

TAX AUTHORITY EFFORT IN THE PREVENTION AND DETECTION OF TAX FRAUD IN NIGERIA

OGIRIKI TONYE (PhD)

Department of Accounting,
Faculty of Management sciences,
Niger Delta University, Wilberforce Island
Bayelsa State, Nigeria

AYODEJI TEMITOPE

Department of Accounting,
Faculty of Management sciences,
Niger Delta University, Wilberforce Island
Bayelsa State, Nigeria

<https://doi.org/10.37602/IJSSMR.2022.5306>

ABSTRACT

The main purpose of this study is to see how Nigerian tax officials prevent and detect tax fraud. The tax authorities of Bayelsa state are the principal focus of this study. The information for the project came from both primary and secondary sources. 133 questionnaires were circulated to obtain primary data, and all of the returned surveys were received. Secondary data for this study was gathered from journals and other papers. This is how questionnaire responses were categorized. Frequency and contingency tables were created. Tax fraud is connected to inefficient and unproductive tax management, according to the conclusions of this study. The conclusions of this inquiry will help tax administrators, government officials, taxpayers, financial analysts, and auditors who pay taxes.

Keywords: Tax, Tax fraud, Tax authority, Financial analyst, Tax Management, and Tax Payers.

1.0 INTRODUCTION

Neither in Nigeria nor around the world is taxation a novel concept. When colonial men or the British arrived in Nigeria, taxation already existed. Taxation can be defined as the government taking a portion of what a person makes, purchases, or performs on behalf of the government. An individual, partnership, trust, executorship, or company's assets are included here. All governments rely heavily on income tax revenue. While calculating Nigeria's federal budget, it is imperative that consideration be given to items like public service, which is a direct result of taxes paid by Nigerians. Over the years, this has either encouraged or discouraged various enterprises from doing particular activities, depending on the government's policies (Ola, 1999). Most societies view taxation as a critical tool for national progress and expansion. Long-term development of infrastructure in the state has been seen as a primary goal of the program.

Businesses are expanding and becoming more global, which means greater opportunities for tax evasion for taxpayers. When it comes to dealing with this issue, the tax administration must keep up with and develop its techniques, which means it must continuously modify and adapt its methods.

In order to reduce their tax burden, an individual or business willfully and intentionally fabricates information on their tax return. Tax evasion is a form of tax fraud in which a person tries to avoid paying the full amount of taxes owed. Tax fraud can take many forms, including the use of fictitious deductions, the claim of personal expenses incurred while conducting company, and the failure to report income.

It is common for industrialized countries to have a wide range of taxes, including both direct and indirect taxes, which are levied on most residents and businesses. A solid public finance system is difficult to implement in developing countries because they face social, political, and administrative challenges. As a result, developing and emerging countries are more exposed to the tax-fraud operations of both individuals and organizations.. As a result, the ability of rich countries versus developing countries to mobilize their own resources is vastly different.

There are many people that have a role to play in preventing and detecting tax fraud and making sure that it does not happen again. Detecting illicit tax evasion and illegitimate personal gain is extremely difficult without the participation of the public operating in high-risk areas. To that end, it is the responsibility of everyone in public institutions at all levels of authority to create a climate in which tax fraud cases can be effectively prevented, recognized, and dealt with by the general public.

Tax evasion is frequently punished by the law, as it is illegal. This is a kind of tax evasion and is punishable by law. Situations in which false claims are filed, bogus documents are generated, and so on are all considered instances of tax fraud. A civil or criminal penalty may be imposed as part of a punishment. Last but not least, tax revenue is a significant source of funding for federal capital expenditures, which are critical to long-term economic growth. The government has had difficulty obtaining this money because of an increase in tax fraud offenses perpetrated by both taxpayers and government employees. When it comes to economic growth, the amount and quality of government money are critical factors, thus tax fraud and other tax offenses are vital to consider.

