

## **EFFECTS OF TAX EVASION ON GOVERNMENT REVENUE GENERATION IN OYO STATE, NIGERIA**

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**ABSTRACT:** *This study was designed to identify the effects of tax evasion on government revenue generation in Oyo State. A structured questionnaire was used to collect data from a sample of one hundred and sixty five (165) respondents who were randomly selected across the state while secondary data were gathered from National Bureau of Statistics (NBS), Office of Budget and Economic Planning, and Internal Revenue Office using data from 2011-2016. Data collected were analysed using descriptive and inferential statistics tools with the aid of Statistical Package for Social Science SPSS, window 23. The findings showed that, the amount of Internally Generated Revenue (IGR) between 2011 and 2016 did not meet the estimates revenue as it was expected. The results also revealed that, the tax evasion has adverse effect on government revenue generation in Oyo state which typically results in revenue loss. The implications of these results may cause inevitable distraction to the potential performance of government in the public sector; therefore, threatening its competence to finance public expenditure and undermining legitimacy of government due to non compliance to pay tax become significant to substantial budget deficit. We therefore, recommended that, the government should embark on massive public enlightenment campaign and adequate utilization of tax revenues on public goods to discourage tax evasion and reduction in tax rate.*

**KEYWORDS:** Tax evasion, Estimated Revenue, Government, Effects

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### **INTRODUCTION**

Tax evasion is one of the major social problems hindering revenue generation in developing state and eroding the existing welfare in Oyo state. This has led to a growing attention among policy makers and scholars. However, little attention has been placed on the issues of tax evasion in Nigeria. Hence, an enviable society can only be visible when internally generated revenue can be mobilized for her social obligations to the citizens. Tax evasion, in most developing states is so rampant, and the scenario is much worsened by the fact that, not only government of Oyo state has made an effort to measure the reasons that tax payers give. The extents of this problem at the same time analyse its effects on revenue generation. Hence, when required revenue for smooth operation cannot be raised, state will resort to increase tax rates or borrowings which may not only crowd out the private sector but also leads to debt traps as (Fagbemi, Uadiale & Noah (2010) and Chiumya, (2006). On the other hand, tax evasion has the effect of distorting the principle of perfect market resource allocation and income redistribution. This leads to economic growth stagnation and socio-economic repercussions in Oyo state.

Thus, there is a need to understand the reasons for rising in tax evasion and establishing mechanism to curb this problem. Several studies have been carried out in the past on this subject. But the review of previous empirical literature revealed a lack of tax evasion and its effect on government revenue generation in the research findings of past researchers which

indicated the existence of a research gap. For instance, Magesa, (2014) examined the impact of tax evasion on revenue collection performance in Tanzania while Mehrara & Farahani (2016) wrote on the effect of tax evasion and government tax revenues on economic stability in OECD countries. Other research works carried out by scholars on the effects of tax evasion and avoidance on tax revenue in Nigeria and other part of countries includes; Onyeka, & Nwankwo (2016) Chiumya, (2006), McGee, ( 2005), Akinyele & Ogunmakin (2016), Dalu, Maposa & Pabwaungana (2012), Ibadin & Eiya. (2013), Modugu & Omoye (2014), Obafemi (2014) and Al Mustapha & Hamza (2016). However, in the course of this unending argument so far, certain questions have been raised about this study. What are the significant effects of tax evasion on government revenue generation in Oyo state? What are the effects of perceived corruption of government on tax evasion?

### **Objectives of the Study**

The main objective of this study is to identify the effects of tax evasion on government revenue generation and suggest ways of establishing mechanism to curb the problem in Oyo state. Other specific objectives include;

- (i) To examine the effects of tax evasion on government revenue generation.
- (ii) To ascertain the effects of perceived corruption in government on tax evasion

### **Research Hypotheses**

The following hypotheses were formulated in the course of this study.

Ho<sub>1</sub>: Tax evasion has no significant effects on government revenue generation.

Ho<sub>2</sub>: There is no effect of perceived corruption in government on tax evasion.

