An Empirical Study of the Relationship between Culture and Personal Income Tax Evasion in Nigeria

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Abstract

Tax evasion is a phenomenon present in all societies using taxes to finance government expenditures. There is a huge body of literature on the estimate of its extent. This study examines the relationship between culture (represented by legal enforcement, trust in government and religiosity) and personal income tax evasion in Nigeria. The study uses the chi square statistics and ordinary least squares regression to estimate the relationship between tax evasion and the independent variables namely legal enforcement trust in government and religiosity. Four hypotheses were tested. It was found that legal enforcement and trust in government have positive impact on personal income tax evasion in Nigeria. However, the study could not establish a significant relationship between tax evasion and the religious variables. Government policymakers should find the results of this study useful in assessing the likelihood of tax evasion from legal, political and religious perspectives, and in developing tax reform policies aimed at minimizing tax evasion.

Keywords: Culture, Legal enforcement, Trust in government, Religiosity, Tax evasion.

1. Introduction

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

and Nwokah, 2009). However, one of the greatest problems facing the Nigerian Tax System is the problem of tax evasion. Tax evasion has been an important subject of inquiry in a large number of developed countries over a long period of time. However, there are few research works that has considered the relationship between culture and tax evasion (Andreoni, Erard & Feinstein 1998, Richardson, 2006, Tsakumis, Curatola & Porcano 2007, Richardson, 2008).

Tax evasion is described as intentional illegal behaviour, or as behaviour involving a direct violation of tax law to escape the payment of tax. The deliberate under-reporting of income and over-claiming of tax deductions are examples of tax evasion (International Bureau of Fiscal Documentation (IBFD), 2001). In contrast, tax avoidance is a term used to describe taxpayer behaviour aimed at reducing taxpayer tax liability without infringing the tax laws. Although tax avoidance may be used to refer to acceptable forms of behaviour, such as tax planning, it is more often used to refer to something unacceptable or illegitimate, but generally illegal. In other words, tax avoidance is often within the letter but not the spirit of the law. Conversion of income to non or lower-taxed gains or the spreading of income to other taxpayers with lower marginal tax rates are examples of tax avoidance (IBFD, 2001).

Hofstede (1980) defines culture as: "the collective programming of the mind which distinguishes the members of one human group from another." Roth, Scholz and Dryden-Witte (1989) claim that the various cultural contexts which shape a person's interpretation of events may assist in influencing his or her attitude toward tax evasion. They argue that culture is reflected to varying degrees in general values and specific behavioural norms. These values and norms are constantly expressed and reinterpreted during a person's everyday social contact, which can either increase or decrease tax evasion. The paper contributes to literature by using Nigerian data to examine the relationship between culture and personal income tax evasion.

The aim of this paper is to examine the relationship between culture and personal income tax evasion in Nigeria. Specifically, the study seeks to find out: whether tax evasion is common in Nigeria because there is little or no legal enforcement; whether weak and arbitrary enforcement of tax laws encourages tax evasion; whether trust in government affects tax evasion and whether religiosity influence personal income tax evasion.

In this research, we attempt to find answers to the following specific questions: is tax evasion common in Nigeria due to little or no legal enforcement? How does weak and arbitrary enforcement of tax laws encourage tax evasion? To what extent does trust in government discourage tax evasion?

2. Previous Research

Previous research has found diversity in the patterns of tax evasion in different cultural contexts. For example, Strümpel (1969) compares cultural responses to tax administration styles in several European countries. He stresses the importance of national cultures in understanding tax evasion. Tittle (1980) finds in the U.S. that cultural background is significantly related to the deviant propensities of taxpayers. Coleman & Freeman (1997) observe that voluntary tax compliance is a function of the cultural environment in Australia. Chan, Troutman, & O'Bryan (2000) find that the different cultural environments of Hong Kong and the U.S. have a major impact on tax evasion.

