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# Nigerian Tax System and Policy Defectiveness: How Relevant is Warren Buffett Theory

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**Abstract**
The study examines the Nigerian tax system and policy defectiveness vis-à-vis Warren Buffett theory. To achieve the objectives of the study, the primary source of data collection (Questionnaire) was used. The questionnaires were administered on the employees of Ogun State Internal Revenue Service, Tax consultants and Accountants (all referred to as the study's population). A sample of 60 individuals was drawn from the population using the random sampling technique which gives every individual in the population the equal chance of being chosen. Data collected were presented in tables with simple percentage, pie chart and the hypotheses were tested using the Analysis of Variance (ANOVA). The research findings disclosed that there is significant relationship between tax policy deficiencies and tax avoidance and evasion in Nigeria and that there is significant difference between taxes paid by the rich and the poor in Nigeria. The researchers therefore concluded that the Nigerian government should do everything possible to ensure that the loopholes in the Nigerian tax policy and administration which give room for tax avoidance and evasion are eliminated or reduced to the barest minimum. Hence, the study recommended among other things that Nigerian government should put mechanisms in place for tax effectiveness. This has to do with efficiency in tax collection and accountability on the part of the officials of government.
**Keywords:** Tax, Nigerian tax system, policy defectiveness, Warren Buffett theory, Tax avoidance and tax evasion.

## 1.0 INTRODUCTION

Nigeria is a country that is richly blessed with oil and other mineral resources, also with favourable land and climate good for agriculture and other allied products, which the country used as a source of revenue for economic growth and development. In the 1960s, as a result of favourable land and climate, Nigeria produced sufficient agricultural products for its consumption, raw materials for its industries and creation of employment for her citizens. Also, the country was able to generate foreign exchange for sustainable growth and development. Early in 1970's, the discovery of oil led to huge revenue from oil the huge foreign exchange received on oil led to the neglect of Agriculture and we now focus our attention on oil sector, according to Ariyo 1997, the price distortion of oil in international market created a problem for the economy which plunged the nation economy into in deficit.

The dwindling revenue on oil in the international market compelled the government to look inward on how to diversify the economy as well as how to restructure the economy to make it a stable economy with growth and development and how to have a good tax system that is geared towards stable economy. According to Popoola 2009 he emphasize that Nigeria tax system need to be structured toward economic goals, likewise Ijewere and Ndekwe 1991 sited that low productivity of tax system which resulted in deficiency in tax system and complex legislation and apathy on those outside the tax unit.

**Tax** is defined as money that has to be paid to the government by the people according to their profits on goods and services provided. Chris and Elizabeth (2001) also defined **taxes** as a forced proportional contribution from persons and property levied by the state by virtue of its sovereignty for the support of government and for all public needs.

Other definitions can also be gleaned from judicial precedents. In Matthew V. Chikory Marketing Board of Victoria Australia, C. J. Latham defined **tax** as a compulsory exaction of money by a public authority for public purposes. Tax in this regard is seen as a means of raising money from the public by the government by means of contributions from individual persons. In the case of USA V. Butler, Justice Robert defined **tax** in the general understanding of the term as exaction money from members of the society for the support of the government expenditure (Chris and Elizabeth, 2001).

In summary therefore, according to Chris and Elizabeth (2001) tax has three basic features namely; a compulsory levy imposed by government, or local authority, for public purpose and to encourage social justice. A tax according to Ayua (1996) is not a voluntary payment but a compulsory pecuniary burden placed on taxpayers for the benefit of the society.

Generally, **taxation** can be described as a form of levy imposed on all residents and non-residents doing business within a tax jurisdiction. It is a civic and patriotic responsibility of citizens to pay taxes imposed which also come to the government as revenue yielding device to finance the provisions of socio-economic and infrastructural amenities and also to enhance industrial efficiency (Angahar & Alfred, 2012).

Tax as a source of revenue is imposed or levied on the residents of the country, and which the Government used to fulfill her responsibility to her citizen such as:

1. Protection of lives and properties of her citizen
2. Provision of basic infrastructure for her citizen in term of good road, hospital, construction of bridges, railways line, airport and seaport.
3. Protection of Country against internal and external aggression
4. Redistribution of income
5. Restraining consumption of harmful goods
6. Protection of infant industry, just to mention a few.

## 1.1 CANONS/ PRINCIPLES OF TAXATION

### 1.1.1 EQUITY/ EQUALITY/ ABILITY TO PAY

This principle does not mean that every tax payer should pay the same amount of tax. A tax is fair or equitable if the rich does not only pays more tax than the poor, but pays proportionally more. In other words, higher incomes should attract higher rate of taxes. This is referred to as progressive taxation.

### 1.1.2 CERTAINTY

The amount of tax each tax payer ought to pay, the date for payment and the manner for the payment should be certain and very clear to the tax payer. The tax payer should even work out or estimate his tax liability with a reasonable degree of accuracy.

### 1.1.3 CONVENIENCE

A tax payer should be levied at the time and in manner most likely to suit the convenience of the tax payer. For example, value added tax (VAT) is included in the prices of goods so that the consumer pays the tax when making purchases. The consumer may not even realize that he is paying VAT.

### 1.1.4 ECONOMY

It is of no use to introduce a tax that will cost more money to collect than the money it will bring to the government. If, for example, it costs ₦3 million to collect a particular tax and the amount of tax is ₦2 million, it means that the cost of collection has swallowed up the tax collected. It would be meaningless and a waste of public funds to continue with that type of tax.

### 1.1.5 FISCAL ADEQUACY OR PRODUCTIVITY

This principle implies that a tax should yield sufficient revenue to cover the government expenditure. The government will be in deficit if its expenditure exceeds its revenue. In trying to raise more revenue, the government should not have stifled the production capacity of the economy.

### 1.1.6 SIMPLICITY

The tax system should be easy to understand such that the taxpayer can even work out his tax liability. If a tax is complicated and difficult for the taxpayer to understand, some tax officials may take advantage of that to oppress and extort money from the tax payer. On the other hand, the loopholes and ambiguities may open the door for the tax payer to evade or avoid tax.

