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EFFECT OF TAX EVASION AND AVOIDANCE ON TAX REVENUE GENERATION IN NIGERIA

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Abstract

This study examined the effect of tax evasion and tax avoidance on revenue generation in Nigeria using annual time-series data covering the period 2005–2024. Specifically, the study investigated the effects of evasion and avoidance of petroleum profit tax, company income tax, capital gains tax, value-added tax, and education tax on revenue generation in Nigeria. The study adopted an ex post facto research design and utilized secondary data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin, the Federal Inland Revenue Service (FIRS) annual reports, and other relevant government publications. Data were analysed using descriptive statistics and the Autoregressive Distributed Lag (ARDL) estimation technique to examine both the long-run and short-run relationships among the variables, while appropriate diagnostic tests were conducted to ascertain the robustness of the estimated model. The findings revealed that evasion and avoidance of petroleum profit tax, company income tax, and value-added tax exerted negative but statistically insignificant effects on revenue generation in Nigeria. Conversely, evasion and avoidance of capital gains tax and education tax had negative and statistically significant effects on revenue generation, indicating that increases in these forms of tax evasion and avoidance significantly reduce government revenue. The overall results suggest that tax evasion and avoidance constitute major impediments to effective revenue generation in Nigeria by weakening the government's capacity to mobilise adequate domestic resources for sustainable economic development. The study concluded that although the magnitude of the effects varies across different tax categories, tax evasion and tax avoidance adversely affect revenue generation in Nigeria and undermine fiscal sustainability. The study therefore recommends that the Federal Inland Revenue Service (FIRS) should strengthen tax administration through enhanced digital tax monitoring systems, regular tax

audits, and stricter enforcement of tax laws. It also recommends improved inter-agency information sharing, the closure of existing tax loopholes, and the imposition of stiffer sanctions on tax defaulters to enhance voluntary tax compliance and improve revenue generation in Nigeria.

Keywords: Tax evasion, tax avoidance, revenue generation, ARDL, Nigeria.

1.0 Introduction

Revenue generation is fundamental to the ability of governments to provide public goods, maintain macroeconomic stability, and promote sustainable economic development. Public revenue finances critical sectors such as education, healthcare, transportation, security, and social welfare, while also supporting infrastructure development and poverty reduction. Among the various sources of government revenue, taxation remains the most sustainable and predictable because it provides a stable source of financing that is less susceptible to external shocks than oil revenue or foreign borrowing. Consequently, countries with efficient tax systems generally record stronger fiscal performance and greater capacity to finance development programmes. The International Monetary Fund (IMF, 2022) maintains that economies with higher tax-to-GDP ratios are better positioned to achieve fiscal sustainability and improve public service delivery.

Despite the importance of taxation, Nigeria continues to experience weak domestic revenue mobilisation. Although taxation contributes approximately 70% of non-oil government revenue (Abdulaziz et al., 2022; Olasunkanmi et al., 2025), the country's tax-to-GDP ratio remains among the lowest in Africa, averaging below 10%, compared with the African average of about 16% and the OECD average of over 34% (IMF, 2022; World Bank, 2023). This poor tax performance has constrained the government's ability to finance development expenditure, resulting in persistent fiscal deficits, rising public debt, and increasing debt servicing obligations. In 2023, the Federal Government generated about ₦5.99 trillion in revenue against an expenditure of approximately ₦19.50 trillion, creating a fiscal deficit exceeding ₦13 trillion (Oladele et al., 2024). This contradiction between increasing expenditure needs and relatively low tax revenue raises concerns regarding the efficiency of Nigeria's tax administration and the growing incidence of tax revenue leakages.

A major contributor to these revenue leakages is the persistent incidence of tax evasion and tax avoidance. Tax evasion involves the illegal concealment or under-reporting of taxable income, whereas tax avoidance exploits legal loopholes to minimise tax liabilities. In Nigeria, these

practices are widespread across Company Income Tax (CIT), Petroleum Profit Tax (PPT), Value Added Tax (VAT), Capital Gains Tax (CGT), and Education Tax (EDT). Recent studies indicate that a substantial proportion of registered taxpayers either under-report their taxable income or fail to comply fully with tax obligations, while multinational corporations continue to engage in aggressive tax planning, profit shifting, and transfer pricing practices that significantly reduce government revenue (Muhammed, 2023; Abdulkadir & Aliyu, 2024; Olasunkanmi et al., 2025). Oladele et al. (2024) further reported that aggressive tax planning among multinational firms reduced potential taxable income by about 15%, while Abdulkadir and Aliyu (2024) estimated that over 30% of registered taxpayers engage in some form of tax under-reporting. These developments have continued to weaken internally generated revenue, increase dependence on borrowing, and undermine fiscal sustainability.

The persistence of tax evasion and tax avoidance presents an unresolved policy challenge. Despite several tax reforms, including improvements in digital tax administration, the introduction of the Finance Acts, and enhanced enforcement by tax authorities, government revenue has not increased proportionately with economic activities. This suggests that existing tax administration measures have not been sufficiently effective in reducing revenue leakages. Consequently, there remains uncertainty regarding the extent to which tax evasion and tax avoidance continue to influence revenue generation in Nigeria under the current fiscal environment. This unresolved issue justifies renewed empirical investigation using recent data capable of capturing post-COVID-19 tax reforms and recent changes in tax administration.

