

TACKLING THE TAX EVASION DILEMMA IN NIGERIA: LEGAL ENFORCEMENT AND PUBLIC COMPLIANCE

Prof. Grace Ifeoma Okon

Department of Public Administration, Isaac Jasper Boro College of Education, Sagbama, Bayelsa State, Nigeria

DOI:10.5281/zenodo.19661933

Abstract

Taxation is a fundamental mechanism through which governments generate revenue to fund social, economic, and political development. It constitutes a compulsory contribution imposed on individuals and business entities under the jurisdiction of the state, intended to provide social goods, public services, and developmental programmes. Despite the critical role of taxation in sustaining governmental functions and promoting economic growth, tax evasion remains a persistent and complex challenge globally. Often described as a "hydra-headed" problem, tax evasion undermines government revenue, hinders the provision of essential services, and compromises societal development. Understanding the factors influencing taxpayer behavior, including compliance and evasion, is therefore crucial for formulating effective fiscal policies. This study examines the dynamics of tax collection, taxpayer compliance, and the persistent challenge of tax evasion in both developed and developing contexts, with a particular focus on Nigeria. The findings underscore the importance of legal enforcement, public awareness, and effective administrative strategies to enhance compliance and reduce evasion. Addressing these issues is vital for ensuring that taxation fulfills its intended role in promoting equitable development and economic stability.

Keywords: Taxation, Tax Evasion, Compliance, Government Revenue, Public Services

INTRODUCTION

Tax is a mandatory contribution imposed by the government on individuals and business entities with a view to generating revenue for the attainment of optimum public welfare socially, economically and politically. Appah et al, (2023a); Appah & Duoduo, (2023); Appah et al, (2023b) suggested that taxes are mandatory contributions made by citizens of any society to the state subject to the jurisdiction of the government, for reasons of residence or property and the revenue generated is for the provision of social goods and services for the economic growth and development of that society. According to Doyle (2022), taxes are used to fund public services, facilitate the redistribution of wealth and influence the behaviour of taxpayers. According to Gunel and Didinmez (2023), revenues from taxation make up the largest share of government revenue for developing countries. According to Ado et al (2018), taxes are hugely fundamental and one of the main sources of government revenue which are utilized for the provision of social goods and services which are valuable to the society. Appah (2019) stressed that tax revenue usage is a source for sustaining developmental programmes in developed and emerging economies. The author further argued that this makes taxes not a voluntary payment to the government, but a compulsory contribution made on the directives of legislative and legal authorities of the government. Manaye et al (2020) stated that regardless of the merits resulting from payment of tax, most taxpayers indulge in tax evasion. Tax evasion has been and is still tagged as a "hydra-headed" problem, which has been and still exists in both developed and developing nations. Similarly, Ado et al (2018) noted that a number of challenges affect effective and efficient tax administration. In particular, tax evasion is argued to be the most challenging practice

in developing countries such as Nigeria. All forms of taxes in Nigeria are to some extent evaded largely because the administrative machinery to ensure effectiveness is weak. Folayan and Adeniyi (2018) also argued that tax evasion is one of the most important social problems affecting revenue generation and 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. In Nigeria, tax evasion, just like in every other country, has become a problem to revenue generation, and the situation is very much of an adverse impact, due to the loopholes in curbing the determinants of tax-evasion. Asaolu et al (2020) noted that it is of no doubt that tax evasion has undermined government's revenue generation, and lowered the ability of the government to provide public and social amenities. The authors further asserted that it had also caused numerous problems, which have adversely affected the economic growth and development of the country.

Tax Evasion is an intentional effort by individuals, corporate bodies, trusts and other institutions to illicitly refuse to pay their taxes and reporting lopsided value of earnings and as a means of evading the payment of taxes. Oladejo (2021) stated that it is characterized as an intentionally wrongful attitude involving violation of tax laws, norms, and ethics regarding citizenry obligation to escape the payment of tax. Appah et al (2020) noted that it is the deliberate refusal or failure to pay tax or the reduction of tax liability through illegal or fraudulent returns or failure to make a return or pay tax on time. In a similar vein, Folayan and Adeniyi (2018) stressed that tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability and includes, in particular dishonest tax reporting (such as declaring less income, profits or gains they actually earned, or overstating deductions). Manaye et al (2020) suggested that tax evasion represents one of the major problems facing every economy whether developing or underdeveloped. It imposes several economic costs: it slows down economic growth; it diverts resources to unproductive activities; it provides an incentive for firms to remain small and invisible; and it generates inequity between the evaders and the honest taxpayers. Oladejo (2021) stressed that when a taxpayer (individual or business entity) desist from reporting revenue from labour or capital which is taxable by law, he engages in an unlawful activity that makes him liable to administrative or legal action from the tax authorities. Tax evasion distorts the tax system in Nigeria, thereby increasing dead-weight loss, and also increases the government's law enforcement costs. Mumo and Muthinja (2023) noted that this concept has brought about an increased attention amongst tax, accounting, economists scholars and policy makers internationally leaving the study of tax evasion' a very vital subject worth researching.

