

# **An Empirical Analysis of Tax Leakages and Economic Growth in Nigeria**

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## **Abstract**

The government has for the umpteenth time complained of the widespread incidence of tax avoidance and evasion in the country as companies and other taxable persons employ various tax avoidance devices to escape or minimize their taxes or deliberately employ fraudulent ways and means of evading tax altogether, sometimes with the active connivance of the tax officials. This paper empirically examined the economic implication of tax leakages on the Nigerian economy. A survey research design was adopted and responses were obtained through the use of a well structured questionnaire administered to 185 respondents. Findings from the empirical analysis using Kendall's w-test and Chi-square test statistics reveal that tax evasion and avoidance have adversely affected economic growth and development in Nigeria, and also, that lack of good governance is the basis for which tax leakages activities is perpetrated. The study therefore recommends that the government should embrace and promote good governance so as to encourage voluntary compliance of tax liability by the citizenry.

**Keywords:** Tax avoidance, tax evasion, economic growth and development, good governance

## **1. Introduction**

Plausibly, the concept of taxation has been a concern of global significance as it affects every economy irrespective of national differences (Oboh et al., 2012). Within the context of Africa, tax, a concept as old as mankind can be described as an amount, effort, contribution or service rendered either in kind (i.e. goat, cow, farm produce, clearing of grass etc.) or monetary value (i.e. cash) contributed into a common purse for the running of the society. According to Omotoso (2001), in his definition of the modern taxes, defined tax as a compulsory charge imposed by a public authority on the income of individuals and companies as stipulated by the government decrees, acts or cases laws irrespective of the exact amount of services rendered to the payer in return. Thus, taxes constitute the principal source of government revenue and the beauty of any government is for its citizen to voluntarily execute their tax obligations without much coercion and harassment.

However, one of the greatest problems facing the Nigerian tax system is the menace of tax leakages in the form of tax evasion and tax avoidance. While tax evasion is the willful and deliberate violation of the tax laws in order to escape tax obligation (Farayola, 1987; Ayua, 1999; Soyode and Kajola, 2006), tax avoidance is the active means taxpayers seek to reduce, or remove altogether their tax liability within the provision of the tax laws (Kay, 1980; Toby, 1983; Alm and Martinez, 2001). Sikka and Hampton (2005) stated that tax evasion is one of the major social problems inhibiting development in developing countries and eroding the existing welfare state in developed economies in the world, and this has led to a growing attention among policy makers, western countries, international agencies and scholars. As observed by Sosanya (1981), tax evasion has become the favorite crime of Nigerians, so popular that it makes armed robbery seem like minority interest. And despite government efforts, notwithstanding, the problem of tax evasion and avoidance still persists (Alabi, 2001).

Reynolds (1963) suggested that tax as a principal source of government revenue should be accorded strict and close monitoring to achieve maximum compliance. The bane of the Nigerian tax system is associated with various tax leakages and mismanagement of tax revenue (Eboziegbe, 2007). Although, there have been series of researches on how to improve on the Nigerian tax system, it still remains a disconcerted effort as tax evasion and avoidance seem prevalent in the present tax system due to corrupt government. However, if Nigeria must attain its ambition of becoming one of the most rapidly developing economies of the world by 2020, an efficient and robust tax system is a must (Salami, 2011).

This study primary aims at examining the impact of tax leakages on economic growth and development in Nigeria. Other objectives identified by the study include:

- i. To identify the major causes of tax leakages in Nigeria.
- ii. To determine the impact of tax reform strategies on tax leakages reduction.

This paper however contributes to the existing body of knowledge, as well make up for the dearth of scholarly papers in Nigeria on the Nigerian tax system by examining the concept of tax leakages through tax evasion and tax avoidance as they affect economic growth and development in Nigeria. Also, the relevant tax officials and actors of the Nigerian tax system will be enlightened from the findings of this study. The other parts of the paper are arranged as follows: the second part reviews the relevant literature while the third part is on methods used in the study. The result and discussion, conclusion and recommendations of the study followed in the fourth, fifth, and sixth part, respectively.