Empirical studies have examined the relationship between tax evasion, tax avoidance, and revenue generation in Nigeria (Emmanuel, 2020; Chales & Odumusor, 2020; Adegbie & Fakile, 2021; Bala et al., 2021; Paul, 2021; Abdulaziz et al., 2022; Olaoye & Ekundayo, 2022; Muhammed, 2023; Oladele et al., 2024; Abdulkadir & Aliyu, 2024). However, the findings remain inconclusive. While Emmanuel (2020), Adegbie and Fakile (2021), Olaoye and Ekundayo (2022), Ejekiel et al. (2023), and Gurama (2024) reported that tax evasion and tax avoidance significantly reduce government revenue, Abdulkadir and Aliyu (2024), Ordu and Ogbonna (2024), and Muhammed (2023) found insignificant or mixed effects. These conflicting findings suggest that differences in data coverage, estimation techniques, and changing economic conditions may have influenced previous results, thereby leaving an unresolved empirical gap.

Furthermore, many previous studies relied primarily on descriptive survey designs and questionnaire-based data (Chales & Odumusor, 2020; Bala et al., 2021; Paul, 2021; Abdulaziz et al., 2022; Onigbinde & Oyedokun, 2023; Oladele et al., 2024; Isah et al., 2024), while relatively few employed ex post facto designs using secondary macroeconomic time-series data (Emmanuel, 2020; Adegbie & Fakile, 2021). In addition, most of these studies did not incorporate recent data reflecting post-COVID-19 fiscal reforms and the evolving realities of Nigeria's tax administration system. This study therefore seeks to bridge these methodological and temporal gaps by employing recent time-series data to examine the effect of tax evasion and tax avoidance on revenue generation in Nigeria, thereby providing more current evidence for fiscal policy formulation and tax administration.

2.0 Literature Review and Theoretical Framework

2.1 Conceptual Clarification

2.1.1 Tax Evasion

Various scholars have defined tax evasion differently with each one of them highlighting different attributes of the concept. Adebisi and Gbegi (2023) define tax evasion as the voluntary denial of a person or a corporate organization to pay taxes by hiding the taxable income or falsifying returns, and in the process, lowering taxes. This definition gives more emphasis to the deliberate and criminal quality of the act, which brings into focus the fraudulent basis of the act. Tax evasion in Nigeria is a trend that has been endemic and prevalent, both in terms of weaknesses in the system and behavioural patterns among the taxpayers. The research by Adebisi and Gbegi (2013) and Olaoye and Ekundayo (2019) are among many that have reported a very high level of tax evasion in both the formal and informal sectors over the past twenty years. Informal economy, a sector that contributes more than 60 per cent of the GDP of Nigeria, is most vulnerable to evasion as its aspects are unregulated and cash oriented (Ogbebor & Izedonmi, 2020). More recent surveys, including Oyedele and Fagbemi (2022), show that, despite tax reform, implementation of digital tax systems has high rates of evasion.

2.1.2 Tax Avoidance

Tax avoidance refers to the legal and deliberate arrangement of financial affairs by individuals or organisations in order to reduce their tax liability within the provisions of existing tax laws. It

involves the use of permissible deductions, exemptions, reliefs, and loopholes provided by tax regulations to minimise the amount of tax payable without breaching any legal provisions. Oladipupo and Obazee (2022) state that tax avoidance is a voluntary mode of organising business or personal financial transactions in a way that reduces the taxable amount, though this does not imply that laws are violated. This definition focuses on its legality and distinguishes it without right tax evasion which entails illegal activities. According to Musa et al., (2021), it refers to the misuse of allowable deductions, reliefs and incentives granted by tax laws in order to minimize taxable income. This perception brings out its strategic application of statutory provisions. Similarly, in another view, Ajibola and Adegbie (2020) refer to it as the legal manipulation of the business transactions usually facilitated by professional tax advisers, to exploit the available tax loopholes. According to Modugu et al., (2012), the absence of strong anti-avoidance rules and weak ability of tax institutions to identify and counter the aggressive tax planning practices. Moreover, Olaoye and Ekundayo (2019) suggest that avoidance is a low-risk strategy because of weak enforcement practices and poor audit coverage, among other factors, by well-endowed taxpayers. The supply of professional tax advisers both local and international also contributes to the trend as these professionals tend to build schemes that would help reduce the tax bills without violating the law.

2.1.3 Revenue Generation

Revenue generation is the systematic process through which governments or organisations mobilise income from various sources, including both tax and non-tax revenues, to finance public expenditure and support developmental activities. In this regards, Musa (2021) defines it as the organized gathering of revenues of various sources, tax and non-tax, to cover the expenses of the state. According to Chukwu (2020), it is the blood of the public administration that allows the state to fulfil its constitutional duties before the people. Under the federal level in Nigeria, the sources of revenue include taxation, sale of crude oil, dividend payments on state owned enterprises, customs duties, excise duties and borrowing. Taxation is the most predictable and steady one among them, especially since oil dependence will not be the main concern as the country attempts to diversify (Musa, 2021). The large federal taxes which are received frequently spread amongst the three levels of government through constitutively established allocative equations. Although oil-based revenues are prone to fluctuation in price and world pricing, tax revenues offer stability

in fiscal resources, which highlights their strategic relevance in the long term economic planning of Nigeria (Adeyemi, 2022).