Economic losses due to tax fraud and another tax evasion by taxpayers are huge, which means less investment and less money for the government. Tax evasion and the tactics of the tax authorities often do not live up to expectations. It can have a big impact on the economy, public trust in government, and the reputations of those who are involved in tax fraud, among other things.

Many developing countries do not manage their tax policies well, have low levels of compliance, and do not have enough tax administration capacity. This all leads to tax systems that are not up to par with the best practices in the world. This also affects how much money can be raised.

Even in countries that are not very rich, indirect taxes are becoming more common. Up to two-thirds of all taxes in many of these countries are paid in the form of indirect taxes, like value-added taxes (VAT). Tax fraud is still stealing money that should be used for public projects. They have to pay the bill. People do not believe that the revenue system is going to be fair because of this.

Taxes and levies that are paid by people in the state are not well organized and can be easily cheated on, which costs the state money. Due to a lack of funds, the government cannot finish important projects like road repairs, building or renovating hospitals, and schools. There are no rules in the tax system that say that businesses like electronic shops, saloons, hawkers, petty shop owners, and barbershop owners can be charged taxes, levies, or other fees. To collect taxes from businesses, the state takes a random amount that could be below or overpaid. The officer in charge of collecting them can send a reasonable amount back to the state government or not send it at all. A lack of proper infrastructure means that the state government cannot figure out how much money each small business makes in terms of Naira and Kobo, how many petty shops or saloons each location has, and how many people own them. Thus, necessitating the need for this study. Therefore, the aim of this study is to explore the role of tax officials in the blockage and exposure of tax evasion in Nigeria.

2.0 LITERATURE AND HYPOTHESIS DEVELOPMENT

2.1 Theoretical Framework

To combat tax evasion, the first step is to understand why people do it in the first place. Of course, there is a lot of skepticism and ambiguity in there. As opposed to these "fundamental conceptions of tax compliance," The Forum on Tax Administration (2004) did identify Theories of economics, psychology, and sociology are only a few examples of what is included here:

Economic Theories: When attempting to answer the topic of why people break the law, economists began by formulating a theory based on the basic premise of economics: that people make rational decisions based on the relative costs and benefits of various options. People will engage in tax evasion if the expected benefit of their crime outweighs the expected cost of their penalty, according to the basic model they use when studying human behavior (Slemrod, 2000).

Psychological Theories: Some people say that the economic model of human behaviour is too simple and does not work well in the real world of everyday life. Individual-level variables are a favorite tool for both psychologists and economists when they try to figure out why people do what they do. Economists, on the other hand, tend to model human behaviour in much simpler terms than psychologists and behavioural scientists do. Instead, tax payers are not seen as risk-averse, morally wrong value maximizers in this situation. This is not how economists think about them. They might be interested in variables like the moral screen that passes through and influences the instructions and impulses of people. Because people are moral, they might also be interested in things like that (Slemrod, 2000).

Sociological Theories: The structure of the social system is often said to be a factor in how people act. Then, they look at the forces that affect how people act in the system to figure out

why they do what they do. Among other things, this shows that punishment and reward are not just limited to the law. They are part of everyday life. There are people who can reward or punish them based on what they do. They have the same effect on behaviour as rewards and penalties from the state. The way people think about the government's enforcement of tax rules, as well as how they think about the tax system, their contact with the tax department, and their demographics, can be used by sociologists to understand how people act (Slemrod, 2000). Many social scientists are interested in tax evasion, says Beron (2002). This is because people from many different fields are interested in it. There is something we have learned from their efforts, but what can we take home with us? Assuming everything goes as planned, we will have a theory about why people follow the law that the tax administration can use to come up with a complete strategy for tax law compliance. In order to follow tax law, you need to know what your tax base is, pay on time, and repay quickly (Slemrod, 2000).