### **Justification of the Study**

This study would be of benefit to Revenue officials who are saddled with the responsibility of ensuring that taxpayers are not negligent in paying their taxes. It will also assist in knowing why taxes are evaded. The outcome of this research would enable them to have a better understanding of why tax payers evade taxes. Therefore, when these reasons are adequately appraised, it is expected that it will in turn translate to the provision of necessary infrastructure for the society when the resources are judiciously utilized. This study would be of great value to the Government, revenue officials and business taxpayers and to serve as a resource based to other researchers.

## **LITERATURE REVIEW**

### **Conceptual Framework**

Edwin, (2007) defined tax evasion as an intentional effort by people, corporate bodies, trust and other institutions to illicitly refuse to pay their tax and reporting true and fair value of their earnings by a means of evading. Tax evasion is characterized as an intentional wrongful attitude, or as a behaviour involving a direct violation of tax laws, norms and ethics regarding citizenry obligation to escape the payment of tax. The intentional underreporting of income,

as well as over-claiming of a tax deduction, is an obvious example of tax evasion (Adebisi & Gbegi, 2013). Soyode and Kojola (2006) defined tax evasion as an intentional and conscious practice of not revealing full taxable income. It is a violation of tax laws in which the tax rate due by a taxable person is unpaid after the minimum required period (Fagbemi, et al 2010 ). Tax evasion is a clear evidence in a situation where taxpayers are reducing, making or proclaiming false statement about their liabilities on the revenue tax through exploiting ineffectiveness in the tax laws and regulations

Tax evasion typically involves taxpayers consciously misrepresenting or hiding the true position of their affairs to the relevant tax authorities to ease their tax burden. However, tax evasion can be classified as fully evasion or partial evasion (Fakile & Adegbe, 2011). Partial evasion occurs when individual or corporate entity understated its earnings for the purpose of tax and declares low income. While fully evasion occurs when the person or corporate entity qualifies to pay tax but fails to register with tax authorities to enroll in the tax system. This act comprises, in specific, fraudulent tax reporting like declaring less earnings and overstressing deductions. In the face of law, tax evasion is a crime and subject to execution by way of fine, imprisonment or even both in many countries of the world. Tax evasion is representing illegal practices by taxpayer to escape his civic responsibility enforce by the law and generally accepted by the society or nation. Due to this situation, the taxable income and other tax activities are being concealed, the amount or sources of income are misrepresented and the reduction, relief or exemption are intentionally overstated (Chiumya, 2006).

However, often tax evasion may occur mostly in an informal economy where activities of businesses and other trade transactions take place in an informal manner which eases the evasion. This may happen when business is not registered with tax authorities and hence, in most cases, are operating in remote areas moving from one location to another freely. Richardson (2008) said tax evasion as an intentional, illegal and unacceptable behaviour or activities involving a direct violation of tax law to evade the disbursement of tax. Kim (2008) affirmed that, tax evasion is illegal and violation of tax laws, whereas tax avoidance is a legal way of decreasing tax burden. Both the two are not acceptable but the latter is less serious to the former by eroding the revenue generation use for financing public expenditure latter.

### **Reasons for Tax Evasion**

Different reasons are the causal that encourage and make taxpayers acting toward evasion has been identified by various studies and authors among are; Kirchler, Stephan, Barbara and Ingrid (2007) and Magesa, (2014) stated that, the reasons for tax evasion can be categorized into two. The first category comprises factors that negatively affect taxpayers' compliance with tax legislation. These factors can be subsumed either contributing to a low willingness to pay taxes (low tax morale, tax system and perception of fairness, low transparency and accountability of public institutions) or high costs to comply with tax laws. The second category contains the reasons for the low ability of tax administration and fiscal courts to enforce tax liabilities (Kirchler et al., 2007). These factors can be summarized as resulting from insufficiencies in the administration and collection of taxes as well as weak capacity in auditing and monitoring tax payments which limit the possibility to detect and prosecute violators. Other reasons that given rises to tax evasion includes: corruption in public office, inadequate tax education and awareness, misappropriation of taxes collected, ignorance of the tax authority, lack of adequate enforcement for default, proliferation of taxes, loopholes in the tax laws, inequitable distribution of income, absence of 'Quid Pro Quo' i.e. something of value given in return (by the government) for taxes paid, high level of illiteracy and high tax

rates. Adebisi et al., (2010) and Guramal, Mansor & Pantamee (2015) suggested the following as reasons of tax evasion in many countries such as, unfair distribution of facilities (amenities), poor management and misuse of tax collected as well as lack of essence of civic responsibility.