### 1.1.7 FLEXIBILTIY

The economy is not static; therefore, the tax system should not be rigid. The tax system should be capable of being quickly adjusted to meet the changing needs of the economy. Sometimes the government may have to introduce new taxes or increase tax rate to meet up with an increase in its financial needs.

### 1.1.8 DIVERSITY

Imagine what would happen if the government abolishes all type of taxes and impose only a single tax. The government will be ‘putting all its eggs in one basket’. If, for example, only petroleum profits tax is levied, many people will not be liable to tax and the government revenue will be greatly reduced if there is a fall in the price of crude oil. It makes sense to have a variety of taxes (both direct and indirect taxes) in the economy to ensure that as many people as possible are made to contribute to the government revenue.

Tax evasion is prevalent in the informal sector of the economy which constitutes the larger percentage of the population while tax avoidance is common in formal sector of the economy as a result of their knowledge of tax laws. The informal sector comprises self employed people, artisans, petty trader and others which are usually administered for tax purpose through the poll tax system. For the purpose of this study, formal sector includes limited liability companies who have capacity to explore the loopholes in the tax laws for the purpose of tax avoidance.

In 2008, the presidential committee on National tax policy 2008 states that Nigeria tax system is divided into three - the tax law, tax policy and tax administration.

**Objectives of National Policy on tax 2008**

1. Encourage economy growth and development
2. Generate revenue to accomplish laudable project or investment for people benefit
3. Provide economic stabilization
4. Pursue fairness and distributing equity
5. Correction of market failure and imperfection

***Tax Policy***, According to Presidential Committee on National Tax Policy 2008, provides a set of rules, modus operandi and guidance to which all stakeholders in the tax system must subscribe. The policy formulation is the responsibility of the Federal Inland Revenue Service (FIRS), Customs, NNPC, National Population commission and other Agencies but under the guidance of National Assembly. This policy serves as a stable point of reference for all stakeholders.

James and Nobes 2008 noted that tax policy fail to meet up with efficiency and equity because of the subjected pressure and changes which do not guarantee outcome that is in line with overall goals.

***Tax Law*** is an embodiment of rules and regulations relating to tax revenue and various kinds of tax in Nigeria which are made by the legislative arms of the Government which are prone to amendments from time to time.

**Tax Administration** are set of people in charge of tax implementation (McPherson 2004) says that for tax to achieve a desire result it should be effectively and efficiently implemented.

According to Kiabel and Nwokah, tax administration is the responsibility of various tax authorities like the Federal board of Inland Revenue, State board of Inland Revenue and local government revenue committee. The autonomy given to this various organs has led to many of them charging the same tax under different names and this led to multiple taxation.

Coming to Warren Buffet, he is often referred to as the world's greatest investor, and his long-term track record suggests that the title is well deserved. He is also legendarily frugal, residing in the same house in Omaha, Nebraska, that he bought in 1958 for $31,500. He is well known for his simple taste including McDonald's hamburgers and cherry Coke, and his disdain for technology including computers and luxury cars. Underlying his legend is one simple fact: Buffett is a valued investor. It's the hallmark trait of both his professional and personal success. Buffet, who is estimated to be worth more than $47 billion, called on Congress to commit to "shared sacrifice" and raise taxes on people earning more than $1 million. Buffett said the rich are "coddled" by Congress "as if we were spotted owls or some other endangered species."

In his claim on tax system, he has been arguing that his tax rate is equal to the amount of tax paid, divided by his income. "Last year (2010) my federal tax bill (the income tax I paid, as well as payroll taxes paid by me and on my behalf) was $6,938,744. That sounds like a lot of money. But what I paid was only 17.4 percent of my taxable income and that's actually a lower percentage than was paid by any of the other 20 people in our office. Their tax burdens ranged from 33 percent to 41 percent and averaged 36 percent - Warren Buffet.

"OUR leaders have asked for "shared sacrifice." But when they did the asking, they spared me. I checked with my mega-rich friends to learn what pain they were expecting. They too were left untouched. While the poor and middle class fight for us in Afghanistan most Americans struggle to make ends meet. We mega-rich continue to get our extraordinary tax breaks. Some of us are investment managers who earn billions from our daily labour but are allowed to classify our income as "carried interest," thereby getting a bargain 15% tax rate. Others own stock index for 10 minutes and have 60% of their gain taxed at 15%, as if they had been long-term investors - Warren Buffet.

Over the last few decades, most developing countries have reformed their tax policies along similar lines. First, they have attempted to broaden the base of personal income tax systems and reduce the highest marginal tax rates, in order to increase revenue and simplify the tax system; second, they have reduced corporate tax rates aiming to boost investment; and third, they have increased indirect taxes, such as VAT, to compensate for reduced trade taxes. In addition, common administrative reforms have included the appointment of tax specialist and the creation of large taxpayer units and revenue authorities that are 'semi-autonomous' from government.

**The Defectiveness of tax system and policy**

***Management and organization approach in tax system is very weak -*** weakness in term of poor tools, inadequate staffing of the tax collecting organization, poor funding, bad access road to the interior rural areas and poor enlightment program. According to Quadri Kunle, the President Chartered Institute of Taxation of Nigeria (CITN) in an interview with Daily sun says "let us have tax men that have been trained to do the job while in administration we need to put a round peg in a round hole, Ogbonna 2010.

***Tax Administration in Nigeria is very complex -*** where the Federal Government administers tax through Federal Inland Revenue Service, the state administers tax through the State Inland Revenue Service and the local Government through the Local Tax Committee. Then the responsibility overlap hence, the joint tax board was created to solve the problems that emanate as a result of tax administration between them. According to Onyeukwu 2010, autonomy of each state causes multiplicity of tax burden on tax payer hence encouraging tax evasion.

***The relationship between tax administrator and tax payer*** - this occurs when some of the tax administrators connive with tax payers to fill their tax liability by declaring low income. Also, the attitude of tax administrator towards freeing tax evader contributes to the defectiveness of tax system in Nigeria.

***High tax rate -*** This is one of the factors that influence people to avoid tax obligation thereby creating room for tax avoidance and evasion.

The purpose of this study is to determine the effects of policy defectiveness on Nigerian Tax System. Hence, the study intends to answer the following research questions:

1. Can the deficiencies in Nigerian tax policy lead to tax avoidance and tax evasion in Nigeria?
2. Does the Nigerian tax system allow the poor to pay more taxes than the rich?

