

TAX EVASION AND AVOIDANCE ERADICATION: THE ROLE AND EFFECT OF ACCOUNTING INFORMATION SYSTEM

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Abstract: *The benefits of using Accounting Information Systems as tools in eradicating the problem of tax evasion and avoidance that is rooted in Nigeria is what this study analysed. This study was carried out in Oyo State, Nigeria. 66 officials of the State Internal Revenue Service were purposively selected. Questionnaire was used as a data collection instrument to administered questions related to the study objective and hypothesis. Descriptive statistics was used to analyse the objective of the research while the hypothesis was tested with one sample t-test. From the result, it was discovered that the most promising role of AIS as a tool for tax evasion and avoidance is that it will keep accurate electronic records of tax payer in order to moderate tax evasion and avoidance which may be access anytime and anywhere in Nigeria. The t-test result revealed the effect of AIS on tax evasion and avoidance and the result was positive and significant which implies that AIS plays a significant role in tax evasion and avoidance. Recommendation was made to the Nigeria Government and other policy maker that Accounting Information Systems should be acquired and use as prominent tools across the country in eradicating tax evasion and avoidance.*

Keywords: Accounting Information Systems, Tax, Tax evasion and avoidance

Introduction

Taxes are a major mechanism in redistributing wealth and establishing social justice in every nation. According to Al-Moumany and Al-Ebbini, (2013), tax serves as an instrument to reform and reorganize economy thereby accomplishing the intended objectives of the community such as organization of the economic life, public services, and enhancement of the economic activities. In Nigeria, the principles of tax avoidance and evasion are no recent invention as it is date back to the 17th century, to the extent that some Nigerians hide their identities in order to avoid tax payment.

Nassar & Al Mashaela (2003) stated that tax evasion refers to practices that violate law and underestimate the due tax amount. Tax evasion has two levels: illicit tax evasion or tax evade. On the other hand, the motivation for tax evasion includes ethical reasons that represent the ethical, patriotic, and cultural awareness dominating the country (Alaris & Al Turk., 2008). The higher ethical awareness, among individuals, the greater responsibility they will have

Nguyen and Quyen (2017) define tax avoidance as the use of legal methods to modify a financial situation to fewer the amount of corporate income tax owed. It is accomplished by claiming the permissible deductions and credits. Desai and Dharmapala (2006) and Lisowsky (2010), suggested that tax avoidance forms a part of the corporate strategy which relates to the contract or transaction structure by availing the shortcomings of the tax law and the legal provisions to decrease the level of the corporate payable income tax. The concept of tax avoidance is understood as the legal exploitation of taxation mechanisms to reduce the tax payable by means within the framework of legislation and the disclosure of material information to the tax authorities. Tax avoidance is legal in comparing with tax evasion which is law violations, and it could be punished by administrative sanctions or prosecution.

Countries whether developing or developed, face the problem of tax evasion and avoidance as practiced by individual and institutional taxpayers and as established by Al-Moumany and Al-Ebbini, (2013), this problem influences social justice, redistribution of wealth, and economic growth as well as the level of public services provided by the government to citizens, i.e. the whole welfare level of a society. Despite the perceived importance, there is no accurate numbers of tax evasion and avoidance size in Nigeria, but some findings describe tax evasion and avoidance as very high, which may be due to ineffective electronic networking among the various government organizations that have communication with individuals and organizations who practice commercial and industrial activities. Many taxable enterprises typically would evade or avoid taxpaying, because they do not disclose their profits, or because other involved departments do not communicate or exchange information about potential taxpayers with the Inland Revenue Services.

However, using modern information technology capabilities, well-trained employees, and management and accounting information, assumed be a solution to tax evasion and avoidance problem. In this study there will be an attempt to answer a number of questions and demonstrations in respect to whether there is a role for Accounting Information components in combating tax evasions and avoidance. Therefore, the ultimate question for this study is; does Accounting Information System helpful in combatting tax evasion and avoidance in Nigeria?