It has been established by scholars that there is a nexus between rule of law, tax justice, public trust and tax evasion. However, several studies (e.g. Ado et al, 2018; Agbetunde et al, 2020; Appah et al, 2020; Asaolu et al, 2020; Folayan and Adeniji, 2018; Oladejo, 2021; Oladipo et al, 2022; Omodero, 2019; Yau et al, 2023) have been carried out in the past in Nigeria on tax evasion. But the review of prior empirical literature suggested that the influence of rule of law, tax justice and public trusts on taxpayer's behaviour has rarely been investigated in the Nigerian context which revealed the existence of a research gap. Appah and Ogbomah (2024) noted that the law is the ultimate authority and all individuals and organizations are subject to it; all and sundry is equal before

the law, regardless of their status, power or position; the law should be applied fairly and justly, without bias or discrimination; laws should be clear, public and enforceable and those who apply them should be accountable for their action and all and sundries should have access to justice and the ability to seek remedies for violations of their rights. According to Appah and Zibaghafa, (2018), tax justice is the fair distribution of the tax burden, where individuals and business organizations pay their fair share according to their respective abilities. Farrar et al (2020) noted that justice is a word particularly selected for a procedural, not a substantive stipulation. Appah and Aganaba (2024a) noted that public trust is the confidence and faith that the general public has in the government, institutions, and public officials to act in their best interests and perform their duties with integrity, transparency and accountability. Adekoya et al, (2019) noted that taxpayers and government bond can be attained through public trust in government, which persuade voluntary tax compliance. The authors further argued that public trust is the major factor for attaining voluntary tax compliance. Hence, the assurance in government by taxpayers has a positive correlation with tax compliance and willingness to pay tax thereby decreasing the level of tax evasion. Consequently, Ogbomah and Appah (2024) argued that the only way to minimize the high level of tax evasion and corruption in the Nigerian tax system is ensuring strict obedience to the rule of law. In addition, tax justice is believed as one of the factors that affect tax evasion behaviour (Jun & Yoon, 2018). Gunadi and Rahayu (2021) argued that tax justice is a significant element in taxpayer compliance decisions. Adekoya et al, (2019) noted that taxpayers and government bond can be attained through public trust in government, which persuade voluntary tax compliance. The authors further argued that public trust is the major factor for attaining voluntary tax compliance. The confidence in government has a positive relationship with tax compliance and willingness to pay tax thereby decreasing the level of tax evasion. Considering the knowledge gap, the main objective of this study is to empirically investigate the moderating role of public trust on the relationship between rule of law, tax justice and tax evasion in Nigeria. The following are the specific objectives of this study:

1. To investigate the relationship between legal certainty and tax evasion in Nigeria;
2. To evaluate the relationship between equality before the law and tax evasion in Nigeria;
3. To determine the relationship between fairness and tax evasion in Nigeria;
4. To examine the moderating influence of public trust on the relationship between rule of law and tax evasion in Nigeria.

The following null hypotheses were tested in this study:

H₀₁: Legal certainty positively and significantly influences tax evasion in Nigeria.

H₀₂: Equality before the law positively and significantly affects tax evasion in Nigeria.

H₀₃: Fairness positively and significantly impact on tax evasion in Nigeria?

H₀₄: Public trust positively and significantly moderates on the relationship between rule of law and tax evasion in Nigeria.

LITERATURE REVIEW

Concept of Rule of law: This concept has no universally accepted meaning. Holmes (2018) explained that legal scholars have not been able to formulate a succinct meaning of rule of law. The author further noted that legal

researchers have provided a variety of elements of this concept. However, Appah and Ogbomah (2024), Ogbomah and Appah (2024) defined rule of law as the idea that all individuals, institutions, and government officials are subject to and accountable under the law. The former United Nations (UN) Secretary General in 2004 described rule of law as a principle which all persons, institutions, entities, whether private or public including the government are accountable to laws, that are publicly established, equally enforced, and independently adjudicated, and are consistent with international human rights norms and standards. It ensures adherence to the principles of supremacy of the law, equality before the law, accountability to law, fairness in the application to law, separation of powers, legal certainty, procedural and legal transparency. Ogbomah and Appah (2024) noted that the law is the ultimate authority and all individuals and organizations are subject to it; all and sundry are equal before the law, regardless of their status, power or position; the law should be applied fairly and justly, without bias or discrimination; laws should be clear, public and enforceable and those who apply them should be accountable for their action and all and sundries should have access to justice and the ability to seek remedies for violations of their rights. Adekoya et al (2019) noted that the enforcement of tax laws by the state has become very significant due to the high level of tax evasion. Gunel and Didimez (2022) suggested that the principle of taxation is associated to the principles of rule of law. There are several studies in the tax literature that shows mixed results between rule of law and tax revenue. Simbachawene (2018), Appah and Ogbomah (2024), Ogbomah and Appah (2024) studies suggested that rule of law positively and significantly affects tax revenue. However, other studies such as Ashraf and Sarwar (2016), Gunel and Didimez (2022) showed a negative and significant association between tax revenue and rule of law.

Concept of Public Trust: Appah and Aganaba (2024a) described public trust as the confidence and faith that the general public has in the government, institutions, and public officials to act in their best interests and perform their duties with integrity, transparency and accountability. According to Appah and Aganaba (2024b), public trust is the belief that people in power will serve greater good, make decisions fairly and impartially, use resources wisely and efficiently, protect the rights and well-being of citizens and be honest and transparent in their actions and decisions. In a similar vein, Mugaruwa et al (2021) explained that public trust is the confidence and belief of members of any given society in the actions of government, institutions, and public officials to perform what is right and perceived to be fair, transparent, objective and legitimate activities of government. In addition Adekoya et al (2020) described public trust within the context of taxation as the readiness of taxpayers to pay taxes based on the individual believes that government and its agents are honest, compassionate, devoid of corruption and the provision of good governance for welfare of the people. Byro and Kinyondo (2020) stressed that public confidence and faith influences the level of tax compliance in any given society. This is due to the fact that public trust in tax authority is essential in persuading individuals and organisations to comply with tax requirements if government performs effectively and efficiently in the provision of social goods and services for the welfare of citizens (Wogo et al, 2023; Adekoya et al, 2019). Cullen et al (2018) explained that individuals who believe and trust that the authority acts in a manner that is fair and transparent have a positive perception of government activities and this group of individuals are likely to voluntarily comply with tax laws and regulations. According

to Munyentwali (2015), the behaviour towards taxes and government spending revealed a significant effect on tax compliance. Furthermore, Okoye (2019) in Nigeria disclosed that low tax compliance is as a result of the moderating influence of political trust. In addition, Esaiasson and Ottervik (2014), suggested that political trust positively and significantly influence tax compliance. Appah and Aganaba (2024b) suggested that public trust covers faith in the ability of government to make decisions that benefit the public, confidence in the effectiveness and integrity of public institutions such as the judiciary, law enforcement etc, belief that elected and appointed officials in government will act with honesty, ethics and transparency, faith that the political system is fair, representative and accountable to the people and confidence that laws are applied equally and justice is served. Public trust and tax evasion are closely related. When public trust in government, institutions, and public officials is high, tax evasion tends to be lower and vice versa.