## **2. Previous Research**

The concepts of tax and taxation in prior researches have been largely discussed in different contexts by tax experts, academic scholars, international organizations as well as different governments. For example, The World Bank (2000) noted that taxes are a compulsory transfer of resources to the government from the rest of the economy, while Adeyeye (2004) described tax as a liability on account on the fact that the taxpayer has an income of a minimum amount and from certain specified source(s). However, in a simple term for the purpose of this study, tax is a compulsory fee individuals as well as corporate bodies are obliged to comply with as stipulated by the tax laws, while taxation is the process of administering the tax laws in the way that achieves government objectives. And so, tax revenue is a major source of fund for any government and the availability of fund is a very crucial aspect of running a State. Although, several options according to Soyode and Kajola (2006) are available to governments for raising fund, tax revenue remains the principal source (Kiabel and Nwokah, 2009).

### **2.1. Brief History of the Nigerian Taxation System**

Tax and tax administration are fundamental components of any attempt to nation building, and this is particularly the case of any developing or transitional nation like Nigeria. As Brautigam (2008) noted, taxes underwrite the capacity of states to carry out their goals; they form one of the central arenas for

the conduct of state-society relations, and they shape the balance between accumulation and redistribution that gives states their social character. That is, taxes build capacity and build legitimacy and consent.

Nigeria which was colonized by the British just like some other African countries gained her independence by an act of the British Parliament on 1<sup>st</sup> October, 1960 and became a republic within the commonwealth in 1963 (Fagbemi *et al.*, 2010). However, the tax system of the place now known as Nigeria dated back to 1904 when the personal income tax Ordinance was introduced in the northern part of the area before the unification of the area by the colonial masters. It was later implemented through the Native Revenue Ordinance to the western and eastern regions in 1917 and 1928, respectively. Couple with other amendments in the 1930s, it was later incorporated into Direct Taxation Ordinance No. 4 of 1940. Since then, different governments have continued on the improvement of the tax system in Nigeria (Arowomole and Oluwakayode, 2006; Odusola, 2006; Salami, 2011).

Although the Nigerian tax system has undergone several reforms geared toward enhancing tax collection and administration with minimal enforcement cost, one of the major setbacks faced by the Nigerian economy is the tax system presently in operation. This also has contributed to the non-voluntary compliance of the taxpayers due to the meager nature of the system leading to an extensive practice of tax evasion and avoidance. It has been a major impediment to economic growth, where tax evasion and avoidance are now prevalent (Ezeoha and Ogamba, 2010). Some of the major tax reforms put in place by the government in addressing the problems of tax administration in Nigeria include: the introduction of Taxpayer's Identification Number (TIN) which became effective since February 2008, Automated Tax System (ATS) that facilitates tracking of tax positions and issues by individual taxpayer, E-payment System (EPS) which enhances smooth payment procedure and reduces the incidence of tax touts, Enforcement scheme (Special Purpose Tax officers), this is a special tax officers scheme in collaboration with other security agencies to ensure strict compliance in payment of taxes (FIRS, 2009; Odusola, 2006).

## **2.2. The practice of Tax Evasion and Tax Avoidance in Nigeria**

The concepts of tax evasion and avoidance usually being referred to as "Twin devils" (Kiable and Nwokah, 2009) have been extensively discussed by quite a number of tax experts and academic scholars. According to Soyode and Kajola (2006), tax evasion is defined as a deliberate and willful practice of not disclosing full taxable income in order to pay less tax. It is a deliberate violation of tax laws and it is evident in situations where tax liability is fraudulently reduced or false claims are filled on the revenue tax form (Farayola, 1987; Ayua, 1999; Soyode and Kajola, 2006). On the other hand, Kay (1980) opined that tax avoidance takes place when facts of the transaction are admitted but they have been arranged or presented in such a way that the resulting tax treatment differs from that intended by the relevant legislation. In essence, tax evasion is illegal while tax avoidance is not illegal under the ambience of the law (Kay, 1980; Toby, 1983; Alm and Martinez, 2001; Soyode and Kajola, 2006).