This paper therefore, is divided into eight sections. Section 1 is about the introduction. Section 2 deals with the theoretical framework. Section 3 is about empirical evidence. Section deals with the methodology. Section 5 concerns itself with data presentation, analysis and interpretation. Section 6 concerns discussion of findings. Section 7 is about the conclusion and lastly section 8 comprises the study's recommendations.

## 2.0 THEORETICAL FRAMEWORK

Theories are generalizations which serve to organize masses of data in order to establish significant relationship from the data. Theories on their own may lead to misunderstandings as it means different things to different people. The economists have put forward many theories or principles of taxation at different times to guide the state as to how justice or equity in taxation can be achieved. Few of the theories that are relevant to this paper are discussed.

### 2.1 Benefit (Quid Pro Quo) Theory

According to the benefit theory of taxation developed by Erik Lindahl, tax levels are automatically determined because tax payers pay proportionately for the government benefits received by them. In other words, individuals who benefit from public services and infrastructures should pay the taxes. Lindahl tried to solve three problems:

- Extent of state activity.
- Allocation of the total expenditure among various goods and services.
- Allocation of tax burden.

The theory stipulates that taxes should be apportioned to individuals according to the benefits they receive from the government expenditure. According to Little (1956), the benefit theory implies that tax should be assessed as payment for services rendered by the authorities to the individual members of the state. Based on the benefit theory, it means that if tax revenue is used to finance the building of a primary school, a man who has no child should not pay the tax since he will not benefit from it.

Taxation based on the benefit theory will not yield much revenue to the government since, as already stated, many people who can afford to pay heavy tax may end up paying less tax simply because they do not receive much benefit from government expenditure.

This principle has been subjected to severe criticisms on the following grounds:

- If the state maintains a certain connection between the benefit conferred and the benefits served, it will be against the principle of tax as it is compulsory contribution made to the public authorities to meet the expense of the government and for the provision of general infrastructures to all. Tax is also the nexus between state and its citizen and tax revenues are the lifeblood of the social contract. The very act of taxation has profoundly beneficial effects on fostering better and more accountable government (Tax Justice Network (TJN) 2012). This theory assumes that government has another source of funding infrastructure and the burden will now be passed to the citizen. The reverse is the case in taxation.
- The second flaw of benefit theory is that most of the expenditures incurred by the state is for the general benefit of the citizen. As a result of this, it is impossible to estimate the benefit enjoyed by a particular individual every year.
- The third flaw is that if we apply the principle in practice, then the poor will have to pay the heaviest taxes because they benefit more from services of the state such as hospitals, schools and so on. This is in conflict with one the main purpose of taxation which is redistribution of income.

### 2.2 Ability to pay (Faculty) Theory

The ability theory presented by Arthur Cecil Pigou also known as Ability-to-pay approach posits that taxes are based on tax payers ability to pay: there is no "quid pro qou meaning "something for something". Taxes paid are seen as sacrifice by taxpayers, which raise the issue of what the sacrifice of each taxpayer should be and how it should be measured. This is the most popular and commonly acceptable principle of equity and justice in taxation. The taxable capacity of every citizen is primary in determining the tax burden to be borne. For instance, if the taxation capacity of Mr. A is greater than that of Mr. B then the former should be asked to pay more tax then the latter. The next line of argument is how to determine who has ability to pay. The main views advanced are as follows:

- Ownership of a property: some economists are of the opinion that ownership of a property is a very good basis of measuring one's ability to pay. This idea is outrightly on the ground that if a person earns a large income but does not spend on buying property, he will then escape. It is unjustifiable. This is the reason why many residents of some states such as Lagos have refused to register on the platform established by government for the residents' data collection.
- On the basis of expenditure: it is also asserted by some economists that the ability to pay tax should be judged by expenditure which a person incurs. The greater the expenditure the higher the tax. The view point is unsound and unfair in every respect as a person with large family to support has to spend more than the person having a small family.
- Income as the basis: this appear to be very just and fair in that a person with higher income pays more tax than a person with lower income. Modern tax system in the countries of the world has accepted income as the best test for measuring ability to pay off a person.

The ability to pay theory dictates that every taxpayer should be taxed according to his ability to pay. This implies that those who are better-off should be taxed more heavily than those who are worse-off irrespective of whether or not they benefit more from government expenditure. Hence, people with equal abilities to pay should pay the same amount of tax (horizontal equity), while people with different abilities to pay should pay different amount of tax; people with less ability should pay less tax than those with greater ability (vertical equity).

However, the problem with this theory is how to measure a taxpayer's ability to pay. Is it his income, wealth, consumption or some other criteria that should be used to gauge his ability to pay?

### 2.3 The cost of service theory

Some economists were of the opinion that if the state charges actual cost of the service rendered from the people, it will satisfy the idea of equity or justice in taxation. The cost of service principle can no doubt be applied to some extent in those cases where the services are rendered at prices which are a bit easy to determine, e.g., postal, railway services, supply of electricity, etc., etc. But most of the expenditure incurred by the state cannot be fixed for each individual because it cannot be exactly determined. For instance, how can we measure the cost of service of the police, armed forces, judiciary, etc., to different individuals? Dalton has also rejected this theory on the ground that there's "no quid pro quo" in a tax.

### 2.4 The Proportionate Principle

In order to satisfy the idea of justice in taxation, J. S. Mill and some other classical economists have suggested the *principle of proportionate in taxation*. These economists were of the opinion that if taxes are levied in proportion to the incomes of the individuals, it will extract equal sacrifice. The modern economists, however, differ with this view. They assert that when income increases, the marginal utility of income decreases. The equality of sacrifice can only be achieved if the persons with high incomes are taxed at higher rates and those with low income at lower rates. They favour progressive system of taxation, in all modern tax systems.

### 2.5 Consolidated Relief Allowance Theory

Section 33 (1) of the old Personal Income Tax Act which grants personal relief of N5,000 plus 20% of earned income to every individual has been substituted in the Personal Income Tax Amendment Act with a Consolidated Relief Allowance (CRA) of N200,000, subject to a minimum of 1% of gross income whichever is higher, plus 20% of the gross income. The amendment further states that the balance of the income after the deduction of the Consolidated Relief Allowance and tax exempt deductions shall be assessed to tax at the rates specified in the Sixth Schedule. The rate specified has also increased the tax payable by low income earners from 5% to 7%.This buttress the fact that the main purpose of the amendment is to increase the tax revenue.

