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Effect of Tax Evasion and Avoidance on Revenue Generation in Cross River State

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Abstract: *The main purpose of this study was to examine the effect of tax evasion and avoidance on revenue generation in Cross River State. To achieve the purpose of this study, two research questions and hypotheses were formulated to guide the study. Literatures related to the variables under study were reviewed. The survey research design was adopted for the study. A sample of three hundred (300) respondents was randomly selected for the study using a Taro Yameni formula. The questionnaire was used to gather data. Nominal mean method was adopted in analyses of the data while the Pearson product moment correlation was used in testing the hypotheses at 0.5 level of significance and a degree of freedom (N-2). Results of the analysis revealed thattax evasion and avoidance adversely affect revenue generation in Cross River State. Based on the findings, it was recommended that there should be review of the obsolete tax system, reduction in tax rate, enhanced income of tax payers and effective utilization of tax revenue as a way of salvaging the problem of tax evasion and avoidance.*

Keywords: *Tax Evasion, Tax Avoidance, Revenue generation.*

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I. Introduction

The concept of taxation has been a concern of global importance as it affects every economy irrespective of national differences (Oboh, Yeye&Isah, 2012). Tax remains one of the major sources of government revenue in most nations including Nigeria. Apart from crude oil, Nigeria relies to a great extent on revenue from taxation to render her traditional functions such as provision of basic infrastructures, maintenance of law and order, defense against external aggression as well as regulation of economic activities for the purpose of socio economic development in the society.

The above view is similar to that of Murkur (2001) who asserted that meeting the needs of citizenry call for huge fund which is impossible to be contributed either by an individual or the society. It, therefore, becomes necessary for government to source for the needed funds to enable her provide these amenities to the citizenry who are the beneficiaries. One of the sources of generating the fund is through taxation. The implication is that all taxable adults or citizens are expected to discharge their civic duties by paying their taxes as these contribute to the development and good governance of the society.

According to Ogundele (1999), taxation could be regarded as the process or machinery by which communities or group of persons are made to contribute in some agreed quantum and method for the purpose of administration and development of the society. In agreement with Ogundede, Soyode and Kajola (2006) refers to tax as a compulsory exaction of money by a public authority for public purpose.

Also, Adeyeye (2004) describes tax as a liability on account of the fact that the tax payer has an income of a minimum amount and from certain tangible/intangible property or is engaged in certain economic activities which have been chosen for taxation. Thus, tax payment is a demonstration of the desire to uplift one's society by every patriotic citizen.

However, one of the greatest challenges of the global tax system including Nigeria is the problem of tax evasion and tax avoidance. According to Adebisi and Gbegi (2013) while tax evasion is the willful and deliberate violation of the law in order to escape payment of tax which is lawfully imposed by relevant tax authority, tax avoidance is the means by which a taxpayer seeks to reduce or remove in totality, his tax liability without actually violating the law.

These evils of tax evasion and tax avoidance whether legal or illegal have adversely affected the volume of revenue generated by so many economies. Besides, it violates to a great extent, the theoretical equity of taxation, thereby creating a gap between the potential and actual tax collections, which the study seeks to bridge.

On the other hand, Nigeria as a sovereign nation operates a federal system of government, which is the federal, state and local government. Each of the three segments of government has a defined responsibilities assigned to it by the constitution. The implication is that the three tiers of government are mutually inter related in a unified effort to make life worthwhile for the masses (Nwadighoha, 2015).

Specifically, local government system in Nigeria is regarded as the third tier of government at spelt out in 1976 local government's reform. Local governments in Nigeria are created to bring governance nearest to the people at the grass root level. In agreement with the above view, Lawal (2000) and Ezeani (2006), pointed out that local government is the third tier of government closest to the people, which are vested with certain powers to exercise control over the affairs of the people with its domain.

According to Ajayi (2000), local government administration in Nigeria has experienced some fundamental changes since 1976 reforms by the military administration of General Obasanjo brought about uniformity in the administrative structure of the system. Besides the reform also introduced population criterion under which a local government could be created. Consequently, a minimum population of 150, 000 was considered feasible for a local government.

He further added that, as at 1976, there were 301 local Government Areas in Nigeria. The above figure was increased to 453 in 1989 and 589 in 1991. However the number was increased during the Abacha's regime to 774 local government councils that we have presently. Besides, the administrative and finance structure also underwent some changes. The reform instituted statutory allocation of revenue from the federation accounts with intention of giving local government fixed proportion of both federal and state revenue. This allocation to local government became mandatory and was entrenched in the recommendations of the Aboyade Revenue commission of 1977(Ezeani, 2006).

Also, the 1979 constitution empowered the National Assembly to determine what proportion of the federation account and revenue from state goes to local government.

