he understands why he ought to be doing so. Voluntary compliance will appear to do the state government a lot of good with respect to the volume of revenue generated from taxation. According to Oktaviani et al. (2020), the objectives of taxpayer education are to support the revenue service in achieving their collective business objectives; provide the key interface between revenue service and taxpayers by means of education and information access; and to optimize the use of educational resources to build a culture of compliance, awareness, service and responsible taxpayer empowerment. Tax education involves any informal or formal programme put together by the tax authority, government or other agencies by which to encourage taxpayers in filing tax returns correctly and also to cultivate awareness of their responsibilities in respect of the tax system (Oktaviani et al., 2020). Such programmes can become important instruments in encouraging taxpayers to comply voluntarily with tax laws and also serve as a means of reaching out to taxpayers in order to properly educate and inform them on all that has to do with taxation and tax payment. Nwidobie (2018) inferred that effective taxpayer services include the development of educational programmes to inform existing and potential taxpayers. Also, United Nations in 2000 held that it might be desirable to organize broad education campaigns to explain taxpayers' rights and obligations, the rationale to pay taxes, the way in which tax revenues are spent and benefits taxpayers derive from government spending.

## **Tax Evasion among Manufacturing Companies**

Salehi et al. (2017) evaluated that tax evasion is more likely to be raised about corporates with the separation of ownership, as individuals are less involved in evasion and tax evasion because of the risk of detection and penalty and risk aversion or internal motivations such as social duty (Salehi et al., 2017). Thus, tax evasion may be a reflection of the agency theory and may result in tax decisions that pursue managers' personal interests. Therefore, one of the challenges faced by the shareholders and board of directors is to find control methods and incentives to minimize agency costs (Salehi et al., 2017). The vision presented and tested in this study on tax evasion, according to the separation of control from ownership, is that, if the owners test the mental health and moral foundation talents such as intellectual intelligence and emotional intelligence of managers, their tendency to the ambiguous activities such as tax evasion can be predicted, because researchers believe that there is a link between emotional intelligence, spiritual intelligence and good temperament, which is important for effective management (Salehi et al., 2017). Corporate disclosure clarifies the tax evasion goals and motivation of benefits for individuals within the organization (Salehi et al., 2017). An efficient disclosure system can reflect the behavior of the economic unit management to the external owners, not to let the manager pursue his interests in the light of the tax evasion activities (Salehi et al., 2017).

## **Tax Evasion and Economic Impact**

Beriteeli et al. (2020) described tax evasion as any illegal and intentional actions taken by individuals to reduce their legally due tax obligations. The intentional nature of these actions sets tax evasion apart from simple mistakes in judgment or calculation. Unlike tax evasion, those mistakes frequently do not qualify as criminal offenses. Despite the definition's explicit reference to an individual agent, it equally applies to the evasion of corporate taxes by firms that, underreport income, over state deductions, or fail to file tax returns. In this framework, overnight tax evasion refers to hospitality businesses intentionally and fraudulently underreporting income from accommodation services to reduce their tax obligations. This includes both cases where businesses charge guests' overnight taxes on their bill but retain the tax share and cases where they intentionally forgo charging overnight taxes order to offer guests a favorable room rate at a price point below competitive offer (Beritelli et al., 2020).

## **Monitoring and Evaluation of Tax Compliance**

One of the major challenges facing tax administrations, is the identification of taxpayers for audit programs which are both efficient (least cost) and effective in performing their deterrence role, and are at the same time widely perceived by the community at large to be fair and reasonable (Syed & Kalirajan, 2000).



Tax compliance evaluation in a population of taxpayers requires sophisticated benchmarking of taxpayer performance. In the field of production economics, an economic unit's performance can be judged by benchmarking technical efficiency (Syed & Kalirajan, 2000). Technical efficiency is described as the capacity and willingness of an economic unit to produce the maximum possible output from a given bundle of inputs. Quantification of this measure is useful because it facilitates comparisons across similar business units (Syed & Kalirajan, 2000).

### Tax Compliance Awareness and Social Impact

Akinboade and Kinfaek (2012) evaluated the regulation, awareness, compliance and performance of small and medium-size enterprises (SMEs) in manufacturing industries. Achieving the Millennium Development Goals (MDG) of eradicating extreme poverty and hunger and others will require rapid and sustained growth for African countries (Umar et al., 2019). SMEs contribute to growth and industrialization in poor countries. If the promotion of SMEs increases growth, this by itself is likely to imply reduced poverty. Other things being equal, the faster the achievement of economic growth, the greater the chance of poverty reduction, as growth tends to be pro-poor. There are identifiable reasons why regulation hits small businesses hard. SME have higher compliance costs than large businesses; they are less resilient to regulatory shocks, miscalculations and uncertainties; SME owners lack regulation specialists; their need to grow can be badly affected by regulation; they face large costs of administration such as taxes as well as regulatory burdens; and they often need the assistance of government to comply with regulation (Umar et al., 2019).

### Conclusions

Tax evasion may lead to inadequate tax revenues so much that it has threatens Nigeria's government's ability to fund fiscal policies. The purpose of this observational study was to explore how leaders in the manufacturing companies could understand the drivers of tax evasion in manufacturing companies, which may prevent sanctions from tax authorities in Lagos state, Nigeria. TRA has been used to evaluate the individual's personality traits that influence tax compliance behavior as well as the technology adoption life cycle.

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### Author Contributions

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