



**AN EXAMINATION OF TAX EVASION AND AVOIDANCE IN NIGERIA
PROPERTY TAX SYSTEM. A CASE OF FAGGE LOCAL GOVERNMENT, KANO
STATE, NIGERIA.**

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Abstract

The study examined the level of tax compliance amongst property owners in order to assess the level of tax evasion and avoidance amongst tax payers in Fagge LGA of Kano State. To achieve this, questionnaires were administered to all heads of property Management Units in all the 37 registered Estate Surveying and Valuation firms in Kano State, out of which 30 were retrieved. Also 31 number questionnaires were also administered to all the senior level cadres of 5 departments that were found useful for this study at the Kano State Board of Internal Revenue Services and all the questionnaires were retrieved. Descriptive analysis with the use of table and bar-chart were used for the analysis. The study revealed that review of tax laws for enforcement, accountability and the provision of public infrastructure by the government are necessary to reduce tax evasion and avoidance amongst tax payers. In conclusion, the priority of any government should be to improve tax administration policy to boost optimal revenue yield from property taxes.

Keywords: *Property taxes, Tax Evasion, Tax Avoidance, Fagge LGA, Revenue.*

Introduction

Property tax is being practiced in all African countries, the style and methods varies in countries. Despite its popularity, there are various factors that plague the performance of property tax most especially in the developing countries. Fatimilehin (2003) opined that taxation system of any country is hinged on the political philosophy of that state. This depict that political will

have effect on the smooth administration of property tax in any country. Continuation of policy that are useful in the operation of property tax should be retained so that there will be continuity in the positive performance of it. But it seems that is not so in developing countries.

Nevertheless, there are many other reasons to champion property tax in any country. According to Bahl and Martinez-Vazquez (2008), he noted that because property value most of the time appreciates in the market, the income is elastic. If this is this case property tax would be difficult to sponge as part of revenue source for any nation. On the other hand Oates and Schwab (2009) supported this by stating that property tax is a principal choice for local government as a main source of revenue because a tax on immovable land and building distorts resource choices less than any other choice. One can further add that property tax is a form of progressive tax, so it is charged on those that are in the high income bracket.

For all of these, it is expected to accept that property tax should an important source of revenue yield to any state. Kelly (2014), UN-Habitat (2011) concluded that the support for the property tax as government revenue source remains strong and interests in it reforms continues.

In an attempt to develop a nation, tax system serves as one of the major aspect to focus on. Uadiale, Fagbemi and Ogunleye (2012) opined that taxes are not only to raise revenue but can be used in the building of a nation. With this fact, it is expected that tax should be embraced by all taxable adults of a nation. Unfortunately, many tax payers avoid that payment of tax. Kiabel and Nwokah (2009) noted that one of the greatest problems facing Nigeria tax system is tax evasion and avoidance, this in turn would lead to a low yield in revenue generation. Most of the time, it is difficult for public servants to avoid the payment of tax. Similarly in the case of other set of workers, most especially the self-employed, it is also easy for them to avoid payment of tax and large chunk of government revenue from tax is been withheld.

The level of tax compliance amongst taxpayers call for a major concern. Government should concentrate on the tax compliance amongst the tax payers, if it expects any improvement in the revenue. Ahmed (2007), from his own study revealed that there was a significant difference in tax compliance behaviour and tax knowledge amongst people. People with adequate awareness and knowledge about tax seem to see it as a civil responsibility and

they comply with its laws and policy, unlike the non-knowledgeable ones. Ordinarily, no one would be interested in paying tax unless government adopts policies and strategies and review laws that would make people to comply with it. Wenzel (2007) and Murphy (2008) from their own study opined that tax is like a bitter-pill which no one would be willing to swallow. In view of this, tax laws most especially in Nigeria should be such that it is understood by everyone. It should be direct and very clear to enable citizen see it as a moral obligation of uplifting one's nation.

This study therefore intends to examine the reasons for tax evasion amongst property owners, assess the extent of tax morale of property owners and evaluate the effect of tax and penalty laws on taxpayers' morale in Kano state, using Fagge Local Government as a case study. This study is hoped to be beneficial to the state government, government agency in charge of tax administration, the estate surveyors and valuers, taxpayers and the academia.