Prior tax research has treated culture as a "black-box" and has thus failed to identify how specific cultural dimensions could be related to tax evasion. Tsakumis, Curatola, & Porcano (2007) employ Hofstede's (1980) cultural framework to explain tax evasion across countries. Specifically, they "unpackage" culture in terms of Hofstede's (1980) cultural dimensions of power distance, individualism, uncertainty avoidance, and masculinity, and consider their relationships with tax evasion across 50 countries. The major finding of the study is that culture, as represented by Hofstede's (1980) cultural dimensions, contributes to a better understanding of tax evasion internationally. Over time, the literature has identified various determinants of tax evasion. Three of these determinants are used in this study and are discussed below.

Legal Enforcement: This is a significant determinant of tax evasion in prior studies. Legal enforcement based on the rule of law provides an important foundation for the prevention of deviant forms of behavior, such as corruption and tax evasion (Schneider & Enste, 2000, 2002; Brunetti &Weder, 2003). The rule of law presumes that government authority may only be exercised in accordance with written laws and regulations that are endorsed through an established procedure (Joireman, 2001). Moreso, the rule of law is intended to be a safeguard against arbitrary rulings by governments in individual cases (Eigen, 2002; Brunetti & Weder, 2003). This ensures that the major institutions of the legal system (e.g., the courts, prosecutors, and police) enforce the law effectively and fairly. Cross-country research by Schneider & Enste (2000, 2002) shows that the weak and arbitrary enforcement of tax laws and regulations encourages corruption and tax evasion. Specifically, their findings emphasize the importance of the rule of law in reducing the levels of both corruption and tax evasion across countries. Tax evasion is common in Nigeria because there is little or no legal enforcement. It has also been observed that weak and arbitrary enforcement of tax laws encourages tax evasion.

Trust in government: Trust in government is recognized by Jackson & Milliron (1986) as another determinant of tax evasion. Levi (1998) claims that if individuals believe that the government will act in their interests, that its procedures are fair, and that their trust of government and others is reciprocated, they are more likely to become "contingent consenters" who cooperate in paying taxes. Feld & Frey (2002) argue that the relationship between individuals and the government is perceived as a psychological contract that involves strong emotional ties and loyalties. Such a psychological contract can be maintained by positive actions based on trust. More trust in government enhances the incentive for individuals to commit themselves to obedience and comply with tax laws (Feld & Frey, 2002). Early survey research by Vogel (1974) in Sweden and Song & Yarbrough (1978) in the U.S. shows that where individuals have greater trust in government, they are less likely to evade income taxes. Research survey by Wearing & Headey (1997) in Australia, and Slemrod (2003) in Germany and the U.S. also supports the negative relationship between trust in government and tax evasion.

Religiosity: Religion presents an important basis for social integration and the avoidance of deviant forms of behaviour such as tax evasion (Tittle, 1980). However, the literature on tax evasion generally neglects religion as a variable that could discourage this kind of behavior (Riahi-Belkaoiu, 2004). Religions socialize people in such a way as to restrain deviant beliefs and behavior: they provide negative definitions of deviance. Moreover, religions often deter deviance and encourage anti-deviant attitudes by way of threats of eternal damnation, time spent in purgatory and so on (Tittle & Welch, 1983). In terms of tax evasion, the Christian scriptures openly condemn it (Grasmick, Bursik, & Cochran, 1991). Empirical research by Grasmick *et al*. (1991) indicates that both church attendance and high levels of individual religiosity (i.e., personal religious beliefs and convictions) have a significant negative relationship with tax evasion. Overall, they find that the effect of individual religiosity on the inclination to evade taxes s   ficantly exceeds that of church attendance (Grasmick *et al*., 1991).

Tax Evasion in Nigeria: 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 constitutes criminal acts under the tax laws. These acts of omission or commission include: (a) failure to pay tax e.g. withholding tax (b) failure to submit returns (c) omission of items from returns (d) claming relief (in Personal Income Tax), for example, of children that do not exist (e) understating income (f) documenting fictitious transactions (g) overstating expenses (h) failure to answer queries.