### 2.6 Warren Buffett Theory

Warren Edward Buffett, an American business magnate, investor and a philanthropist, commented that the tax rate he pays is less when compared with rate of tax at which is employees are subjected to tax and felt so concerned with the situation. Buffett stated that he only paid 19% of his income for 2006 ($48.1 million) in total federal taxes (due to their source as dividends & capital gains, although the figure excluded the taxes on that income paid by the corporations that provided it), while his employees paid 33% of theirs, despite making much less money.

In August 2011, Warren Buffett wrote an opinion in the New York Times in which he made the assertion that his 2010 "federal tax rates of 17.4% was 18% less than the 36% average rate paid by the 20 other workers in his office. His analysis was the basis for "Buffett Rule" a tax plan proposed by president Obama that will implement measure under which everyone making more than $1million in income per year would pay a minimum effective tax rate of 30%.

This assertion agrees with ability to pay theory and the proportionate principle in taxation. For the purpose of this study, Warren Buffett rule is our theoretical focus.

## 3.0 EMPIRICAL EVIDENCE

Tamunonimim and Masa (2012) worked on the appraisal of tax system in Nigeria: A case study of Value Added Tax (VAT). The study investigated the usefulness of the tax system in Nigeria. As a survey study, published data on Total Consumption Expenditure, Value Added Tax revenue and the Gross Domestic Product were utilised from 1994 to 2004. The result of the study revealed that VAT system in Nigeria has been effective in generating more than expected revenue but not efficient in directing or influencing the consumption expenditure of the Nigerian citizens. The study makes the conclusion based on the fact that the effectiveness rating was 112% while the efficiency ratio was about 42%.

Micah, Ebere and Umobong (2012) examined the tax system in Nigeria – challenges and the way forward. The study offered a theoretical framework for improving some silent issues in Nigeria's tax system, suggesting challenges and possible remedies.

Adebisi and Gbegi (2013) studied the effect of tax avoidance and tax evasion on Personal Income Tax Administration in Nigeria. The main objective of the study is to find out why people evade and avoid taxes and suggest ways of minimizing the practice in Nigeria. The study adopts survey research design and questionnaires were used to obtain the data. Data collected were analysed using the analysis of variance (ANOVA). From the result of the test of conducted, the study deduced that, there is significant relationship between tax avoidance, tax evasion and the personal income generation in Nigeria and that there is significant relationship between the tax rates, tax avoidance and tax evasion. The researchers among other things recommend that Nigeria government should embark upon other means of publicity and that the tax authority should properly review and evaluate the assessment and collection procedures so as to encourage compliance by the taxpayers.

Worlu and Nkoro (2012) worked on "Tax Revenue and Economic Development in Nigeria: A Macroeconomic Approach", judging from the impact on infrastructural development of the country from 1980 to 2007. To achieve the study's objective, relevant data were collected from the Central Bank of Nigeria (CBN) Statistical bulletin and Federal Inland Revenue Service (FIRS). The data collected were analysed using the three stage least square estimation technique. The result showed that tax revenue stimulates economic growth through infrastructural development. However, the study concluded that tax revenues can only materialise its full potential on the economy if government can come up with fiscal laws and legislation and strengthen the existing ones in line with macroeconomic objectives which will check mate tax offenders in order to minimise corruption, tax evasion and avoidance.

Lee and Gordon (2004) in their paper, Tax structure and economic growth, explore how tax policies affect a country's growth rate, using cross-country data during 1970–1997. Their findings revealed that statutory corporate tax rates are significantly negatively correlated with cross-sectional differences in average economic growth rates, controlling for various other determinants of economic growth, and other standard tax variables. And also, that in fixed-effect regressions increases in corporate tax rates lead to lower future growth rates within countries.

Ogbonna and Ebimobowei (2012) examined the Impact of Tax Reforms and Economic Growth of Nigeria using relevant descriptive statistics and econometric analysis and concluded that the various test shows that tax reforms is positively and significantly related to economic growth and that tax reforms granger cause economic growth. Also, that tax reforms improves the revenue generating machinery of government to undertake socially desirable expenditure that will translate to economic growth in real output and per capita basis.

## 4.0 METHODOLOGY

The researchers adopt survey research design in carrying out the study. The primary source of data collection (Questionnaire) was used. The questionnaire was closed-ended with Strongly Agreed, Agreed, Undecided, Disagreed and Strongly Disagreed responses. Responses from the respondents were therefore keyed using five point scale of 5 - Strongly Agree; 4 - Agree; 1 - Undecided; 3 - Disagree; 2 - Strongly Disagree. The questionnaire was administered on the employees of Ogun State Internal Revenue Service, Tax consultants and Accountants (all referred to as the study's population). A sample of 60 individuals was drawn from the population using the random sampling technique which gives every individual in the population the equal chance of being chosen. Data collected were presented in tables with simple percentage and the hypotheses were tested using the Analysis of Variance (ANOVA). The level of significance is 5%.

## 4.1 OBJECTIVES OF THE STUDY

The main objective of the study is to determine the effects of policy defectiveness on Nigerian Tax System. Other specific objectives of the study are to:

1. Evaluate the effect of tax policy deficiencies on tax avoidance and tax evasion in Nigeria.
2. Ascertain whether the Nigerian tax system allows the poor to pay more taxes than the rich.

## 4.2 HYPOTHESES OF THE STUDY

Ho1: There is no significant difference between tax policy deficiencies and tax avoidance and evasion in Nigeria.
Ho2: There is no significant difference between taxes paid by the rich and the poor.

## 5.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Data presented in this section of the study are those collected from the field survey on the study. A total of sixty (60) questionnaires were administered while only fifty-six (56) were fully filled and returned.

