

# 1

---

## Tax Evasion in Agrarian Communities: Evidence from Tax Officials and Indigenous Farmers

---

By

PROF. ONYUKA FELIX MCDUBUS, Ph.D  
*Department of Accounting,  
Novena University,  
Ogume.*

And

ICHIDE JAMES OCHUKO  
*Department of Accounting,  
Novena University,  
Ogume.*

### Abstract

*Tax evasion and avoidance have been widely investigated in previous studies. However, none of the studies have particularized on agrarian communities. This study has isolated Eku and Utagba- Ogbe farming communities in Delta State and investigated through questionnaire administration on tax officials and indigenous farmers salient questions on their taxation. The method of percentage analysis and chi- square statistic were adopted for the analysis of data, obtained. The findings are quite revealing and the recommendation will immensely benefit government and the Nigerian economy.*

The desire to uplift one's society is the first desire of every patriotic citizen. Tax payment is a demonstration of such a desire. The payment of tax is a civic duty and a contribution imposed by government on her subjects and companies to enable her finance and run public utilities and perform other social responsibilities. Taxes, thus, constitute the principal source of government revenue.

---

*Journal of Resourcefulness and Distinction, Volume 8 No. 1, August, 2014*

Taxation plays a crucial role in promoting economic activity and growth. Through taxation, government gets the revenue it requires which are channeled towards important projects in the society, while giving succor to the weak. However, there are indications that the contribution of taxation to the economic development of Nigeria today leaves much to be desired. The role of taxation in promoting economic activity and growth is not felt primarily because of its poor administration. According to Olashore (1999), the economy has remained in a deep slumber; all macroeconomic indicators show an economy in dire need of rejuvenation, and indeed radical reform. Oni (1998), has counseled that tax administration needs to be revamped while refunds of taxes as well as dutydrawbacks administration should be made more efficiently.

Two problems facing the Nigerian Tax System are tax evasion and tax avoidance. Tax evasion is willful and deliberate violation of the law in order to escape payment of tax which is unquestionably imposed by law of the tax jurisdiction, while tax avoidance is the active means by which the taxpayer seeks to reduce or remove altogether his liability to tax without actually breaking the law.

These twin evils have created a great gulf between actual and potential revenue. 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.

Nigeria is largely an agrarian society where indigenous farmers constitute a sizeable proportion of the taxable citizenry. Since tax is a principal source of government revenue, if indigenous farmers are able to escape by legal or illegal means the tax to which they should logically be subject under the general scope of the tax, a large measure of revenue is lost. Tax evasion and avoidance no doubt deny any government the tax revenue due to her, which results in a gap between the potential and actual tax collections. This study is aimed at ascertaining the extent to which tax evasion exists among indigenous farmers in designated areas of Delta state.

### **The Problem**

Tax practices among indigenous farmers in Delta state, the reasons for their evasion of tax and measures required to meet challenges will not only guarantee improved revenue base for the country but also position the country properly to take full advantages offered by the new millennium. This research shall examine tax administration and compliance in Nigeria by analyzing the tax gap in the system over the years thereby revealing the critical challenges that need to be tackled.

## *Tax Evasion in Agrarian Communities: Evidence from Tax Officials and Indigenous Farmers*

---

Although tax evasion and avoidance are problems that face every tax system, the Nigerian situation seems unique when viewed against the scale of corrupt practices prevalent in Nigeria. Under direct personal taxation as practiced in Nigeria, the major problem lies in the collection of the taxes especially from the self-employed such as the indigenous farmers among others. As observed by Ayua (1999) these persons blatantly refuse to pay tax by reporting losses every year. According to him, many of these farmers live a lifestyle inconsistent with their reported income, which is usually unrealistically low for the nature of their businesses.

Civil Servants and other salaried workers are the only class of people that actually pay tax in Nigeria. However, even among the salaried workers, he added, many have turned the statutory personal allowances and reliefs into a fertile ground for tax evasion. Almost every Nigerian taxpayer is married with four children!