### **Effects of Tax Evasion**

According to Fjeldstad (1996) he says tax evasion has had a variety of fiscal effects and there are at least three reasons responsible for this, in the first place, revenue losses from non-compliance and corruption become significant at a time of substantial budget deficit. Second, horizontal and vertical equity suffer because the effective tax rates faced by individuals may differ because of different opportunities for tax evasion (Alm & Martinez, 2001). Again, Shome (2005) stressed that, an important adverse effect of tax evasion is perhaps on equity. There is horizontal and vertical inequity where in both forms of inequity, the higher-taxed person pays for the lower-taxed person since, had there been no tax evasion; the tax rates would have been lower under the premise of revenue neutrality. Third, there is a growing concern about the expanding underground economic activities, and how these activities affect economic policies (Tanzi and Shome, 1993). Acts of corruption by tax collectors often play a role in promoting or sustaining underground economic activities and in facilitating tax evasion (Tanzi, 1995). Tax evasion and fiscal corruption thus contribute to undermining the legitimacy of government. Furthermore, citizens' disrespect for the tax laws may expand disrespect for other laws. Toby (1983) affirmed that, tax evasion has undoubtedly affected adversely the government revenue generation capability and the economy as a whole and observed that, 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. 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. Russo (2010) reported that, in Italy, one of the effects of tax evasion is loss of revenue to the government. Marion and Muehlegger (2008) added that, lack of compliance with tax laws are likely to alter the distortionary costs of raising a given level of government revenue and may affect the distributional consequences of a given tax policy. In addition to, resources spent evading taxes represent a deadweight loss to the economy.

Another effect of tax evasion is discussed by Matsaganis and Flevotomou (2010) stressed that, tax evasion raises significant issues from the point of view of efficiency. Shome (2005) added that tax evasion distorts economic efficiency. In sectors that are less subject to the administrator's scrutiny as in the informal economy, there will be more investment. Inefficiency leads to lower revenue intake for government, its functional capacity, efficiency and effectiveness suffer because of tax evasion. Capacity suffers due to lower availability of resources. Efficiency declines since important functions may have to be given less priority than others. It is noted that, effectiveness declines as compliant taxpayers realise that government is unable or unwilling to take corrective action, and, therefore, feel increasingly comfortable in joining the rest in the act of tax evasion

### **Mechanism to curb Tax Evasion**

Shome (2005) summed up the modalities in order to keep tax evasion in check, the tax administration must: (i) incorporate genuine threat of penalty but ensure due process; in order to do this, of course the tax administration should be adequately financed and structured; (ii) computerize as many administrative processes as possible to minimize the interface between taxpayer and tax official; and (iii) not remain aloof from tax policy but assist in every way possible to help design, in reflection of its field experience, a simple tax structure and its commensurate tax law.

Green (2009) also simplified how to control tax evasion in his research on the topic ‘What Is Wrong with Tax Evasion?’ stating that, there are presumably many potential fixes for the state of affairs and they are:

- a) Simplify the tax code, making clearer the distinction between lawful and unlawful behavior; and distinguish more clearly between what constitute criminal and civil violations of the code;
- b) Change our political rhetoric, attempting to educate people about the importance of tax revenues; and modify priorities for government spending
- c) Make the Code more equitable, from both a vertical and horizontal perspective; and distinguish more clearly between choate and inchoate violations;
- d) Rethink the requirements of *mens rea* (criminal intent; the thoughts and intentions behind a wrongful act (including knowledge that the act is illegal); and increase enforcement and make the level of enforcement more uniform.