*Table 1: The loopholes in Nigerian tax policy and administration give room for tax avoidance and evasion.*

| Options | Frequency | Percentage (%) |
|---|---|---|
| Strongly Agreed (SA) | 130 | 54% |
| Agreed (A) | 84 | 35% |
| Undecided (U) | 0 | 0% |
| Disagreed (D) | 21 | 9% |
| Strongly Disagreed (SD) | 4 | 2% |
| Total | 239 | 100% |

From Table 1 above, 54% of the respondents' responses strongly agreed that the loopholes in the Nigerian tax policy and administration give room for tax avoidance and evasion, 35% agreed with the statement, 9% disagreed while only 2% strongly disagreed with the above statement.

Also, the respondents' response (in percentages) is shown in a pie chart below;

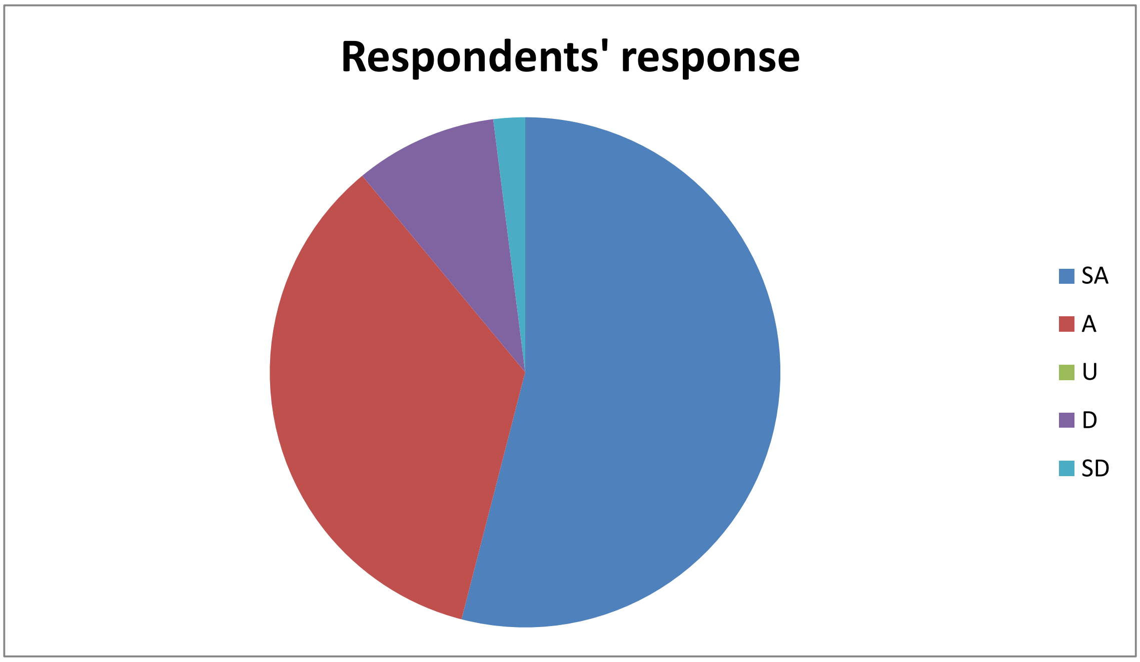



*Table 2: Public enlightenment and tax education will discourage tax avoidance and evasion.*

| Options | Frequency | Percentage (%) |
|---|---|---|
| Strongly Agreed (SA) | 120 | 52% |
| Agreed (A) | 76 | 33% |
| Undecided (U) | 0 | 0% |
| Disagreed (D) | 27 | 12% |
| Strongly Disagreed (SD) | 8 | 3% |
| Total | 231 | 100% |

From Table 2 above, 52% of the respondents' responses strongly agreed that public enlightenment and tax education will discourage tax avoidance and evasion, 33% agreed with the statement, 12% disagreed while only 3% strongly disagreed with the above statement.

Also, the respondents' response (in percentages) is shown in a pie chart below;

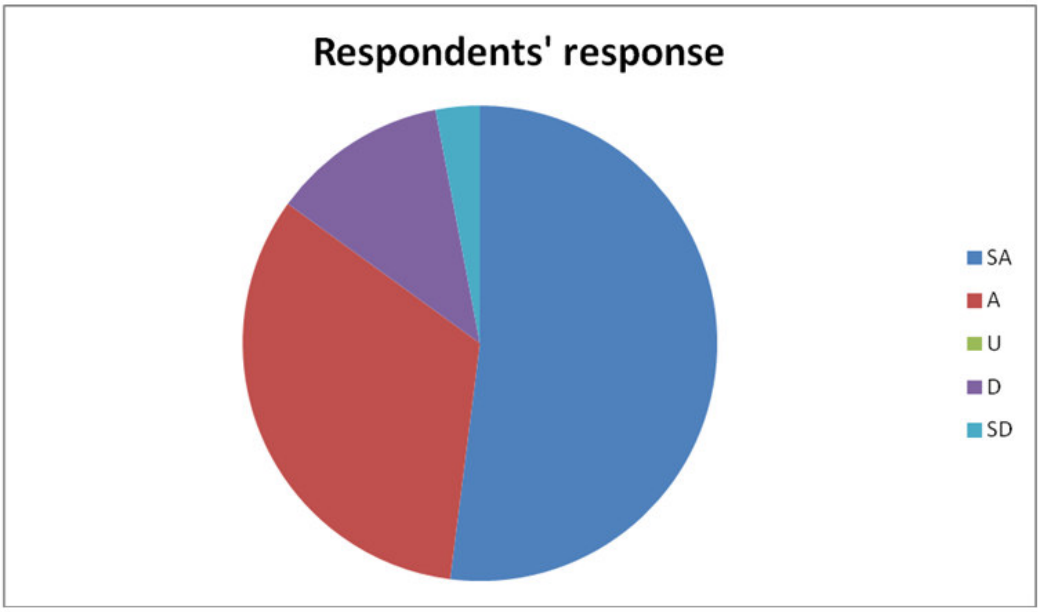



*Table 3: Adequate utilization of tax revenue on public utilities will discourage tax avoidance and evasion.*

| Options | Frequency | Percentage (%) |
|---|---|---|
| Strongly Agreed (SA) | 115 | 49% |
| Agreed (A) | 100 | 42% |
| Undecided (U) | 0 | 0% |
| Disagreed (D) | 15 | 6% |
| Strongly Disagreed (SD) | 6 | 3% |
| Total | 236 | 100% |

From Table 3 above, 49% of the respondents' responses strongly agreed that adequate utilization of tax revenue on public utilities will discourage tax avoidance and evasion, 42% agreed with the statement, 6% disagreed while only 3% strongly disagreed with the above statement.