Similarly, despite the tax provision meant to plug loopholes through which taxable persons can minimize tax liability, the self-employed persons employ all kinds of avoidance schemes to minimize or escape tax liability and makes you wonder whether there are still any tax officials working in that capacity. Such scenarios, no doubt, say a lot about tax administration system in Nigeria both in its design and in the disposition of some taxpayers towards taxation.

While it immediately presupposes that there is a legal framework put in place to punish tax evaders, it perhaps raises a poser on the efficiency and effectiveness of tax laws and tax administration in Nigeria. Some State governments, in an effort towards solving this problem, had even gone to the extent of engaging the services of tax consultants. This government effort, notwithstanding, the problem of tax evasion and avoidance still persists (Alabi, 2001). There is no doubt that revenue due to any government will be reduced by the unpatriotic act of tax evaders. It is in the light of the foregoing issues that the present study is designed towards Investigating:

- i. The causes of tax evasion and avoidance as it relates to indigenous farmers income taxation;
- ii. The ways through which the practice is perpetrated, and.
- iii. Factors predisposing and promoting the practice of tax evasion and avoidance among indigenous farmers in Nigeria,

### **Research Hypotheses**

The following hypotheses have been propounded to facilitate the search for solution to the research problem:

- (A) **H<sub>0</sub>**: Indigenous farmers are not captured by the Nigerian tax system
- (A) **H<sub>1</sub>**: Indigenous farmers are captured by the Nigerian tax net.

- (B) **Ho:** Indigenous farmers do not deliberately evade the payment of tax.  
(B) **H1:** Indigenous farmers deliberately evade the payment of tax.

### **Related Literature**

Tax avoidance arises in a situation where the taxpayer arranges his financial affairs in a way that would make him pay the least possible amount of tax without infringing the legal rules. It is a term used to denote those various devices which have been adopted with the aim of saving tax and thus sheltering the tax payers' income from greater liability which would have been otherwise incurred (Kielbaso, 2001).

Ani (1978) had described tax avoidance as follows; the tax payers' knowing what the law is, decides not to be caught by it, arranges his business in such a manner as to escape tax liability partially or entirely. It is a lawful trick or manipulation to evade the payment of tax. The meaning of tax avoidance is vividly captured in the case involving *Ayrshire Pullman Motor Services and David M. Ritchie Vs Commissioner of Inland Revenue* when the Lord President, Lord Clyde held: No man in this country is under the smallest obligation, moral or otherwise, so to arrange his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow and quite rightly, to take every advantage, which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket. And the taxpayer is in like manner, entitled to be astute to prevent so far as he honestly can the depletion of his means by the Revenue. Thus, tax avoidance is legal or at least not illegal since one is probably using the tax laws to limit his tax liability under the same laws. Examples of tax avoidance include: Seeking professional advice: reducing one's income by submitting claims for expenses in earning the income; Increasing the number of one's children, taking additional life assurance policies.

Tax avoidance is thus considered to be a matter of being sensible. While the law regards tax avoidance as a legitimate game, tax evasion is seen as immoral and illegal. Tax evasion is an outright, dishonest action whereby the taxpayer endeavors' to reduce his tax liability through the use of illegal means.

According to Farayola (1987), tax evasion is the fraudulent, dishonest, intentional distortion or concealment of facts and figures with the intention of avoiding the payment of or reducing the amount of tax otherwise payable. Tax evasion is accomplished by deliberate act of omission or commission which in themselves constitute criminal acts under the tax laws. These acts of omission or commission might include: Claiming relief (in Personal Income Tax), for example, of children that do not exist;

## ***Tax Evasion in Agrarian Communities: Evidence from Tax Officials and Indigenous Farmers***

---

The most common form of tax evasion in Nigeria is through failure to render tax returns to the relevant tax authority. A tax evader may be charged to court for criminal offences with the consequent fines, penalties and at times imprisonment being levied on him for evading tax (Faseun, 2001). As observed by Sosanya (1981) tax evasion has become the favorite crime of the Nigerian, so popular that it makes armed robbery appear more tolerable. It has become so widespread that there now exists a cash economy of vast proportions over which the taxman has no control and which is growing at several times the rate of the national economy.