Sikka and Hampton (2005) stated that tax evasion is one of the major social problems inhibiting development in developing countries and eroding the existing welfare state in developed economies in the world, and this has led to a growing attention among policy makers, western countries, international agencies and scholars. As observed by Sosanya (1981), tax evasion has become the favorite crime of Nigerians, so popular that it makes armed robbery seem like minority interest. And despite government efforts, notwithstanding, the problem of tax evasion and avoidance still persists (Alabi, 2001). Also, Eboziegbe (2007) noted that this unlawful practice of tax evasion remains a serious threat to revenue generation efforts of government.

According to Nwachukwu (2006) tax evasion is the general term for efforts by individuals, firms, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability. It also includes, in particular, dishonest tax reporting such as declaring less income,

profits or gains than actually earned; or overstating deductions. Conversely, tax avoidance as defined by Aim and Martinez (2001) is the legal reduction in tax liabilities by practices that take full advantage of the tax code, such as income splitting, postponement of taxes and tax arbitrage across incomes that face different treatments (Aim and Martinez, 2001; Eboziegbe, 2007). From the comparison of various definitions given in the literature, it can be seen that paying less tax or not at all than what one is legally obliged to is described as tax evasion while tax avoidance is an act of doing everything possible within the confines of the tax law to reduce the tax paid. Therefore, the main difference between them is the legality of the taxpayer's action.

### 2.3. Causes of Tax Evasion in Nigeria

Tax evasion according to Uadiale *et al.* (2010) is an outright dishonest action whereby the taxpayer endeavors to reduce his tax liability through the use of illegal means. Tax evasion is accomplished by deliberate act of omission or commission which constitutes criminal acts under the tax laws. These acts include: failure to pay tax e.g. withholding tax, failure to submit returns, omission of items from returns, claiming relief (in Personal Income Tax), for example, of children that do not exist, understating income, documenting fictitious transactions, overstating expenses, failure to answer queries (Farayola, 1987; Uadiale *et al.*, 2010).

However, different factors have been identified to be responsible for the practice of tax evasion in Nigeria. Although, the causes of tax evasion are universal, as they are applicable in any country that tax is imposed, some are peculiar to different areas (Uadiale *et al.*, 2010). In Nigeria some of these causes as identified by Onuigbo (1986) include: inequitable distribution of amenities, misuse or mismanagement of tax revenue, remoteness of taxpayers from the government, absence of spirit of civic responsibility. Other factors include; lack of tax education and enlightenment, corruption in public office and lack of accountability among others, inadequate accounting records maintained by traders, mistaken belief on the part of some illiterate taxpayers that only wages and salaries represent taxable income (Orewa, 1957).

### 2.4. Effects of Tax Evasion and Avoidance

Tax evasion and avoidance indubitably have adversely affected government revenue generation and the economy as a whole. However despite the government efforts to curb the practices of tax leakages in Nigeria, the problem of tax evasion and avoidance still persists (Alabi, 2001). There is no doubt that revenue due any government will be reduced by the unpatriotic act of tax evaders. Also, tax avoidance generates investment distortion in the form of the purchase of assets exempted from tax or undervalued for tax purposes. And as observed by Toby (1983), the taxpayer indulges in evasion by resorting to various practices. These practices erode moral values and build up inflationary pressures. Also, the government will not have sufficient funds in executing its plans and agenda for the nation (Eboziegbe, 2007) since taxation is one of the major sources of government funds and which is being paralyzed by the menace of tax leakages in the form of tax evasion and avoidance. Also, tax evasion is one of the major social problems inhibiting development in developing countries and eroding the existing welfare state in developed economies in the world.