Oyebanji (2014), stated the possible solutions to tax evasion in Nigeria among are; Taxpayers should be educated about their civil responsibility; Strengthen taxpayer recruitment ; Bureaucratic documentation should be reduced to avoid forgery; The activities of tax officials should be monitored to minimise the incidence of fund embezzlement; Establishment of Revenue Court; Tax policies and tax laws in Nigeria should be made consistent as well as stiff penalty for contravening any section of the law. Also, the following strategies employed by tax revenue authority officials in reducing tax evasion problem in Oyo states include: Enforcement of penalties; Door to door visit in all areas, Priority on tax education, Introduction of taxpayer identification number, Computerization of tax administration; Prosecution and penalty and enhance taxpayer registration and de-registration.

### **Theoretical Review**

Several economic theories have been proposed to run an effective tax system according to its importance. Taxes are generally classified under different theories as given: ability to pay theory, benefit received theory, socio political theory and equal distribution principle as well as economic of crime model.

**Ability-to-Pay theory:** As the name suggests, it says that, the taxation should be levied according to an individual’s ability to pay. It also says that, public expenditure should come from “him that hath” instead of “him that hath not”. This principle is indeed the basis of ‘progressive tax,’ as the tax rate increases by the increase of the taxable amount and most equitable tax system, and has been widely used in industrialized economics. The usual and

most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use. However, there is no solid approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as: (i) Each taxpayer surrenders the same absolute degree of utility that she/he obtains from her/his income; (ii) Each sacrifice the same proportion of utility she/he obtains from her/his income; (iii) Each gives up the same utility for the last unit of income; respectively.

**Benefits-received theory:** This assumes an exchange or contractual relationship between the state and the tax-payers. Certain goods and services are provided by the state and the cost of such goods and services are contributed in the proportion of the received benefits, thus, the benefits received present the basis for distributing the tax burden in specific manner. This theory overlooks the possible use of tax policy for bringing about economic growth or stabilization. Chigbu, Akujuobi & Appah (2012) see the cost of service theory as very similar to the benefits-received theory. The theory emphasis on semi commercial relationship between the state and the citizens to a greater extents. The implication according to Chigbu, *et.al*, (2012) was that the citizens are not entitled to any benefits from the state and if they do receive any, they must pay the cost thereof. In this theory, costs of services are scrupulously recovered unlike the benefits-received theory where a balanced budget is implied.

**Socio political theory of taxation:** Ogbonna and Appah (2012) affirmed this reasoning justifies the imposition of taxes for financing state activities and for the provision of a basis for apportioning the tax burden between members of the society. They see the theory that advocates for a tax system which is not designed to serve individuals but one that cures the ills of the society as a whole. The society is made up of individuals but is more than the sum total of its individual members; consequently, the tax system should be directed towards the health of the society as a whole, since individuals are integral part of the broader society (Chigbu, *et.al*, 2012)

**The Economics of Crime Model:** The basic theory used in nearly all compliance research builds on “the economics of crime model” was first applied to tax compliance by (Allingham and Sandmo, 1972) cited in Macharia (2014). Nehemiah (1997) stressed that, a rational individual maximises the expected utility of the tax evasion gamble, balancing the benefits of successful cheating against the risky prospect of detection and punishment. This approach concludes that compliance depends purely on audit verifications and the severity of penalties handed out to culprits. The model gives a sensible result that, compliance depends on enforcement and it is straightforward to show with comparative analysis that declared income increases with an increase either in the probability of detection, penalty rate and frequency of audit and verification. However, it is clear to any observer that compliance cannot be explained entirely by such purely financial considerations especially those generated by the level of enforcement considerations.

