

Article

Tax Evasion and Avoidance in the Context of Developing Economies

Aderinsola E. Kayode

Faculty of Management Science, Durban University of Technology, 4001, South Africa
Trinity University, Yaba, 100001 Lagos, Nigeria

*Corresponding Author: aderini2002@gmail.com / aderinsolak@dut.ac.za

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Abstract: Despite the availability of taxable resources, Oyo State continues to depend heavily on allocations from the Federal Government, with over 70% of its revenue derived from the federation account. This study investigates the persistent issues of tax evasion and avoidance, which significantly undermine internally generated revenue and impede economic development within the state. The purpose of the study is to evaluate the underlying causes of tax evasion and avoidance and assess their impact on the fiscal health of Oyo State. A quantitative research method was employed, using structured questionnaires distributed to a representative sample of taxpayers and stakeholders across the state. The data collected were analysed to identify the major factors contributing to tax evasion and avoidance. The results reveal that the incidence of tax evasion and avoidance is alarmingly high. The contributing factors identified include poverty, lack of public enlightenment, and insufficient awareness of tax obligations. Additionally, respondents cited distrust in the government's ability to utilize tax revenues effectively and the perceived absence of tangible benefits from paying taxes as justifications for non-compliance. The originality of this study lies in its empirical focus on Oyo State, offering practical insights and context-specific recommendations. It emphasizes that with targeted public awareness campaigns, improved transparency in tax utilization, and strict enforcement of tax laws, the state can significantly boost its internal revenue and reduce reliance on federal allocations.

Keywords: Evaluation; tax evasion; tax avoidance; internally generated revenue; oyo state; public enlightenment

Introduction

Any society's ability to thrive and grow depends heavily on the availability of fundamental infrastructure. This may explain why the government is so concerned with finding a way to distribute funds so they may fulfill the objectives they have set for society. Because taxes support the growth and management of society as a whole, citizens are therefore obliged to fulfill their civic obligation by paying their taxes. (Jalil, 2011; Dabor et al., 2021; Promise & Ros, 2021; Murkur, 2001). Tax evasion and avoidance is a typical drama played out in many local government districts throughout the country, particularly in rural areas in Oyo state in Nigeria. Tax evasion constitutes a criminal offense involving the destruction of tax records, fabrication of financial statements, and underreporting of income and profits. This unlawful act entails the intentional misrepresentation or concealment of financial facts to diminish tax liability (Ioniță-Burda, 2024; Nyabuti, 2023). Tax avoidance is the use of lawful strategies and methods to reduce tax liabilities while staying within the legal framework. It typically includes taking advantage of tax deductions, exemptions, and incentives provided in the tax code. While tax avoidance is not illegal, it may raise ethical concerns,

especially when it exploits loopholes in ways that, though lawful, may undermine the spirit of the tax system (Challoumis & Constantinou, 2024; Raitasuo & Ylönen, (2022).

The provision of basic infrastructure is critical for the development and growth of every community. As a result, citizens are required to fulfill their civic responsibilities by paying their taxes, which contribute to the development and administration of society as a whole (Ihenyen et al., 2022; Mu et al, 2022; Fjeldstad, 2014). Oyo State depends heavily on the federal government for survival even though it has access to taxable resources because more than 70% of its income comes from the federation account (Oni & Ajayi, 2011). Evasion and avoidance are practices that have significantly diminished the revenue that the Oyo State government ought to generate, adversely impacting the state's economy (Ibe, 2022). Because taxes support the growth and management of society as a whole, citizens are therefore obliged to fulfill their civic obligation by paying their taxes. (Promise & Rose, 2021; Ibe, 2022). Previous studies described tax as a mandatory contribution imposed by the government and came to the conclusion that tax payers might not get anything in return for their contribution, but they do have the benefit of living in a society that is generally well-educated, healthy, and safe (Aunul et al., 2024; Fagbemi et al., 2010; Otu & Theophilus, 2013;). Today, it is evident that every government relies heavily on taxation not only for socioeconomic development but also to alleviate existing wealth disparities in society (Yusuf & Nuhu, 2021).