According to Nwadighoha (2005), local government cannot discharge its responsibilities to the people without finance or revenue which is regarded as the life wire of development. He further noted that revenue generation is an important issue for local government councils. It is through this activity that the councils source the finance for funding their operations, thus to a large extent, determining the quantity and quality of services provided to the entire citizenry within their domain. Among the various sources of revenue available to local government as summarized by lawal (2000), include, taxation and levies statutory allocation from federation and state accounts, registration of birth, death and marriages, business permit, rents and rates etc. Others include donations, grants from state and federal governments, financial aids from Non-Governmental organizations (NGOs) and loans etc.

However, local governments in Nigeria have failed to meet up with the desired expectation due to several reasons including lack of revenue or finance. Also, Nzotta (2007), observed that tax collections constitute a greater proportion of revenue base of most governments. He equally added that the incidence of tax evasion and avoidance poise a major challenge to revenue generation in all tiers of government in Nigeria.

1.1 Research Questions

Research Question I

To what extent does tax evasion influences revenue generation in Yala Local Government Area?

Research Question II

To what extent does tax avoidance affects economic development in Yala Local Government Area?

1.2 Research Hypotheses

This study is anchored on the following hypotheses. All hypotheses are stated in Null form.

Hypothesis I

Ho: There is no significant relationship between tax evasion and revenue generation.

Hypothesis II

Ho: There is no significant relationship between tax avoidance and economic development.

1.3 Organization of the study

The rest of the paper is organized in four sections. The theoretical framework as well as review of relevant literature and empirical reviews on the subject matter is contained in section two, section three identifies the research methodology, and section four represents data presentation, analysis and discussion of finding while conclusion and recommendations are stated in section five.

II. Literature Review

2.1 Conceptual framework

The study into the effect of tax evasion and avoidance on revenue generation in Cross River Stateis anchored on:

2.1.1 Concept of Tax Evasion:

According Adebisi and Gbegi (2013), views tax evasion as a Fraudulent, dishonest and intentional distortion or concealment of facts and figures with the motive of avoiding the payment of or reducing the amount of tax otherwise payable. Tax evasion is accomplished by deliberate act of omission or commission which in them constitutes criminal acts under tax laws. In his contribution, Olatunde (2007) observed that tax evasion is one of the social evils affecting the progress of developing nations and eroding the prevailing welfare of the public in developed markets in the world.

Tax evasion is a violation of tax laws in which the tax rate due by a taxable person is unpaid after a minimum required period. It arises where tax payers reduce, make or proclaim false statement about their liabilities on the revenue tax through exploiting ineffectiveness in the tax law and regulations. (Temitopeolayinka & Abdurafiu, 2010) .

Also to Fakile&Adegbie (2011), tax evasion can be classified as fully evasion or partial evasion. Fully evasion occur when the person or corporate body qualified to pay tax but fail to register with relevant tax authorities to enroll in the tax system . On the other hand partial evasion arises when an individual or corporate entity under state its earnings for tax purpose by declaring low income. They further added that tax evasion comprises, in specific, fraudulent tax reporting such as declaring less earnings and over stressing deductions.

However, tax evasion may occur mostly in an informal circumstance which eases evasion. This includes a situation where a given business is not registered with tax authorities and in most cases is operating in remote areas moving from one location to another freely. In the face of the law, tax evasion is a crime and subject to execution by way of fine, imprisonment or even both in many countries of the world. Therefore tax evasion is a representation of illegal practices by tax payer to escape his civic responsibility enforce by the law and generally acceptable by the society or nation (Zakariya, Muzainah&Abduraham 2015).

Adebisi and Gbegi (2013) observed that tax evasion has become so widespread in many countries especially in developing nations including Nigeria. The situation is much deteriorated by the fact that many governments of these countries have not shown any serious effort or concern to determine factors that cause tax evasion and measures that would improve the situation. Instead they neglect the issue by concentrating on other sources of revenue like crude oil. For instance for the past decades, Nigeria relies much on revenue from crude oil to fund her projects. Unfortunately, this affect budget implementation since the revenue generated is inadequate to execute the numerous operations.

Ogbonna and Appah (2012) pointed out that tax evasion has the influence of misleading the allocation of resources and income distribution taken into consideration of the principle of perfect market. This situation could lead to stagnant economic growth and development apart from fall in overall standard of living of the citizenry.

Temitope, Olayinka and Abdurafiu (2010) posit that corruption causes tax evasion. They further argue that the level of corruption and tax evasion depends on factors such as wealth of the tax payer and the wages of the tax officers thus, tax officers who are poorly remunerated are highly vulnerable to corrupt practices more than those who are highly paid and this has a link to tax evasion.