Concept of Tax Evasion: Tax is a compulsory levy imposed by the government upon individuals, businesses and organisations to revenue generation for the provision of public goods and services in any given society. Appah et al, (2023a); Appah & Duoduo, (2023); Appah et al, (2023b) argued that taxes are mandatory charge upon a taxpayer (individual or legal entity) of any society to the state subject to the jurisdiction of the government, for reasons of residence or property and the revenue generated is for the provision of social goods and services for the economic growth and development of that society. Adekoya et al (2019), Orumwense and Aiwoho (2021) explained that tax is used as an influential instrument that have been applied by government over the globe for the advancement of nations. The authors further stressed that it a form of payment by individuals to assists and augment the activities of the state. Hence, the unwillingness of individuals and legal entities to pay tax due to the illegal underreporting of income or over-reporting deductions is described as tax evasion. This concept is an illegal and fraudulent act of underpaying taxes by individuals, businesses and organisations. According to Appah et al (2020), tax evasion involves intentionally misrepresenting or conceals information to decrease tax burden, evade tax payments, or contravene tax laws and regulations. Oladejo (2021) stressed that when a taxpayer (individual or business entity) desist from reporting revenue from labour or capital which is taxable by law, he engages in an unlawful activity that makes him liable to administrative or legal action from the tax authorities. In addition, Mumo and Muthinja (2023) stated that tax evasion usually includes fraudulent reporting of tax, reveal less income, gains or earnings than the amounts collected, and overstating deductions exploiting bribes against tax officers. Cosmos (2019) argued that tax evasion reduces the liability of taxpayers and does have a negative effect on the economy and social well-being of society. Similarly, Folayan and Adeniyi (2018) put forward that tax evasion affects government revenue which may certainly impact on government potential performance in the public sector and legitimately threaten government expenditure which leads to a big economic imbalance. Appah et al (2020) noted that tax evasion take several forms including underreporting of income or over-reporting deductions, hiding income or assets, using secret bank accounts, misrepresenting business expenses or profits, failing to file tax returns or pay taxes, using false documents and engaging in tax fraud schemes.

Theoretical Framework: This study anchored on the economic deterrence theory and theory of reasoned action.

Economic Deterrence Theory: This theory was advanced by Becker (1968) and extended by Allingham and Sandmo (1972) on the economics of crime. This theory proposes that the threat of economic sanctions or penalties can be used to deter certain behaviours or actions by individuals, businesses and organisations. Mumo and Muthinja (2023) suggested that this theory posits that the prospect of economic losses or costs can be a powerful deterrent to engage in detrimental activities. Yau et al (2023) argued that this theory provides that taxpayer need economic reasons to be able to choose whether to fulfill tax obligations. Mitchell et al (2019) stressed that the action taken by taxpayers on whether to fulfill tax laws and regulations is reliant on the probability of the anticipated values. The most well-known deterrence method that makes taxpayers obey tax laws and regulations is the common deterrence method, which is associated to the outcome of possible sanctions and punishment (Alm, 2019). The central argument of the deterrence theory is that variables, such as tax rate, penalty, and detection probability, are the function of taxpayers' decision-making behaviour (Allingham and Sandmo, 1972). Appah et al (2020) suggested the economic deterrence theory enhance the credibility of government in demonstrating its commitment to enforcing its fiscal policies; economic sanctions can signal to other actors that certain behaviour is unacceptable (Alm et al, 2020; Alm et al, 2019); and the threat of economic sanctions can deter undesirable behaviour (Alstadeaster et al 2022; Alstadeaster et al 2019). However, the theory suffers from several criticisms from researchers. Sanctions may not always achieve their intended goals, as targeted actors may find ways to circumvent or adapt to them (Ariyanto et al, 2020); economic sanctions may be applied selectively, targeting certain actors while ignoring others engaged in similar behaviour (Alm et al, 2020); the process of implementing and enforcing sanctions can be opaque, leading to accountability concerns. The economic deterrence theory noted that factors influencing the cost and benefits of evasion including tax rate, penalties for fraud and possibility of detection influence the taxpayer behavior (Abdul & McFie, 2020). This suggests that few persons will avoid taxes if detection is probable and consequences are harsh (Kemme et al, 2020). Contrary, the feeling and probability that one will not be discovered increases the rate of tax evasion through illicit financial flows. Economic deterrence theory was employed to evaluate the moderating role of public trust on the association between rule of law and tax justice on tax evasion in Nigeria. However, where they feel that they cannot be recognized or detected they tend to engage in tax evasion (Alm et al, 2020; Alm et al, 2019). According to this theory, taxpayer decides realistically whether to avoid taxes or not depending on the predicted benefit or expense of carrying out either activity (Alstadeaster et al 2022; Alstadeaster et al 2019; Owusu et al, 2020).