Tax avoidance, in contrast, takes place within the legal confines of the tax system that is people or corporations take advantage of the tax code and abuse, for example, "loopholes" engage in actions that are lawful yet contradict the aim of the tax legislation (Posner, 2000; Payne & Raiborn, 2018).

Tax avoidance is strategic tax planning where financial affairs are arranged in order to minimize tax liabilities for instance, using tax deductions and taking advantage of tax credit (Payne & Raiborn, 2018). Many studies have indicated that tax evasion, particularly in small groups, is not deemed ethically wrong or a severe crime (Chan et al., 2022; Maulidi & Ansell, 2021). Tax evasion constitutes the intentional and deliberate breach of legal statutes to evade tax obligations mandated by the jurisdiction's laws, whereas tax avoidance refers to the strategic measures employed by the taxpayer to minimize or eliminate tax liability without contravening the law. More so, scholars stressed on it that, it is primarily accomplished by making false declarations, such as under-reporting income or over-reporting relief and allowances, tax evasion is an attempt to escape tax liability (wholly or partially) by breaking the law, whereas tax avoidance is an attempt to do so by avoiding the law (Alm, 2021; Ibadin & Kemebradikemor, 2020). Tax avoidance and evasion are widespread in all countries, and tax structures are undoubtedly distorted as a result. Tax avoidance and tax evasion pose major challenges facing the nation today. (Crawford et al., 2022; Mpofu, 2022; Tomukorpi, 2020).

Although tax evasion and avoidance are common challenges across all tax systems, the Nigerian context presents a distinctive case, largely due to the widespread prevalence of corruption within its institutional frameworks. Empirical studies have revealed that direct personal taxation in Nigeria is particularly ineffective in capturing revenue from self-employed individuals, including business owners, contractors, and professionals such as lawyers, doctors, accountants, and architects. Many of these individuals deliberately evade taxation by consistently underreporting income or falsely declaring losses year after year. (Chukwugeku & Mmamefune, 2022; Olokooba, & Olokooba, 2019).

Every year, Nigeria loses billions of Naira in tax revenue due to unreformed tax regimes and inadequate tax laws that have encouraged tax avoidance and evasion by national and multinational corporate organizations. Despite the many tax measures implemented by the Nigerian government to enhance tax revenue for the year, prior data evidence shows that the share of income tax to the government's total revenue has been consistently low and is falling (Alabed et al., 2011). The Oyo state government's revenue has been severely reduced by tax evasion and avoidance activities, which also have an impact on the state's overall economy. Therefore, the goal of this study is to assess tax avoidance and evasion in Oyo State, Nigeria, with the expectation that the findings will serve as a foundation for a system of tax collection that is efficient for the government. Research shows that Nigeria loses billions in tax revenue annually due to outdated tax regimes and inadequate legislation that enable tax avoidance and evasion by both local and multinational corporations. Since independence, little has been done to reform personal and corporate tax

systems, which still reflect colonial structures. Despite various tax measures, income tax contributes minimally to government revenue. Oyo State, which relies heavily on federal allocations for over 70% of its income, struggles to meet public service and infrastructure needs. A well-structured framework for taxation and resource allocation is essential, but has been neglected by successive governments. The research was based on the following objectives to:

- i. Identify different methods used in evading and avoiding tax in Oyo State, Nigeria
- ii. Examine the determinants of tax evasion and avoidance in Oyo state, Nigeria
- iii. Determine the attitude of respondents to tax evasion and avoidance

Research Questions:

- i. What are the different methods used in evading and avoiding tax in Oyo State, Nigeria?
- ii. What are the determinants of tax evasion and avoidance in Oyo State, Nigeria?
- iii. What is the attitude of respondents to tax evasion and avoidance?