Also, the respondents' response (in percentages) is shown in a pie chart below;

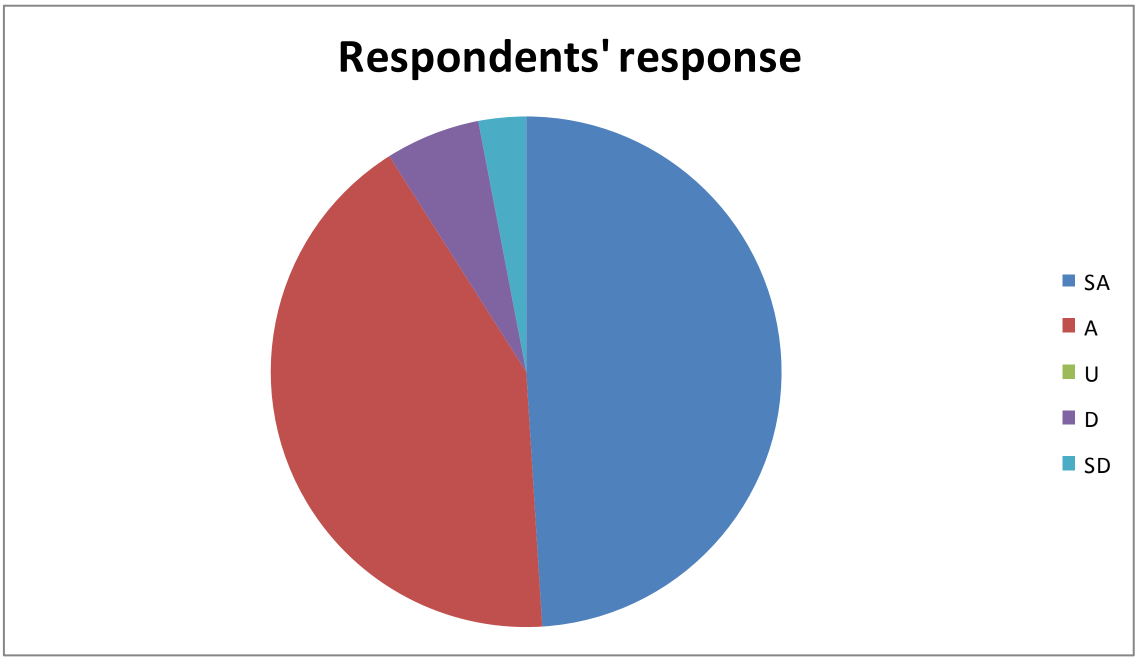


*Table 4: Nigerian tax system does not adequately cover the informal sector of the economy.*

| Options | Frequency | Percentage (%) |
|---|---|---|
| Strongly Agreed (SA) | 85 | 40% |
| Agreed (A) | 92 | 43% |
| Undecided (U) | 4 | 2% |
| Disagreed (D) | 27 | 12% |
| Strongly Disagreed (SD) | 6 | 3% |
| Total | 214 | 100% |

From Table 4 above, 40% of the respondents' responses strongly agreed that Nigerian tax system does not adequately cover the informal sector of the economy, 43% agreed with statement, 2% undecided, 12% disagreed while only 3% strongly disagreed with the above statement.

Also, the respondents' response (in percentages) is shown in a pie chart below;

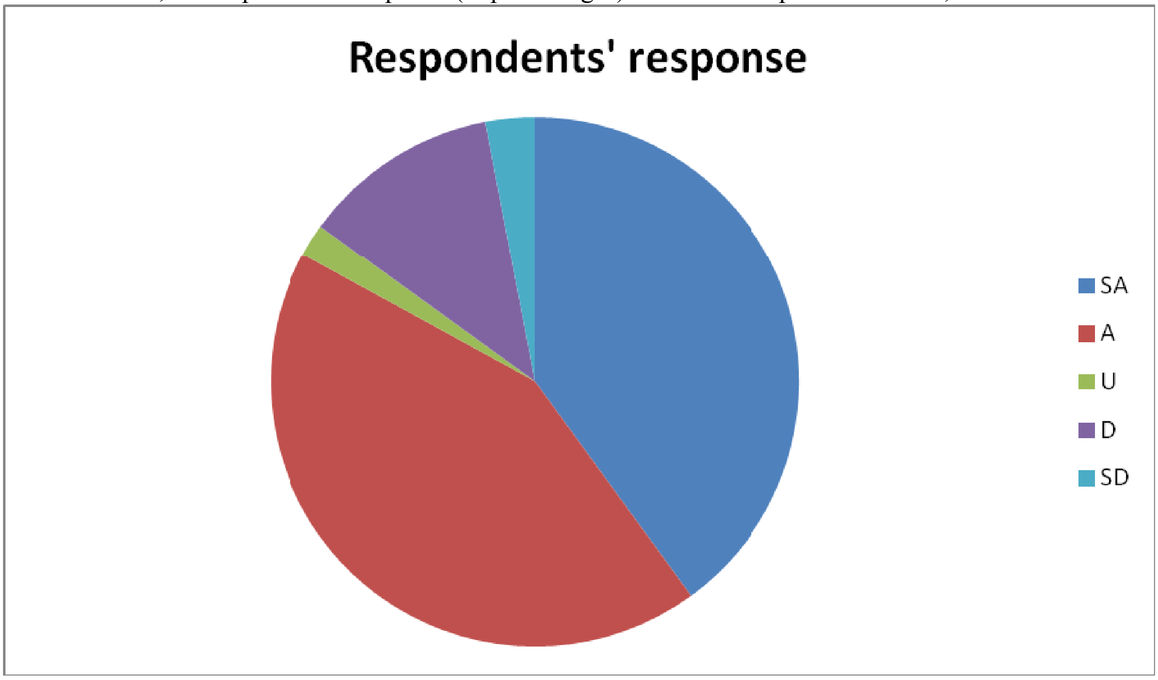



*Table 5: In Nigeria, the rich pays more taxes than the poor.*

| Options | Frequency | Percentage (%) |
|---|---|---|
| Strongly Agreed (SA) | 45 | 23% |
| Agreed (A) | 92 | 47% |
| Undecided (U) | 5 | 3% |
| Disagreed (D) | 30 | 15% |
| Strongly Disagreed (SD) | 24 | 12% |
| Total | 196 | 100% |

From Table 5 above, 23% of the respondents' responses strongly agreed that in Nigeria, the rich pays more taxes than the poor, 47% agreed with statement, 3% undecided, 15% disagreed while only 12% strongly disagreed with the above statement.