### 2.5. Challenges of Developing a Good Tax Culture in Nigeria

Overtime, developing a good tax culture among the citizenry in Nigeria has been almost an impossible chore to achieve. That is, citizenry considering taxation as part of their yearly expenditure and developing a positive attitude toward complying willingly with their civic rights. Hardly do individuals and businesses incorporate tax charges as part of their cost of living and budget plans; hence, many devise illegal means to evade, seeing taxation as a distraction or burden. However, the government also has a responsibility to ensure that tax revenues are adequately utilized to encourage high compliance rate among taxpayers. Other challenges include: administrative and legal challenge; tax evasion is common in Nigeria because there is little or no legal enforcement. It has also been observed by Uadiale

*et al.* (2010) that weak and arbitrary enforcement of tax laws encourages tax evasion, compliance and lack of equality, challenge of multiplicity of taxes, trust in government; according to Jackson and Milliron (1986), trust in government is recognized as another determinant of tax evasion, and so if the citizens perceived no trust in their leaders, complying with their tax obligations would be dispirited. Also, as noted by Levi (1998), if individuals believe that the government will act in their interests, that its procedures are fair, and that their trust of government and others is reciprocated, they are more likely to become “contingent consenters” who cooperate in paying taxes.

### **3. Methodology and Data**

#### **3.1. Research Design and Instrument**

By way of a survey research design, this study empirically examines the effect of tax leakages (through tax evasion and avoidance activities) on economic growth and development in Nigeria. Primary data were obtained through the use of a well structured questionnaire administered to 185 respondents.

#### **3.2. Validity and Reliability of Research Instrument**

As part of the procedure for data collection, questionnaire which contains likert-type, dichotomous and categorical items was designed and subjected to content and face validity tests with the assistance of tax and research methodology experts. The development of the initial draft of the instrument drew upon the extensive experience of a Doctor of taxation with over three decades of practical experience as tax official and over a decade teaching experience, whose constructive criticism and suggestions were taken into consideration and made the research instrument contained all the relevant dimensions of the study.

Also, attempts were made to include relevant measures in order to certify the reliability of the research instrument used for data collection. The researchers pre-tested the instrument by administering a few copies (10) to a target sample. The information obtained from the exercise was used to clarify questions and clear ambiguities, thus enhancing its reliability. In addition, the results of the reliability analysis showed a Cronbach Alpha of 0.984 for items relating to factors responsible for tax leakages in Nigeria, 0.949 for items relating to tax reform strategies in curbing tax leakages and 0.984 for items relating to the effects of tax leakages on economic growth and development (see Appendix A). The psychometric tests suggest the presence of reasonable level of reliability.

#### **3.3. Hypotheses**

In order to examine the effect of tax leakages on economic growth in Nigeria, the following hypotheses were tested.

**H1:** There is no significant relationship between economic growth and tax leakages through evasion in Nigeria.

**H2:** There is no significant relationship between the economic growth and tax leakages through avoidance in Nigeria.

**H 3:** There is no significant relationship between the various tax reform strategies and curbing of tax leakages in Nigeria.

### **4. Results and Discussion**

#### **I. Respondents Demographic Profile**

The demographic information of the respondents as presented in Table 1 indicates that majority of the respondents were female with about 60.5% leaving about 39.5% of the respondents as male, and that the age grouping of majority of the respondents falls between 36 and 45 years (48.6%) which are mainly the working class group in Nigeria. Likewise, approximately 82.7% of the respondents had higher education background with either a B.Sc./HND degree or M.Sc./MBA degree. This therefore

places the respondents in a strategic position to speak with sound knowledge on the subject under consideration, making their responses to relevant questions valid and reliable. On occupation/profession, the table reveals that about 57.8% of the respondents were employees both of public and private sectors, and about 37.8% were either tax officials or tax consultants, leaving 4.4% of the respondents as sole proprietors. Table 1 equally reveals that majority of the respondents have working experience between 6 and 10 years (53%), indicating that they must have experienced one form of tax or the other.