No doubt, tax evasion and avoidance have robbed the Nigerian government of substantial tax revenue. According to the Nigerian Stock Exchange, 85 percent of corporate tax revenue in the country accrues from the 196 companies listed on the exchange compared to the 30,000 companies registered with the Corporate Affairs Commission.

This is a serious indictment of the administrative machinery and capacity of the tax authorities in Nigeria. The causes of tax evasion and avoidance are universal, as they are applicable in any country that tax is imposed. Some are peculiar to different areas, however. In Nigeria some of these causes as identified by Onuigbo (1986) include: the absence of something of value given in return, inequitable distribution of amenities, misuse or mismanagement of collections made, and remoteness of taxpayers from the absence of spirit of civic responsibility

### **Ways by Which Tax Evasion and Avoidance are Perpetrated**

The taxpayer indulges in evasion by resorting to various abnormal practices. Some of these are acts of omission and others are acts of commission. There are various refinements to the blatant act of tax evasion which render detection difficult: secreted wealth may be siphoned off to foreign countries through smuggling activities, refuge may be sought in foreign bank accounts or in investments abroad to escape the reach of the local laws.

Other forms of tax evasion include claiming of fictitious deductions, improper utilization may be made of temporary taxpayers status, fleeing the country to avoid payment of tax, failure to pay or keep records or adequate records, failure to pay over to the revenue the estimated tax; interference with the tax administration through bribery and corruption and any other unlawful means employed which seeks to with-hold tax which is otherwise payable.

According to Toby (1983) tax avoidance consists of manipulations of transactions by resorting to various strategies. These include setting up subsidiaries or associated companies while maintaining financial interests in the outcome of both with

a view to facilitating transactions as may be advantageous from the tax point of view, arranging the transfer of losses of defunct business for the purpose of obtaining a set-off against profits of the other and establishing tax haven entities in foreign countries.

### **Effects of Tax Evasion and Avoidance**

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

### **Materials and Methods**

**Table 1: Questionnaire Administration to Respondents**

	<b>Farmers</b>	<b>Tax Officials</b>	<b>Total</b>
Administered	150	40	190
Returned	144	30	174
Not returned	6	10	16

Location of study: Eku and Utagba-Ogbe (Delta state)

Respondents – male farmers (94) female farmers (50) Total 144

Sampling Technique Adopted

1. Non – probability method
2. Quota sampling

Data analysis technique adopted

1. Percentage analysis
2. Chi – square statistic
3. 95% confidence level
4. I degree of freedom

*Tax Evasion in Agrarian Communities: Evidence from Tax Officials and Indigenous Farmers*

---

**Analysis and Interpretation of Results**

**Table 2: Categorization of Farmers**

<b>Category</b>	<b>No</b>	<b>%</b>
Animal farming	62	43
Crop farming	76	53
Mixed farming	6	14
Total	144	100

Of the 144 respondents 62(43%) are animal farmers, 76(53%) are crop farmers, while the remaining 6(4%) are mixed farmers.

**Table 3: Scale of Farming**

<b>Scale</b>	<b>No</b>	<b>%</b>
Small scale	86	60
Medium scale	44	<b>31</b>
Large scale	14	9
Total	144	100

Of the 144 respondents 86(60%) are small farmer 44(31%) are medium scale farmers and 14(9%) are large scale farmers

**Table 4: Technology of Farming**

<b>Technique</b>	<b>No</b>	<b>%</b>
Manual	120	93
Mechanised	24	17
Total	144	100

Of the 144 respondents, 120(83%) are manual farmers while only 24(17%) are mechanised farmers.