Besides Adebisi and Gbegi (2013) observed that absence of strict legal legislation to punish defaulters as well as absence of spirit of civic responsibility and high compliance cost are responsible for tax evasion and avoidance.

Tax evasion lead to economic instability and tax revenue will be beneficial to a better economic and social condition. Posch (2009) studies the effect of taxation on output volatility and that for OECD countries finds a strong negative relationship between taxation output volatility. The increase the size of the underground activities implies that there is less reported taxation income which means that the government may confront a budget deficiency. Also, higher unofficial activities will decrease the legal GDP which can be interpreted as a sign of recession and increase the uncertainty and the risk of investment. Thus the increase in tax evasion causes the economy to become more instable.

2.1.2 Concept of Tax Avoidance:

According to Adebisi and Gbegi (2013), tax avoidance arises in a situation where the tax payer arranges his financial affairs in a way that would make him pay the least possible amount of tax without infringing the legal rules. In other words, it is a term used to denote the various strategies which have been adopted with the aim of saving tax. Also, Edvinas (2014), observe tax avoidance is a result of tax abuse which is a bahaviour where a tax payer tries to artificially arrange his activity in order to avoid taxes. In other words, tax abuse is a particular way in which tax avoidance appears. In his view, Bhartia (2009) pointed out that tax avoidance occurs when persons arrange their affairs in such a way as to take advantage of weaknesses or ambiguities in the tax law. Although the means employed are legal and not fraudulent, the results are considered improper or abusive. He further stressed that tax avoidance is a legal arrangement which is contrary to the intension or a spirit of law. This fact leads to the other relevance feature that all information is disclosed to the tax authority in case of tax avoidance. It is a significant element which distinguishes tax avoidance from tax evasion. Thus, if certain facts related with tax issues is hidden from tax authority or certain amount of income is ignored in tax returns by the tax payer, these cases shall be treated as tax evasion rather than tax avoidance.

Furthermore, in practice, only a fact that tax payer's activity was abusive cannot lead to criminal offence. Accordingly, the doctrine of beyond reasonable doubt which implies only in criminal cases is not applicable in tax avoidance situations. Therefore, tax avoidance cases are usually heard according to administrative procedure where the main object of the case is the artificial arrangement created by the tax payer with the sole aim of reaping tax benefits (Mc Gee, 2006 and Edvinas, 2014).

In his contribution, Fatoki (2014), observed that tax avoidance occurs due to negligence on the part of government to utilize revenue from taxes. This is evident on the fact that there are lack of basic amenities and infrastructures for public consumption. He further argued that the scenario contradicts the principle or theory of benefit approach which stipulates that taxes should be levied or paid based on the benefits or dividends derived from such payment. In agreement with Fatoki, Nwachukwu (2006), postulates that absence of provision of good roads, pipe born water, electricity hospitals and other basic needs of the citizenry or tax payers are causal factors in tax avoidance and evasion. He further stressed that revenue generation from taxation ought to be utilized for provision of some of the basic needs stated above as this will act as a boost or motivation to the tax payers to pay their respective taxes.

Also, Alade (2015), blamed increasing incidence of tax avoidance and evasion on high rates of taxes and income of the tax payers. He posited that most tax payers avoid the payment of correct taxes because of the high rate of taxes levied by the tax authorities considering their lean income or resources. It should be noted that high rate of taxes implies high tax liability while low rate of taxes denotes lesser tax liabilities. Thus, the relationship between tax rates and tax liability is linear. This contravenes the ability to pay theory which states that taxes should be levied only on individual who are capable of paying the levied sum rather than those who are not buoyant to pay. The implication of this is that the relevant tax authorities should endeavour to reduce the tax rate to encourage payment of taxes which will boost revenue generation.

Afuberoh and Okoye (2014), argued that tax loopholes and tax payers interference with revenue agents through corruption and bribery are the major problems of tax avoidance and the best way of curbing this problem is to continually train and re-train revenue officers. They further stated that tax avoidance unlike tax evasion leads to economic instability. According to Soyode and Kajola (2006), tax avoidance could lead to tax evasion. They further warned that if tax avoidance is over done it may degenerates to tax evasion. Thus, tax evasion begins where tax avoidance ends. Where there are manipulations of various kinds which have the effect of reducing considerably the revenue that is due to the government, such practices should be prevented.

2.1.3 Concept of Revenue Generation:

The term revenue is looked at from different perspectives. According to Ake (2001), revenue could be defined as the annual or periodically yield of taxes, exercise as the other service of income that a nation, state or public sector collects or receives into their treasury for public use. Nwadighoha (2005), asserted that revenue is earnings or income generated by an individual or group including corporate bodies at a particular period. Also, Dixon (2000) sees revenue as the total amount attained from the sale of a merchandise service to customers.

