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EFFECT OF TAX EVASION AND AVOIDANCE ON NIGERIA'S ECONOMIC GROWTH

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Abstract
The study aims to determine the effect of tax evasion and avoidance on the economic growth of the Nigeria economy. The study adopted the ex-post facto research design and data were obtained from Central Bank of Nigeria Statistical Bulletin for the period 1999 - 2012. The Ordinal Least Square Regression (OLS) model was used to test the hypothesis. The finding suggests that tax evasion and avoidance had negative significant impact on growth of the Nigerian economy. The study thus recommends amongst others that government policies and measures as it pertain fiscal policies in Nigeria should be streamlined to stimulate economic growth and development by ensuring that they are tailored towards growth of the economy.

Keywords: tax evasion, tax avoidance, economic growth, Nigeria, tax system

Introduction

Taxes and tax system are fundamental components of any attempt to build a nation. Brautigam (2008) noted that taxes underwrite the capacity of states to achieve 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. Thus, taxes build capacity to provide security, meet basic needs or foster economic development and they build legitimacy and consent helping to create consensual, accountable and representative government. A key component of any tax system is the manner in which it is administered (Naiyeju, 2010). Bahi and Bird (2008) state that no tax is better than its administration, so tax administration matters a lot, and an essential objective of tax administration is to ensure the maximum possible compliance by taxpayers of all types with their taxation obligations. Unfortunately, in many countries, tax administration is usually weak and characterized by extensive evasion, corruption and coercion. In many cases overall tax levels are low, and large sectors of the informal economy escape the tax net entirely (Brautigam, Fjeldstad and Moore, 2008).

A nation's tax system is often a reflection of its communal values and the values of those in power (Ross, 2007). Thus, to create a system of taxation, a nation must make choices regarding the distribution of the tax burden and how the taxes collected will be spent. In democratic nations where the public elects those in charge of establishing the tax system like Nigeria, these choices reflect the type of community that the public or government wish to create. Parkin (2006) states that in countries where the public does not have a significant amount of influence over the system of taxation, that system may be more of a reflection on the values of those in power as governments use different kinds of taxes and vary the tax rates. This is done to distribute the tax burden among individuals or classes of the population involved in taxable activities, such as businesses, or to redistribute resources between individuals or classes in the population. In addition, taxes are applied to fund foreign aid and military ventures, to influence the macroeconomic performance of the economy, or to modify patterns of consumption or employment within an economy, by making some classes of transaction more or less attractive (Parkin, 2006).

In a report of the Federal Inland Revenue Services (FIRS) and presented to the federal executive council on National Tax Policy for 2009, it says that sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs thus, in this context sustainable development refers to the pattern of revenue generation, which is able to meet the needs of the present generation of Nigerians, without negatively impacting the ability of future generations to meet their own needs. Generally, taxation is regarded as a sustainable source of government revenue due to the stability and certainty of the tax system (Aguolu, 1999). Unlike other sources of revenue, taxes are constantly available in so far as economic activity is carried on in the society (Cobham, 2005). However, recent developments in the global and local economy which have significantly impacted government revenue have directed focus on taxation as a sustainable source of income (FIRS, 2009). It is in line with this that the National Tax Policy intends to create awareness on the importance of the role, which taxation can play in securing a stable flow of revenue for the government. Nigeria is currently viewed as a mono-product economy with significant reliance on oil revenue due to historical developments in the Nigerian economy (FGN, 2009). However, taxation has been identified as an alternative to oil revenue and a more reliable source of revenue (McKerchar, 2003). It is expected that there would be increased collaboration as a result of the need to grow tax revenues by each level of Government and that improved collaboration would enhance tax yield between and among Federal, State and Local

The overriding objective of the Nigerian tax system should be to achieve economic growth and development. As such, the system should allow for stimulation of the economy and not stifle growth, as it is only through sustained economic growth that the potential ability to offer improvements in the well-being of Nigerians will arise. The tax system should therefore not discourage investment and the propensity to save. Taxes should not be a burden, but should be applied proactively with other policy measures to stimulate economic growth and development.

Statement of the Problem

Kiabel and Nwokah (2009) say although tax evasion 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 businessmen, contractors, professional practitioners like lawyers, doctors, accountants, architects and traders in shops among others. As observed by Ayua (1999) self employed persons blatantly refuse to pay tax by reporting losses every year and many of them live a lifestyle inconsistent with 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 observed, many have turned the statutory personal allowances and relief into a fertile ground for tax evasion. Almost all 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 minimise 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 are 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 (Uche and Ugwoke, 2003). 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 which can be attributed to corruption.