Causes of Tax Evasion in Nigeria: The causes of tax evasion are universal, as they are applicable in any country that tax is imposed. Some are peculiar to different areas. In Nigeria some of these causes as identified by Onuigbo (1986) include: (i) inequitable distribution of amenities (ii)

misuse or mismanagement of tax revenue (iii) remoteness of taxpayers from the government (iv) absence of spirit of civic responsibility.

3. Hypotheses

For studying the relationship between culture and personal income tax evasion, we test the following hypotheses:

H1: Tax evasion is not related with legal enforcement in Nigeria.
H2: There is no relationship between weak and arbitrary enforcement of tax laws and tax evasion.
H3: Trust in government is not associated with tax evasion.
H4: Tax evasion is related with religiosity.

4. Research Method

The population for the study is made up of tax officials and taxpayers in Nigeria. However, since it would be cumbersome to study of all taxpayers and tax officials in Nigeria, a sample size was selected. The sample for this study consist of officials of the Lagos State Internal Revenue Service and various taxpayers both self-employed and salary earners in Lagos State. A purposely constructed questionnaire was developed on 5- point Likert Scale for the purpose of data collection. The study surveyed a sample of Fifty (50) tax officials of the Lagos State Internal Revenue Service and One hundred (100) taxpayers in Lagos State. A total of One hundred and five (105) usable responses made up of 42 tax officials and 63 taxpayers, giving a 70% response rate were used for data analysis. Data were analyzed using chi-square statistics and regression analysis.

4.1. Hypotheses Testing

Four hypotheses were formulated for the purpose of this study. This is in order to provide answers to the research questions. For the purpose of testing the hypotheses further analysis were carried out on the specific items in the questionnaire that relate directly to the research questions which the study sets out to answer. An Ordinary Least Squares (OLS) regression and correlation analysis was carried out.

The econometric model used in the study is given as:

$TEVA = \alpha_{o} + \beta_1 LEGAL\_5_{it} + \beta_2 LEGAL\_8_{it} + \beta_3 TGOV\_5_{it} + e_{it}$

Variable Description/Measurement
TEVA = It is ethical to pay tax (item 22 on the questionnaire)
LEGAL_5 = Tax evasion is common in Nigeria because of little or no legal enforcement
LEGAL_8 = Weak and arbitrary enforcement of tax laws encourages tax evasion.
TGOV_5 = The greater the trust in government, the lesser the evasion of taxes

5. The Results of Hypotheses Testing

In this section of the paper, we present analysis of the results of research hypotheses. As stated earlier, an Ordinary Least Squares (OLS) regression and correlation analysis was carried out on the specific items in the questionnaire that relate directly to the research questions.

5.1. The Results of Testing H1 and H2

The results of the correlation matrix of tax evasion and legal variables are presented in table 1. (see appendix 1) It reveals that tax evasion is positively correlated with legal_1, 2, 3, 4, 5, 7 & 8. However only legal_5 (tax evasion is common in Nigeria because of little or no legal enforcement) is significant at 0.008. The results indicate a negative association between tax evasion and Legal_6.

Hypothesis 1 predicts a negative relationship between tax evasion and legal enforcement in Nigeria. From the results obtained it is evident that there is a strong positive association between tax evasion and legal enforcement (sig = 0.008) and therefore hypothesis 1 is rejected.

Hypothesis 2 also predicts a negative relationship between weak and arbitrary enforcement of tax laws and tax evasion. The results revealed that a positive relationship exist between weak and arbitrary enforcement of tax laws and tax evasion though not significant (0.877). Hence the hypothesis is rejected. However, the results showed that weak and arbitrary enforcement of tax laws is positively related with legal enforcement and trust in government. This is significant at 0.000 and 0.008 respectively.

5.2. The Results of Testing H3

From table 2, using the Pearson correlation, tax evasion is positively correlated with all the government variables. However, govt_1 and govt_5 are significant at p- value less than 0.05 (0.004 and 0.025) respectively. Govt_2, 3 & 4 are positively correlated but not significant. The results also reveal a positive and significant relationship at 10% level.

In the same vein, hypothesis 3 predicts a negative association between trust in government and tax evasion. The result shows that a positive association exist between the two variables (sig =0.025) and the hypothesis rejected.