Flesher and Flesher (2007), defined revenue as an increase in owner's equity resulting from the performance of a service or sale of something. In agreement with Flesher and Flesher, Alade (2015), posits that revenue is a rise in owners' equity a firm earns by providing goods or services for its customers. In his contribution, Fayemi (2001), refers to revenue as all tolls, taxes, impress, rates, fee, duties, fine and penalties, fortunes and all other receipts of government from whatever source arising over a period within a year.

From the fore going revenue denotes income generated by both private and public bodies within a given time. Thus, Government revenue refers to aggregate income or a receipt that accrues to Government within a given period usually, one year. According to Alade (2015), revenue that accrues to Government is derived from two sources which include external and internal source. He further stressed that internal source include all the various avenue of generating fund within the organization or Government. Some of the internal source of Government revenue includes taxation, statutory allocation, fines, duties, licenses, rents, receipts from oil and earnings from investment etc. Meanwhile external sources of revenue include receipts from all other sources outside internal sources mentioned above. These include Grants, donations as well as loans and transfers from consolidation revenue fund (CRF).

In recent times, most governments especially in developing countries experience deficit budget occasioned by dwindling revenue. For instance, in Nigeria, the global economic down turn has created serious financial stress for all tiers of government. Hardest hit are the local governments all of who have experience unusual reduction in their share of the Allocation or national revenue from the federation and state account. (Alade, 2015). Although there are several sources of revenue accruable to all tiers of government in Nigeria, however, for some decades now, Nigeria relies on revenue from crude oil which constitutes about 80% of annual revenue. However, the sharp reduction in the price of oil in recent years has led to a decrease in the funds available for distribution to the various ties of government. Therefore, the need for government to generate adequate revenue from internal source has become a matter of serious urgency and importance.

In order to boost revenue generation, governments at all tiers have introduced the use of external tax consultants under a programme referred to as the acceleration revenue generation (ARG). Oboh (2012), pointed out that the federal government appointed consultants monitoring agents on value added tax (VAT) and withholding tax (WHT) in the oil industry. He further said that professional import duties administration (PIDA) was appointed in 1996 by the federal government for the collection of import duties side by side with certain custom officials. Also some states and local government have toed the same line by appointing consultants to boost revenue generation in their various states and local government.

This development attracted diverse comments among various interest group and individual. These comments have been most often biased depending on which interest they represent. For instance while the revenue officials see the tax consultants as usurping their powers, to the tax payers the modes of operation of the consultants was a nightmare (Alade 2015). Similarly, while company management and some chartered accountants especially of big firms oppose this practice, smaller firms of chartered accountants and tax practitioners on the other hand applaud it.

In another development, James and Nobes (2009) observed that inadequate personnel adversely affect revenue generation by government. Effective revenue generation by all tiers of government requires manpower that collects and accounts for the income generated. This lack of effective manpower jeopardizes the collection of revenue. In agreement with the above view, Oboh (2012), postulates that the purpose of revenue generation by both private and public entities can never be achieved without adequate and effective personnel. Thus, while adequate man power positively impact on revenue base, inadequate man power hinders revenue generation.

Dalu, Maposa, Pabwaungana&Dalu (2012), examined the relationship between tax evasion and avoidance and economy of Zimbabwe, they found out that tax loopholes and tax payers interference with revenue agents through bribery and corruption are the major problems of revenue generation and the best way of curbing this problem is continuous/ regular train and re training of revenue affairs. Also Afuberoh and Okoye (2014), investigated the impact of taxation on revenue generation in Nigeria by using regression analysis, the result show that taxation has a significant effect on revenue generation and GDP.

Both federal and state government cannot perform all the activities of the rural areas by themselves, but this can only be done by the people elected but that does not prevent or stop the federal and state government from implementing their roles by providing all the basic needs and social amenities such as construction of roads, provision of pipe borne water, electricity, hospital and good education etc. for the citizenry. All these infrastructural amenities are made available from revenue generation from the people (Alade 2015).

2.2 Theoretical framework

The concept of taxation operates under various theories, some of which are discussed below.

2.2.1 Ability to pay theory:

This principle originated in the sixteenth century and was scientifically extended by the Swiss philosopher, Jean Jacques Rousseau (1712-1778), the French political economist, Jean Baptist say (1767-1832) and the English economist John Stuart Mill (1806-1873). The theory states that taxation should be levied according to the ability of individual or tax payer to pay. The principle states that public expenditure should come from somebody that has rather that he who does not have. The justification for adoption of this principle is based on sacrifice (Adebisi and Gbegi 2013).