### **Empirical Review**

Several studies have investigated the effects of tax evasion and tax avoidance on income inequality country and economic growth in the country and other part of the countries by researchers and scholars with diverse opinions. The outcome of the investigations, however, showed that, effect of tax evasion and tax avoidance is loss of revenue to the government. Onyeka, et al (2016) examined the effect of tax evasion and avoidance on Nigeria’s economic

Growth. They discovered that, tax evasion and avoidance had negative significant impact on growth of the Nigerian economy. Fagbemi, et al (2010) investigated the ethics of tax evasion; perceptual evidence from Nigeria. They found that, tax evasion is ethical sometimes is not accepted, and the level of tax evasion when government is corrupt is significantly higher than when it relates to other views expressed on government discrimination, unjust treatment and tax affordability. Mehrara & Farahani (2016) wrote on the effects of tax evasion and government tax revenues on economic stability in OECD countries using data from 1990-2013. They found that, tax evasion lead to economic instability and more tax revenues will be beneficial to a better economic condition. Adebisi et al (2013) investigated the effect of tax avoidance and tax evasion on personal income tax administration in Nigeria. They disclosed that, enlightenment and adequate utilization of tax revenue on public goods will discourage tax avoidance and tax evasion, high tax rates encourage tax avoidance and tax evasion, personal income tax generation has not being impressive and personal income tax rates are too high.

Akinyele and Ogunmakin (2016) examined the effects of tax avoidance on government budget implementation in Southwest Nigeria for the period 1999-2014. The outcome of their results pointed that, 61 percent of the expected revenue of the states was hampered by avoidable consequence of tax avoidance through non compliance with collection and remittances, and the level of tax avoidance through implementation of tax laws and policies in Southwest Nigeria revealed negative performance of government budget implementation and as such affected the development of the economies of sampled states. Ibadin and Eiya (2013) examined tax evasion and tax avoidance behavior of the self – employed, using some selected states in Nigerian geo-political zone. The results revealed that, respondents are of the opinion that tax evasion is ethical sometimes, and there is significant relationship exists between the ethical view, mode of tax administration and cultural practices of the self employed and tax evasion and avoidance. Obafemi (2014) conducted study on the effects of tax avoidance and tax evasion on Nigeria economic development. He adopted survey research design and responses were obtained through a well structured questionnaire administered to 150 Nigerians, out of which are tax payer and tax evader. He found that, tax evasion and avoidance have adversely affected economic growth and development in Nigeria. Modugu et al (2014) appraised the evasion of personal income tax in Nigeria and obtained primary data through administration of 160 questionnaires to some selected self-employed individuals in Edo State They found that, the tax payers' relationship with tax authority and weak penalties have a significant influence on tax evasion in Nigeria. Olabisi (2010) investigated the causes and effects of tax evasion and tax avoidance in Lagos state, and he obtained primary data from the total number of 127 questionnaires administered to personal income tax payers in Lagos state. He used chi-square method in analysed the data. His results revealed that, the tax administration in Lagos state is very inefficient and ineffective and there is no adequate information on the tax payers in the state. In addition, Uadiale, et al (2010) examined the relationship between culture (represented by legal enforcement, trust in government and religiosity) and personal income tax evasion in Nigeria.. They discovered that, legal enforcement and trust in government have positive impact on personal income tax evasion in Nigeria.

## METHODOLOGY

This section described the methodology followed in conducting the study, the population and sample size, source, method of data collection and techniques of data analysis as well as model of study

The population of the study is defined as business taxpayers and employees of internal revenue services. The respondents were selected randomly based on the locations of the State Internal Revenue Services of which consisted of one hundred and sixty five (165) sample size of the respondents. The paper made use of primary and secondary data as a major source of data collection. The primary source of data was the questionnaire, which was carefully framed and administered to a sample of one hundred and sixty five (165) respondents across the state used simple random sampling technique, therefore, responses of the respondents emanated from the question on 5-point Likert rating scale. The scale was subjected to item analysis in order to ensure it is valid and reliable. It yielded reliability Cronbach's alpha of 0.85 which is appropriate to measure the data while secondary data sourced from National Bureau of Statistics, Office of Budget and Economic, planning and Internal Revenue Office across the state. The adopted method of data analysis in this paper was descriptive analyses, Analysis of Variance (ANOVA) statistical tool as well as Ordinary Least Square (OLS) method of regression and to be test on 5% significance level