Table 2: Correlation Matrix of Tax Evasion and Government Variables

		TEVA	govt_1	govt_2	Govt_3	govt_4	govt_5
TEVA	Pearson Correlation	1	.282 (**)	.041	.125	.182	.219 (*)
	Sig. (2-tailed)		.004	.676	.208	.064	.025
	N	105	105	105	103	105	105
govt_1	Pearson Correlation	.282 (**)	1	.339 (**)	.057	.273 (**)	.283 (**)
	Sig. (2-tailed)	.004		.000	.570	.005	.003
	N	105	105	105	103	105	105
govt_2	Pearson Correlation	.041	.339 (**)	1	-.009	.143	.160
	Sig. (2-tailed)	.676	.000		.930	.146	.103
	N	105	105	105	103	105	105
govt_3	Pearson Correlation	.125	.057	-.009	1	.116	.117
	Sig. (2-tailed)	.208	.570	.930		.241	.238
	N	103	103	103	103	103	103
govt_4	Pearson Correlation	.182	.273 (**)	.143	.116	1	.175
	Sig. (2-tailed)	.064	.005	.146	.241		.075
	N	105	105	105	103	105	105
govt_5	Pearson Correlation	.219 (*)	.283 (**)	.160	.117	.175	1
	Sig. (2-tailed)	.025	.003	.103	.238	.075	
	N	105	105	105	103	105	105

Source: SPSS Output
    ** Correlation is significant at the 0.01 level (2-tailed).
    * Correlation is significant at the 0.05 level (2-tailed).

5.3. The Results of Testing H4

Table 3, presents the correlation between tax evasion and religious variables. A positive relationship exists between three of the religious variables (relig_1, 2 & 4) and tax evasion though not significant. However, a negative relationship is observed between tax evasion and relig_3 though not also significant. Positive and significant relationships exist among relig_1, 2 & 3 at 10% level.

Table 3:   Correlation Matrix of Tax Evasion and Religious Variables

		TEVA	**relig_1**	**relig_2**	**relig_3**	**relig_4**
TEVA	Pearson Correlation	1	.043	.066	-.029	.112
	Sig. (2-tailed)		.671	.513	.772	.260
	N	105	102	102	105	104
relig_1	Pearson Correlation	.043	1	.430 (**)	.311 (**)	.045
	Sig. (2-tailed)	.671		.000	.001	.652
	N	102	102	101	102	101
relig_2	Pearson Correlation	.066	.430 (**)	1	.437 (**)	.019
	Sig. (2-tailed)	.513	.000		.000	.848
	N	102	101	102	102	101
relig_3	Pearson Correlation	-.029	.311 (**)	.437 (**)	1	.174
	Sig. (2-tailed)	.772	.001	.000		.077
	N	105	102	102	105	104
relig_4	Pearson Correlation	.112	.045	.019	.174	1
	Sig. (2-tailed)	.260	.652	.848	.077	
	N	104	101	101	104	104

Source: SPSS Output
     ** Correlation is significant at the 0.01 level (2-tailed).

5.4. The Results of Other Tests

The correlation and regression results of the specific items in the questionnaire that relate directly to the research questions which the study sets out to answer are presented in tables 4-6. Table 4, presents the Pearson correlation results of the regression variables. TEVA is positively correlated with legal_5 (item 18 on the questionnaire) and is significant (0.008). Similar results appear for govt_5 (item 25 on the questionnaire) also significant (0.025). Also we observed a positive correlation between tax evasion and legal_8 (item 24 on the questionnaire) though not significant (0.877).