Theory of Reasoned Action: This study is grounded on the theory of reasoned action advanced by by Ajzen (1991) to describe the behaviour of individuals in terms of attitude and beliefs. Adekoya et al (2019) stressed that this theory explained that intention is the best predictor of behaviour. According to Baker et al (2023), the TPB explains that attitude, norms and behavioural control influences intention which ultimately affecting behaviour. Adekoya et al (2019) noted that intention is the mix of attitudes exhibited towards behaviour while behaviour is the process of changing intention into action. Fishbein and Ajzen (2010) outlined three beliefs of the theory of reasoned action, that is, behavioural belief, control belief and normative belief. According to Adekoya et al

(2019), the theory of reasoned action maintained that individuals exhibited behaviour that are due to the intention to behave which is determined by behavioural belief, control belief and normative belief. Appah and Ogbomah (2024) stated that this theory explains the behavioural beliefs that occurred as a result of behaviour and results evaluations. In a similar vein, Ogbomah and Appah (2024) noted that TPB is vital in the explanation of the behaviour of individuals in meeting the payment of tax. The knowledge of tax by individuals in the society will encourage people to tax payment which would generate tax revenue for the provision of social goods and services for members of the society. Also the confidence of the normative expectations of others and what should be done in getting these expectations, satisfaction from tax, efficient tax structure would encourage people to meet tax rules and regulations. However, the theory suffers from several criticisms from researchers. The TBP exclusively focused on rational reasoning excluding unconscious influence of reasoning (Sheeran et al, 2013), the role of emotions beyond anticipated affective outcomes (Corner et al, 2013) and the theory does not assists to understand the evidence of influence of behaviour on cognitive and future behaviour. Hence, the TBP is relevant to this study as Baker et al (2023) explained that taxpayers are more likely to tax compliance if individuals have high tax morale supported by greater subjective norms on rule of law.

Empirical Review

Mumo and Muthinja (2023) analysed tax evasion and revenue collection in Kenya. The study utilized descriptive survey research design and a target population of 288 with a sample size of 144 determined using Yaro Yamene formula with stratified random sampling used to arrive at the sample size of this study. The study used revenue collection as the dependent variable and tax evasion as the independent variable. The study data was obtained from primary and secondary sources. The primary data was collected from a structured questionnaire after validity and reliability tests of items. The responses obtained from the administered questionnaires were analysed using descriptive statistics, correlation matrix and regression analysis. The results from the data analysis suggested that tax evasion positively and significantly affects revenue collection in Kenya. Consequently, the study concluded that tax evasion influences the revenue collection capacity of the Kenya Revenue Authority (KRA) with a recommendation amongst others that KRA should inform citizens and non-citizens of likely cost of tax evasion as well as fines and incarceration.

Appah et al (2020) investigated tax evasion and revenue generation in Nigeria. The study used cross sectional survey research design with a population consisting of business and employees of the Internal Revenue Service of Bayelsa and Rivers States with a sample size of 350 respondents randomly selected. The study used primary and secondary data for the study and the primary data was derived from a structured questionnaire after validity and reliability tests. This study utilised tax rate, tax system, tax policy, level of income and level of corruption as dimensions for the independent variable while government revenue generation as dependent variable. The data collected were analysed using descriptive statistics, diagnostic tests and multiple regression. The findings indicated a positive and insignificant association between tax rate, tax system, tax penalties, level of income level of education with government revenue. Consequently, the study concluded that the determinants of tax evasion influence the level of revenue generation in Nigeria.

Appah and Ogbomah (2024) analysed the moderating role of tax morale on the rule of law, tax knowledge and tax compliance in Nigeria. The study used cross sectional research design with a population of 30,450 self employed taxpayers in Bayelsa State and a stratified sampling technique was employed to arrive at a sample of 900 participants and a total of 842 was used for data analysis. Primary and secondary sources of data collection were used and questionnaire was the main source of obtaining data after validity and reality tests using Cronbach alpha. The study used rule of law and tax knowledge as independent variable and tax compliance as dependent variable while tax morale as the moderator variable. The responses obtained from the questionnaire administered were analysed using univariate, bivariate and multivariate analysis. The results from the analysis of data suggested that rule of law positively and significantly affect the tax compliance of selfemployed taxpayers in Bayelsa State, Nigeria; tax knowledge positively and significantly affect tax compliance of self-employed taxpayers in Bayelsa State, Nigeria and finally, tax morale positively and significantly moderates the relationship between rule of law and tax knowledge on tax compliance of self-employed taxpayers in Bayelsa State, Nigeria. The study concluded that there tax morale moderates the relationship between rule of law and tax knowledge on tax compliance of self-employed taxpayers in Bayelsa State, Nigeria.

Adekoya et al (2019) studied the moderating influence of trust in government on the relationship between rule of law and voluntary tax compliance in Nigeria. The study adopted cross sectional survey research design and the population consisted of 5,216,422 individual taxpayers and a sample size of 1,200 participants was used for the study. The independent variables were rule of law, age, gender, and education while the dependent variable was tax compliance. Questionnaire was used as the primary source of data collection after validity and reliability tests. The responses collected from the participants were analysed using descriptive and inferential statistics. The findings indicated that rule of law positively affect voluntary tax compliance. The results further disclosed that trust in government and rule of law significantly influence tax compliance while age, gender and education showed an insignificant influence on voluntary tax compliance.

Ado et al (2018) investigated the determinants of tax evasion in Nigeria. This study utilised survey research design and a target population of 58 employees of Federal Inland Revenue Service (FIRS) in Abuja with a sample size of 50 derived using Yaro Yamene method. The study used secondary and primary sources of data collection. The primary source was a well designed questionnaire after validity and reliability test. The data obtained from the questionnaire were analysed using descriptive and inferential statistics. The result from the chi square analysis suggested that ineffectiveness and inefficiency of public governance and tax system management encourages tax evasion; Nigerian tax rate encourages tax evasion; Loopholes in tax laws and penalty level encourages tax evasion and there are numerous and active determinants of tax evasion in Nigeria. The study concluded that there are several factors responsible for the high level of tax evasion in Nigeria notably the high level of ineffectiveness and inefficiency of public governance and tax system management in the country.