**Table 1:** Demographic Information of the Respondents

Category	Frequency (N = 185)	Percentage (Total = 100)
<b>Gender</b>		
Male	73	39.5
Female	112	60.5
<b>Age groups</b>		
18 – 25 years	27	14.6
26 – 35 years	38	20.5
36 – 45 years	90	48.7
46 – 60 years	30	16.2
<b>Highest Level of Education:</b>		
B.Sc./HND	127	68.6
M.Sc./MBA	26	14.1
Other form of education	32	17.3
<b>Occupation/Profession</b>		
Employee	107	57.8
Sole proprietor	8	4.4
Tax consultant	13	7.0
Tax officials	57	30.8
<b>Work experience</b>		
1 – 5 years	45	24.3
6 – 10 years	98	53.0
11 – 15 years	22	11.9
16 – 20 years	13	7.0
Above 20 years	7	3.8

**Source:** Authors' survey (2011)

Generally, the composition of the respondents to a greater extent fairly reflected the characteristic of population distribution of Nigeria.

## II. Factors Responsible for Tax Leakages in Nigeria

In the course of this study, factors responsible for tax leakages in Nigeria were investigated and Table 2 displays the results obtained. From Table 2, it could be seen that corruption has been identified to be the most influential factor responsible for tax leakages in Nigeria with a mean score of 4.67, followed by mismanagement of tax funds with about 4.34 mean score, while illiteracy level of taxpayers was regarded as least influential among other factors with a mean score of 3.57. However, most of the respondents strongly affirmed that other intrinsic factors such as poverty, obsolete tax laws, depraving standard of living, porous economy, inadequate tax personnel and high tax rate promote and facilitate tax leakages.

**Table 2:** Factors responsible for tax leakages in Nigeria

Factors	Mean	Standard Min. Max. Deviation		
Poverty	4.08	1.086	1	5
Corruption	4.67	0.536	1	5
Obsolete tax laws	4.04	0.875	1	5
Low standard of living	4.17	0.736	1	5
Porous economy	4.10	0.984	1	5
Inadequate tax personnel	4.00	1.128	1	5
Mismanagement of tax funds	4.34	0.826	1	5

**Table 2:** Factors responsible for tax leakages in Nigeria - continued

Illiteracy level of taxpayers	3.57	1.254	1	5
High tax rate	4.01	0.997	1	5

**Source:** Authors' survey (2011)

The factors responsible for the practices of tax leakages in Nigeria as in other developing economies are quite enormous compared to the developed economies. These could be associated with the fact that most developing economies are confronted with quite a lot of challenges in the development process which most developed countries have been able to overcome overtime. It is indubitably that corruption has been identified as the most alarming factor that promotes the practice of tax leakages in Nigeria (Abdulazq, 1985; Kiable and Nwukah, 2009; Alabede *et al.*, 2011). This is because Nigeria has been rated among the most corrupt countries in the world, being rated 143<sup>rd</sup> out of 183 countries in 2011 (Transparency International, 2011), and so it is not surprising, as corruption is seen virtually in every sector of the economy. However, one of the forefront agendas of the present government is the continuing fight against corruption. Also, factors like poverty and low standard of living were discovered to promote the practice of tax leakages in Nigeria. This is not strange as most Nigerian live on below \$1 per day (United Nations, 2009; Odion, 2009; Ruhaak, 2011). Hence, there are all tendencies that most taxpayers try to avoid and evade their tax liabilities in order to provide for their basic needs.

Furthermore, factors like obsolete tax laws, mismanagement of tax funds, high tax rate, inadequate tax personnel and illiteracy have been identified to promote the practices of tax leakages in Nigeria. This is because obsolete tax laws have failed to measure up with economic realities, while high tax rate as well as misappropriation of tax funds could discourage taxpayers from obliging willingly with their civic duties since there are no commensurate rewards for their commitment to tax.

## 4.2. Hypotheses Testing

To begin to address the question of how tax leakages in the form of tax evasion and avoidance impact on economic growth and development, a significant analysis is required. Hence, three hypotheses were formulated and tested in order to provide corroborative and inferential evidence so as to achieve the objective of the study. Hypotheses 1 and 2 were formulated in order to examine the effects of tax leakages in the form of tax evasion and tax avoidance on economic growth and development in Nigeria.