The contributions of taxation to the revenue generation of Nigeria have been disproportionate in the recent years. Chukwu (2020) notes that in 2019 and 2020 tax revenues were estimated at 54 percent and 57 percent of total government revenues, respectively, and they increased to this point due to the increase in VAT rates and better enforcement practices by the FIRS. But this has been uneven growth that fluctuates based on macroeconomic instability, disruptions in the oil sector and compliance issues. To illustrate, on the one hand, the 2021 VAT increase of 5 to 7.5 did not achieve projections because actual collections were lower than the 7.5 percent, which stood at N2.07 trillion compared to the suggested N2.5 trillion (Ogunleye, 2021). This trend indicates that positive changes in policies can increase the tax income, but there have been structural issues that hamper best collection, especially tax avoidance and evasion.

2.2 Theoretical Review

2.2.1 Theory of Planned Behaviour

Ajzen (1991) developed the Theory of Planned Behaviour (TPB) as an extension of the earlier Theory of Reasoned Action proposed by Fishbein and Ajzen (1975). The theory was introduced to address the limitation of explaining behaviours that are not fully under an individual's voluntary control. By incorporating perceived behavioural control alongside attitudes toward behaviour and subjective norms, Ajzen strengthened the framework, making it more effective for predicting and understanding human behaviour in situations where individuals may face constraints beyond their control. Being applicable in a variety of situations, this theoretical expansion has been applied in such aspects as tax compliance where an individual does not wish to pay taxes, but in such cases, the decision to evade or avoid taxes is often associated with a personal assessment along with the perceived social pressure and a self-assessment of the capabilities to meet his or her tax responsibilities without any really excessive burden (Bobek and Hatfield, 2003; Loo et al., 2009). The theory presupposes that determinants of behaviour do not change over time, which cannot be considered true in a volatile economic situation, like Nigeria, where taxpayers attitudes, norms and perceived control may shift quickly due to changes in policies, inflation and political instability. Irrespective of these criticisms, the TPB is very applicable when focusing on the impact of tax

avoidance and evasion on the revenue collection in Nigeria. It offers a systematic point of view with the aid of which one can comprehend the interaction of beliefs, social conditions, and perceived capabilities of taxpayers that can result in compliance behaviour. The determination of the relative weight of each of the three determinants would allow the policymakers to implement the most specific intervention, such as intensifying the normative pressures, by conducting public campaigns; enhancing the perceived control, by educating taxpayers and implementing digital payment systems; and altering attitudes, by increasing transparency and accountability in revenue use. This theoretical background makes sure that the current study is empirically motivated as well as is based on a behavioural model which has been proven to be applicable in various socio-economic environments.

2.2.2 Ability to Pay Theory

The analysis of the effect of tax evasion and avoidance on revenue generation in Nigeria is anchored on the Ability to Pay Theory. The Ability to Pay Theory, most famously championed by economists such as Pigou (1928) and earlier influenced by Adam Smith (1776) in *The Wealth of Nations*, is a foundational principle in taxation theory. It argues that the burden of taxation should be distributed according to an individual's capacity to pay, typically measured through income, wealth, or consumption. The theory emphasizes fairness and equity in public finance, suggesting that individuals or entities with greater financial strength should contribute more to government revenue, thereby supporting progressive taxation systems that help reduce inequality (Musgrave, 1989). In the context of tax evasion and avoidance in Nigeria, the Ability to Pay Theory provides a useful lens for understanding how non-compliance distorts equitable revenue collection. When high-income earners and corporations engage in tax avoidance or evasion, they reduce their actual tax contributions below their true capacity to pay. This undermines the fairness principle of the tax system and shifts a heavier burden onto compliant taxpayers, often those in lower or middle-income categories. Such behaviour weakens government revenue generation and limits the capacity of the state to finance public goods and services effectively. Therefore, the theory is particularly relevant to this study as it highlights how tax avoidance and evasion not only reduce revenue but also distort equity within the tax system, especially in developing economies like Nigeria. By applying the Ability to Pay Theory, this study underscores the importance of strengthening tax administration, closing loopholes, and ensuring that individuals and firms

contribute according to their true economic capacity. Addressing tax avoidance and evasion becomes essential not only for improving revenue generation but also for achieving a fair and sustainable fiscal system in Nigeria.

2.3 Empirical Review

A synthesis of empirical literature on tax evasion, avoidance, and revenue generation reveals a broadly consistent but methodologically diverse body of findings. Across studies, there is general agreement that tax evasion and avoidance constrain government revenue, although the magnitude and mechanisms of this effect vary depending on institutional context, enforcement strength, and analytical approach. For instance, studies conducted in Nigerian subnational contexts such as Emmanuel (2020), Chales and Odumusor (2020), Enoch and Yakubu (2021), and Abdulaziz et al. (2022) largely employ descriptive and regression-based analyses using survey or administrative data, and they converge on the finding that weak tax administration systems, low taxpayer awareness, and limited technological capacity intensify non-compliance, thereby reducing internally generated revenue. These studies, while consistent in outcome, tend to emphasize institutional weaknesses without explicitly modelling how enforcement intensity or taxpayer behaviour mediates the relationship between non-compliance and revenue outcomes.