3.0 EMPIRICAL REVIEW

Taxes are a major source of money for the government and development, not just in rich countries like the United States, but also in poor countries like Nigeria. Taxes help the national government grow and are used to pay for a lot of government services, like providing public social services (Jamala et al., 2013). In any country, tax policy is an important part of its economic policies. It helps to make sure that the country's economy grows and that its global competitiveness improves (Taha and Loganathan, 2008). Because taxes are so important, you cannot do anything about them until you have a strong government that makes sure taxes are paid and that tax evasion doesn't happen. Developing countries have a hard time getting their taxes paid because they have a lot of problems with tax administration (Okoye & Ezejiofor, 2014). A good tax administration goal is to help countries make sure that all taxes are paid on time and think about how to deal with taxes that corrupt people in the tax system evade.

Some of the biggest problems in developing countries are that they do not grow their economies quickly, evenly, and for a long time at a steady rate. Most research says that having a stable budget can help solve the problem of economic growth (Bird, 1992). The most important thing is that the government must have enough money to invest in human capital development and spend more on things like education, health, and basic infrastructures like water, reliable electricity, communication systems infrastructure, a good transportation system, and other public social services. All of these things need to be done by governments with a tax system that is efficient and well-designed, as well as strong tax enforcement, in order for them to be done.

Adenugba and Ogechi (2013) say that revenue administration agencies like the Federal and State Boards of Internal Revenue play a big role in making sure that revenue is collected. However, their systems need to be looked at to fix any problems that have been found in how they work. In 2013, John, Chaya, and Ame said that not enough money is spent on basic social services. They say this slows down economic growth and progress towards sustainable human development.

According to Allingham and Sandmo (1972), when the risk of being caught is high, people always report their income in the correct way. As long as people think they will be audited,

they will report everything, even if they do not think they will be audited this year (Riahi-Belkaoui, 2004; Richardson, 2008). In 1998, Slemrod, Blumenthal, and Christian (1998) did a study to see how the chances of an audit and the taxpayer's response were linked. In the experiment, there is a link between how much money you make and how likely you are to be audited for tax evasion. It did not seem clear to Slemrod et al. (1988) which way the relationship was going to go, even though this was the case.

Furthermore, Andreoni et al. (1998) found that people who had been audited before and kept in touch with the tax authorities were more likely to pay their taxes. According to Young (1994), Slemrod et al. (2001), and other people, the chances of being audited again went down as people became more compliant.

Bergman (1998), who is cited by Palil and Mustapha (2011:63), looks at tax compliance in Argentina through two different methods: steps to help commercial taxpayers and campaigns and audits that make it more likely that private citizens will be found out. According to the findings, people are more likely to follow tax rules and be honest when they are audited, and the chances of being caught go up. Here, it looks like evasion may happen even if the subject does not know about it. During the 1980s, tax authorities in Argentina did not do a lot of checks and checks on people. Because of this, they started to act "carelessly," so the taxpayers' methods of tax evasion were also more sophisticated because they were sure they would not be caught because there were no police investigations at the time. Because of this, they had to pay less in taxes. Bergman's findings are in line with the idea that evaders are more careful when they think they are going to be caught.

In Usman (2008), some of the reasons for non-tax compliance in Nigeria include: There is a dearth of resources available to the relevant tax authorities In the eyes of the public, powerful tax evaders are regarded as heroes. Various taxes and levies, a large family, and the tax structure and tax rates are all factors that contributed to this. However, we all agree on the first two points, but we differ on the second.

Based on the above, the following hypotheses are made for the study:

H1: Tax fraud offenses do not have a significant impact on the revenue of the government.

H2: The Tax Authority is not effective in the prevention and detection of fraud in Nigeria.

4.0 MATERIAL AND METHOD

This project was made with the help of a descriptive research survey that was made by the researcher. Using this method, we were able to learn about a large group of people from a small group of people. This study used both primary and secondary sources of data in it.

In this study, people from the Bayelsa state internal revenue and people from five accounting businesses in Yenagoa are the people who are being looked at. People guessed how many people worked for the board of the Internal Revenue Service because there was not enough information to figure out how many people worked for the board. Those who work for the State Board of Internal Revenue (ICT Department, Finance and Accounts Department,

Enforcement & Monitoring Department), as well as five accounting firms from Yenagoa, were all part of the group.