Also, the respondents' response (in percentages) is shown in a pie chart below;

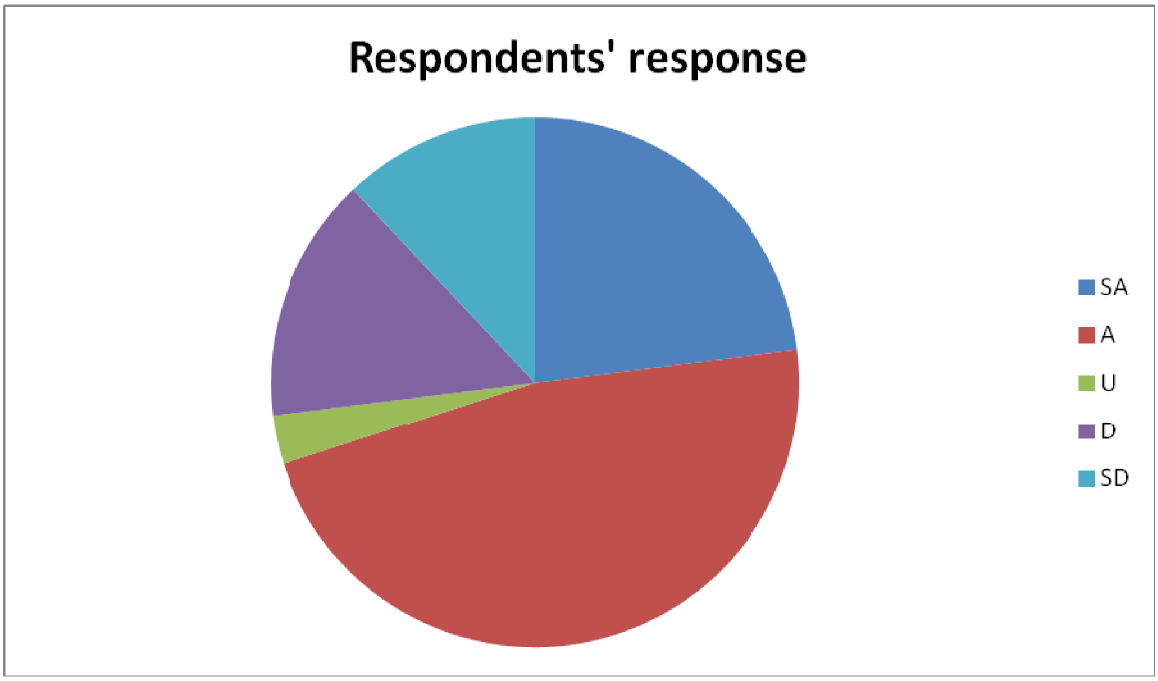
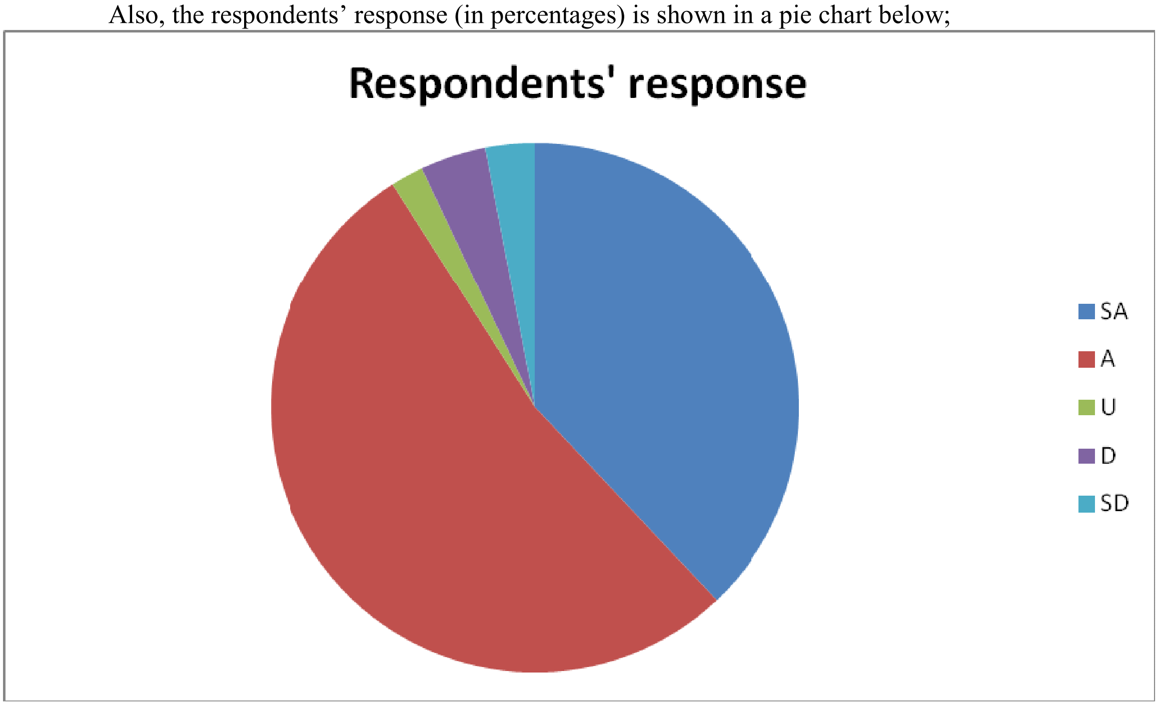



*Table 6: The personal income tax is progressive in nature.*

| Options | Frequency | Percentage (%) |
|---|---|---|
| Strongly Agreed (SA) | 80 | 38% |
| Agreed (A) | 112 | 53% |
| Undecided (U) | 5 | 2% |
| Disagreed (D) | 9 | 4% |
| Strongly Disagreed (SD) | 6 | 3% |
| Total | 212 | 100% |

From Table 6 above, 38% of the respondents' responses strongly agreed that the personal income tax is progressive in nature, 53% agreed with statement, 2% undecided, 4% disagreed while only 3% strongly disagreed with the above statement.