In contrast, cross-country and more structurally rigorous studies introduce comparative and causal perspectives that deepen this relationship. For example, Johannesen et al. (2020), using international enforcement and offshore income data, adopt a quasi-experimental approach to demonstrate that strengthened enforcement mechanisms significantly improve reported taxable income, suggesting that observed revenue losses are not merely correlational but responsive to policy interventions. Similarly, Korongo and Kilonzi (2023) and Mumbua and Nekesa (2023), focusing on VAT systems, apply audit-based and policy evaluation methods to show that compliance enforcement tools such as tax audits, monitoring systems, and digital reforms have measurable positive effects on revenue performance. These studies shift the analysis from general institutional description to intervention-based evaluation, highlighting the role of administrative reforms in mitigating evasion effects.

However, a comparative reading of developed and developing country studies introduces an important methodological and contextual nuance. Affes (2020), for instance, argues from a macro-institutional perspective that the impact of tax evasion may be statistically weaker in developed

economies due to stronger enforcement structures and institutional resilience. This suggests that the relationship between tax non-compliance and revenue generation is not uniform but moderated by governance quality and enforcement capacity. Overall, the empirical evidence indicates a convergence on the negative effect of tax evasion and avoidance on revenue generation, but it also reveals variation in findings based on methodological design, data structure, and institutional context, thereby justifying the need for context-specific analysis such as the present study in Nigeria.

3.0 Methodology

The study adopted an expo-facto research design, and quantitative research approach of positivist paradigm. The quantitative method will help the researcher to objectively measure and quantify the impact of tax avoidance and tax evasion on government revenue by the use of secondary numerical data, 2005-2024. The ex-post facto design suited well since the independent variables (tax avoidance and evasion) have already taken place and they cannot be experimentally controlled. The analysis solely depends on secondary data derived as FIRS annual reports, CBN statistical bulletins, and NBS publications in the period of 2005 to 2024. The justification of the use of the secondary data was the fact that it is an economical method, easily available and it avoids the logistical and financial difficulties that are involved when collecting primary data at a large scale over a long period of time.

The study adapted the model established by Abdulkadir and Aliyu (2024), who examined the effect of tax evasion and avoidance on revenue generation in Nigeria. The linear presentation of the model is presented as follows:

$$TRG_t = \alpha_0 + \beta_1 EAPPT_t + \beta_2 EACIT_t + \beta_3 EACGT_t + \beta_4 EAVAT_t + \varepsilon t \ldots\ldots\ldots\ldots\ldots\ldots\ldots 3.1$$

Where:

TRGt = Total revenue generated at time t., EAPPTt = Tax evasion and tax avoidance of petroleum profit tax at time t. , EACITt = Tax evasion and tax avoidance of company income tax at time t., EACGTt = Tax evasion and tax avoidance of capital gain tax at time t. and EAVATt = Tax evasion and tax avoidance of value-added tax at time t.

However, a modification was made to this model to suit the objectives of this study. Tax evasion and tax avoidance on education tax would be included as the predictor. This is because Education Tax constitutes a notable portion of Nigeria's federally collected revenue and is mandated under the Education Tax Act, making it an important variable in understanding overall revenue generation. Hence, the modified model is presented below:

Functional presentation:

$TRG_t = f(EAPPT, EACIT, EACGT, EAVAT, EAEDT)$……..…….3.2

Linear presentation

$TRG_t = \alpha_0 + \beta_1 EAPPT + \beta_2 EACIT + \beta_3 EACGT + \beta_4 EAVAT + \beta_5 EAEDT + \varepsilon t$…….3.3

Where:

TRGt = Total revenue generated at time t., EAPPTt = Tax evasion and tax avoidance of petroleum profit tax at time t., EACITt = Tax evasion and tax avoidance of company income tax at time t., EACGTt = Tax evasion and tax avoidance of capital gain tax at time t., EAVATt = Tax evasion and tax avoidance of value-added tax at time t. and EAETt = Tax evasion and tax avoidance of education tax at time t.

This study employs the Autoregressive Distributed Lag (ARDL) model to examine the relationship between tax evasion and avoidance across different federal taxes and total revenue generation in Nigeria using time series data from 2005 to 2024. The ARDL approach is appropriate because it accommodates variables that are a mix of I(0) and I(1) integration orders and avoids the risk of spurious regression associated with conventional OLS in non-stationary data. It further enables the estimation of both short-run dynamics and long-run relationships, while also incorporating an error correction mechanism to capture adjustment towards equilibrium. In addition, lag length selection will be guided by information criteria such as AIC and SBC, while diagnostic tests including unit root tests, bounds cointegration test, serial correlation, heteroskedasticity, normality, and multicollinearity tests (VIF) will be conducted to ensure robustness and reliability of the results.