## RESULTS AND DISCUSSION

### Descriptive Statistics

**Table1: Effects of tax evasion on government revenue generation**

Statements	N	Mean	Std. Dev.
Tax evasion decrease and erode revenue generated by state government	165	4.5879	.65321
Revenue losses from non compliance to pay tax become significant to substantial budget deficit	165	4.2424	.75830
Tax evasion contributes to undermining the legitimacy of government	165	3.9030	1.19564
Tax evasion creates resentment among honest taxpayers and inequality	165	4.0727	.88044
Tax evasion distorts economic efficiency of the state government	165	3.6788	1.27350
Valid N (listwise)	165		

**Source:** Field survey, 2017

According to the table 2 above, the respondents reported that tax evasion decrease and erode revenue generated by state government followed by statement 2, 4, 3 and 5.



**Table 2: Perceived corruption in government on tax evasion**

Statements	N	Mean	Std. Dev.
High level of corruption among tax officials encourage tax evasion	165	4.7758	.47307
Low transparency and accountability of public institution increase the willingness to evade tax	165	4.4364	.74319
Weak capacity in detecting and prosecuting tax violator increase tax evasion	165	4.5394	.65794
Lack of rule of law and weak fiscal jurisdiction increase tax evasion	165	4.5333	.65828
Tax evasion is encouraged if a large portion of money collected is mismanaged	165	4.5394	.65794
Valid N (listwise)	165		

**Source:** Field survey, 2017

According to the table 2 above, the respondents reported that high level of corruption among tax officials encourage tax evasion followed by statement 5, 3, 4 and 2 respectively.

### Test of hypotheses

The formulated research hypotheses of the study are tested using Analysis of Variance (ANOVA) to examine the significant effects of tax evasion on government revenue generation. The ANOVA results are presented as follow

### Hypothesis one

H<sub>0</sub>: Tax evasion has no significant effects on government revenue generation

**Table 3: Government revenue generation ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	27010.000	4	6752.500	158.882	.000
Within Groups	850.000	20	42.500		
Total	27860.000	24			

**Source:** Researchers' computation, 2017. SPSS Output, window 23

ANOVA Table 3 above showed that, the computed F-value is 158.882 while table value of F at alpha of 0.05 significance level and degree of freedom of F<sub>4, 20</sub> is 2.78. Since the computed F-value of 158.882 is greater than F-table value of 2.78 i.e. (158.882 > 2.78), as confirmed by P < 0.05. Hence, null hypothesis is rejected and this implies that the entire respondents across the state viewed that, the tax evasion has effects on government revenue generation in such a way that, it decrease and erode revenue generated by state government. It contributes to undermining the legitimacy of government,. It also creates resentment among honest taxpayers and inequality in the society as well as distorts economic efficiency of the state government

### Hypothesis Two

H<sub>02</sub>: There is no effect of perceived corruption in government on tax evasion.

**Table 4:** Perceived corruption ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	17896.400	4	4474.100	54.377	.000
Within Groups	1645.600	20	82.280		
Total	19542.000	24			

**Source:** Researchers' computation, 2017. SPSS Output, window 23

The table 4 above showed the computation of Analysis of Variance (ANOVA) in the perceived corruption, the f- statistics test computed showed a figure of 54.377,  $P < 0.05$ . Hence, null hypothesis is rejected and this implies that the entire respondents across the state opined that, there are effects of perceived corruption in government on tax evasion as to discover that, high level of corruption among tax officials, low transparency and accountability of public institution, weak capacity in detecting and prosecuting tax violator as well as if large portion of money collected is mismanaged.

**Table 5: Analysis of Internally Generated Revenue (IGR) and its Evaded**

Years	Estimated (N billion)	Actual (N billion)	Evaded (N billion)
2011	30.78	8.92	21.86
2012	34.13	14.60	19.53
2013	38.61	15.25	23.36
2014	48.86	16.31	32.55
2015	37.76	15.67	22.09
2016	76.70	18.88	57.82
<b>Total</b>	<b>266.84</b>	<b>89.63</b>	<b>177.21</b>
<b>Percent</b>	<b>100</b>	<b>33.6</b>	<b>66.4</b>

**Source:** National Bureau of Statistics, Office of Budget and Economic planning, and Internal Revenue Office

From the above table , Oyo state total revenue lost to tax evasion between 2011 and 2016 stood as 177.21 billion (66.4%) out of estimated revenue of 266.84 billion while state internally generated revenue stood as 89.63 billion (33.60%) respectively.