Literature Review

Tax can be defined as a mandatory tax levied by the government on individuals, corporations, estates, and trusts in order to fund government expenditures (Werekoh, 2022; Nwakaji & Ewah, 2010). Researchers investigated the relationship between tax rates and evasion, which identified the causes of tax evasion in Nigeria, a problem that has plagued the tax system since colonial times. (Adebisi, & Gbegi (2013). Tax evasion is broadly defined as the deliberate attempt to avoid tax obligations through illegal means. It is also widely recognized that both tax avoidance and tax evasion are closely associated with the operations of the shadow economy (Mohammed & Mohammed, 2012). Tax avoidance is the lawful use of the tax regime to one's benefit in order to lower the amount of tax payable using legal means (Ibadin & Eiya, 2013).

The shadow economy refers to economic activities that are legal in nature but deliberately concealed from tax authorities to evade taxation and regulatory oversight (Saji, Rathore, Menon, Ladda, Sakireddy, Sharma & Bhatia, 2024). The shadow economy consists of individuals who fail to declare their actual and taxable income earned through lawful transactions, such as bartering and informal trading in an effort to avoid tax obligations (Zhanabekov, 2022; Wiafe, et al., 2024). This concept is crucial in understanding the broader discourse on tax compliance. Tax evasion, which is the illegal act of deliberately avoiding tax payments, and tax avoidance, which involves the lawful exploitation of tax rules to reduce one's tax liability (Balashov & Sanina, 2023; Ibadin & Eiya, 2013; Obidimma & Nwuzor, 2022), are both phenomena often linked with the shadow economy. The presence of a robust shadow economy reflects systemic weaknesses in tax administration and compliance

Furthermore, empirical evidence from Nigeria suggests that trust in government and legal enforcement positively influences personal income tax compliance, whereas religious variables do not show a significant correlation with tax evasion (Uadiale et al., 2010). In addition, several studies have examined the persistent problem of tax evasion in Nigeria, often attributing its causes to historically entrenched issues dating back to the colonial era (Adebisi & Gbegi, 2013). A comprehensive analysis, therefore, requires the author to define and properly integrate the shadow economy into the framework of tax compliance, especially in relation to tax evasion and avoidance.

The scholar, Faseun (2001), stressed that the shadow economy is one in which people do not declare their real and taxable revenue gained through legal activities like as battering and monitoring in order to avoid paying taxes.. The study discovered no statistically significant relationship between religious variables and tax evasion behavior in Nigeria, but trust in government and legal enforcement had a positive effect on personal income tax (Uadiale et al., 2010). Such as:

- i. Some studies examined positive correlation between tax rates and evasion which identifies causes of tax evasion in Nigeria, with a problem which had been deviled the tax system right from colonial time (Adebisi, & Gbegi, 2013).

- ii. Tax evasion is the broad word for efforts to avoid paying taxes through illicit means. It is also often assumed that both tax avoidance and tax evasion are associated with the shadow economy (Mohammed & Mohammed, 2012).
- iii. Tax avoidance refers to the lawful exploitation of the tax system to minimize the amount of tax payable, using strategies and provisions that comply with legal requirements (Challoumis & Constantinou, (2024).
- iv. According to Faseun (2001), the shadow economy is one in which people do not disclose their real and taxable income generated by legal activities like battering and monitoring in order to avoid paying taxes.

Several developing countries had improved tax compliance through innovative, citizen-focused strategies (Chisika, & Yeom, 2024; Adeniran et al., 2023). Rwanda simplified tax processes with digital tools and improved trust through transparency (Mpakaniye, 2024; Santoro et al., 2023). Ghana linked taxes to visible public projects and emphasized taxpayer education, boosting morale. (Acquah, 2024; van den Boogaard, Prichard, Beach & Mohiuddin, 2022). South Africa combined data-driven audits with better services to enhance credibility. Chile used behavioral nudges, like moral messaging and pre-filled returns, to encourage voluntary compliance (Ragubeer, 2022). These cases show that blending enforcement with trust, education, and technology can significantly enhance compliance in economies in the country (Khan, et al., 2024; Tahir et al., 2016).