Folayan and Adeniyi (2018) analysed tax evasion and government revenue generation in Nigeria. The study employed cross sectional and ex post facto research designs. The population comprised of business taxpayers and employees of internal revenue services. The respondents were selected randomly based on the locations of

the State Internal Revenue Service comprising 165 sample size of the respondents. The study employed both primary and secondary sources of data as main sources of data collection. The primary source of data was from a well designed questionnaire after validity and reliability tests which was carefully prepared and administered to sample of 165 respondents across the service using simple random sampling technique, and the items were prepared using a 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 data collected from primary and secondary sources were analysed using descriptive and inferential statistics. The findings indicated that tax evasion influences the revenue generating capacity of the government of Oyo State, Nigeria; the perceived corruption in government influences the high level of tax evasion.

Mu et al (2023) carried out tax evasion, psychological egoism and revenue collection performance in Ethiopia. The study utilized cross sectional survey research design and quantitative analysis. The population consisted of 29,540 VAT taxpayers and simple random sampling method while Yaro Yamene method was used to derive a sample size of 395 taxpayers of Amhara Region in Ethiopia. Primary and secondary data sources were used and the primary source comprised of a structured questionnaire of 5 stages Likert scale after validity and reliability tests and the independent variables comprised tax evasion, tax education and technology with a dependent variable of revenue collection performance and a mediator variable of psychological egoism. The responses obtained from the questionnaire administered were analysed using descriptive and inferential statistics using Structural Equation Modeling with AMOS software to analyze data and explore linear causal relationships between variables. The results from the analysis of data suggested that tax evasion and psychological egoism negatively influence tax revenue collection performance. Furthermore, the findings indicated that tax education and technology positively and significantly influence tax revenue collection performance in Amhara Region in Ethiopia. In addition, taxpayers' psychological egoism mediates the relationship between tax evasion, tax education and technology on tax revenue collection performance in Amhara Region in Ethiopia.

Abdella et al (2021) examined tax evasion and South Omo Revenue and Custom Authority and cross sectional survey research design with qualitative and quantitative research approach. The study target population comprised 900 taxpayers and employees and 255 sample size using Yaro Yamene method. Primary and secondary sources of data collection were used while the primary data consisted of a structured questionnaire after validity and reliability tests. The study used tax evasion as dependent variable whereas age, gender, tax knowledge, tax penalty, ineffective tax audit, tax rate, tax moral, effective tax system, low transparency and accountability as independent variables. The responses obtained from the administered questionnaires were analysed using descriptive and inferential statistics. The multiple regression analysis indicated that high tax rate, unfair tax system, ineffective tax audit, low accountability and transparency of public institution and low level of taxpayers' awareness are the main factors increasing tax evasion in south Omo revenue and custom authority.

Omodero (2019) investigated tax evasion and underground economy on economic growth in Nigeria. The study adopted ex post facto and quantitative research designs. The population comprised of evasion, underground economy and economic growth in Nigeria with a sample from 1981 to 2018. The study used secondary data collected from the Central Bank of Nigeria and International Monetary Fund. The study used tax evasion and underground economy as the independent variables while nominal gross domestic product (NGDP) as the dependent variable. The data obtained from the secondary sources were analysed using ANOVA test and multiple regression. The findings from the regression analysis suggested that tax evasion negatively and significantly impact on the NGDP while underground economy positively and significantly impact on the NGDP in Nigeria. The study concluded that tax evasion and underground economy influences the Nigerian economy both negatively and positively.

Maradze, et al (2020) analysed tax evasion and tax avoidance in Zimbabwe and qualitative and quantitative research methods were utilized. The population of the study comprised of 40 taxpayers in Harare and census sampling technique was used as the target population was less than 100. Hence, the sample size of the study was 40 taxpayers. Primary and secondary sources of data collection were utilized. The primary data consisted of questionnaire and interview. The questionnaire was tested using validity and reality tests using Cronbach alpha method. The dependent variable was a dummy while the independent variable consisted of education, tax rate, income, and trust in government. The responses obtained from the questionnaires administered to the various respondents were analyzed using descriptive and inferential statistics. The results from the logit model indicated a positive and significant association between tax rate and tax evasion and a negative and insignificant association between education, income and trust in tax administration and tax evasion.

Manaye et al (2020) examined the determinants of tax evasion in Ethiopia. The study adopted exploratory research design and a population of all taxpayers in SNNPR and will include Awasa city, Wolaita Sodo town and Arbaminch town and a sample of 376 respondents. The study used primary and secondary data and the primary data was obtained from a structured questionnaire after validity and reliability tests. The study utilized tax evasion as dependent variable while precise age, gender, educational level, rate of taxes, audit probability, tax knowledge, fines and penalties, perceptions of equity, perceptions of government spending, referent groups, role of tax authorities, compliance cost, outcome favorability and level of income as independent variables. The responses obtained from the questionnaire were analysed using univariate, multivariate and multivariate analysis. The ordered logistic regression analysis suggested a positive and significant association between gender, educational level, rate of taxes, tax knowledge, fines and penalties, perceptions of equity, perceptions of government spending, referent groups and tax evasion whereas a negative and significant association precise age, tax audit probabilities, role of tax authorities, compliance cost and outcome favourability and tax evasion in Ethiopia SNNPR region.