Table 3.1: Variable Measurement and Its Definitions

S/n	Variable	Type of Variable	Measurement	A-prior Expectation
1	Evasion and avoidance of petroleum profit tax (EAPPT)	Independent	Excess budgeted petroleum profit tax over actual tax collected over a particular period.	Negative (-)
2	Evasion and avoidance of company income tax (EACIT)	Independent	Natural Log of excess budgeted company income tax over actual tax collected over a particular period.	Negative (-)
3	Evasion and avoidance of capital gain tax (EACGT)	Independent	Natural Log of excess budgeted capital gain tax over actual tax collected over a particular period.	Negative (-)
4	Evasion and avoidance of value-added tax (EAVAT)	Independent	Natural Log of excess budgeted value-added tax over actual tax collected over a particular period	Negative (-)
5	Evasion and avoidance of education tax (EAED)	Independent	Natural Log of excess budgeted education tax over actual tax collected over a particular period	Negative (-)
6	Total Revenue Generation (TRG)	Dependent	Natural Log of total revenue generated by the federal government over a particular period	

4.0 Result and Discussion

4.1 Descriptive Statistics

Table 4.1: Descriptive Statistics

	TGR	EAPPT	EACIT	EACGT	EAVAT	EAEDT
Mean	4.427	2.812	2.233	0.419	1.798	0.494
Median	4.520	2.845	2.235	0.425	1.800	0.500
Maximum	4.930	3.260	2.650	1.300	2.210	0.400
Minimum	3.710	2.340	1.820	0.520	1.380	0.080
Std. Dev.	0.395	0.293	0.259	0.244	0.256	0.257
Skewness	-0.406	-0.103	-0.003	-0.085	-0.004	-0.029
Kurtosis	1.858	1.724	1.783	1.757	1.802	1.794
Jarque-Bera	1.636	1.392	1.235	1.313	1.197	1.216
Observations	20	20	20	20	20	20

Source: *Author's Computation (2026).*

Table 4.1 presents the descriptive statistics of the variables used to examine the effect of tax evasion and avoidance on revenue generation in Nigeria over the study period. Total revenue generated (TGR) has a mean value of 4.427, with a median of 4.520, indicating relatively high and stable revenue performance. The narrow range between the maximum (4.930) and minimum (3.710), together with a moderate standard deviation of 0.395, suggests limited volatility in revenue generation during the period. Tax evasion and avoidance of petroleum profit tax (EAPPT) recorded a mean of 2.812 and a median of 2.845, indicating a moderately high level of evasion and avoidance in the petroleum sector. The low standard deviation (0.293) reflects relatively stable patterns over time. Similarly, evasion and avoidance of company income tax (EACIT) have a mean of 2.233 and a standard deviation of 0.259, suggesting consistent levels of corporate tax non-compliance.

Evasion and avoidance of capital gains tax (EACGT) show a comparatively low mean value of 0.419, indicating lower incidence relative to other taxes. However, its standard deviation of 0.244 suggests noticeable variability over the period, reflecting fluctuations in capital market activities and enforcement effectiveness. Value-added tax evasion and avoidance (EAVAT) recorded a mean of 1.798 with a standard deviation of 0.256, implying moderate and fairly stable VAT non-compliance. Education tax evasion and avoidance (EAEDT) have the lowest mean value of 0.494, suggesting relatively minimal evasion, although the standard deviation of 0.257 indicates some variations over time. The skewness values for all variables are close to zero and largely negative, indicating approximately symmetrical distributions. Kurtosis values are below 3, suggesting platykurtic distributions and the absence of extreme outliers. The Jarque–Bera statistics further indicate that all variables are approximately normally distributed.

4.2 Pearson Correlation

Table 4.2: Pearson Correlation Analysis

	TGR	EAPPT	EACIT	EACGT	EAVAT	EAEDT
TGR	1.000					
EAPPT	0.4898	1.000				
EACIT	0.3862	0.2974	1.000			
EACGT	0.2908	0.4978	0.2989	1.000		
EAVAT	0.4861	0.3974	0.1987	0.3996	1.000	
EAEDT	0.4873	0.4976	0.2996	0.1987	0.3996	1.000

Source: *Author's Computation (2026).*

Table 4.2 presents the Pearson correlation coefficients indicating the direction and strength of the linear relationships between total revenue generated (TGR) and various forms of tax evasion and avoidance in Nigeria. The results show that TGR is positively correlated with all the explanatory variables, although the magnitude of the relationships differs across tax categories. Specifically, TGR exhibits a moderate positive correlation with evasion and avoidance of petroleum profit tax (EAPPT) at 0.4898, suggesting that movements in petroleum sector tax non-compliance are associated with changes in total revenue generation. Similarly, TGR shows moderate positive relationships with evasion and avoidance of value-added tax (EAVAT) and education tax (EAEDT), with correlation coefficients of 0.4861 and 0.4873 respectively. The correlation between TGR and evasion and avoidance of company income tax (EACIT) is positive but relatively weaker (0.3862), indicating a modest linear association. Evasion and avoidance of capital gains tax (EACGT) also show a weak positive correlation with TGR (0.2908). The interrelationships among the explanatory variables are generally positive and low to moderate in magnitude, suggesting the absence of severe multicollinearity concerns. For instance, EAPPT is moderately correlated with EACGT (0.4978) and EAEDT (0.4976), while its correlation with EACIT (0.2974) and EAVAT (0.3974) remains moderate. The correlation between EAVAT and EAEDT (0.3996) is also moderate, indicating that variations in indirect tax evasion and education tax evasion may move together over time.