Also, the respondents' response (in percentages) is shown in a pie chart below;



### 5.1 Hypotheses testing

Hypothesis one: There is no significant difference between tax policy deficiencies and tax avoidance and evasion in Nigeria.

ANOVA TABLE

Anova: Single Factor

SUMMARY

| *Groups* | *Count* | *Sum* | *Average* | *Variance* |
|---|---|---|---|---|
| Column 1 | 3 | 365 | 121.6666667 | 58.33333333 |
| Column 2 | 3 | 260 | 86.66666667 | 149.3333333 |
| Column 3 | 3 | 0 | 0 | 0 |
| Column 4 | 3 | 63 | 21 | 36 |
| Column 5 | 3 | 18 | 6 | 4 |

ANOVA

| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
|---|---|---|---|---|---|---|
| Between Groups | 35143.6 | 4 | 8785.9 | 177.3734859 | 3.076E-09 | 3.47805 |
| Within Groups | 495.3333333 | 10 | 49.53333333 | | | |
| | | | | | | |
| Total | 35638.93333 | 14 | | | | |

**Source: Authors' computation (2015)**

**Interpretation:**

From the ANOVA test statistics table above, the value of F calculated equals 177.37. Also, from the F distribution table at 5% with (4, 10) as degree of freedom, the value of F tabulated equals 3.48. Hence, F calculated is greater than F tabulated at 5% level of significance. Therefore, the null hypothesis is rejected meaning that there is significant difference between tax policy deficiencies and tax avoidance and evasion in Nigeria. That is, there is significant relationship between tax policy deficiencies and tax avoidance and evasion in Nigeria.

Hypothesis two: There is no significant difference between taxes paid by the rich and the poor

ANOVA TABLE

Anova: Single Factor

SUMMARY

| *Groups* | *Count* | *Sum* | *Average* | *Variance* |
|---|---|---|---|---|
| Column 1 | 3 | 210 | 70 | 475 |
| Column 2 | 3 | 280 | 93.33333333 | 325.3333333 |
| Column 3 | 3 | 14 | 4.666666667 | 0.333333333 |
| Column 4 | 3 | 66 | 22 | 129 |
| Column 5 | 3 | 36 | 12 | 108 |

ANOVA

| *Source of Variation* | *SS* | *df* | *MS* | *F* | *P-value* | *F crit* |
|---|---|---|---|---|---|---|
| Between Groups | 18300.26667 | 4 | 4575.066667 | 22.0449727 | 6.019E-05 | 3.47805 |
| Within Groups | 2075.333333 | 10 | 207.5333333 | | | |
| Total | 20375.6 | 14 | | | | |

**Source: Authors' computation (2015)**

**Interpretation:**

From the ANOVA test statistics table above, the value of F calculated equals 22. Also, from the F distribution table at 5% with (4, 10) as degree of freedom, the value of F tabulated equals 3.48. Hence, F calculated is greater than F tabulated at 5% level of significance. Therefore, the null hypothesis is rejected meaning that there is significant difference between taxes paid by the rich and the poor in Nigeria. That is, there is significant relationship between taxes paid by the rich and the poor in Nigeria.

## 6.0 DISCUSSION OF FINDINGS

From table 1, the study revealed that the loopholes in Nigerian tax policy and administration give room for tax avoidance and evasion going by the number of respondents that chose strongly agreed. Table 2 of the study showed that public enlightenment and tax education will discourage tax avoidance and evasion in view of the number of respondents that went for strongly agreed. Table 3 of the study revealed that adequate utilization of tax revenue on public utilities will discourage tax avoidance and evasion going by the number of respondents that went in agreement with the statement raised. Table 4 of the study revealed that Nigerian tax system does not adequately cover informal sector of the economy going by the number of respondents that went in agreement with the statement raised. Table 5 of the study showed that in Nigeria, the rich pays more taxes than the poor going by the number of respondents that went in agreement with the statement raised. Lastly, Table 6 of the study revealed that the personal income tax is progressive in nature as majority of the respondents agreed with the statement raised.

Also, from the result of hypotheses testing the study revealed that there is significant relationship between tax policy deficiencies and tax avoidance and evasion in Nigeria and that there is significant difference between taxes paid by the rich and the poor in Nigeria.

## 7.0 CONCLUSION

Going by the findings of this study, it can be deduced in line with Warren Buffett Theory that in Nigeria, there is significant difference between taxes paid by the rich and the poor. The difference just as it was argued by Warren is not in the amount paid but in the rate at which taxes are charged. This is because of the fact that the rich get most of their income from sources that are no adequately captured by tax system in Nigeria.

As it can be seen from the study, the Nigerian government should do everything possible to ensure that the loopholes in the Nigerian tax policy and administration which give room for tax avoidance and evasion are eliminated or reduced to the barest minimum. Hence, by eliminating or reducing the loopholes, more revenue can be generated into government purse.

Furthermore, there are three classes of people in Nigeria as identified by this study: the rich, the middle class and the poor. The rich has many income streams which are not captured by our tax system and as such the rich pays less than the poor in real term. This negates the ability to pay theory of taxation and the redistribution of income purpose of taxation.

## 8.0 RECOMMENDATIONS

In the light of the study's findings, the following recommendations are made:

1. Nigerian government should put mechanisms in place for tax effectiveness. This has to do with efficiency in tax collection and accountability on the part of the officials of government.
2. Nigerian government should also embark on public enlightenment, tax awareness and adequate utilization of tax revenue on public utilities in order to induce the citizenry to be tax compliance and see reasons why they should voluntarily pay taxes.
3. Mechanism should also be put in place to have accurate data of taxpayers most especially those in the informal sector of the economy. That is those working in the private sector and self employed.

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