Table 4:   Correlation of Regression Variables

		TEVA	**Legal_5**	**govt_5**	**legal_8**
TEVA	Pearson Correlation	1	.259 (**)	.219 (*)	.015
	Sig. (2-tailed)		.008	.025	.877
	N	105	105	105	105
Legal_5	Pearson Correlation	.259 (**)	1	.162	.399 (**)
	Sig. (2-tailed)	.008		.098	.000
	N	105	105	105	105
govt_5	Pearson Correlation	.219 (*)	.162	1	.256 (**)
	Sig. (2-tailed)	.025	.098		.008
	N	105	105	105	105
Legal_8	Pearson Correlation	.015	399 (**)	.256 (**)	1
	Sig. (2-tailed)	.877	.000	.008	
	N	105	105	105	105

Source: SPSS Output
     *   Correlation is significant at the 0.05 level (2-tailed).
     ** Correlation is significant at the 0.01 level (2-tailed).

   Table 5, shows the analysis of variance (ANOVA) of the variables with F- value of 4.502 (sig 0.005). It clearly shows that there is a strong relationship between the dependent variable (Tax Evasion) and the independent variables (legal_5, govt_5 and legal_8) representing legal enforcement and trust in government.

Table 5:   Anova

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11.822	3	3.941	4.502	.005 (a)
	Residual	88.407	101	.875		
	Total	100.229	104			

a   Predictors: (Constant), legal_5, govt_5, legal_8
b   Dependent Variable: TEVA
Source: SPSS Output

In Table 6 the results of the coefficient estimates are presented. Legal_5 and govt_5 are significant at p- value < 0.05. This indicates a positive relationship between them and tax evasion. Govt_8 is not significant at 0.05 level.

Table 6:   Coefficients Estimates

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.725	.525		5.188	.000
	legal_8	-.149	.102	-.153	-1.464	.146
	govt_5	.202	.093	.211	2.180	.032*
	legal_5	.280	.100	.286	2.799	.006*

Source: SPSS Output
          Dependent Variable: TEVA
          * Significant at 0.05

5.4.1. Chi square results

The chi square results are presented in tables 7-9
          Table 7 presents the chi square statistics of all the legal variables (items) in the questionnaire. The results of the analysis presented in table 3 reveals that Legal_1 (payment of tax is a civic duty) and Legal_5 (tax evasion is common in Nigeria because of little or no enforcement) are significant at p-value < 0.05.

Table 7:   Chi-Square Statistics of Legal Variables

Variables	Pearson Chi- Square	Degree of Freedom (df)	p- value or Sig.
Legal_1	21.563	12	0.043*
Legal_2	9.710	12	0.641
Legal_3	17.764	16	0.338
Legal_4	12.233	16	0.728
Legal_5	28.687	16	0.048*
Legal_6	21.433	16	0.162
Legal_7	19.944	16	0.233
Legal_8	22.859	16	0.118

* Significant at p < 0.05
Source: SPSS Output

The chi square statistics results of items on government are presented in table 8. Three of the items Govt_3 (people pay tax because of the benefit they enjoy from the provision of basic amenities), Legal_4 (there is need for proper education and orientation of the taxpayers towards government and its functionaries) and Govt_5 (the greater the trust in government, the lesser the evasion of taxes) are significant at p-value < 0.05.

Table 8:   Chi-Square Statistics of Government Variables

Variables	Pearson Chi- Square	Degree of Freedom (df)	p- value or Sig.
Govt_1	24.525	16	0.079
Govt_2	15.962	12	0.193
Govt_3	43.653	16	0.000*
Govt_4	27.508	12	0.007*
Govt_5	45.143	16	0.000*

* Significant at p < 0.05
Source: SPSS Output

Table 9 presents the chi square statistics of all the religious variables (items) in the questionnaire. It reveals that Relig_1, 2 & 3 are significant at p-value < 0.05.

Table 9:   Chi-Square Statistics of Religious Variables

Variables	Pearson Chi- Square	Degree of Freedom (df)	p- value or Sig.
Relig_1	32.318	16	0.009*
Relig_2	28.420	16	0.028*
Relig_3	10.129	16	0.860
Relig_4	31.909	16	0.010*

Significant at p < 0.05
Source: SPSS Output

6. Summary and Concluding Remarks

The study examines the relationship between culture and personal income tax evasion in Nigeria. It represents culture with legal enforcement, trust in government and religiosity. A hundred and five responses were analyzed using the chi square statistics, percentages and Ordinary Least Squares (OLS) method of regression to estimate the relationship between tax evasion and the independent variables. The study finds evidence that there is a strong positive and significant (at 10%) level) association between tax evasion and legal enforcement. It also finds that a positive and relationship exist between weak and arbitrary enforcement of tax laws and tax evasion. Finally, a positive and significant (at 5% level) association was observed between trust in government and tax evasion.