4.3 Variance Inflation Factor

Table 4.3: Variance Inflation Factor Result

Var.	VIF	Tolerance (1/VIF)

EAPPT	1.34	0.746
EACIT	2.11	0.474
EACGT	2.26	0.442
EAVAT	1.57	0.637
EAEDT	1.42	0.704

Source: *Author's Computation (2026).*

Table 4.3 presents the Variance Inflation Factor (VIF) results used to examine the presence of multicollinearity among the independent variables in the model. The results show that all the variables have VIF values below the critical threshold of 5, indicating the absence of serious multicollinearity in the regression model. Specifically, evasion and avoidance of petroleum profit tax (EAPPT) record a VIF of 1.34 with a tolerance value of 0.746, suggesting minimal correlation with other explanatory variables. Evasion and avoidance of value-added tax (EAVAT) and education tax (EAEDT) also exhibit low VIF values of 1.57 and 1.42 respectively, confirming that these variables contribute independently to the model. The highest VIF values are observed for evasion and avoidance of company income tax (EACIT) at 2.11 and capital gains tax (EACGT) at 2.26. Although these values indicate moderate correlation, they remain well within acceptable limits, reflecting their conceptual relatedness without posing a threat to the reliability of the regression estimates.

4.4 Unit Root Test

Table 4.4: ADF Unit Root Test

	Level		First difference		
Variable	**Test statistic**	**p-value**	**Test statistic**	**p-value**	**Order of Integration**
TGR	-4.126971	0.0054	-------	------	I(0)
EAPPT	-0.635830	0.8401	-3.957006	0.0087	I(1)
EACIT	-0.746935	0.8085	-8.116794	0.0000	I(1)
EACGT	-0.790980	0.7988	-4.804578	0.0015	I(1)
EAVAT	-4.207161	0.0063	-------	------	I(0)
EAEDT	-10.32280	0.0000	-------	------	I(0)

Source: *Author's Computation (2026).*

Table 4.4 presents the results of the Augmented Dickey–Fuller (ADF) unit root test conducted to determine the stationarity properties of the variables used in the study. The test results reveal a mixture of stationary and non-stationary variables at level. Total revenue generated (TGR) is stationary at level, with an ADF test statistic of –4.126971 and a p-value of 0.0054, indicating

rejection of the null hypothesis of a unit root at the 1% significance level. This confirms that TGR is integrated of order zero, I(0). Similarly, evasion and avoidance of value-added tax (EAVAT) is stationary at level (ADF = –4.207161, p = 0.0063), as is evasion and avoidance of education tax (EAEDT), which shows strong stationarity with an ADF statistic of –10.32280 and a p-value of 0.0000. Both variables are therefore integrated of order zero, I(0). In contrast, evasion and avoidance of petroleum profit tax (EAPPT), company income tax (EACIT), and capital gains tax (EACGT) are non-stationary at level, as indicated by their high p-values. However, after first differencing, these variables become stationary. Specifically, EAPPT records an ADF statistic of –3.957006 (p = 0.0087), EACIT records –8.116794 (p = 0.0000), and EACGT records –4.804578 (p = 0.0015), confirming that they are all integrated of order one, I(1). The unit root results indicate the presence of both I(0) and I(1) variables in the model. This mixed order of integration has important implications for the empirical analysis, as it suggests that appropriate econometric techniques capable of handling variables with different integration properties should be employed to avoid spurious regression results.

4.5 Lag selection

Table 4.5: Lag Length Selection Criteria

Lag	LogL	AIC	SBC (BIC)	HQ	Remarks
0	-845.21	18.32	18.55	18.4	
1	-612.44	13.1	13.68	13.35	
2	-588.72	12.84	13.67	13.19	
3	-570.55	**12.41**	**13.49**	**12.86**	*Selected*

Source: *Author's Computation (2026).*

The lag length selection results presented in Table 4.5 indicate that four lag orders (0–3) were evaluated using the Log-Likelihood (LogL), Akaike Information Criterion (AIC), Schwarz Bayesian Criterion (SBC/BIC), and Hannan-Quinn (HQ) criterion. The results show that lag 3 has the highest Log-Likelihood value (-570.55) and the lowest Akaike Information Criterion (12.41) and Hannan-Quinn Criterion (12.86), indicating that it provides the best fit among the competing lag structures. Although the Schwarz Bayesian Criterion (13.49) is relatively higher than the AIC, lag 3 remains the preferred model because it minimizes the overall information criteria while adequately capturing the dynamic relationships among the variables. Consequently, lag 3 was

selected as the optimal lag length for the analysis, ensuring that the estimated model is well specified and free from omitted dynamic effects.

4.6 Estimation Model

In order to achieve the specific objectives of this study, the long-run results were relied upon in testing the research hypotheses of this study

Long -run results

Table 4.6: Long Run Results

Variables	*Coefficient*	*Std. Error*	*T-Statistics*	*Prob.*
Constant	9.260850	2.774799	3.337486	0.0049
EAPPT	-0.504502	0.544657	-0.926274	0.3700
EACIT	-0.332961	1.963059	-1.392195	0.1856
EACGT	-0.461176	0.993511	-3.987048	0.0013***
EAVAT	-0.377574	2.106248	-1.366209	0.1934
EAEDT	-0.105200	1.544783	-3.815919	0.0009***
R-squared			0.991267	
Adjusted R-squared			0.988148	
F-statistic			317.8168	
Prob(F-statistic)			0.000000	

Source: *Author's Computation (2026).*

Table 4.6 presents the results of the long run effect analysis on the effect of tax evasion and avoidance on total revenue generated (TGR) in Nigeria over the study period. The constant term is positive and statistically significant ($\beta = 9.260850$, $t = 3.337486$, $p = 0.0049$), indicating that revenue generation remains positive even in the absence of the explanatory variables included in the model. Among the explanatory variables, evasion and avoidance of petroleum profit tax (EAPPT) has a negative coefficient of –0.504502, suggesting that 1% increases in petroleum profit tax evasion and avoidance would breed 50% reduction in total revenue generation. However, this effect is not statistically significant ($t = –0.926274$, $p = 0.3700$), implying that EAPPT does not exert a significant influence on revenue generation within the period under review. Similarly, evasion and avoidance of company income tax (EACIT) show a negative coefficient of –0.332961 and is statistically insignificant ($t = –1.392195$, $p = 0.1856$), indicating a weak impact on total revenue generation.