Because the target population was so big, the Taro Yamani formula was used to figure out how many people were chosen for the study to look at.

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{200}{1 + 200(0.05)^2}$$

$$= \frac{200}{1 + 200(0.0025)}$$

$$= \frac{200}{1 + 0.5} = \frac{200}{1.5} = 133.$$

5.0 RESULTS

Rather than being an end in itself, the data acquired served as a means to an end. Making effective ideas or helping should be based on the facts that are readily available. Data must be analyzed in order to draw any meaningful conclusions from the information gathered. Because of this, the research team used the following methodologies to analyze the data collected. The use of exact numbers, frequency of responses, and percentages was emphasized for a full analysis of the data acquired. The percentages of workers' replies to each statement in the questionnaire were compared to determine the answers to the research questions.

In this study, the terms "frequency" and "percentage" relate to the order in which the responses were arranged in terms of their magnitude or frequency.

According to popular belief, the simple percentage approach is an uncomplicated, straightforward-to-understand calculation procedure.

Thus, the researcher chooses the basic % approach as a result of this.

The percentage formula is as follows:

$$\% = f/N \times 100/1$$

Where f = frequency of respondents' response

N = Total Number of responses of the sample

100 = Consistency in the percentage of respondents for each item contained in questions.

To make it easier for the participants to understand, the results were tabulated and expressed as simple percentages. At the end of the survey period, 133 (one hundred thirty-three) questionnaires had been issued and returned.

TABLE 1

Are there any specific legal and administrative measures in Nigeria to combat tax evasion?

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Agreed	51	38.3	38.3	38.3
Strongly agreed	31	23.3	23.3	61.7
Disagreed	23	17.3	17.3	78.9
Strongly disagreed	28	21.1	21.1	100.0
Total	133	100.0	100.0	

The researcher asked the responder in the table above if there were any legal or administrative measures in place in Nigeria to address tax fraud. 51 respondents, or 38.3 percent of those polled, expressed strong agreement; 31 respondents, or 23.3 percent of those polled, expressed strong disagreement; 23 respondents, or 17.3 percent of those polled, expressed strong agreement; and 28 others, or 21.1 percent of those polled, expressed strong disagreement.

As a result, the researcher says that there are legal and administrative steps in place in Nigeria to fight tax fraud.

TABLE 2

Are there any weaknesses in addressing tax fraud by tax authorities in Bayelsa?

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Agreed	55	41.4	41.4	41.4
Strongly agreed	34	25.6	25.6	66.9
Disagreed	21	15.8	15.8	82.7
Strongly disagreed	23	17.3	17.3	100.0
Total	133	100.0	100.0	

There are weaknesses in Bayelsa state's tax enforcement system, according to the table above, with 55 respondents, or 41.4 percent of the respondents, agreeing with this, 34 respondents, or 25.6 percent of the respondents, strongly agreeing with this, and 21 respondents, or 15.8 percent of the respondents, disagreeing with it.

As a result, the researcher has come to the conclusion that tax officials in Bayelsa state have deficiencies in tackling tax fraud.

TABLE 3

In terms of the government's revenues and the country's overall economy, does tax fraud have an impact?

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Agreed	51	38.3	38.3	38.3
Strongly agreed	36	27.1	27.1	65.4
Disagreed	28	21.1	21.1	86.5
Strongly disagreed	18	13.5	13.5	100.0
Total	133	100.0	100.0	

To find out if tax fraud offences have an impact on government revenue and the country's economy, the researcher surveyed respondents. The results are shown in the table above. It was determined that 51 respondents, or 38.3% of those polled, believed that tax evasion had an impact on the government's revenue in particular and the country's economy as a whole. Among the 36 respondents who strongly disagreed, 27.1 per cent said they disagreed, and in 18 respondents who strongly disagreed, 13.5 per cent said they disagreed severely.