This principle is indeed the most equitable tax system and has been widely used in industrialized nations (Zakariya, Muzainah&Abduraham 2015). The justification and adoption of ability to pay theory is based on sacrifice. Adebisi and Gbegi (2015) pointed out that payment of taxes is viewed as a deprivation to the tax payer because he surrendered money to the government which he would have used for his own personal needs.

However there is no compacted method of measuring the fairness of sacrifice in this theory as it can be evaluated in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured when each tax payer surrenders the same absolute degree of utility that he obtains from his income. Also, each sacrifices the same proportion of utility he derives from his income and finally, each tax payer gives up the same utility for the last unit of income respectively.

However, Ogar (2014) criticized the concept of ability to pay as it does not give opportunity to every taxable adult to exercise their civic responsibility. He further explained that some taxable adult or persons may false fully claim that they are neither buoyant nor capable to pay taxes. Therefore, they evade from paying taxes on grounds that they are neither buoyant nor capable to pay taxes.

2.2.2 The benefit theory:

The benefit theory according to Anyafo (2006), operates on the assumption that there is existence of relationship between tax payer and the state. Thus, while the tax payer renders his civic responsibility by paying his tax, the state or government in turn uses the fund to provide certain goods and services to the member of the society.

According to Ogbonna and Appah (2012) the benefit theory postulates that tax payer should pay amount of taxes commensurate to the value of benefit or utility enjoyed. The implication is that government should collect or impose taxes on individual based on the services that is provided.

Despite the theory been viewed as inter-change relationship between tax payer and the government, there are some challenges threatening the application of this theory. These include difficulty in quantifying the benefit derived as well as identification of the actual beneficiaries. For instance, it is difficult to measure tax payers' benefit enjoyed for national security, education, maintaining law and other as well as other social infrastructures which are provided by government (Adebisi and Gbegi 2015). Furthermore, various expenditures incurred by government in providing services, their benefits are indivisible which cause the expenditures also impossible to be divided. The implication is that people are always encouraged to pay taxes to government for the display of their loyalty and for the continuity of the community prosperity.

However the theory is applicable only in a situation where the beneficiaries are easily and clearly traceable or identified. For instance, the theory can be applied to the road taxes collected from owners of vehicles. Also the principle of benefit approach can be applied to the workers who have a network of social security program.

2.2.3 Theory of equal distribution

According to this theory, tax liability should be so distributed between different persons that bordering cost of utility of each individual who are disbursing tax should be the same. This approach seeks to reduce the total sacrifice of the people as a whole. Zakariya, Muzainah and Abdurraham (2015) pointed out that the theory focuses on the problem of apportioning the tax liability from the idea of view of benefit of the entire society and the principle endorses the progressive taxation structure. The equal distribution theory regards minimum submission as the supreme principle of taxation. Thus, the smaller the amount of the cumulative tax sacrifice, the more imposed sharing of tax liability in the community which could also lead to greater government commitment in maximizing human welfare (Anyafo, 2006).

When many persons pay ample tax, that mean their marginal sacrifice of benefit should be the same, as such the total utility loss of the society will be lowest (McGee 2006). That is a situation where people with increase earning or income pay higher taxes than those with little income.

This taxation theory has been suggested among the scholars such as Edge worth, Musgrave and pig-out who contemplate this as the crucial principle of taxation. It is said that Edge worth who is the elevator of this principle suggests that minimum submission is the supreme principle of taxation.

2.3 Empirical review

Several empirical studies have been conducted on tax evasion and avoidance. This study therefore attempts to review some of these studies as shown below.

Fatoki (2014) investigated on issues of tax evasion and avoidance in economic development of Nigeria. He used a sample of 108 of 150 staff of Oyo state internal revenue service's and a standard deviation method to analyze data, it was observed that lack of good governance, unpatriotic action of tax payers and high rate of tax are responsible for tax evasion and avoidance. Besides, tax evasion and avoidance reduces available income of the state and as well cause's inflationary trend. Therefore good governance reduction in tax rate and enforcement of strict penalties on defaulters were suggested as remedies to these menace.

In the study carried out by Adebisi and Gbegi (2013) on the effect of tax evasion and avoidance on personal income tax in Nigeria, a total of 286 of 1298 employees of Federal Inland Revenue Services (FIRS) Abuja was used and the result was analyzed using ANOVA. Findings show that high rate of tax, low income of tax payers and un-patriotism are causal factors in tax evasion and avoidance. Meanwhile, tax evasion and avoidance reduces revenue causes budget deficit and inflationary pressure. The study recommended reduction in tax rate, public awareness and review of tax laws or policies as remedies to this situation.