Tax evasion and avoidance have adverse effect on government revenue. Tax avoidance generates investment distortion in the form of the purchase of assets exempted from tax or under-valued for tax purposes (Kiabel and Nwokah, 2009). Avoidance takes the form of investment in arts collection, emigration of persons and capital. 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. This point can be buttressed with the fact that because of the evasion of tax, individuals and companies have a lot of money at their disposal and 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 build up what is known as inflationary trends where large money chases few goods (Toby, 1983).

The importance of taxation in governance albeit good governance cannot be overemphasized, the realization of this has a long history in Classical Economics. Beginning from Adams Smith, through other classical economists like David Richardo and John Stuart Mill, the place of taxation in the running of successful government, has been recognized. Sowell (1974) quoted David Richardo as having argued that an economic principle could only be considered useful if it directs government to the right measures of taxation. He equally said that, it is in order to emphasize the prominence of taxation, that both Richardo and Mill, put revenue first, in the division of public finance into three, viz "revenue, expenditure and public debt" Therefore it could be seen that, government through effective taxation carry out developmental and growth policies that impact positively on the life of its citizens. Revenue generation is viewed as the primary and most important role of taxation. Taxation is however not only a means of revenue generation for government, it can also be used to stimulate other sources of government revenue and develop other areas of the economy from which government can realize revenue. However, it seems that when there are leakages in tax collection through evasion and avoidance, the economic growth of such a country might be affected. Therefore, this paper seeks to determine the effect of tax evasion and avoidance on growth of the Nigerian economy.

Review of 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. In short it is a term used to denote those various devices which have been adopted with the aim of saving tax and thus sheltering the taxpayer's income from greater liability which would have been otherwise incurred (Kiabel, 2001). Ani (1983) had described tax avoidance as follows: the taxpayers knowing what the law is, decide 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. Ritchin vs. Commissioner of Inland Revenue when the Lord President, Lord Clyde held that:

> *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 (Kiabel and Nwokah, 2009: 2).*

Thus, it is clear that tax avoidance is legal or at least not illegal since one is mostly probably using the lax 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 (in Nigeria the maximum allowable is four) and 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 endeavours 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 them constitutes criminal acts under the tax laws. These acts of omission or commission might include: failure to pay tax e.g. withholding tax; failure to submit returns; omission or misstatement 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 (Aguolu, 1999).

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 he charged to court for criminal offences with the consequent fines, penalties and at times imprisonment being levied on him for evading tax (Faseun, 2001). And as observed by Sosanya (1981): Tax evading has become the favourite crime of the Nigerian, so popular that it makes armed robbery seem like minority interest. It has become so widespread that there now exist 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 had 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 257 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.

Mookherjee (1997) considers bonus systems in the context of corrupt tax collectors and argues for the need “to go beyond the question of what levels of corruption arise and examine induced effects on tax compliance and audit incentives”. Hence, when evaluating bonus systems, Mookherjee solely considers the possible gain in tax revenues following from the fact that the position of corrupt tax officers is strengthened, this way of justifying bonus systems should be rejected because it does not capture the long-term effects of an increase in corruption on tax revenues and government legitimacy. It highly implausible that sustained development can grow from an institutional framework that fosters corruption and extra-legal tax enforcement. Mookherjee is of course aware of the vices of corruption, but suggests simply that "if incentive reform causes various undesired side effects, the range of policy instruments must be expanded to moderate their effects". However, this is a problematic position within the present mode of reasoning. If one considers an increase in corruption an undesirable side effect to be moderated, then an incentive reform cannot be justified by showing that it increases tax revenues by (possibly) inducing more corruption, such a justification would be undermined by the policies aiming at reducing corruption.

The richer countries of the world have grown their overall tax revenues since the 1970s. The EU countries are characterized by total central government revenues of around one-third of GDP. The direct tax take increased from the 1970s to 1980s, but overall growth was primarily due to increases in the revenue from sales taxes, in contrast, the US exhibit lowers overall revenues and shows continuing growth in direct taxation only. According to Cobham (2005) Latin America and the Caribbean saw fairly stable direct tax revenues, falling trade tax with trade liberalisation taking hold and increasing reliance on sales tax. East Asia, at roughly similar levels of per capita income, exhibited a similar pattern, albeit with lower trade tax and hence overall revenues (around 2% and 14% of GDP respectively in East Asia, compared to around 4% and 17% in the former).