As a result, the researcher concludes that tax fraud offences have an impact on the country's income and economy.

6.0 TEST OF HYPOTHESES

Hypothesis One: Tax fraud offences do not have a significant impact on the revenue of the Government

Chi-Square test showing the relationship between tax fraud offences and revenue of the government

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.284 ^a	1	.000
Continuity Correction ^b	17.931	1	.000
Likelihood Ratio	19.894	1	.000
Fisher's Exact Test			
Linear-by-Linear Association	19.178	1	.000
N of Valid Cases	133		

DECISION RULE:

$X^2 = 19.284$, $df (c-1, r-1) = 1$, $n = 133$, $p = .000$ at 0.05 level of significance.

The Chi-Square Test was used to examine the correlation between tax fraud and government revenue. Tax fraud offenses and the government have a strong connection, according to the findings of this inquiry. Therefore, we reject H_0 and accept H_1

Hypothesis Two: Tax Authority is not effective in the prevention and detection of Fraud in Nigeria

A Chi-Square test shows a link between tax avoidance and detection, as well as tax enforcement.

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	94.550 ^a	1	.000
Continuity Correction ^b	91.525	1	.000
Likelihood Ratio	119.828	1	.000
Fisher's Exact Test			
Linear-by-Linear Association	94.033	1	.000
N of Valid Cases	133		

DECISION RULE:

$X^2 = 94.550$, $df (c-1, r-1) = 1$, $n = 133$, $p = .000$ at 0.05 level of significance.

The Chi-Square Test was used to examine the relationship between tax authorities and their ability to detect and prevent tax fraud. The results of this study show that tax authorities in Bayelsa state and Nigeria as a whole are not very good at catching and stopping tax fraud. Therefore, we accept H_0 and reject H_1

7.0 SUMMARY, CONCLUSION, AND RECOMMENDATION

7.1 Summary

The study's primary goal was to examine the role of Nigeria's tax authorities in preventing and detecting tax fraud. For the purposes of data analysis, survey design was employed to examine data collected mostly through the administration of questionnaires. The surveys were distributed to a random sample of 200 participants. 90% of them completed and returned the forms.

According to the results of the survey, 51 respondents, or 38.3% of the respondents, agreed that tax fraud offenses have an impact on the government's revenue and the country's economy. There were 36 individuals who strongly agreed, 28 who disagreed, and 18 who extremely disagreed with this fact. So, the researcher concludes that tax fraud offenses have an impact on the country's revenues and economic growth. According to the findings, tax evasion, tax fraud, and tax avoidance can be attributed to a variety of reasons and factors. It is possible to categorize them into factors that have a negative impact on tax law compliance on one hand and elements that have a negative impact on tax enforcement on the other. Before

coming up with new ways to avoid or evade taxes, it is important to know the many reasons why people do this.

7.2 Conclusion

Tax fraud prevention is important in Nigeria, and this study looked at why and looked at how management in Nigeria deals with tax fraud prevention. The study also looked into how tax fraud prevention and detection measures work in Nigeria and how they affect the country's public sector. It found that responsible bodies do not have a strong internal control mechanism for tax fraud. The study then looked into how managers in Nigeria are honest and how that affects how well they can stop tax fraud. People in most developed countries have always had a tax authority that connects them to the government and helps them pay their taxes. In Nigeria, on the other hand, the main causes of tax fraud have not been well looked into.

So, the researcher says that the government and management have the most important job of stopping and deterring tax fraud and that they need good and effective tax fraud prevention measures to do this.