Hypothesis of the Study

The hypothesis is stated in a null form as follows:

H₀: Accounting Information System has no effect in combatting tax evasion and avoidance in Nigeria.

Significance of the Study

No doubt, the revenues collected through tax in Nigeria are considered as the major source of funds for the government (Al-Moumany and Al-Ebbini, 2013). Consequently, the funds received through taxes helped the Nigerian government spending on products, public services and utilities that reflect as welfare of the community in form of services of education, health, communication, defense, etc. However, in fulfilling these obligations, Nigerian economic policy makers need more knowledge about the subject “tax evasion and avoidance” of which the findings of this research would provide.

Scope of the Study

This study was carried out in Oyo State and not the whole Nigeria. The state Inland Revenue Services was focused. There are Inland Revenue services offices in all 33 LGAs of the state.

2. Literature Review

Theoretical framework: Theory of Social Influence

This theory was propounded by Cialdini is a psychological theory. This theory was adapted from Ellawule, (2018) and will be used as a theory for this research. The theory of social influence as accessed from changing minds explains thus: In 1984, Cialdini published Influence, where he discussed on topics like; reciprocity, social proof, liking, authority and scarcity (Cialdini, 1984).

- **Reciprocity:** this is a belief that when you give you expect in return. It is natural that when taxes are paid, government should put the funds to cautious use.
- **Consistency and commitment:** this is an idea where government made promises to provide amenities, when this is done the taxpayers are inclined to pay their taxes.
- **Social Proof:** this shows lack of policy implementation where people evade tax and are not punished, copy and the cycle continues.
- **Liking:** whenever the citizens see good governance they feel liked and are obliged to do their civic duties.
- **Authority:** whenever a citizen knows that by not paying his tax there is consequence for not paying, he has no option than to pay.
- **Scarcity:** if government knows without acting in order to generate money through tax today, then the inevitable will happen, that is, lack of money to run the state.

The Concept of Tax, Tax Evasion and Avoidance

Adesola (2004) define tax as a monetary charge imposed by the Government on persons, entities, transactions or properties to yield revenue. Taxes are therefore, a sub-component of Government revenue, but they are not the only revenue item, which is internally generated by Government. Other sources of internal revenue include fees, rates, levies, fines, tolls, penalties and charges (Nellen, 2003). Taxes are however a major contributor to Government revenue and ideally should be a major source of revenue. Odusola, (2006) pointed out that the objectives of tax system are multi-dimensional in nature which includes revenue generation, resources allocation, a fiscal tool for stimulating economic growth and social functions.

Tax evasion is a situation whereby a taxpayer out rightly refuses to pay tax, or tries illegally to minimize his tax liability. Tax evasion is fraud and deceit, by deliberately refusing to declare all sources of income when filing returns or understate income in tax returns (Introduction to taxation, 2014). Incomes are supposed to be declared even if they are tax exempt. Gurama et al. (2015) state that tax evasion is either full or partial; it's full when a citizen who qualifies to pay tax refuses to get registered for the purpose of paying tax while it's said to be partial when a tax payer manipulates his income in other to reduce his tax burden. Tax evasion and tax avoidance as opine by Adebisi and Gbegi (2013) are one of the main problems of tax system in Nigeria and Africa and are described as 'twin devils' which cause the difference between actual and potential revenue. ICAN (2014) states that tax avoidance is a situation whereby a taxpayer arranges his financial affairs in such a way that he pays least possible amount of tax without breaking any tax law. ICAN (2014) opines that tax evasion can be achieved through:

- Understating income
- Overstating expenditure
- Making false claims for allowances and relief; and
- Omission from tax returns of chargeable income.