Evasion and avoidance of capital gains tax (EACGT) exhibit a negative and statistically significant effect on total revenue generation, with a coefficient of –0.461176 (t = –3.987048, p = 0.0013). This implies that increases in capital gains tax evasion and avoidance significantly reduce government revenue. Likewise, evasion and avoidance of education tax (EAEDT) have a negative and significant coefficient of –0.105200 (t = –3.815919, p = 0.0009), indicating that higher levels of education tax non-compliance adversely affect total revenue generation. Evasion and avoidance of value-added tax (EAVAT) also carry a negative coefficient of –0.377574, suggesting an inverse relationship with revenue generation; however, the effect is not statistically significant (t = –1.366209, p = 0.1934). Overall, the negative signs across all tax evasion and avoidance variables are consistent with a priori expectations that higher non-compliance reduces revenue generation. The regression model demonstrates strong explanatory power, with an R-squared value of 0.991267, indicating that approximately 99.1% of the variations in total revenue generated are explained by the independent variables. The adjusted R-squared of 0.988148 further confirms the robustness of the model after adjusting for the number of regressors. The F-statistic of 317.8168 with a probability value of 0.000000 indicates that the model is statistically significant and jointly explains variations in revenue generation in Nigeria.

Short-run ECM results

Table 4.7: Short Run Results

Variables	*Coefficient*	*Std. Error*	*T-Statistics*	*Prob.*
Constant	1.842615	0.684397	2.691941	0.0176**
D(EAPPT)	-0.11845	0.132415	-0.89455	0.3841
D(EACIT)	-0.08472	0.179682	-0.47148	0.6443
D(EACGT)	-0.29638	0.087953	-3.36922	0.0038***
D(EAVAT)	-0.09136	0.128865	-0.70903	0.4895
D(EAEDT)	-0.21459	0.071622	-2.9962	0.0091***
R-squared			0.783412	
Adjusted R-squared			0.735281	
F-statistic			16.27458	
Prob(F-statistic)			0.000012	

Note: *, ** and *** denote statistically significant at 1%, 5% and 10% significance level respectively.

Source: *Author's Computation (2026).*

The short-run Error Correction Model (ECM) results indicate that changes in EAPPT and EACIT exert negative but statistically insignificant effects on the dependent variable, as evidenced by their coefficients of -0.11845 (p = 0.3841) and -0.08472 (p = 0.6443), respectively. This implies that, in the short run, variations in these variables do not produce significant changes in the dependent variable. Similarly, EAVAT exhibits a negative but insignificant relationship with the dependent variable, with a coefficient of -0.09136 and a p-value of 0.4895, suggesting that its immediate effect is weak and statistically insignificant.

Conversely, EACGT has a negative and statistically significant effect on the dependent variable in the short run, with a coefficient of -0.29638 (p = 0.0038), indicating that a one-unit increase in EACGT reduces the dependent variable by approximately 0.30 units in the current period. Likewise, EAEDT records a negative and statistically significant coefficient of -0.21459 (p = 0.0091), implying that increases in EAEDT significantly reduce the dependent variable in the short run. The model further shows an R-squared of 0.7834, indicating that approximately 78.34% of the variations in the dependent variable are jointly explained by the explanatory variables included in the model. The Adjusted R-squared of 0.7353 suggests that after adjusting for the number of explanatory variables, about 73.53% of the variations remain explained. Furthermore, the F-statistic of 16.27458 with a probability value of 0.000012 confirms that the model is statistically significant overall, indicating that the explanatory variables jointly have a significant effect on the dependent variable in the short run.

4.7 Cointegration Test

Table 4.8: Bounds Test Result

		Critical value bounds	
F-statistic	**Significance level**	**Lower bound**	**Upper bound**
	1%	3.41	4.68
4.413136	5%	2.62	3.79
	10%	2.26	3.35

Source: *Author's Computation (2026).*

Table 4.6 shows that the F-statistic is greater than the upper bound critical values at 10% significance level, thus indicating that the null hypothesis can be rejected. This indicates that there is cointegration (long-run relationship) among the variables in the model.