In another development Nzotta (2007) conducted a study on the high incidence and effect of tax evasion and avoidance in Nigeria using a sample of 180 out of 800 staff of internal revenue staff, Enugu using a standard deviation method to analyze data. It was revealed that poverty low income and unemployment are responsible for tax evasion and avoidance. Besides, these causes distortion in macroeconomic policies and economic instability. Based on the result, it was recommended that drastic measures should be taken to over haul the existing tax system as well as enforcement of strict legal system to discipline defaulters.

Moshen and Yazdan (2016) investigated into effect of tax evasion in tax revenue and economic stabilities in OECD countries. A total of 29 OECD countries were used including Nigeria. A standard deviation method was used to analyze data; it was revealed that tax evasion causes economic instability, inflationary pressure and deficit budget. It was recommended that there should be review in tax reform, public enlightenment and legal action as ways of correcting the menace.

Also Lefebvre, Pestleau, Riedl, &Villeval,(2011) carried out a similar study of the bahaviour of people on tax evasion and avoidance in Netherland, France and Belgium using a sample population of 350 tax payers and ANOVA to analyze the data. It was observed that the level of tax evasion and avoidance increases as sentiment rises while there is decrease in tax morale belief. They suggested that government should as a matter of urgency sensitizes the tax payers on the relevance of paying taxes as well as exposing them to the penalties or consequences of defaulting in their civic right of paying taxes.

In another study conducted by Cobham (2005) on the effect of tax evasion and avoidance on financial of development in USA, a sample of 150 out of 1500 revenue personal was used while data was analyzed using regression analysis, it was found that there is leakages in income from assets held by tax payers, budget deficit and high level of corruption. Therefore the study recommended institution of proactive tax system and legal system as well as transparency and public enlightenment as measures of correcting the ills.

Also, Ogar (2014) investigated into the causes of tax evasion and avoidance in Cross River State using a sample of 250 out of 1500 population comprising taxable adult and staff of Inland Revenue services in Ikom, Ogoja and Bekwarra. The results was analyzed using a chi square statistical model, it was revealed that lack of basic amenities corruption, high rate of taxes, ineffective tax system are responsible for tax evasion and avoidance in the area. Consequently, these lead to reduction in aggregate revenue, inflationary pressures, high cost of government and economic instability. Based on the findings above, the study suggested among other things, reformation of tax laws/system, effective utilization of tax revenue in terms of provision of basic amenities, cut down on tax rate and public awareness etc as corrective measures to eliminate the problem or improve upon result.

Moreover, Afuberoh and Okoye (2014) investigated on the impact of taxation on revenue generation in Nigeria, findings reveals that taxation has a significant effect on revenue generation. Also taxation influences GDP to a great extent. In other words, while increase in tax collections enhances aggregate revenue generated and the Gross Domestic Product (GDP), decline in tax revenue will equally reduce aggregate income as well as GDP.

Nevertheless, Morale (1998) carried out an empirical study to determine the causes of high incidence of tax evasion and avoidance in Lagos state using a survey study, investigation blamed the increase on poverty level, unemployment and corruption. Besides, it was also revealed that tax evasion and avoidance cause distortion in macroeconomic policies. The above result is in consonance with the views of Nzotta (2007), Moshen and Yazdan (2016). In another development, Soyode and Kajola (2006) undertook a study on tax evasion, the result reveals a positive connection between tax rates and evasion. This findings is additionally consistent with the discoveries of Alligham and Sandmo (1970), Skinner and Slemrod (1985) and Adebisi&Gbegi (2013), Soyode and kajola (2006), findings from Lejira, chukwuma and Asian (2012), study on the causes of tax evasion and avoidance in many developing countries are attributed to unfair distribution of facilities, poor management and misuse of taxes collected, lack of essence of civic responsibility and tax payers in accessibility to governmental services funded from tax revenue. They further stressed that tax evasion and avoidance have a negative effect on revenue generation which will obviously diminish thereby causing deficit budget. Therefore some measures were suggested as remedies to the problem. These include public awareness, honesty and accountability on the part of government in utilization of tax revenue.

III. Methodology

A survey research design was employed in this study. Based on this design, the researcher used the questionnaire as a device for getting answers to questions by which the respondents fill by themselves. A total of 300 respondents were selected using a stratified random sampling technique. This comprises of 100 civil servants, 75 taxable adults, 75 business entrepreneurs and 50 tax agents/ revenue staff.