### Model specification

To validate the primary data collected, this model was formulated to establish the relationship between the dependent variable of tax evasion proxied by (Tax Evaded) and independent variable of government revenue generation proxied by (Estimated Revenue) using the secondary data analysed above. Tax evaded was measure by difference between estimated revenue and actual revenue generated. The model is specified of the functional and expressed mathematically in stochastic forms:

$$TEV = f(ESR) \quad \text{-----eq. 1}$$

$$TEV = \beta_0 + \beta_1 ESR + e \quad \text{-----eq.2}$$

Where;

TEV = Tax Evaded

ESR = Estimated Revenue

$\beta_0$  = Constant parameter

$\beta_1$  = Regression Coefficient of variables

$e$  = Error Term

**Table 6: Pooled OLS Regression Results**

Variables	Pearson correlation	Coefficient	t-statistics	f-statistics	R <sup>2</sup>	Adjusted R <sup>2</sup>	f-sig.
TEV							
Constant	1.000	-8.346	-2.802				
ESR	0.989	0.852	13.461	181.202	0.978	0.973	0.000

Dependent Variable: TEV. Independent Variables; ESR

**Source: Authors' compilation Using SPSS window 23**

From the results analysed in table above 6, the independent variables ESR was strongly positive perfectly correlated and there is linearity in the result with the dependent variable (TEV) with constant of 1 and the coefficient of Estimated Revenue (ESR) at .989. The f-statistics test computed for ESR showed a figure of 181.202,  $P < 0.05$ . Therefore, this implies that, there is a relationship between estimated revenue and tax evaded in Oyo state at 5% significance level.

It was found that the t-value for estimated revenue is 13.461 and a beta value of 0.852 which is significant at 5%. This signifies that estimated revenue positively and strongly contributes to tax evasion during the study period, because as government of Oyo state increasing her targeted revenue, leads to increase in tax rates. This will encourage taxpayer to evade taxes, and results to revenue loss. It is shown that, higher income tax rates increase the rate of currency holdings which in monetary approach manifest the rise in tax evasion.

From the evaded revenue model in the table above, it was noticed that 97.8 percent of Oyo state evaded revenue is influenced by changes in estimated revenue given the estimated value of the R<sup>2</sup>. The remaining 2.2 percent is caused by variables that are not included in the model, which is accounted for by the stochastic error term. With the adjusted R<sup>2</sup> of 0.973, it means that 97.3 per cent is the true value of ESR that constituted the TEV which is high since the unexplained variation is just 2.7 percent.

## CONCLUSION AND RECOMMENDATIONS

Based on our findings and analysis, it could be concluded that, there are many effects of tax evasion on government revenue generation of which typically results in revenue loss. It is shown that, as estimated revenue increase, invariably tax rates also increase so as to boost IGR consequently, the rate of currency holdings which in monetary approach manifest the rise in tax evasion. Furthermore, the study also found that, perceived government corruption can make respondents to evade tax. The implications of these results may cause inevitable distraction to the potential performance of government in the public sector; therefore,

threatening its competence to finance public expenditure and undermining legitimacy of government due to non compliance to pay tax become significant to substantial budget deficit. Therefore, until those underlying causes and mechanism to curb tax evasion were addressed, tax evasion may continue to be widespread.

Since the tax evasion is an illegal activity which has adverse effects on government revenue generation, it must not continue. Therefore, the following recommendations are suggested: The government should therefore, embark on massive public enlightenment campaign and adequate utilization of tax revenues on public goods to discourage tax evasion and also the reduction in tax rate. Efforts should be made by government at sensitising the populace on the seriousness of tax evasion and the penalties attached to tax violators. The tax system should be computerized to ensure efficiency and quality delivery, and also, tax agents or on collectors must be rotated in order to avoid corrupt practices.

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