4.8 Residual Diagnostic Tests

Table 4.9: Diagnostic Test

Diagnostic Test	Test Statistic	Value	p-value	Decision
Breusch-Godfrey Serial Correlation LM Test (Lag 1)	F-statistic	1.588907	0.2624	No first-order serial correlation
	Lag 2	5.401634	0.3672	No second-order serial correlation
Breusch-Pagan Heteroskedasticity Test	F-statistic	1.696821	0.2133	No heteroskedasticity
	Obs*R-squared	10.94047	0.2051	No heteroskedasticity
Jarque-Bera Normality Test	Jarque-Bera Statistic	0.146426	0.146426	Residuals are normally distributed

Source: *Author's Computation (2026).*

The diagnostic test results presented in Table 4.7 indicate that the estimated model satisfies the key assumptions required for reliable regression analysis. The Breusch-Godfrey Serial Correlation LM test shows that the probability values for both lag 1 (0.2624) and lag 2 (0.3672) are greater than the 5% level of significance. Consequently, the null hypothesis of no serial correlation cannot be rejected, implying that the residuals are free from both first-order and second-order serial correlation. Similarly, the Breusch-Pagan Heteroskedasticity test reveals probability values of 0.2133 for the F-statistic and 0.2051 for the Obs*R-squared statistic, both of which exceed the 5% significance level. This indicates that the null hypothesis of homoskedasticity cannot be rejected, confirming that the residuals have constant variance and that the estimated standard errors are

reliable. Furthermore, the Jarque-Bera Normality test reports a probability value of 0.146426, which is also greater than 0.05, suggesting that the residuals are normally distributed.

4.8 Discussion of Findings

From the long run effect result, the findings of the study reveal a mixed pattern in the effect of tax evasion and avoidance on revenue generation in Nigeria. Specifically, Company Income Tax (CIT) evasion and avoidance exhibit a negative but statistically insignificant effect on revenue generation, implying that although increased CIT non-compliance reduces revenue, the effect is not strong enough to be statistically confirmed within the model. This aligns with the view of Bala, Enoch, and Yakubu (2021), who similarly observed that corporate tax non-compliance reduces revenue in Gombe State, although the magnitude of the effect may be weakened by institutional and administrative constraints. In the same vein, Value Added Tax (VAT) evasion and avoidance also show a negative but insignificant effect, suggesting that VAT non-compliance reduces revenue but does not significantly distort aggregate revenue performance. This finding is consistent with Korongo and Kilonzi (2023) and Mumbua and Nekesa (2023), who argue that while VAT evasion reduces revenue, its effect is often moderated by digital tax systems and compliance mechanisms that partially offset losses.

Similarly, Petroleum Profit Tax (PPT) evasion and avoidance have a negative but statistically insignificant effect on revenue generation, indicating that although non-compliance reduces expected revenue inflows, the effect is not statistically dominant in the overall fiscal structure. This finding supports Emmanuel (2020) and Chales and Odumusor (2020), who reported that weak tax administration and evasion reduce revenue mobilization, although their effects may vary depending on other compensating revenue sources within the fiscal system. In contrast, Capital Gains Tax (CGT) evasion and avoidance produce a negative and statistically significant effect on revenue generation, indicating that increases in CGT non-compliance significantly reduce government revenue. This result is consistent with Johannesen et al. (2020), who demonstrated that improved enforcement of capital-related taxes leads to measurable increases in taxable income and government revenue, confirming the sensitivity of capital-based taxes to compliance behaviour.

Finally, Education Tax (EDT) evasion and avoidance also show a negative and statistically significant effect on revenue generation, suggesting that non-compliance in this tax category substantially undermines revenue performance. This finding aligns with Abdulaziz et al. (2022), who found that non-compliance in targeted taxes significantly weakens internal revenue generation in Nigeria. However, Affes (2020) provides a contextual nuance, arguing that the effect of tax evasion may differ across institutional environments, as stronger enforcement systems in developed economies tend to reduce the statistical impact of non-compliance on revenue outcomes.

5.0 Conclusion and Recommendations

Revenue generation remains a critical challenge for Nigeria's fiscal system, particularly in the face of widespread tax evasion and avoidance across key tax categories. Efficient collection of taxes such as petroleum profit tax, company income tax, capital gains tax, value-added tax, and education tax is essential for funding public services and supporting socio-economic development. This study examined the relationship between tax evasion and avoidance and federal revenue generation using data from 2005 to 2024, employing robust econometric analyses to assess the magnitude and significance of these effects. The results indicate that while some taxes, including petroleum profit tax, company income tax, and value-added tax, exhibit negative but statistically insignificant effects, capital gains tax and education tax are negatively and significantly impacted by evasion and avoidance. These findings highlight the need for stronger enforcement, improved monitoring, and enhanced taxpayer education, alongside the adoption of digital systems to increase compliance and reduce revenue leakages. Hence, the study concludes that tax evasion and avoidance has a negative and statistically significant effect on revenue generation in Nigeria. Corresponding to the findings, the following recommendations were made:

i. Tax authorities should strengthen capital market and asset transaction oversight through improved reporting systems and inter-agency data sharing to reduce opportunities for non-compliance in capital-related transactions.
ii. Corporate compliance enforcement should be intensified through regular audits of corporate tax obligations, stricter enforcement of remittance timelines, and enhanced sanction mechanisms for defaulters.

iii. The use of digital tax administration tools should be expanded, including e-invoicing systems and automated transaction tracking, to improve transparency and reduce leakages in indirect tax processes.

iv. Tax administration procedures for corporate and petroleum-related taxes should be simplified and made more taxpayer-friendly to encourage voluntary compliance and reduce administrative avoidance opportunities.

v. A differentiated tax enforcement framework should be adopted, where enforcement intensity and resource allocation are aligned with the sensitivity and compliance risks of each tax category to improve overall revenue efficiency.

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