LITERATURE REVIEW

Concept and Perception of Tax Evasion

Lack of seriousness and enthusiasm amongst tax payers is becoming a thing that is very common. The imposition of tax compliance is not being enforced by the government and in view of this, government is losing so much revenue. Burton and Blanthome (2004) has revealed that the perception of tax evasion or avoidance amongst tax payers has been concluded as a non-serious crime, and most of them are not afraid of avoiding the payment of tax. Although one can also conclude that lack of adequate knowledge, awareness and socialization could also amount to the perception property or tax payers have about taxation in general. Most tax payers obtain information and knowledge about tax from tax official, television and through other social media. According to Purnamasari and Sudaryo (2018), lack of appropriate awareness and socialization by the public has got an impact on the low level of taxpayer's compliance in performing their tax obligation. It can therefore be deduced from this that knowledge on tax subject, tax objects, tax rates, tax record are important elements in the field of taxation.

Furthermore, it is pertinent to know that taxpayer's compliance is strongly influenced by the morality and the imposition of tax sanction. This tax sanctions are required to caution tax payers and should serve as a lesson for

tax breakers. Government should therefore make laws that are practicable, less ambiguous and accepted by all. In view of this, tax payers should be aware of tax laws and as well understand the intricacies.

In A & S Model and Becker's theory (1968), they had recognized tax audit and penalty as one of the major factors affecting tax compliance behavior. It is believed that taxpayers will only want to pay tax for the fear of sanction, so with the increase in tax Sanction rates, more revenue will be realized from prompt payment of tax and tax evasion will be reduced.

Tax Compliance to Tax system and policy

Tax payers are likely to comply with the payment of tax most especially when government provides the basic urban infrastructure to the people. The morality of tax payers will be elevated in this regards. Schmolders, (1960) and Strumpel, (1969) opined that tax morale is an essential factor that has a close harmonic ties with tax noncompliance. They further made it known that moral rules focuses on basic principles which are guilt, shame, duty and fairness. With a high moral standard any taxpayer that enjoys the facility provided by government will see it as been unfair and shameful if the needful is not done on their own part, it terms of making payment as at when due. On the other hand, if the taxpayer feels that the style of tax implementation and policies are not fair enough by the government, the moral standard on the part of the taxpayer will decrease. This means that if there is injustice in the tax system, correcting the act of cheating taxpayers could be almost impossible. Taxpayers are more likely to comply with the rules and laws established for tax payment only if the tax paid and government provision of social amnesties are found to be equitable.

Tax Evasion and Avoidance in Nigeria: An overview

Taxes have been known as a steady source of income to all level of government in a nation. Cobham, (2005) has made it known that as long as there is economic activity in the system of any nation, taxes are constantly available as a revenue source. Nigeria is not different from other countries in this regards. FIRS (2009), recently made it known that recent growth and development globally can be traced to the focus government has placed on taxation. In view of this, taxation should not be considered as only a means of

revenue generation but also stimulates other sources of government revenue to develop the economy.

In a country like Nigeria, the choice of electing those in charge of taxation is germane because they are the ones that will take decisions and this will have effect on the community government would create. This implies that a synergy between the tax administrators and tax laws would be established.

There are tax laws, policies and framework in place to control tax evaders and avoiders, but till, it appears that there is no positive result persay in controlling tax evasion. Uche and Ugwouce (2003) opined that the efficacy of legal framework put in place to curb tax evasion is not still clear if it is effective in solving this issue. Some state government in Nigeria had to involve the services of tax consultants to solve the issue of evasion and avoidance in their states and Kano state is not an exception to this. Toby, (1983) observed that taxpayers indulge in various practices to evade tax payment which erodes moral values and build inflationary premises. It is well known that evading taxes by taxpayers would definitely affect revenue mobilization and base of government in providing basic essential services to people. In the process of avoiding to pay tax, most property owners, corporate bodies and individuals give false claims and entries in their account and record book thus reducing revenue from tax for the government. In view of this, the agent responsible for tax collection will not be able to realize a substantial amount from taxes for the government.

Study Area:

Fagge is also a local government Area in Kano state, Nigeria. It has a large commercialised agricultural landholding with associated buildings and other facilities. Fagge local government was carved out of Nassarawa LGA on 4th December, 1996. Fagge was governed by a sole administrator, it is largely a settlers' area inhabited by people from other parts of Nigeria and from neighbouring countries such as Niger and Ghana. It shares boundary with Ungogo LGA to the north, Nassarawa to the east, Kano municipal to the south and southwest. The main wards in the LGA are Sabon Gari, Nomansland, Kwakwaci, Gama-Kwari and Rijiyar Lemo. Fagge LGA is the commercial nerve center of Kano state. The largest market in the state, is the Sabon-Gari market (also known as Abubakar Rimi Market). The population of Fagge LGA is

estimated at 1.4million with a density population. It lies at a latitude of 12.0067 (Lat. = 12° 0' 24N) and longitude 8.5292 (Long= 8° 31'45E). This is shown in Fig. 1 below.