“No one really likes paying taxes yet they are inevitable for the provision of social welfare” (Nightingale K., 2002). Impact of tax cannot be over emphasized yet some believe by paying tax is enriching selected few at the expense of all. Good tax systems should be efficient, neutral, flexible and simple. “An efficient tax may not necessary be considered fair and the one that is considered equitable may not be efficient” (Lamb et. al., 2004). Tax is a burden to some but to others it is a civic responsibility to pay tax, so people abhor tax payment and as such a few are enthusiastic when it comes to paying tax (Owen, 2006). In other to avoid these sharp practices by some companies, the Company Income Tax Act contains general provisions on anti-avoidance rules. Companies are enjoined to comply with arm’s length principle when dealing with related parties (Deloitte, 2013). To encourage tax defaulters to pay their taxes that made the Federal Republic of Nigeria to introduce Voluntary Assets and Income Declaration Scheme (VAIDS).

Empirical Review

Ellawule, (2018) evaluates the effect of tax evasion on the economic development of Yobe state, Nigeria. The finding shows that the tax evasion has significant effect of the economic development of the state.

Abu Nassar & Mubaideen (2000) sought to identify forms of tax evasion in Jordan and contributing factors to increased tax evasion; and further to identify scope of tax evasion in terms of various revenues and expenditures. A questionnaire survey was administered to different categories of appraisers. Population consisted of all tax appraisers (N=281) staffed at seven Income Tax Appraising Bureaus available throughout metropolitan Amman. Questionnaires were administered to randomly selected sample of (125) appraisers. Out of 86 questionnaires returned, five unusable were excluded, and the remaining 81 questionnaires were usable for analysis. Major results concluded that the most prevalent form of tax evasion was fraudulent representation of revenues and expenditures and manufacturing formula in the industrial enterprises.

Moharam (2004) intended to build a tax control model to reduce tax evasion in the industrial sector enterprises of the Hashemite Kingdom of Jordan. To achieve the study goals, the author conducted face-to-face interviews, and administered questionnaires to participants. The study concluded a number of results, most importantly that: Principles of tax examination include principles that a tax examiner should follow (considering file documents, gather data and information, discussion with a taxpayer, inspect enterprise) in order to make real and eventual appraisals. Also, that account audit procedures are process that based on a number of steps that a tax examiner should follow to check for accuracy and, regularity of accounts and books of enterprise so that to serve as good basis for tax examiner to estimate taxability. Lastly, the findings shows that tax control methods including management control, accounting control, economic control, technical control, and the analytical control. - Major conclusions were increasing use of the accounting measuring methods to identify taxable income, and employing other methods to measure taxable income within a narrower scope and when necessary. - Intensified penalty on tax evaders.

Hobbs and Kathryn (2002) conducted a study in the United States for purpose of identifying tax planning practices by some commercial banks to evade tax imposed. The study found that tax planning takes place during preparation for Tax Statement, review of the statement, and manipulation of various financial and accounting issues in the commercial bank. The study also showed that commercial banks employ tax planning to benefit from any allowances by Income Tax Law, such as the imposition of low to moderate percentage on bank profits or its commercial activity. The author reports an association between tax planning and taxability of commercial banks. The study also advised commercial banks to reduce tax burden by legal means by increased tax planning, thereby reducing eventual tax required.

Richard and Saadtmand (2002) studied income tax evading practices for purpose of identifying effect of audit rate of US government revenue and total income tax evasion during the period from 1960-1997. To that end, the authors investigated the government data available at the Tax Department for the last 38 years. The researchers surveyed the income tax evading practices using three models. Tax evading practices were first surveyed from the prior studies, and using survey questionnaire, and finally using experiential models of De John Welster & May developed in 1994 using the government statistics and data from the tax authorities and this was the first time the government files are studied.

3. Methodology

This study was carried out in Oyo state Nigeria. Oyo State, which is among top earners from Internal General Revenues in Nigeria. This study comprises of all 33 Inland Revenue Services (IRS) head office in all Local Government Area of Oyo State. Two staffs were purposively selected from each IRS's office in the State. Therefore, the respondents comprises of 66. A questionnaire administration was used as a tool to gather all information needed to answer the research questions. Descriptive and Inferential statistics were used as the analytical tools to sought out the research questions and hypothesis.