The results of this study suggest that legal enforcement and trust in government have positive impact on personal income tax evasion in Nigeria. However, the study could not establish a significant relationship between culture and the religious variables. This is in line with existing literature on tax evasion which generally neglects religion as a variable that could discourage this kind of behavior (Riahi-Belkaoiu, 2004).

In the light of the research findings the following recommendations are made. The existing tax laws should be reviewed. There should be continuous orientation and enlightenment programmes for taxpayers and tax officials. Government should be prudent and transparent in spending taxes collected so as to gain taxpayers confidence.

The study contributes to existing literature by reducing the knowledge gap as no study has been conducted on the Nigerian environment in this regard. Future research should devote attention to company income tax evasion which was not covered in this study. Also, the sample size should be increased to cover more states and other determinants of tax evasion could be introduced.

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Appendix 1

Table 1:   Correlation Matrix of Tax Evasion and Legal Variables

		TEVA	legal_1	Legal_2	legal_3	legal_4	legal_5	legal_6	lega_7	legal_8
TEVA	Pearson Correlation	1	.148	.011	.126	.136	.259 (**)	-.006	.012	.015
	Sig. (2-tailed)		.131	.910	.204	.170	.008	.951	.906	.877
	N	105	105	103	103	103	105	104	102	105
legal_1	Pearson Correlation	.148	1	.549 (**)	.419 (**)	.500 (**)	.573 (**)	.375 (**)	.048	.349 (**)
	Sig. (2-tailed)	.131		.000	.000	.000	.000	.000	.635	.000
	N	105	105	103	103	103	105	104	102	105
legal_2	Pearson Correlation	.011	.549 (**)	1	.307 (**)	.257 (**)	.299 (**)	.211 (*)	.183	.200 (*)
	Sig. (2-tailed)	.910	.000		.002	.009	.002	.033	.069	.043
	N	103	103	103	102	103	103	102	100	103
legal_3	Pearson Correlation	.126	.419 (**)	.307 (**)	1	.515 (**)	.453 (**)	.095	-.102	.312 (**)
	Sig. (2-tailed)	.204	.000	.002		.000	.000	.341	.314	.001
	N	103	103	102	103	102	103	102	100	103
legal_4	Pearson Correlation	.136	.500 (**)	.257 (**)	.515 (**)	1	.531 (**)	.167	-.091	.480 (**)
	Sig. (2-tailed)	.170	.000	.009	.000		.000	.094	.369	.000
	N	103	103	103	102	103	103	102	100	103
legal_5	Pearson Correlation	.259 (**)	.573 (**)	.299 (**)	.453 (**)	.531 (**)	1	.175	.059	.399 (**)
	Sig. (2-tailed)	.008	.000	.002	.000	.000		.076	.557	.000
	N	105	105	103	103	103	105	104	102	105
legal_6	Pearson Correlation	-.006	.375 (**)	.211 (*)	.095	.167	.175	1	.138	.295 (**)
	Sig. (2-tailed)	.951	.000	.033	.341	.094	.076		.169	.002
	N	104	104	102	102	102	104	104	101	104
lega_7	Pearson Correlation	.012	.048	.183	-.102	-.091	.059	.138	1	.006
	Sig. (2-tailed)	.906	.635	.069	.314	.369	.557	.169		.954
	N	102	102	100	100	100	102	101	102	102
legal_8	Pearson Correlation	.015	.349 (**)	.200 (*)	.312 (**)	.480 (**)	.399 (**)	.295 (**)	.006	1
	Sig. (2-tailed)	.877	.000	.043	.001	.000	.000	.002	.954	
	N	105	105	103	103	103	105	104	102	105

**   Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).
Source: SPSS OUTPUT