7.3 Recommendation

1. People who monitor taxes should hold more seminars and workshops for people who want to learn about different tax laws.
2. To get the money that the government wants, FIRS management should work very hard to improve the department's effectiveness and efficiency. To be a government worker, you need to be better at what you do and more organized. Make sure that the people who work for them are honest and do not try to smuggle things across the country.
3. There should be a way for FIRS to quickly find and follow up on taxes that have not been paid. Make sure that all cargo arriving at ports, airports, and border crossings is properly recorded, as well
4. People at all levels of government should make sure that their tax audits are more effective and efficient so that they can do their jobs better.
5. People who are audited by the government should try to cut down on the number of people who evade taxes, avoid taxes, and do other things that are not legally correct.
6. A policy from the FIRS should be given to the public so that people know how important paying taxes is and how not paying taxes can hurt them. This way, the level of compliance would be high and there would be no non-compliance at all.

REFERENCE

- Allingham, M.G. & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of Public Economics*, 1(3-4), 323-38
- Alm, J., Jackson, B. & McKee, M. (1992). Institutional uncertainty and taxpayer compliance. *American Economic Review*, 82(4), 1018-26.

- Andreoni, J, Erard, B., & Feinstein, J. (1998). Tax compliance. *Journal of Economic Literature*, 36, 818-60.
- Beck, P.J., Davis, J. S., & Jung, Woon-Oh. (1991). Experimental evidence on taxpayer reporting under uncertainty. *Accounting Review*, 66(3), 535-58.
- Becker, W., Buchner, H. J., & Sleeking, S. (1987). The impact of public transfer expenditures on tax evasion. An experimental approach. *Journal of Public Economic*, 34(2), 243-52.
- Bergman, M. (1998). Criminal law and tax compliance in Argentina: Testing the limits of deterrence. *International Journal of the Sociology of Law*, 26, 55-74.
- Beron, K.L., Tauchen, H.V., & Witte, A.D. (1988). A structural equation model for tax compliance and auditing, NBER working paper no 2556, National Bureau of Economic Research. April. Retrieved 23 October 2008, from <http://www.nber.org/papers/w2556>
- Bryman, A., & Bell, E. (2003). *Business Research Methods*. Oxford: Oxford University Press.
- Butler , C. (1993). Self assessment: the way forward, *Tax Nasional*, June, 2-3.
- Dubin, J.A. (2004). Criminal investigation enforcement activities and taxpayer non-compliance. Paper presented at 2004 IRS Research Conference, Washington, June, 1-45.
- Evans, C., Carlon, S., & Massey, D. (2005). Record keeping practices and tax compliance of SMEs. *eJournal of Tax Research*, 3(2) ,288-334.
- Gordon, J. (1990). Evading taxes by selling for cash. *Oxford Economic Papers*, 42(1), 244-255.
- Hasseldine, J., & Hite, P. (2003). Framing, gender and tax compliance. *Journal of Economic Psychology*, 24 (4), 517-533.
- Jackson, B., & Jaouen, P. (1989). Influencing taxpayer compliance through sanction threat or appeals to conscience. *Advances in Taxation*, 2, 131-47.
- Lewis, A. (1982). *The Psychology of Taxation*. Oxford: Martin Robertson.
- Marrelli, M. (1984). On indirect tax evasion. *Journal of Public Economics*, 25, 181-96.
- Marrelli, M., & Martina, R. (1988). Tax evasion and strategic behaviour of the firms. *Journal of Public Economics*, 37, 55-69.
- Palil, M. R. & Mustapha, A. F. (2011) Tax audit and tax compliance in Asia: A case study of Malaysia. *European Journal of Social Sciences – Volume 24, Number 1, 7-32*

Riahi-Belkaoui, A. (2004). Relationship between tax compliance internationally and selected determinants of tax morale. *Journal of International Accounting, Auditing and Taxation*, 13, 135-143.

Richardson, G. (2008). The relationship between culture and tax evasion across countries: Additional evidence and extensions. *Journal of International Accounting, Auditing and Taxation*, 17(2), 67-78.

Roberts, L.H., Hite, P.A., & Bradley, C.F. (1994). Understanding attitudes toward progressive taxation. *Public Opinion Quarterly*, 58, 165-190. Shanmugam, S. (2003). Managing self-assessment - an appraisal, *Tax Nasional*, 1st Quarter, 30-32