Source: GIS Lab, Department of Geography, Bayero Univeristy (2008).

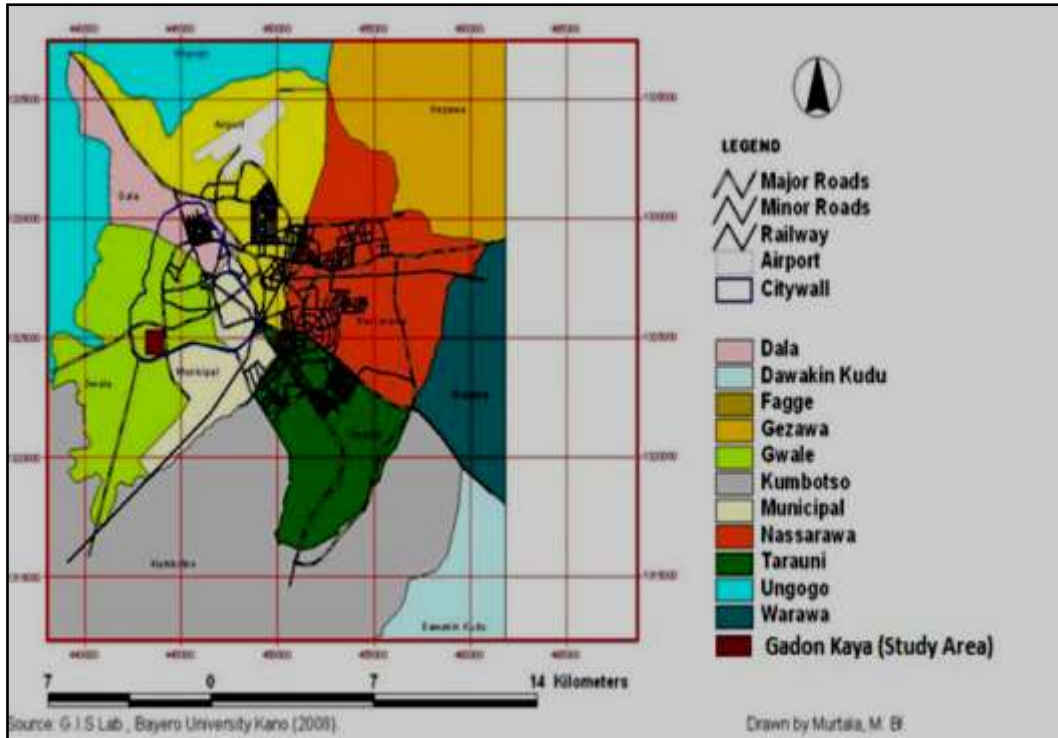


Fig. 1: Map showing Kano Metropolis and Fagge L.G.A

Source: GIS Lab, Department of Geography, Bayero Univeristy (2008).

Materials and Methods

This study centres on Sabo Gari and Nomansland in Fagge LGA because they are one of the places where the central business district of Kano state is located in which multiple rapid land use change often occurs at once. Field survey method was used for data generation and it included the design, pre-test and administration of self-administered questionnaires to Estate surveyors and valuers representing the property owners. Questionnaires were administered to all the heads of property unit in all the 37 Registered Estate Surveying and Valuation firms in Kano state according to the directory of Nigeria Institution of Estate Surveyors and Valuers, Kano state branch. Data pertaining various reasons for tax evasion amongst property owners and the extent of tax morale of property owners to property tax payment. Out of the 37 questionnaires administered, 30 questionnaires were retrieved. Similar procedure was also conducted in Kano state Board of Internal Revenue Service. At the Kano state Board of Internal Revenue Services, 5 departments are relevant and used for this study and these are, (i) Assessment (ii) other

taxes (iii) Research and Statistics (iv) Withholding taxes (v) Collection. 31 questionnaires were administered to all the senior cadres of the organisation and all the questionnaires were retrieved. A well-structured interviews were also conducted amongst them. This was necessary to evaluate the effect of tax laws and penalty on property owners to realise a substantial revenue from property tax. The following tables provide information on the details of the questionnaires and interviewed administered to the respondents, (Estate Surveyors and valuers, representing the property owners and Tax officials at the BIRS).