4. Results

Availability of Accounting Information System and effect in combating tax evasion and avoidance

Descriptive analysis of the role played by AIS in combating tax evasion and avoidance was presented in this study. From Table 1 below, the means and standard deviations of respondent estimates on each item of accounting information system components and the overall items of component were showed.

Table 1: Descriptive analysis of AIS and Tax evasion and avoidance

S/N	Items	Rank	Mean	SD	Effect
1	keeping accurate electronic record of tax payers moderate tax evasion and avoidance	1	4.44	.78	high
2	Application of economic statistical methods in management accounting reduces tax evasion and avoidance	2	4.34	.81	High
3	Consideration of non-financial events as information source reduces tax evasion and avoidance	3	3.71	.88	Moderate
4	Monitoring and evaluation of appraiser's performance with the internal control system reduces tax evasion and avoidance	4	2.21	1.23	Low
	Average		3.14	.925	High

Source: Field survey, 2023

Test of the Effect

As stated in the hypothesis of the study, the extent of the effect was tested using a one sample t-test. The variables are accounting information system and tax evasion and avoidance. The result was presented in table 2 below while the discussion follows appropriately.

Table 1: One sample t-test results on the accounting information system

M	SD	t-value	Freedom degree	Statistical significance
3.14	.925	4.321	19	.0000

Source: Filed survey, 2023

5. Discussion of the Result

Table 1 showed that availability of AIS component played a huge role in tax evasion and avoidance. Consequently, "keeping accurate electronic record of tax payers moderate tax evasion and avoidance" was placed top (M4.44, SD =.78) with high influence degree; "Application of economic statistical methods in management accounting reduces tax evasion and avoidance" was placed top (M=4.34, SD=.81) with high influence degree; "Monitoring and evaluation of appraiser's performance with the internal control system reduces tax evasion and avoidance" was placed in the last rank (M=3.25, SD=1.16) with high effect degree and lastly, "monitoring and evaluation of appraiser's performance with the internal control system reduces tax evasion and avoidance" has a M of 3.21 and SD of 1.23 with a low degree. The result implies that AIS components played a great role in combatting tax evasion and avoidance while it important cannot be over-emphasized, this result corroborates the findings of Al-Moumany and Al-Ebbini, (2013) in Jordan.

Concerning the extent of the effect, it was revealed that t-value of (4.312) was computed at the hypothetical mean ($M=4$) with significance (0.000) and found statistically significant at ($\alpha<0.05$). The overall mean items for this component was higher (3.14) and significant. Therefore, the null hypothesis of this research was rejected. This implies that implementation of AIS devices will go a long way in combating tax evasion and avoidance. Whenever, tax payer knows their records is been kept and update as at when due, they will have no choice than to pay their tax regularly and this justify the theory postulated by Cialdini (1984).

6. Conclusion and Recommendation

The study points out the importance of AIS in overcoming tax evasion and avoidance in Nigeria. One critical discovery is that AIS as an electronic record keeping tool can reduce tax evasion and avoiding through the creation of tax payer details across the nation. As found in previous research, technology is a crucial factor in tax compliance. AIS is equipped with this capability to ensure that tax administration is transparent and accountable (Ojha, Sahu, & Gupta, 2019). Additionally, the adoption of inferential statistical measures showed a substantial negative and significant connection between AIS and tax avoidance and evasion. This corresponds to the assertion that efficient information systems facilitate increased tax compliance and minimise illicit financial practices (James and Alley).

Therefore, the Nigerian government along with relevant policymakers should consider purchasing and utilizing AIS as a strategic weapon against tax evasion and avoidance. This recommendation is based on the fact that strong information systems are not only useful in enhancing revenue generation, but also tax administration (Richardson & Sawyer, 2001). Hence, the adoption of AIS nationwide in Nigeria can be an effective way of promoting a transparent and accountable tax system.

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