Table 3 reveals the results of the Pearson Chi-square test statistics performed at a 0.05 level of significance.

**Table 3:** Chi-Square test analysis

Hypothesis	Chi-square (X <sup>2</sup> )	d.f	P. Value
Hyp1	120.892	9	0.000
Hyp2	214.470	5	0.000

**Source:** Authors' survey (2011)

From the test statistics as seen in Table 3, the Pearson Chi-square test for hypothesis 1 shows the Prob. value as 0.000 (i.e. p-value < 0.05), and the decision rule according to Frederick and Larry (2003) states that when  $P < \alpha$ , a significant relationship exists, but when  $P > \alpha$ , it infers there is no significant relationship. Hence, the null hypothesis is hereby rejected at 95% confidence level and the alternative hypothesis accepted, concluding that a significant relationship exist between tax leakages in the form of tax evasion and economic growth in Nigeria. Also, Table 3 equally reveals the Pearson Chi-square test for hypothesis 2 indicating the Prob. value as 0.000 (i.e. p-value < 0.05), and like the decision in hypothesis 1, the null hypothesis is also rejected at 95% confidence level and the alternative hypothesis accepted, concluding that a significant relationship exist between tax leakages in the form of tax avoidance and economic growth in Nigeria.

Apparently, availability of fund is a fundamental facet of administrating the affairs of a State, and so, a number of options according to Soyode and Kajola (2006) are available to governments for raising fund for bidding resources away from the other sectors of the economy and from other claimants to undertake their activities. Such options include taxes and non-tax revenue, but the major source of fund for any government still remains the tax revenue. But today, in Nigeria, as the case with some developing countries, administration of income tax is characterized by low compliance level and it is inconceivable that despite Nigeria's human and natural endowment as well as economic potentiality, the country has continued to record one of the lowest tax compliance levels in Africa (CITN, 2010). This is however evidently associated with the menace of tax leakages being practiced by taxpayers in Nigeria.

Actually, the dominating presence of tax evasion in the Nigerian tax system has posed a retrogressive threat on the Nigerian economy and on its vision of becoming one of the world's leading economy by 2020 (Salami, 2011). From the analysis, it could be seen that the practice of tax leakages in the form of tax evasion and avoidance in Nigeria has a significant negative effect on the economy. As noted by Eboziegbe (2007), the unlawful practice of tax evasion remains a serious threat to revenue generation efforts of the government. Tax evasion in most developing countries is so rampant, and the scenario is much worsened by the fact that not many of these governments have made an effort to measure the ethical reasons that tax payers give, the extent of this problem and at the same time analyze its impact (Fagbemi *et al.*, 2010). Hence, when required revenue for smooth operation cannot be raised, these countries often times resort to increase tax rates or borrowings which may not only crowd out the private sector of their economies but also lead them to debt traps (Chiumya, 2006). Consequently, economic growth and development are hindered as discovered from the analysis.

Furthermore, hypothesis 3 tested the impact of the various tax reform strategies initiated by the government in curbing tax leakages in Nigeria was examined using Kendall's w-test statistics.

Table 4 reveals the results of the Kendall correlations test analysis performed at a 0.05 level of significance.

**Table 4:** Kendall Correlations Analysis

Hyp3		Tax Reforms	Curbing Tax leakages
Tax Reforms	Correlation Coefficient	1.000	.921(**)
	Sig. (2-tailed)		0.000
	N		185
Curbing Tax leakages			1.000

\*\* Correlation is significant at the 0.01 level (2-tailed).

From the test statistics in Table 4, the correlation analysis shows a correlation coefficient of about 92.1% and a Prob. value of 0.000 (i.e. p-value < 0.05). Hence, the null hypothesis is hereby rejected at 95% confidence level and the alternative hypothesis accepted, concluding that there is a significant relationship between the various tax reform strategies and curbing of tax leakages in Nigeria.