The person's product-moment correlation co-efficient(r) is presented as thus;

$$r = \frac{N \sum Xy - (\sum X)(\sum y)}{\sqrt{(N(\sum X^2 - (\sum X^2)(N \sum Y^2 - (\sum Y)^2}}$$

Where: r = coefficient of correlation

$\sum X$ = the sum of X in the distribution
$\sum Y$ = the sum of Y in the distribution
$\sum XY$ = the sum of the product of X and Y
$\sum X^2$ = the sum of X^2 in the distribution
$\sum Y^2$ = the sum of Y^2 in the distribution
n = the number of data observed.

The relationship is determined to be significant or not by the assertion of Althoen(1994) which assert that a relationship is positive when the value of (r) is between zero (0) and (+1) and negative when (r) is between zero (0) and (-1) and no relationship at all when (r) is zero (0).
The hypothesis is tested by the student's t-test where:

$$t = r\sqrt{\frac{n-3}{1-r^2}}$$

Where t = output of the model
r = coefficient of correlation
r^2 = coefficient of determination
The T-test has t_t = 3.182 (constant)

Reliability and Validity of Data: The information on the questionnaire have been provided by experienced respondents as seen in the service data of respondents.

IV. Data Presentation, Analysis And Presentation Of Results

1.3 Data presentation

The tables represent the views of respondents on the effect of tax evasion and avoidance on revenue generation in Cross River State

Research Question I
To what extent does tax evasion influences revenue generation in Yala Local Government Area?
Items 1-5 were used to answer these questions.

Table 4.1.1
Mean data analysis of tax evasion and revenue generation.

N=300

s/n	Questionnaire	SA	A	D	SD	Total	X	Remark
1	Tax evasion has adverse effect on government revenue	256	444	122	27	849	2.83	Accepted
2	Tax evasion reduces revenue collections.	224	483	108	29	844	2.81	Accepted
3	Substantial portion of tax revenue is misappropriated due to corruption	260	405	150	25	840	2.80	Accepted
4	Government revenue is mostly from taxation	220	465	120	30	835	2.78	Accepted
5	Tax evasion influences revenue generation.	152	282	260	38	732	2.44	Rejected
	∑						13.66	
	Weighted mean = 13. 66/5 = 2. 73							Accepted

From the above result, items 1, 2, 3 and 4 with weighted mean of 2.83, 2.81, 2.8 and 2.78 respectively were accepted. Meanwhile item 5 with a weighted mean of 2.44 was rejected because the mean fell below the bench mark of 2.50.

However, the entire items recorded a weighted mean of 2.73, which shows that the research question was positively answered. This implies that tax evasion to a great extent, affect revenue generation in Yala Local Government Area of Cross River State. Among these effects as revealed from the results include decline in actual volume of revenue generation and inflation.

Research Question II
To what extent does tax avoidance affects economic development in Yala Local Government Area?
Items 6-10 were used to answer the question.

Table 4.1.2
Mean data analysis of tax avoidance and economic development

N = 300

S/N	Questionnaire	SA	A	D	SD	Total	X	Remark
6	Tax evasion leads to decline in GDP	152	387	132	67	738	2.46	Rejected
7	The rate of socio economic development is slow due to tax evasion.	160	390	140	60	750	2.50	Accepted
8	Tax evasion causes instability in the economy	180	378	136	61	755	2.52	Accepted
9	When people evade tax it increases the rate of inflation	152	429	118	60	769	2.56	Accepted
10	Unemployment level is high due to tax evasion.	220	405	100	60	785	2.62	Accepted
	∑						12.66	
	Weighted mean = 12. 66/5 = 2. 53							Accepted

From the result shown above, item 6 with a mean of 2.46 was rejected while items 7- 10 with mean of 2.5, 2.52, 2.56 and 2.62 respectively were accepted. The entire claim recorded a mean of 2.53, it was accepted. The above result implies that tax evasion adversely affect economic stability in Yala Local Government Area of Cross River State. In other words, tax evasion causes economic instability, inflation and fall in GDP etc.

4.2 Hypotheses Testing:

Each of the hypotheses is tested using the Pearson's correlation co-efficient at 0.05 level of significant and 298 degree of freedom (N-2).

4.2.1 Hypothesis one:

There is no significant relationship between tax evasion and revenue generation.

The independent variable in this hypothesis is tax evasion while the dependent variable is revenue generation. The statistical analysis technique adopted to test this hypothesis was Pearson product moment correlation. The result of the analysis is presented in table 4.21.

Table 4.2.1
Pearson product moment correlation analysis of relationship between tax evasion and revenue generation.

N=300

Variables	∑x ∑y	∑x2 ∑y2	∑xy	r- value
Tax evasion	971	193557	97743	0.9*
Revenue generation	529	60957		

Significant at 0.05 level, critical r=0.113, df = 298

The result in table 4.2.1 shows that the calculated r-value of 0.9 is higher than the critical r- value of 0.113 at 0.05 level of significant with 298 degree of freedom. With this result, the null hypothesis that states; there is no relationship between tax evasion and revenue generation was rejected while the alternative hypothesis was accepted. Therefore tax evasion has a significant relationship with revenue generation.