Theoretical Framework

Theories describe how and why facts are related to one another. Three possibilities are presented in this study to explain tax morale and compliance. These theories include a somewhat specialized psychological impact to capture relevance importance without compromising the spirit of integrated psychological effect or economic basis.

1. Intrinsic Motivation Theory:

Psychological and sociological studies have emphasised moral and ethical behavior. Internalized values are exogenous to prices and regulations in economic analysis, (Becker 1976; Hirshleifer 1985),. Hirschman (1965) and Sen (1977) considered external and internal motivation. Frey (1997) shows that intrinsic versus extrinsic incentive also affects compliance. He considers tax morale intrinsic motivation. It introduces psychology into economics without abandoning rational choice and his tax compliance analysis crowds out intrinsic motivation. Monitoring and fines for noncompliance boost extrinsic motivation, which crowds out intrinsic motivation to pay taxes. Thus, if intrinsic motive is not recognized, taxpayers feel they can be opportunistic. Policy instruments affect intrinsic motivation.

2. Ipsative Theory

Human activities can be limited by a set of possibilities that only affect oneself. Disregarding alternatives (Frey & Foppa, 1986). The idea models human imperfection using psychological evidence. Frey says rational actors often under-extend the ipsative set. Tax morale is a non-negotiable issue. Some taxpayers never try to evade taxes, while others do. Frey also mentions a perverse impact when the government threatens high-tax morality citizens with harsher punishment. This suggests the government doesn't reward compliance. Tax morale might suffer from government mistrust.

3. Theory of Crime

Jeremy Bentham and Cesare Lombroso founded the deterrence doctrine. (Murphy, 2008). Their traditional utilization theory of crime holds that rational actors maximize their expected benefit. Allingham and Sandmo (1972) used Becker's crime economics to taxation. They analyzed taxpayers' tax return decisions to dodge taxes and the relationship between penalty rate, probability of detection, and degree of evasion. They discovered that greater penalties and detection rates hinder tax evasion. Many scholars stressed that crime

of tax evasion, decision to evade tax penalty and probability of detection which reveals the relationship between these variables (Ermasova, et al., 2021; Mannan, et al., 2021).

