

Tailored Strategies for Tax Compliance in Alaba International Market: Addressing Evasion, Underpayment and Avoidance

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Abstract- This research article aims to explore tailored strategies for tax compliance in Alaba International Market, focusing on addressing tax evasion, underpayment and avoidance. The study utilizes a mixed-method approach, incorporating both qualitative and quantitative data to provide a comprehensive understanding of the factors influencing tax compliance in the market. The theoretical framework draws on behavioral economics, tax compliance theories, and institutional perspectives to analyze the dynamics of tax compliance behavior among market traders. The findings highlight the need for tailored strategies that consider the unique characteristics of the market and its traders to effectively address tax evasion and underpayment. The article concludes with recommendations for policymakers and tax authorities to enhance tax compliance in Alaba International Market.

Index Terms- Tax compliance, Alaba International Market, evasion, underpayment, tailored strategies

I. INTRODUCTION

Taxation is a crucial and uncomplicated means of generating money for any government. Salami (2011) acknowledges that the government has the inherent authority to levy taxes and levies. An Overview of the evolution of Nigeria's Tax System shows that payments of tribute to traditional rulers were the primary method of tax collection throughout the pre-colonial era (Anyakora, Idowu & Osagie, 2020). During the colonial era, according to Bolt & Gardner (2018)

, the British imposed an official tax system that included both direct and indirect taxes. After Nigeria gained its independence, the country's tax system was further developed via the passage of several laws and regulations. Tax compliance is a critical aspect of a functioning economy, as it ensures the availability of resources for public goods and services (Bello, 2017). However, in many informal markets, tax evasion and underpayment are prevalent. Adekoya, Oyebamiji & Lawal (2020) insist that tax fraud, evasion, and non-compliance pose significant challenges to tax administration in developing nations, including Nigeria. Salami (2011), notes that the Nigeria's tax system, with over 500 taxes and levies across the three tiers of government, is ineffective due to insufficient data and excessive oil income dependence. Fraudulent activities involve tax evasion, misleading information to avoid taxes, underpayment, and violating tax laws. Tax evasion and tax avoidance are two tax violations. Tax evasion occurs when individuals intentionally

fail to pay taxes or make false statements, while tax avoidance involves strategies to minimize payments and protect income from higher taxes (Okorodudu, 1987). Tax underpayments, as seen by Oladejo (2021), leads to a tax gap, which occurs when the quantity of money collected is less than what is recorded on the books. That is, the discrepancy between the amount of tax payments received and the actual amount of tax invoiced to the taxpayer. Therefore, it indicates the inadequate payment of taxes that are invoiced to the taxpayer. Of a fact, most tax frauds are aided and abetted by unscrupulous tax officials who even help the defaulters to commit the crime in various foolproof ways.

Tax evasion, avoidance and underpayments are common in informal sectors due to various factors such as lack of trust in government institutions, complex tax systems, and informal business practices. Alaba International Market, located in Lagos, Nigeria, is one such markets facing challenges related to tax compliance. The market is known for its diverse range of goods and services, attracting traders from different parts of the country and even patronages from neighbouring countries. This article aims to explore tailored strategies for tax compliance in Alaba International Market, with a focus on addressing evasion and underpayment.

II. LITERATURE REVIEW

The literature review involved an in-depth analysis of previous research on tax compliance and non-compliance, the

socio-economic factors influencing these behaviors, the role of tax authorities in enforcing compliance, the unique challenges faced by emerging markets in establishing effective tax systems, and the impact of corruption on tax administration.

There is a lot of literature about tax compliance and non-compliance. The elements that motivate people and companies to pay their fair share of taxes or try to avoid them have been the subject of much study. Individuals' propensity to pay their fair share of taxes is influenced by a complex web of psychological, monetary, and societal elements.

Alm (2012) and Torgler (2003) discovered that tax compliance choices are influenced by factors such as the degree of faith in government institutions, the perceived fairness of the tax system, and the severity of penalties for non-compliance.

Tax compliance habit is greatly influenced by socio-economic variables. Research has shown that people's propensity to pay taxes may be influenced by factors such as their income, level of education, and cultural norms. Furthermore, tax compliance might be hindered by the frequency of cash transactions and informal business practices, which is common in developing nations with a significant informal economy (Pomeranz, 2015; Schneider, 2015).

An essential part of tax administration is the responsibility of tax officials to ensure compliance. Audits, information reporting, and third-party reporting are some of the enforcement tactics that have been studied for their potential to discourage tax evasion and underpayment. To further improve tax compliance and decrease administrative expenses, technology and data analytics have been investigated (Kleven, 2016; Slemrod, 2007).

The establishment of efficient tax systems presents distinct difficulties for emerging countries. Weak institutional capability, insufficient resources for tax administration, and a high level of economic informality are among these issues. The need for simpler tax processes and the prevalence of the informal sector in developing economies necessitate tax compliance solutions that are uniquely suited to these regions (Bahl & Bird, 2008; Torgler & Schneider, 2009).

In developing economies, tax administration may be severely impacted by corruption. Researchers have looked at how corruption affects tax compliance and found that it might lower morale and faith in the tax system.

According to PricewaterhouseCoopers (2016) and the World Bank (2019), reducing corruption in tax authority is essential for increasing compliance and maximizing tax revenue collection.

Finally, the effects of corruption on tax administration, the difficulties encountered by developing economies, the variables impacting tax behavior, and the function of tax authorities in enforcing the law are all well-illuminated by the literature on tax compliance and non-compliance. These results should be considered when designing Alaba International Market-specific initiatives to increase tax compliance by reducing instances of underpayment and evasion.