**Table 5: Funding Source for Farming**

<b>Source</b>	<b>No</b>	<b>%</b>
Cooperatives	18	12
State Govt	8	6
Private	118	82
Total	144	100

Of the 144 respondents, 18(12%) are funded by cooperative societies, 8(6%) by state government and 118(82%) are funded by private/personal sources.

**Table 6: Tax Awareness of Farmers**

<b>Awareness</b>	<b>No</b>	<b>%</b>
Aware	124	86
Unaware	20	14
Total	144	100

Of the 144 respondents, 124(86%) indicated awareness of tax provisions while 20(14%) said they were not aware of tax provisions.

**Table 7: Tax Liability of Farm Produce**

<b>Liability</b>	<b>No</b>	<b>%</b>
Ever taxed	42	29
Never taxed	102	71
Total	144	100

Of the 144 respondents, 42(29%) were ever taxed on their farm produce while 102(71%) were never taxed on their farm produce.

**Table 8: Tax Evasion**

<b>Evasion</b>	<b>No</b>	<b>%</b>
Ever paid tax	20	14
Never paid tax	124	86
Total	144	100

Of the respondents, 20(14%) ever paid tax on their farm revenues while 124(86%) never paid tax on their farm revenues.

*Tax Evasion in Agrarian Communities: Evidence from Tax Officials and Indigenous Farmers*

---

**Table 9: Tax Justification**

<b>Jurisdiction</b>	<b>No</b>	<b>%</b>
Should pay tax	76	53
Should not pay tax	68	47
Total	144	100

Of the 144 respondents, 76(53%) felt that farmers ought to pay tax while 68(47%) felt that farmers ought not to pay tax.

**Table10: Tax Demand Notice**

<b>Tax Demand</b>	<b>No</b>	<b>%</b>
Ever rec'd	34	24
Never rec'd	110	76
Total	144	100

Of the 144 respondents 34(24%) said they had ever received tax demand notices while 110(76%) said they had never received any tax demand notices.

**Table: 11 Capture of Farmers by the Revenue Tax Net**

<b>Tax net</b>	<b>No</b>	<b>%</b>
Captured	21	70
Not captured	9	30
Total	30	100

Of the 30 internal revenue respondents, 21(70%) indicated that indigenous farmers were captured by the tax net, while 9(30%) indicated that indigenous farmers were not captured by the tax net.

**Table 12: Summary of Results of Hypotheses Tests**

<b>Hypothesis</b>	<b>Statement</b>	<b>Chi-Square computed</b>	<b>Chi-Square table (1<sup>0</sup> freedom 95%) confidence level</b>	<b>Decision</b>	
H1(Null)	Indigenous farmers are not captured by the Nigerian tax Net	4.80	3.84	Reject null	Accept alternate
H2 (Null)	Indigenous farmers do not deliberately evade tax	8.97	3.84	Reject null	Accept alternate

**Interpretation (1)** Since  $X^2$  computed of 4.80 is greater than  $X^2$  table of 3.84, null hypothesis is rejected and alternate hypothesis is accepted. Hence indigenous farmers are captured by the tax net.

**Interpretation (2)** Since  $X^2$  computed of 8.97 is greater than  $X^2$  table of 3.84. null hypothesis is rejected and alternate hypothesis is accepted. Hence indigenous farmers deliberately evade tax.

**Findings**

Farmers are captured in the Nigerian tax net.  
 Most farmers deliberately evade the payment of tax.  
 Some farmers take advantage of the loopholes to evade tax.  
 Some farmers evade and avoid tax payment because there is no tax demand.  
 Some farmers do not pay tax because they neither receive incentives nor enjoy social amenities from the government.  
 Rural farmers are generally not aware of penalties for non-compliance with the tax laws.

**Discussion**

Some local farmers in remote and interior villages are not aware that they ought to pay tax on their business because tax officials do not go to them to make

## *Tax Evasion in Agrarian Communities: Evidence from Tax Officials and Indigenous Farmers*

---

demands. This is an indictment on the efficiency of the Tax Officials and the effectiveness of the tax enforcement mechanism/logistics. Government should introduce measures to correct this anomaly.