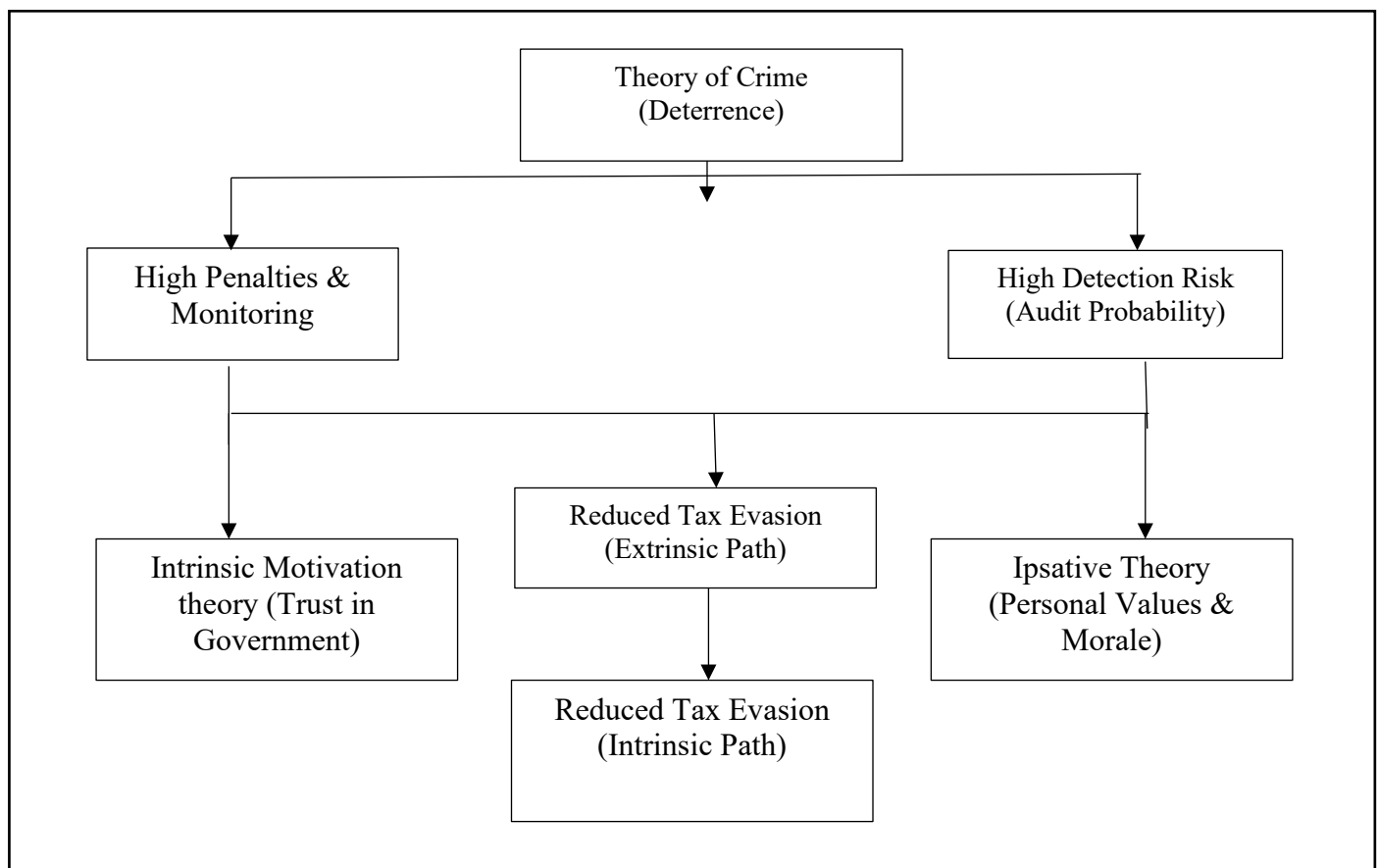


Figure 1. Integrated theoretical framework of tax evasion behavior

Source: Adapted and developed by the author.

Allingham & Sandmo (1972), Frey (1997), and Frey & Foppa (1986).

The Theory of Crime focuses on extrinsic deterrents such as penalties and the likelihood of being audited. It views tax evasion as a rational decision where individuals weigh the costs and benefits. In contrast, the Intrinsic Motivation Theory emphasizes internal values, particularly trust in government, as key moral drivers for tax compliance. When people trust the government, they are more likely to feel a sense of duty to pay taxes. The Ipsative Theory highlights the role of personal standards, where individuals comply with tax laws based on deeply held beliefs, independent of external consequences—though government actions can influence these beliefs. The middle layer of this framework suggests that a combination of both extrinsic and intrinsic factors effectively reduces tax evasion.

Methodology

1. Research Approach

This study employed a case study design using a quantitative, descriptive survey method. The design was chosen based on research objectives and problem statements. The survey method ensured representativeness of the target population.

2. Data Sources

Data was obtained from primary and secondary sources. The primary source used a structured questionnaire administered to respondents to ensure consistency and anonymity. While secondary source used literature review from journals, reports, textbooks, and credible online materials.

3. Questionnaire Development and Validation

The questionnaire was developed based on insights from literature and focused on tax knowledge, perception, and compliance behavior. Followed a structured, multi-step process to ensure content validity, clarity and reliability.

- i. Expert review was conducted by three professionals to ensure content validity, the questionnaire was reviewed by three experts in taxation, public finance and research methodology.
- ii. A pilot test, face validity and reliability testing, the revised questionnaire was done with 20 participants for clarity and timing.
- iii. A reliability test was conducted using Cronbach's alpha to measure internal consistency. The result showed that the questionnaire items had a Cronbach's alpha coefficient of 0.81, indicating high reliability and confirmed internal consistency.