Table 4.0: Reasons for tax evasion amongst the property owners

S/No	Options	Response	Percentage (%)
1.	Lack of property Assessment & Valuation	08	27
2.	Government administration & policy	06	20
3.	Lack of Infrastructural Development	09	30
4.	Multiple Taxation	07	23
	TOTAL	30	100

Source: Field Survey, 2020

From the table above, lack of infrastructural development has 30% response and 27% response is for lack of property assessment and valuation. This is followed by multiple taxation and government administration and policy. This revealed that lack of infrastructural development is a major reason why tax payers are evading tax.

Table 4.2: Periods of receiving tax demand bills by the property owners.

S/No.	Option	Response	Percentage (%)
1.	Quarterly	-	-
2.	Yearly	23	77
3.	6-Month	7	23
4.	Monthly	-	-
	TOTAL	30	100

Source: Field Survey, 2020

From the table above, most respondents receive their demand bills once in a year about 77% of the respondents attested to this.

Table 4.3: Channel of tax payment.

S/N	Options	Response	Percentage (%)
1.	Payment to BIRS Revenue office	8	27
2.	Payment through banks	3	10
3.	Personal collection by tax officials	19	63
	TOTAL	30	100

Source: Field Survey, 2020

63% of the respondents claimed that they pay their taxes through personal collection by the tax officials and 27% claimed that they pay through Internal Revenue offices around the town and the least is 10% which is payment through banks.

Table 4.4: Obstacles militating against revenue generation from the Land Taxes at the Kano State Board of Internal Revenue Service.

S/N	Obstacles	Response Agree	Percentages (%)	Rank
1.	Inadequate availability of Property Statistics and Information	10	32.26	1 st
2.	Poor Tax Enforcement	6	19.36	3 rd
3.	Multiple Taxation	4	12.90	4 th
4.	Lack of Awareness and Infrastructural Development	8	25.80	2 nd
5.	Poor Compliance and non-engagement of experts	3	9.68	5 th
	Total	31	100	

Source: Field survey, 2020

From above, 32.36% respondents claimed that non-availability of property statistic is a major impediment in the generation of revenue from property tax at the state level, followed by lack of awareness and infrastructural development which is 25.80%, 19.36% represents poor tax enforcement.

Further interview conducted amongst the senior members of staff at the Strategy and Planning unit of KIRS, also revealed that the state government and tax authorities need to work together to curtail these factors militating against revenue generation in the state.

Conclusion and Recommendation

Property taxation, as the case maybe has been existing for long in Nigeria. It has been in operation in all of the states of the federation. It has formed part of government internal generated revenue but has not lived up to its expectation. For the fact that it is a tax attached to a landed property which normally will appreciate over time, much is expected of it but unfortunately has not raised enough revenue to meet the needs of government and it is so because of some impediments in tax evasion and avoidance. In view of this, government needs to take a drastic step to boost optimal revenue and minimise evasion of tax amongst tax payers. Some recommendations which can assists government in doing that are as follows;

1. Review of tax law for enforcement.

Enforcement of tax payment should be made realistic on tax payers and realistic penalties be made and practice effectively. There should be strict enforcement of laws on people. The study has shown that there are tax laws in place guiding the implementation and penalties, but this are infrequently used. Implementation of laws seems to be unrealistic. Government should begin to evaluate the current property taxes available and review the laws that support them. Measures taking actions against the occupier, debt collection, the court and even seizure and auction of property should be put in place. Government should use taxation as a fiscal policy instrument and not just an instrument for revenue generation only.

2. Accountability

Government authorities in charge of property tax are the board of internal revenue service. It is pertinent that statement of account on revenue collected from land taxes be published and made public. This will bring transparency and proper accountability into tax administration system. Taxpayers will be encouraged to partake in this responsibility. In a nutshell, government and tax authority should be

transparent and accountable in the collections of tax proceeds. Furthermore, the audit unit of the Board of Internal Revenue service should be given utmost attention and strengthened for optimum performance.

3. Provision of Basic Urban Infrastructure and Amenities

The purpose of tax is to generate revenue for the provision of public infrastructure. But unfortunately, there is lack of basic infrastructure for taxpayers and the ones available are not properly maintained. The tax payers do not see the value of their money since these infrastructure are not available. Government on their part should make citizen see the impact of their money by making adequate provision for infrastructure. If this is done, government might not necessarily need to spend much on enlighten campaign, the amenities and services provided are enough campaign.

Concluding Remarks

Land tax is a popular form of tax for government at the central, state and local government. All states of the federation seek their own internal generated revenue and property tax is one of it. However, it seems that the administration, logistics, assessment, enforcement and collection of these taxes are deficient. The priority of any state government should be to improve tax administration system (logistics, well-defined tax base and the review of laws), this will improve the revenue yield of land taxes for states.

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