Egau and Mpakaniye (2022) analysed effects of tax audit and investigation on tax evasion in Uganda. This study adopted survey and correlation research designs. The study population comprised of 3000 employees of URA and purposive and random sampling technique was utilized to derive a sample size of 150. The study used

primary and secondary sources of data collection. The primary data was collected from a structured questionnaire after validity and reliability tests. The study used tax evasion control as dependent variable while desk audit, field audit and tax investigation as independent variables. The responses obtained from the questionnaire were analysed using multiple regression and the results from the regression showed a positive and significant ($\beta_1=0.323$ and P-Value 0.000) association between desk audit and tax evasion control; a positive and significant association ($0.000 < 0.05$, $\beta_2=0.185$) between field audit and tax evasion control and a positive and significant ($0.000 < 0.000$, ($\beta_3=0.490$)) association between tax investigation and tax evasion control. The study concluded that tax audit and investigation influences the level of tax evasion control in Uganda.

Methodology

This study used survey and correlation research designs. These designs were chosen for the reason of its potential to provide critical responses to the study objectives, research questions and hypotheses. The target population of this study comprised of formal employees in Bayelsa State, who consist of the formal sector employees in the State. A sample size of 385 of formal sector employees was derived using Cochran (1977) standard formula. According to Appah (2020), this formula was preferred for the reason that it is used for an infinite population size (Total No of private employees in Bayelsa State is unknown). The formula computation is presented as follows:

$$n = \frac{Z^2 \times P \times (1 - P)}{C^2}$$

$$= \frac{1.96 \times 1.96 \times 0.5 \times (1 - 0.5)}{0.052 \times 0.52}$$

$$= 384.16 \Rightarrow 385$$

Z = Z-value (e.g 1.96 for a 95% Confidence level)

P = Population proportion in percentage expressed as decimal 50% (0.5).

C = Confidence interval or margin of error allowable in the sample estimate of population which is valued to be 5% (0.05)

This study used primary data as the main instrument for data collection from a well structured questionnaire on a five-point Likert scale, ranging from strongly agree to strongly disagree, and it was pretested to establish the validity and reliability of the instruments. Data were collected through the self-report of the respondents in formal private employees in Bayelsa State and analysis was executed through Stata software with the application of SmartPLS version 4 for structural equation modelling (SEM). The justification for using Stata is to enable the researchers to apply multivariate regression, while SmartPLS with the use of structural equation modelling is to establish the indirect test of intervention analysis and to obviously display the path of arrows for the hypotheses put forward in the investigation by means of a lane diagram.

The study variables were designed by the researchers through existing scientific literature on rule of law (Appah and Ogbomah, 2024; Ogbomah and Appah, 2024; Gunel and Didinmez, 2022) tax justice (Gunadi and Rahayu, 2021; Farrar et al, 2020; Jun and Yoon, 2018; Kirchler & Hoelzl, 2017), tax evasion (Appah et al, 2020; Mumo

and Muthinja, 2023; Mu et al, 2023) and public trust (Wogo et al, 2023; Adekoya et al, 2019; Appah and Agananba, 2024). The questionnaire consists of two sections of A and B. Section A consists of demographic data while Section B consists of statements measuring respondents perceptions on rule of law, tax evasion and public trust. Nevertheless, when questionnaires were distributed to respondents' for data collection, only 248 persons responded to the questionnaire. A total of 218 questionnaires were used for data analysis. As a result, 137 respondents failed to return the questionnaires, and 30 questionnaires were not properly filled by the respondents. This implies a response rate for questionnaire was 64%.

Appah (2020) noted that validity of a measurement instrument is when an instrument measures what it is supposed to measure and this study adopted content validity where the instrument contains sufficient reporting of the different aspects of the constructs. This was derived through the structuring of the questionnaire by academics, tax professionals and chartered accountants in Bayelsa State. The authors adopted Cronbach's alpha to determine the reliability of the instrument using the Statistical Software for Social Sciences (SPSS). The reliability statistics are presented in Table 1 below.

The coefficients in table 1 revealed that the dimensions of the research instruments are above the threshold of 0.70, which means the measurement instrument possesses internal consistency. As suggested by Appah (2020), the reliability indicator is good when the coefficient is above 0.70.

Table 1: Reliability Statistics of Measuring Instrument

Construct	Number of items	Cronbach Alpha
Legal Certainty (LEC)	3	0.72
Equality before the Law (EQL)	3	0.78
Fairness (FAR)	3	0.82
Tax Evasion (TAE)	3	0.73
Public Trust (PUT)	3	0.74

Source: Authors' Creation (2024)

RESULTS AND DISCUSSION OF FINDINGS

Table 2: R-Square Adj.

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Tax Evasion	0.646	0.668	0.092	7.022	0.000

Source: Authors' Computation (2024)

The study investigated the relationship between rule of law and tax evasion in Nigeria, with public trust acting as a moderating variable. The adjusted R² of 0.646 indicates that the model explains 64.6% of the variance in tax evasion.

Table 3: Rule of Law, Tax Evasion and Pubic Trust

	Original Sample (O)	Sample Mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	Remarks
Legal Certainty -> Tax Evasion	-0.405	-0.425	0.172	2.352	0.019	H1
Equity before the Law -> Tax Evasion	-0.316	-0.309	0.119	2.645	0.008	H2
Fairness -> Tax Evasion	-0.510	-0.516	0.205	2.494	0.013	H3
Public Trust -> Tax Evasion	-1.692	-1.713	0.111	15.180	0.000	H4
Public Trust x Legal Certainty -> Tax Evasion	-1.052	-1.069	0.189	5.553	0.000	H5
Public Trust x Equity before the Law -> Tax Evasion	-0.482	-0.467	0.236	2.040	0.041	H6
Public Trust x Legal Certainty -> Tax Evasion	-1.052	-1.069	0.189	5.553	0.000	H7

Source: Authors' Computation (2024)

On table 3 the first hypothesis (**H₁**), which proposed that Legal certainty positively and significantly influence tax evasion in Nigeria, the result was negative and significant ($\beta = -0.405$, $t = 2.352$, $p = .019$), leading to the support of **H₁** but negative. For **H₂**, concerning Equality before the law positively and significantly affect tax evasion in Nigeria, the result was negative and significant ($\beta = -0.316$, $t = 2.645$, $p = .008$), thus **H₂** was supported but negative either. For **H₃**, which proposed that Fairness positively and significantly impact on tax evasion in Nigeria the result was negative and significant ($\beta = -0.510$, $t = 2.494$, $p = .013$), meaning **H₃** was supported but negative.