The Middle East and North Africa is a general exception, showing a significant and sustained reduction in each tax component, most notably in direct tax. This is driven by those countries whose vast resource wealth eases revenue mobilisation. South Asia exhibits by far the lowest contribution from direct taxation of any region, and by far the lowest total tax revenue. Despite managing notable increases in sales taxes during the period, the overall growth has been constrained by a fall in the originally dominant share of trade tax. Sub-Saharan Africa also increased sales tax revenues, but a fall in already low direct tax revenue from the 1980s to 1990s has restricted the overall growth here. In both these poorest regions of the world, trade taxes are responsible for more than a third of total tax revenue. The difference in the ability of rich countries to obtain direct tax revenues (around 12- 18% of GDP) and that of poor countries (typically 2-6%) is stark. A possible implication is that much more economic activity in the latter takes place out with the scope of direct tax structures - in the informal economy.

There are important differences between the different regions of poorer countries, which drive important differences in ultimate policy recommendations. Cobham (2005) deals with these in more detail, but two main points can be noted: Low-income countries primarily in Sub-Saharan Africa and South Asia face a critical constraint to their development in the form of low overall revenues; no successful development path can be envisaged which does not eventually lead to sufficient domestic revenue mobilisation to ensure fiscal independence; Middle-income countries are less revenue-constrained but face other problems - in the Middle East of weak political representation linked at least in part to 'resource curse' effects of oil wealth (Ross, 2004) and in Latin America of poverty resulting so much from low absolute incomes as from high inequality in the distribution of income. In both cases, increasing direct tax revenues is likely to be important.

Almost every region increased the contribution of direct taxes during the 1980s, but then saw this reversed during the 1990s. This was the period, as Emran and Stiglitz (2002) detail, during which the orthodoxy of switching to VAT-type taxation emerged. This orthodox view states that since these taxes impose a lower administrative burden on governments than systems of direct taxation, and since models show they can be relatively undistortionary, they represent the easiest option for developing countries to increase their tax revenues not least when they are already losing trade tax revenues through liberalisation. More recently, empirical analysis by IMF researchers has shown that most low-income countries were completely unable to achieve even such a welfare-reducing compensation for lost trade tax revenue. Baunsgaard and Keen (2005) show that on average, low-income countries replaced less than 30% of the lost revenues, In other words, trade liberalisation systematically undermined the attempts of low- income country governments to mobilise domestic revenues it increased, in fact, their dependence on relatively volatile external aid finance.

The relationship between economic development and growth in government expenditures has a long history, beginning from Wagner (1890). This seminal work gave rise to the popular Wagner Law, which states that there is a long run tendency for state activities to grow relative to the growth of national income. Since Wagner's epochal work, several studies have been undertaken on his conclusions. Most of these studies, according to Essien (1997) dwell on:

a. Appropriate measure of public sector growth.
b. Correct interpretation of the Law
c. Finding an index of government size to facilitate companion between countries and
d. Testing the lawby adopting a case-effect relation to estimate the income elasticity of government expenditure.

Essien (1997) is in itself a study on the "test of Wagner's Law on the Nigeria economy i.e. the extent to which the size of government would grow, relative to increase in National output". Hinrichs (1966) examined for industrial countries, the thesis of a rising government share of expenditure during development.

It should be recognized that Wagner (1890) did not offer clearly reasons for "the growing share of state activity" Bahl and Kinn (1998). However, subsequent studies attempted a filling of this gap. For instance, Peacock-Wiscman displacement thesis concluded that government expenditures undergo a shift in response to major crisis of distribution. An explanation of the upward shift in government's share has been tested statistically with some success for a number of industrial countries arc seen in Gupta (1967). For a small sample of developing countries the same result was found Goffrnan and Mahar (1971) but Bahi, Kinn and Park (1986) estimated a downward displacement for growing government expenditures between 1961 and 1964 in Korean.