4.2.2 Hypothesis Two:

There is no significant relationship between tax avoidance and economic development.

The independent variable in the hypothesis is tax evasion while the dependent variable is economic development.

Pearson product moment correlation analysis technique was adopted in testing the hypothesis. The result of the analysis is presented in table 4.23

Table 4.2.2
Pearson product moment correlation analysis of the relationship between evasion and economic development

N=300

Variables	∑x ∑Y	∑x2 ∑y2	∑xy	r-value
Tax evasion	889	154891	107139	0.99*
Economic development	611	74931		

*Significant at 0.05 level, critical r = 0.113, df =298

The above result in table 4.2.2 indicates that the calculated r-value of 0.99 is higher than the critical r-value of 0.113at 0.05level of significance with 298 degree of freedom.
This implies that the null hypothesis that states; there is no relationship between tax evasion and economic development was rejected while the alternative hypothesis was accepted. Therefore, it means that tax evasion has a significant relationship with economic development.

4.3 Discussion of findings

The result of the first hypothesis reveals that there is a significant relationship between tax evasion and revenue generation. In other words tax evasion and avoidance influence revenue generation. This is in line with the views of Afuberoh and Okoye (2014), who observe that taxation has a significant effect on revenue generation. They further added that increase in tax collections enhances the level of revenue generation. Similarly, decline in tax collections would adversely affect the aggregate revenue generation.

In another development, Adebisi and Gbegi (2013) postulate that the level of revenue generation of most economics depends much on receipts from taxation thus, as tax receipts appreciate the volume of revenue rises as well. Meanwhile, when tax collections drop, it also reduces the revenue base. However they decried a situation where so many economics are bedeviled by the incidence of tax evasion and avoidance which, apart from eroding the actual revenue generated also leads to unattainment of laudable government objectives.

In agreement with Adebisi and Gbegi, Cobham (2005), argue that developing countries in African including Nigeria lose annual average revenue of US $285 billion to tax evasion and avoidance including some illicit financial flows such as money laundering and corruption.

It was discovered from the second hypothesis that tax evasion has a significant relationship with economic development. In other words tax evasion influences economic development. Accordingly, while absence of or improve incidence of tax evasion enhances economic development, high incidence of tax evasion causes under development of the economy. According to Boylan and Sprinkle (2001), economic stability arises where there is increase in GDP and GNP, increase in per capital income, improved standard of living and appreciation in the value of currency. Other indicators of economic stability include high rate of employment and enhanced socio-economic development etc. meanwhile in stability in the economy occurs where there is recession, fall in the value of currency, unemployment and high cost of living etc.

In line with the above findings, Morale (1998), blamed the incidence of tax evasion and avoidance on poverty and unemployment. A good number of taxable adults are poor and do not have the ability to pay taxes because they are do not have the means of livelihood. Consequently, he suggested that government should intensify effort on the fight against unemployment and poverty as these could improve disposable income and revenue generation especially, from taxation.
Also, Mc Gee (2006), argued that tax evasion and avoidance lead to distortion of economic stability. He further pointed out that tax evasion and avoidance erode national revenue available for economic development especially in terms of technology, industrialization and entrepreneurship.

V. Summary of Findings, Conclusion And Recommendations

5.1 Summaryand conclusion

The study seeks to carry out an investigation on the effect of tax evasion and avoidance on revenue generation in Yala Local Government Area of Cross River State. Findings from the above study revealed that tax evasion and avoidance adversely affect revenue generation in Yala Local Government Area. The volume of actual revenue is drastically eroded due to these twin devils of tax evasion and avoidance. Also, findings show that tax evasion and avoidance cause high cost of governance and budget deficit. Besides, tax evasion and avoidance lead to economic instability and inflationary pressure in Yala Local Government Area.

5.2 Recommendations

Based on the findings of this research and subsequent conclusion, the following recommendations were made.

i. Government should as a matter of urgency review the existing system of tax administration in Nigeria. This is to amend the loop holes and other short comings in the tax system.
ii. Also, the tax authority and other relevant stakeholders should reduce the tax rate as this will discourage the act of evading and avoiding tax by tax payers. Besides it will motivate tax payer to pay their taxes.
iii. Moreover, government should encourage revenue generation through effective utilization of tax revenue especially in areas of provision of basic necessity such as infrastructures.

If this is done, it would boost tax payer's morale to pay more tax thereby enhancing the revenue base.

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