Positively, from the analysis it is evident that when different tax reform strategies are put in place and if properly administered and managed, to a large extent the menace of tax leakages in Nigeria would be minimized. As noted by Sanni (2005), a vibrant tax system will have the following "tripod"; Tax Policy, Tax Law and Tax Administration. He mentioned that a tax system is administered through tax policies while the tax laws serve as the legal backing. However, Margaret and Chris (2009) noted that policy makers and revenue authorities in developing economies like that of Nigeria face quite different challenges and constraints, which include limited administrative resources and expertise, corruption and coercion, low taxpayer literacy and morale, and negative attitudes towards government. Hurwich (2001) noted that tax administration is an important aspect of using tax policy to achieving the goal of efficient resources allocation through the provision of adequate infrastructures. Tax administration according to Fisher and Walpole (2005) affects everyone, and both the tax authorities and taxpayers want an effective and efficient tax system.



Nevertheless, all efforts through the various tax reforms undertaken by the Nigerian government to induce taxpayers' willing compliance and to increase tax revenue over the years have not yielded any positive result (Alabede et al, 2010). Statistical evidences have proved that the contribution on income taxes to the government's total revenue remained consistently low and is shrinking (Asada, 2005). Also, Chiumya (2006) noted that curbing tax evasion is one of the most complex activities in tax administration. This is often attributed to the fact that tax evasion takes many forms and facets. Hence, the victory of curbing the menace of tax leakages in Nigeria still remains at the level of collaborative efforts of both the government and the taxpayers. So, a periodic interactive public awareness programs and workshops, reform by way of stiffer penalties and charges for tax offences and value for money system should be profoundly encouraged by the government in order to curb the menace of tax leakages and to improve taxpayers' compliance level and consequently facilitate economic growth and development in Nigeria.

## 5. Conclusion

Apparently, the place of taxation in nation building has been described as irreplaceable. According to economic analysts, taxation remains a strong socio-political and economic tool for economic growth and national prosperity. Although the issue of tax leakages is of global concern, the Nigerian situation seems inimitable when viewed against the scale of corrupt practices prevalent in Nigeria (Kiable and Nwokah, 2009; Alabede *et al.*, 2011). As pointed out by Reynolds (1963), since tax is a principal source of government revenue, if persons are able to escape by legal or illegal means, the theoretical equity of the tax to a large extent is lost, and so, tax evasion and avoidance to a large extent depress the effectiveness of the government in enhancing economic growth and development (Abdulrazaq, 1985; Asada, 2005; Sani, 2005; Nzotta, 2007; Kiable and Nwokah, 2009).

Also, the provision of basic infrastructures is quite necessary for development and growth of any society, and it is only by a good and an efficient tax system can a nation achieve its social responsibility. However, the poor state of the present economic growth rate in Nigeria is pointing to the direction of tax leakages in the form of tax avoidance and tax evasion (Asada, 2005; Kiable and Nwokah, 2009) which the government could minimize if proper tax reform strategies are established. In addition, this study reveals that the most fundamental challenges with respect to tax leakages is expedited by the lack of good governance on the part of the government which highly discourages the populace from complying willingly with their tax obligations.

## 6. Recommendations

This study however, recommends that the government should endeavor to provide social amenities to all nooks and crannies of the state (not just the state capitals alone), provide employment opportunities to all by the judicious use of tax proceeds, which will promote high rate of compliance among taxpayers. Also, the government should engage in a complete re-organization of the tax administrative machineries; in order reduce to a tolerable limit the twin problems of tax evasion and avoidance, and the culture of good governance should be embraced by the government so as to secure the loyalty of the populace to good tax culture.

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## Appendix A

**Table 5:** Reliability test statistics

Variables	No. of items	Cronbach's Alpha
Factors responsible for tax leakages	13	0.984
Tax Reform strategies for curbing tax leakages	8	0.949
Effects of tax leakages on economic growth.	9	0.984

**Source:** Authors' survey (2011)