The moderation analysis showed that **H₄**, which posited that public trust positively and significantly moderates on the relationship between rule of law and tax evasion in Nigeria, the finding was also negative and significant ($\beta = -1.692$, $t = 15.180$, $p = .000$), thus **H₄** was supported but negative. For **H₅**, concerning public trust positively

and significantly moderates on the relationship between rule of law (legal certainty) and tax evasion in Nigeria the result was negative and significant ($\beta = -1.052$ $t = 5.553$, $p = .000$), leading to the support of **H₅**, but negative. For **H₆**, concerning public trust positively and significantly moderates on the relationship between rule of law (equity before the law) and tax evasion in Nigeria, the finding was negative and significant ($\beta = -0.482$, $t = 2.040$, $p = .0041$), meaning **H₆** was supported but negative. For **H₇**, pertaining to Public trust positively and significantly moderates on the relationship between rule of law (fairness) and tax evasion in Nigeria, the result was also negative and significant ($\beta = -1.052$, $t = 5.553$ $p = .000$), leading to the support of **H₇** but negative.

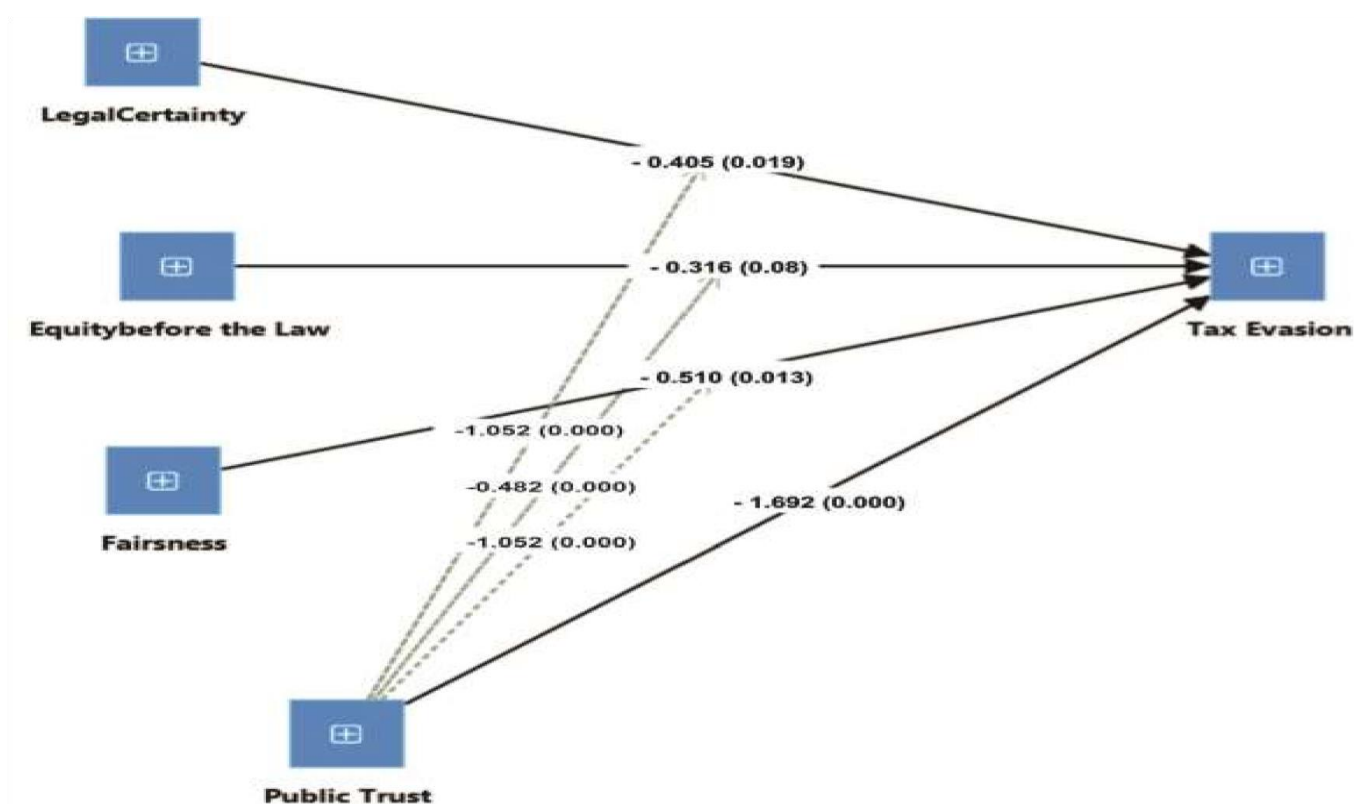


Figure 1: Process-Based Approach of Smart PLS

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The study explored the moderating role of public trust on government on the association between rule of law and tax evasion in Bayelsa State, Nigeria. The results from the structural equation model established a negative and significant link between rule of law (legal certainty) and tax evasion in Bayelsa State, Nigeria; a negative and significant link between rule of law (equity before the law) and tax evasion in Bayelsa State, Nigeria; a negative and significant link between rule of law (tax fairness) and tax evasion in Bayelsa State, Nigeria; a negative and

significant link between public trust in government on rule of law and tax evasion in Bayelsa State, Nigeria. The findings also established that public trust on government negatively and significantly moderates the association between rule of law and tax evasion in Bayelsa State, Nigeria. The study concluded that public trust on government activities moderates negatively and significantly on the relationship between tax justice (exchange equity, horizontal equity and vertical equity) on tax evasion in Bayelsa State, Nigeria. Therefore, the following recommendations were reached:

1. Public trust in government is observed to be a key driver of tax compliance and reduction in tax evasion, consequently the government needs to authentically fight against corruption and also ensure that the deployment of country's resources is transparent and there is accountability. When Nigerians have a optimistic perception of the government citizens and taxpayers are more likely to comply with the government rules in general and taxes in particular.
2. The government should build and strengthen public institutions in the country. Therefore, we recommend that tax authorities in the country (FIRS and SBIR) should carry out regular tax assessment. This will keep the taxpayers in check and get them ready to regularize their taxes thereby reducing the level of tax evasion in Nigeria.
3. The government should make appropriate tax laws, polices and data more accessible to taxpayers and also reduce the complexity to improve understanding and tax compliance in so doing reducing the high level of tax evasion in Nigeria.
4. The government should continuously evaluate and improve on tax laws and policies and also leverage on technology to improve tax compliance and revenue generation and so doing reducing the level of tax evasion.
5. The government should increase public participation by encouraging public input in tax policy discussions and foster international cooperation to address the high level of tax evasion in Nigeria.
6. The government should engage in pubic enlightenment to expand the knowledge of taxpayers by educating them on tax justice and the need to reduce the level of tax evasion in Nigeria for the expansion of government revenue generating capacity through taxation.

Implication of the Study and Area of Further Study

The findings of this study are expected to have vital implications for tax policy makers, practitioners and taxpayers. Tax policy makers can use the outcome of this investigation to understand that tax justice leads to a more efficient and effective tax system, resulting in increased revenue generation; promotes voluntary compliance, reducing tax evasion; ensure fair and progressive tax system, reducing economic social inequality; increases accountability and transparency in tax laws and revenue generation, ensures that tax laws and polices respect human rights and that revenue is allocated effectively to promote public goods and services. The outcome of this study has contributed to tax laws and tax justice literature by empirically confirming theoretical argument that public trust moderates the connection between tax justice and tax evasion. This finding adds to our knowledge of the frontiers of tax laws and policies. Also, this study has implications for taxpayers to understand

that tax justice aims to ensure that tax systems are transparent, accountable and promote economic and social justice. Also the protection of rights of taxpayers and ensuring they receive fair treatment.

This study provided vital and insightful findings, but with limitations. The study applied self-reports only due to difficulty in obtaining record-based data. Therefore, longitudinal design can be employed with waves of data collection through an appropriate instrument. Further studies can also investigate the connection between tax justice and tax evasion in Nigeria by including other variables. Further studies should be carried out to investigate other variables such as tax morale, and tax avoidance etc. Also, the research outcomes are constrained concerning their generalizability, and extrapolation to other nations should be done with vigilance. As a result further exploration into our proposed model in other countries is encouraged and supported.

Acknowledgement

We would like to express our profound gratitude and deep regards especially to the Tertiary Education Trust Fund (TETFUND) for the provision of the grant (funding) for this research project, Isaac Jasper Boro College of Education Sagbama, Bayelsa State, Nigeria and our students who played the role of research assistants and were partly involved in data collection process among listed firms in Nigeria to conduct and complete the study.

Declaration of Potential Conflict

We declare that there is no potential conflict to the publication of this paper and that the authors make equal contribution to this study.

References

- Abdella, M., Karafo, A., Mengistu, A. & Nguse, T. (2021). Determinants of tax evasion in South Omo Zone Revenue and Custom Authority.
- Abdul, F., & McFie, J.B. (2020), Tax complexity and compliance behaviour of large and medium sized business tax payers in Kenya. *Review of Integrative Business and Economics Research*, 9(2), 90-106.
- Adekoya, A. A., Agbetunde, L. A. & Lawal, A. B. (2020). Trust relationship and tax compliance in developing countries – informal sector perspectives.
- Adekoya, A. A., Oyebamiji, T. A. & Lawal, B. A. (2019). Rule of law, moderated by trusting government and voluntary tax compliance behaviour among individual taxpayers in Nigeria
- Ado, A. B. A., Mani, A., Goni, K. & Aliyu, U. (2018). Determinants of tax evasion in Nigeria.
- Agbetunde, L. A., Akinrinola, O. O. & Anyahara, L. O. (2020). A survey of religiosity, tax morale and compliance among micro, small and medium enterprises in Nigeria.
- Ajzen, I. (1991). Theory of planned behaviour. *Organisational Behaviour and Development Process*, 50(2), 179-211.

- Allingham, M.G. & Sandmo, A. (1972). Income tax evasion: A theoretical analysis.
- Alm, J., Cox, J.C., & Sadiraj, V. (2020), Audit state dependent taxpayer compliance: Theory and evidence from Colombia. *Economic Inquiry*, 58(2), 819-833.
- Alm, J., Liu, Y., & Zhang, K. (2019). Financial constraints and firm tax evasion. *International Tax and Public Finance*, 26(1), 71-102.
- Alm, J., & Malézieux, A. (2021), 40 years of tax evasion games: A meta analysis. *Experimental Economics*, 24(3), 699-750.
- Alstadsæter, A., Johannesen, N., Herry, S.L.G., & Zucman, G. (2022), Tax evasion and tax avoidance.
- Alstadsæter, A., Johannesen, N., & Zucman, G. (2019), Tax evasion and inequality. *American Economic Review*, 109(6), 2073-2103.
- Ariyanto, D., Andayani, G.A.P.W., & Dwija, I.G.A.M.A. (2020), Influence of justice, culture and love of money towards ethical perception on tax evasion with gender as moderating variable.
- Appah, E. & Aganaba, D. (2024a). Tax socialization and voluntary tax compliance behaviour: Does public trust matter?