From Adebayo (2000) the following government activities, which have pronounced implications for poverty reduction and development, may be linked to increase in government expenditures. First is "Expenditure on Poverty Reducing Activities". Specifically the activities are those in the Education, Health and Social services sectors. The rule of the thumb is;the higher the expenditure on these activities, the lower the incidence of absolute poverty. The second is the meeting of the basic needs of the poorest 40% - 50% of the population. This is often referred to as The Basic Needs Approach to development. Indicators of the basic needs are usually (1). Food, calorie - supply per head or calories supply as a percentage of requirements of proteins, (2) Literacy rates, primary school enrolment (as a percentage of the population aged 5-14), (3) Health: Life expectancy at birth infant mortality (per thousand at birth), (4) Water Supply: Percentage of the population with access to potable water and (5) Housing.

The concept of Targeting as an interventionist policy in welfare enhancement and particularly in poverty reduction, has received considerable attention overtime. Good examples in this regard include Ravallion (1991), Kanbur et al (1994), Van de Walle (1998), and Coady et al (2004).

Targeting can assume different dimensions and may be of several types. Van de Walle (1998) specified two categories of Targeting. These are broad and narrow.

In Broad Targeting, no attempt is made to reach the poor as individuals rather; efforts are made of targeting types of spending that are relatively more important to the poor. Examples of Broad Targeting expenditure include basic social services, primary education, rural development, health care delivery, safe water provision and basic physical infrastructure.

According to Van de Walle (1998), spending on basic social services is found to benefit the poor. Money spent on primary education for example, is likely to reach more poor children than money spent on secondary or tertiary education. Better health and basic education, access to safe water and basic physical infrastructure rise poor people's well being and may also raise their productivity and income".

Van de Walle (1998) defined Narrow Targeting as a deliberate attempt to concentrate benefits on poor people - whatever the type of spending. Narrow Targeting is said to have become popular in recent times, because it enhances the chance of reducing budget deficits and public spending, while still protecting the poor. Narrow Targeting can be of two types; Indicator Targeting also called Categorical Targeting. Basley and Kanbur (1993) explained Categorical Targeting as one that identifies a characteristic of the poor (an indicator) that is highly correlated with low income but can be observed more easily and more cheaply than can income. Examples of such indicators include region of residence (geographical targeting, land holding class, gender, nutritional sisters, disability, household and size. A second variant of narrow targeting is called Self Targeting. Van de Walle (1998) said that in Self Targeting "Instead of relying on an administrator to choose participants, these schemes aim to have beneficiaries select themselves, through creating incentives that will induce the poor and only the poor to participate". Government spending can also be channeled into employment generation, in order to reduce poverty level. There is a growing interest in studying the linkage between poverty reduction and employment characteristics, Rahman and Islam (2003) is a good example.

Theoretical Framework

A country's tax system is a major determinant of other macroeconomic indexes. Specifically, for both developed and developing economies, there exists a relationship between tax structure and the level of economic growth and development. Indeed, it has been argued that the level of economic development has a very strong impact on a country's tax base (Musgrave, 1969), and tax policy objectives vary with the stages of development. Similarly, the (economic) criteria by which a tax structure is to be judged and the relative importance of each tax source vary over time (Musgrave, 1969)

For example, during the colonial era and immediately after the Nigerian (political) independence in 1960, the sole objective of taxation was to raise revenue. Later on, emphasis shifted to the infant industries protection and income redistribution objectives. In his discussion of the relationship between tax structure and economic development, Musgrave (1969) divided the period of economic development into two, the early period when an economy is relatively underdeveloped and the later period when the economy is developed. During the early period, there is limited scope for the use of direct taxes because the majorities of the populace reside in the rural areas and are engaged in subsistence agriculture. Because their incomes are difficult to estimate, Lax assessment at this stage is based on presumptions prone to wide margins of error. The early period of economic development is, therefore, characterized by the dominance of agricultural taxation, which serves as a proxy for personal income taxation, and in Nigeria the various marketing boards served as effective mechanisms for administering agricultural taxation.

Agricultural taxation substituted for personal income tax given the difficulty in reaching individual farmers and the inability to measure their tax liability accurately.

Further, the large percentage of self-employment to total employment makes effective personal income tax unworkable (Musgrave, 1969). This problem thereby necessitates the use of the ability-to-pay principle, effectively limiting personal income taxation to the wage income of civil servants and employees of large firms both of which account for an insignificant proportion of the total working population. During the early period of economic development, direct taxes in form of company income taxes cannot be important because there are few home-based industries. The same principle applies to Excise Tax (an indirect tax) on locally manufactured goods. Both will increase in relative importance as economic development progresses, however, due to growth or non-static nature of the bases of these taxes. Several retail outlets also make a sales tax system difficult to implement, and a multiple-stage sales tax system even more so (Musgrave, 1969). Further, the rudimentary nature of the economy precludes retail form of taxes.