Taxes collected from some farmers are often not remitted into the coffers of government. Tax collectors caught misappropriated such revenues should be warned and if the situation persists, the culprits should have their appointments determined.

Indigenous farmers who evade tax indicate that they do so because they are not satisfied with the way tax revenues are handled by the Government. This cannot be a valid excuse for tax evasion. Affected farmers should take advantage of their voting power in a democracy to enthrone political parties or individuals who will fulfill their electoral campaign promises.

Some indigenous farmers pay taxes in order to obtain tax clearance certificates to bid for contracts or to participate in elections. There is no problem with this category of farmers since by so doing compliance is achieved.

Farmers who evade tax do so because government had reneged on their promise to grant them loans to expand their farming business. Experience has shown that loans are not granted to people that have the tendency to default in the repayment plan. Also loans are denied those who have no collaterals. Farmers should demonstrate their seriousness by providing evidence that they qualify for the loans..

Some of the farmers who evade tax indicate that they saw no justification to pay tax to a government that denied them agricultural incentives, social amenities and infrastructures..Again the electoral process if corruption free, should guarantee the right candidates that can attend to this.

Most rural farmers are not familiar with government stipulation of penalties for non compliance. In this case Government should improve on its tax information campaign using suitable communication media.

### **Recommendations**

The rural farmers should be made aware of penalties for non compliance with the tax laws.

Suitable personnel should be recruited, trained and retrained to cope with the demands of the job.

Revenue staff should also be motivated through good salary package to insulate them from fraud and other corrupt practices.

The setting up of revenue courts should be embraced by the various State governments. These courts should be made to impose heavy monetary penalties and criminal sanctions on tax evaders.

The handling of tax clearance certificates should be well decentralized such that neither the assessor nor the collector can issue tax clearance certificates.

The Audit Unit of the Authority should be strengthened to always audit tax remittance by collectors at all levels. This measure will curb corrupt practices among tax officials.

A legislation compelling banks to inform the tax authorities, on request, of any income standing in the account of any taxable farmer should be put in place by the various State governments.

Government should provide social amenities to all communities in the state and provide employment opportunities to all by the judicious use of tax proceeds. In this way it will encourage voluntary compliance.

Government should use radio messages, television advertisement, post bills as well as town criers to inform taxpayers of changes in tax legislation and need for compliance.

The tax authorities should properly review and evaluate the assessment and collection procedures so as to encourage compliance by the taxpayers. The usual practice of reprinting parts of the tax laws and sending same to the taxpayers expecting that they would understand them is not necessary since these laws are written in legal forms or terms that are not easily understood. Moreover, tax forms should be made less complex.

A census of the taxable population should be conducted throughout the states. This will update the tax register so that at any given point in time the tax offices can file details of taxable adults and businesses thus reducing the incidence of tax evasion.

Since majority of the people are poor, tax evasion becomes inevitable. Government should therefore aggressively tackle the inflationary trend and also ensure that the poor pay very minimal tax.

There should be incremental sensitization and effective application of tax proceeds.

Both internal and external auditors should ascertain the amount collected and the amount remitted to the government's coffers. They should check the activities of the tax authorities regularly.