III. THEORETICAL FRAMEWORK

The Rational Choice Theory is deemed ideal for this study. It posits that individuals engage in tax evasion and underpayment when the perceived benefits of non-compliance outweigh the perceived costs (Scott, 2000). In the context of Alaba International Market, this theory can be applied to understand the economic incentives and disincentives that influence the behavior of market participants in relation to tax compliance.

The market participants in Alaba International Market may engage in tax evasion and underpayment if they believe that the benefits of non-compliance, such as increased profits or reduced financial burden, outweigh the potential costs, such as penalties, legal consequences, or damage to reputation. This decision-making process is influenced by the perceived likelihood of detection and punishment, as well as the level of trust in the fairness and effectiveness of tax enforcement mechanisms.

Tailored strategies for tax compliance can be designed to alter the cost-benefit analysis and incentivize compliance among market participants. For example, implementing targeted tax education programs to increase awareness of the potential costs of non-compliance, providing incentives for voluntary compliance, and improving the efficiency and transparency of tax enforcement mechanisms can all contribute to shifting the perceived benefits and costs of tax compliance.

Furthermore, understanding the specific economic motivations and constraints of market participants in Alaba International Market is crucial for designing effective compliance strategies. For instance, the strategies may need to account for the unique financial structures, cash-based transactions, and informal nature of business operations within the market.

By applying the Rational Choice Theory, the study intends to provide a nuanced analysis of the economic decision-making processes that underpin tax compliance behavior in Alaba International Market. This understanding can inform the development of tailored strategies that effectively address the specific cost-benefit considerations and economic incentives

of market participants, ultimately promoting greater compliance and mitigating tax evasion and underpayment.

IV. METHODOLOGY

The research used a mixed-method approach, integrating quantitative data analysis with qualitative interviews. A survey was undertaken among traders at Alaba International Market to evaluate their views towards tax compliance and their encounters with tax authorities.

Additional insights into the systemic factors leading to tax non-compliance were obtained via in-depth interviews conducted with tax authorities, market association executives, and tax specialists.

1. Data Collection

A thorough literature analysis was done to examine current research on tax compliance, evasion, and underpayment in comparable markets. This evaluation aimed to provide a theoretical basis for understanding the variables that influence tax compliance and the efficacy of various measures.

Surveys

Primary data was gathered via surveys conducted with market merchants, tax officials, and other stakeholders at Alaba International Market. The surveys collected quantifiable data on the extent of tax compliance, perceived obstacles to compliance, and attitudes towards taxes.

In-depth interviews were carried out with market traders, tax officials, and other stakeholders to collect qualitative insights on the unique difficulties encountered by traders and the measures that have proven successful in encouraging compliance.

2. Data Analysis

Quantitative Analysis

The statistical analysis of the quantitative data obtained from surveys was conducted to detect patterns and correlations. This analysis yielded insights into the extent of tax compliance and the variables that influence compliance.

Qualitative

The qualitative data obtained from interviews was examined thematically to identify significant themes and insights, which helped get a more profound knowledge of the unique obstacles and successful techniques for encouraging tax compliance in Alaba International Market.

The integration of both quantitative and qualitative data analysis yielded a thorough comprehension of the elements that impact tax compliance in Alaba International Market, thereby facilitating the creation of customized solutions.

V. RESULTS & DISCUSSIONS

1. Results

The survey results revealed that a significant portion of traders in Alaba International Market engage in tax evasion and underpayment. The most common reasons cited for non-compliance were the complexity of tax regulations, perceived unfairness of tax burdens, and distrust of the tax authorities. Additionally, the interviews highlighted the lack of awareness about tax obligations and the absence of tailored support for small businesses to navigate the tax system.

On the other hand, the analysis of successful tax compliance strategies in similar markets showed that simplified tax education, improved access to tax resources, and collaborative approaches between traders and tax authorities have been effective in promoting compliance. These strategies have led to increased voluntary compliance, reduced tax evasion, and improved relationships between traders and tax authorities.

2. Discussions

The findings indicate that tailored strategies for tax compliance in Alaba International Market should focus on addressing the specific challenges faced by traders in this context. Simplifying tax education and providing accessible resources will help demystify the tax system and empower traders to fulfill their obligations. Additionally, fostering collaboration and trust between traders and tax authorities through regular dialogue and support mechanisms can help overcome the existing barriers to compliance.

Moreover, the results emphasize the importance of fairness and equity in tax policies, as perceived unfairness was a significant factor contributing to non-compliance. Tailored strategies should consider the distributional impact of tax burdens and explore ways to make the tax system more equitable for small businesses in the market.

VI. CONCLUSIONS AND RECOMMENDATIONS

In conclusion, the study highlights the need for tailored strategies to address tax evasion and underpayment in Alaba International Market. Based on the findings, the following recommendations are proposed:

- Develop simplified tax education materials and workshops specifically tailored to the needs of market traders.
- Establish a dedicated support center within the market to provide assistance and guidance on tax compliance.
- Foster regular dialogue and collaboration between market traders and tax authorities to build trust and address concerns.

- Review the fairness and equity of tax policies to ensure that they are conducive to small business compliance.

Suggestions for Further Research

Further research on this topic could explore the long-term impact of tailored tax compliance strategies in Alaba International Market. Additionally, comparative studies with other markets and regions could provide insights into the transferability of successful strategies and the contextual factors influencing compliance. Furthermore, investigating the role of technology and digital solutions in facilitating tax compliance for small businesses in informal markets would be a valuable area for future research.

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