At this stage also, taxes are difficult to collect because of the lack of skills and facilities for tax administration. Given this, a complicated tax structure is not feasible and the amount of revenue from personal income tax will depend on taxpayers' compliance and the efficiency of the tax collector. An important source of government revenue during the early stage of economic development is the foreign trade sector because exports and imports are readily identifiable and they pass through few ports. However, revenue from export and custom duties is not stable because of periodic fluctuations in the prices of primary products. This tends to complicate plan implementation in many developing countries (Massel et al., 1972).

Economic development brings with it an increase in the share of direct taxes in total revenue. This is consistent with the experience of developed economies in which direct trades yield more revenue than indirect taxes. For example, personal income tax becomes important as the share of employment in the industrial sector increases. Also, as the dominance of the agricultural sector decreases, sales tax may be broadened because a great deal of output and income will go through the formal market as the economy becomes more monetized. Musgrave (1969) noted that at this stage, taxes may be imposed on firms or individuals, on expenditures or receipts, and on factor inputs or products, among others. He further argued that there would be a tendency to shift from indirect to direct taxes. His theory relates to a normal development process, however. It does not consider a situation where the sudden emergence of an oilboom provides an unanticipated source of huge revenue. Hence, this stereotype may not be applicable to an oil-based economy like Nigeria. Nevertheless, the theory stifle represents a benchmark against which country specific empirical evidence may be compared.

Methodology

The research design adopted for this research is the *ex-post facto* research design. The adoption of this research design hinges on the study historical data to investigate the on the impact of tax evasion and avoidance on Nigeria's economic development. The issue of data is at the very centre of research and also the nature of data for any study depends entirely on the objectives of the research and the type of research undertaken (Onwumere, 2005). For this research secondary data sources from the Central Bank of Nigeria Statistical Bulletin was used to test the hypothesis using the Ordinary Least Square Regression (OLS) model. The justification for adopting this analytical technique is based on the following premise; the ordinary least square is assumed to be the best linear unbiased estimator (Gujarati, 1995); it has minimum variance (Onwumere, 2005), and similar works in other jurisdiction adopted this technique in their study.

Description of Explanatory Variable

(a) Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the total value of goods and services produced in a country over a specified period. It equals the total income of everyone in the economy, and the total expenditure on the economy's output of goods and services. GDP is a gauge of economic of economic performance because it measures something people care about their incomes. Similarly, an economy with a large output of goods and services can better satisfy the demands of households, firms and the government. In line with the work of Rahman and Islam (2003) this seminal paper will adopt the natural log gross domestic product as proxy for the productivity of the Nigerian economy.

(b) Tax Evaded and Avoided

Tax evasion and 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 or completely refuses to pay tax. For this seminal paper, the natural log between the difference of total budgeted tax revenue and actual tax revenue was used as a measure of tax evaded and avoided in Nigeria for the period 1999 to 2012.

Model Specification

This simple regression equation is stated thus:

$$Y = B_1 + B_2X_2 + u \; \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \; (1)$$

Where, Y = dependent variable; X = explanatory variable; B_1 = intercept of Y; B_2 = slope coefficients; U = stochastic variables (Gujarati, 1995). Therefore, in writing the model equation, the following proxies and symbols wereused in this research.

GDP	=	Gross Domestic Product
TEA	=	Tax Evaded and Avoided
a	=	Regression equation intercept
b	=	Regression equation coefficient
μ	=	error term

Equation (1) will be re-written to suit the study along the four hypotheses.

Thus, Tax Evasion and Avoidance do not have positive significant impact on Gross Domestic Product of Nigeria, it is represented as:

$$GDP = a + bTEA + \mu \; \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \; (2)$$

ANALYSIS OF RESULT

Table 1 below presents the quantum values of the model proxies.