**References**

- Adedeji, Adebayo(1965):The Future Of Personal Income Taxation Nigeria. *The Nigeria Journal Of Economics And Social Studies*, 7 (2)159-175
- Ajayi.B. &IfuekoOmoigui: (2004)*A Good Step ForNigeria's Revenues Service*. Nigeria World Toronto, Canada.RetrievedOn 20<sup>th</sup>December 2006.
- Alibi, Soji(2001): “*Tax Planning*” A Paper Delivered At The Workshop On Nigerian Corporate And Personal Income Tax Management, Yaba, Lagos, August 15<sup>th</sup>.
- AnyanwuAham(2002):*Research Methodology In Business And Social Sciences*.CanunPublishersNigeria Limited, Owerri Imo State.
- Aweto, A.O. (1981a):SecondarySuccession And Soil Fertility Restoration In Nigeria. *Journal of Ecology*69, 601-607.
- Aweto, A.O. (1987b):VegetationAnd Soils Of The Savanna Enclaves Of UrhoboPlains, South-Western Nigeria. *Catena*14, 177-185
- Ayodele.O. (2006):.TaxPolicy ReformIn United Kingdom.United Nations University *Research Paper*, No: 2003/06.
- Ayua, I.A. (1999):*The Nigerian Tax Law*, Ibadan Spectrum Law Publishing.
- Baiyewu, F.A.(2000):*Nigerian Taxation: A Practical Approach*EgbeKogi; Bhoti International Publishing Ltd.
- Besley, T. & J. McLaren (1993):'Taxes AndBribery: The Role Of Wage Incentives', *Economic Journal*, 103(416), 119-141.
- Eheduru, G. O. (1990):*IntroductionToResearch Methods In Social Science. Education AndManagement*. Regason, Benin City, Edo State.
- Ekundare, R. O (1970): -The Evolution Of Nigeria's Income Tax Systems From Colonial Period To 1942' *The Quarterly Journal Of Administration*, 4 ( 3) 255-267.
- Emerenini, F. M. (2005):*EssentialsOfPublic Finance*. Ben-Son Printers And Publishers Owerri, Imo State, Nigeria.
- Emmanuel, I. Kwue (2007):*The Nigerian Taxation: Theory And Practice*, Justice Jeco Press And Publications Ltd.

- Ezejelue, A.C. & Ogwo, E.O. (1990): *Basic Principles In Managing Research Projects*. Africana-Fep Publisher Limited ,Onitsha-Anambra State.
- Ezirim,A.C; Briggs, B.R; Ebrings, O.T; Akpobolokemi, P.Z & Maclayton, D.W. (2004): *Research Methodology For Management And Social Sciences*.McComputerPress, Nnewi- Anambra State.
- Farayole, G.O. (1987) :*Guide To Nigerian Taxes*. Lagos All Crowns Publishers Nig. Ltd.
- Faseun L. A.(2001):"Tax Planning" Lagos Tax *The Newsletter Of CITN-Lagos District Society* 1(1).
- Kiabel, B.D. (2001): *Personal Income Tax in Nigeria*. Owerri.Spring field Publishers.
- Olashore, O. (1999), "Strategies For Economic Revival." *The Guardian Newspaper*, Friday, July 23.
- Olivier De Sardan, J.P. (1999):'A Moral Economy of Corruption in *African Journal of Modern African Studies*, 37(1), 25-52.
- Oni. B. (1998): "Impact of Tax on Industrial Development." *The Guardian INewspaper*, Wednesday, November 4.
- Oputa. A. (2004):OputaScores Leaders Low On Citizens' Welfare. *The Guardian*.February10<sup>th</sup>.
- Orewa.G.O. (1957):*Taxation in Western Nigeria* London Oxford University Press.
- Prinz, D. (1986): Cropping Techniques In The Tropics For Soil Conservation And Soil Improvement. *Quarterly Journal of International Agriculture* 25, 86-99.
- Reynolds, L.G. (1963): *Government Finance and Economic Analysis* Heinemann Publication
- Silvani, C. & K. Baer (1997):'Designing A Tax Administration Reform Strategy: Experiences and Guidelines', IMF Working Paper No. 97/30 (March), Washington DC: International Monetary Fund.
- Tanzi V. & A. Pellechio (1997):,'The Reform Of Tax Administration', In *Institutions And Economic Development*, Baltimore/London: The Johns Hopkins University Press, Pp. 273-92.
- Toby, R. (1983):*The Theory and Practice of Income Tax* Macmillan Press Ltd.