Table 1: Quantum Values of Model Proxies

Year	Budgeted tax Revenue (N)m	Actual Tax Revenue (N)m (A)	Tax Evaded and Avoided (N)m	GDP (N)m
1999	1,877,283	707,400	469,883	310,890.10
2000	1,299,268	839,794	459,474	312,183.50
2001	1,319,907	995,731	324,176	329,178.70
2002	1,369,334	701,307	668,027	356,99.30
2003	1,426,553	764,895	661,658	433,203.50
2004	2,845,143	802,910	2,042,233	477,533.00
2005	2,847,671	989,950	1,857,721	527,576.00
2006	2,892,370	994,117	1,898,253	561,931.40
2007	2,925,837	1,117,728	1,808,109	595,821.60
2008	3,107,595	1,174,488	1,933,107	634,251.10
2009	3,737,949	1,228,017	2,509,932	674,889.00
2010	3,894,540	1,309,943	2,584,597	718,977.33
2011	4,233,325	1,531,776	2,701,549	775,525.70
2012	4,811,063	2,199,687	2,611,376	834,161.83

Source: CBN Statistical Bulletin (Various Years)

As revealed from the table above, the growth rate of Nigeria's GDP has been increasing over the years. From 1999 to 2012, GDP growth rate had remained over the 5% growth rate mark yearly. In 2001, GDP increased to by 5.44% to 329,178.70million and further grew by 8.45% in 2002 to 356,994.30million. In 2003, GDP growth rate grew by 21.35% (433,203.50million) which was the highest growth rate over the period of this study. In 2005, the growth rate was 10.23% (527,576.00million). From 2005 to 2012, the growth rate again, was consistent and remained in the region of 6% to 7%. In 2006, the growth rate was 6.51% (561,931.40million), in 2007, it grew by 6.03% (595.821.60million), in 2008, grew by 6.45% (634,251.10million), in 2009, it again grew by 6.41% (674,889.00million), in 2010, grew by 6.53% (0718,977.33) and climbed to the 7% mark in 201 i and 2012. Specifically, in 2011, it grew by 7.87% to 775,525.70million and in 2012, grew by 7.56% to 834,161.83million.

Table 2: Regression Result

Dependent Variable: GDP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TEA	-4.390065	2.061081	2.129982	0.0452
C	0.216555	2.399287	0.090258	0.9289

R-squared Adjusted	0.839874	Mean dependent var	5.858400
R-squared S.E. of	0.731285	S.D. dependent var	4.862100
regression Sum	4.531715	Akaike info criterion	6.005725
squared resid Log	431.2653 -	Schwarz criterion F-	6,200745
likelihood Durbin-	71.07156	statistic Prob(F-	2.209000
Watson stat	1.571733	statistic)	0.117033

Source: E-View Results

As revealed from Table 2, Tax Evasion and Avoidance has negative and significant impact on Nigeria's gross domestic product (coefficient of TEA = -4.39, t-value - 2.130). This indicates that a one percent decrease in economic growth in Nigeria is due to 4.39 percent decrease in tax evasion and avoidance. The probability value of 0.0452 < 0.05 confirms the significance of the result. The coefficient of determination which measures the goodness fit of the model as revealed by R-square (R^2) indicates that 84% of the variations observed in the dependent variable were explained by variations in the dependent variable. The test of goodness of fit as indicated by R was properly adjusted by the Adjusted R-Square to 73.1%.

Conclusion

Tax evasion and avoidance have adverse effect on government revenue. Tax avoidance generates investment distortion in the form of the purchase of assets exempted from tax or under-valued for tax purposes. This increases the quantity of money in circulation but without a corresponding increase in the goods and services, this then build up what is known as inflationary trends where large money chases few goods. Therefore, taxation thus is not only a means of revenue generation for Government, it can also be used to stimulate other sources of Government revenue and develop other areas of the economy from which Government can realize revenue. However, when there are leakages in tax collection through evasion, no development can take place, thus in most countries where, there is high rate tax evasion and avoidance, it is usually associated with high unemployment. This was buttressed from the findings of this study that tax evasion and avoidance have negative and significant impact on growth of the Nigerian economy, lowers government revenue and leads to low employment rate in Nigeria.

Recommendations

This study thus recommends as follows:

1. The enforcement of laws on tax evasion and avoidance should be intensified to ensure that defaulters are brought to book irrespective of whose ox is gored.
2. Government policies and measures as it pertain fiscal policies in Nigeria should be streamlined to stimulate economic growth and development by ensuring that there tailored towards growth of the economy.
3. In order to ensure growth of the Nigerian economy, fund generated from tax revenue should be strictly utilized for the benefit of the masses and not to the pocket of the privileged few.

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