4. Sampling Procedure Population

The population for this study included residents of Oyo State, Nigeria, who were self-employed and employed in the public or private sector, and aged 20 years and above. A total of 240 respondents were selected using purposive sampling to ensure the inclusion of individuals directly or indirectly affected by taxation. The sample comprised two main groups. The first group included 120 respondents from institutions: 60 from the University of Ibadan and 60 from the Institute of Agricultural Research and Training, Ibadan. The second group consisted of 120 self-employed individuals, evenly divided among six categories: mechanics, drivers, vulcanizers, tailors, food vendors, and market traders, with 20 respondents in each category. This sampling strategy enhanced the relevance of the data by targeting participants with varied experiences related to taxation.

5. Instrument Administration

The structured questionnaire was self-administered with support from trained assistants. It ensured standardized responses and protected participant anonymity.

7. Data Analysis

The dependent was tax evasion and avoidance while, the independent variables were – high tax rates, poverty, perceived corruption in government, lack of adequate enforcement for default, attitude, submission of false accounts and illiteracy of tax calculation. The data collected was subjected to descriptive statistics analysis through the use of SPSS-22.

The Findings

The study presents the result and interpretation for this research work. Descriptive statistics were used to analyse the demographic characteristics of the respondents.

Table 1. Distribution of respondents by demographic characteristics

Sex	Self-employed	Employed
Male	64 (53.3)	70(58.3)
Female	56 (46.7)	50(41.7)
Marital Status		
Married	75(62.5)	85(70.8)
Single	20(16.7)	10(8.3)
Widowed	10(8.3)	12(10.0)
Divorced	15(12.5)	13(10.9)
Educational Level		
No Education	17(14.2)	0(0.0)
Primary education	12(10.0)	0(0.0)
Secondary Education	58(48.3)	48(40.0)
Post secondary	33(27.5)	72(60.0)
Total	120(100.0)	120(100.0)

Table 1 above reveals that majority (53.3%) of self-employed respondents were male while 46.7% were female, also 58.3% of employed respondents were male while 41.7% were female. This implies that though male dominates both as self-employed and salary earners, yet the females were well represented. Also, 62.5% of self-employed respondents which constitutes the majority were married, 22.5% were widowed while 5.4% were divorced. Majority of employed respondents were married, 8.3% single, 10.0 % widowed while 10.9% were divorced. The implication of this is that the married people may engage in tax avoidance and evasion practices considering the enormous responsibilities they need to handle.

Majority (48.3%) of the self-employed respondents had secondary school education, 27.5% had post-secondary school, while 14.2% had no education at all. The implication is that as most respondents were literate, there is tendency for them to understand the methods of calculating the amount of tax payable. Majority of the employed respondents (60.0%) had post-secondary school education.

1. Research Q. 1: What are the different methods used in evading and avoiding tax in Oyo State, Nigeria?

The table below illustrated that 26.7% of respondents close shop and run away in order not to pay tax, 23.3% gives bribes to tax officers, 16.7% beat up tax officers, 10% provides false invoice while avoiding insurance of receipt was a method of evading tax according to 23.3% of the respondents. These methods of tax evasion and avoidance is peculiar to the self-employed.

Table 2. Methods of tax evasion and avoidance

S/n	Methods	Frequency	Percentage
1	Bribing Tax Officials	28	23.3
2	Close shop and run away	32	26.7
3	Beat tax officers	20	16.7
4	Providing false invoices	12	10.0
5	Not wanting to issue receipts	28	23.3
Total		120	100.0

2. Research Question 2: What are the determinants of tax evasion and avoidance in Oyo State, Nigeria?

The table 3 reveals the reasons for why people evade or avoid tax. About 73.3% of self-employed and 33.3% of employed respondents agreed that people evade tax because there is no benefit derived from paying tax. Corruption was mentioned as a determinant of tax evasion and avoidance by 16.7% of the self-employed respondents and 35.0% of employed respondents. About 68% of the self-employed respondents indicated that paying tax reduces their profits.

Bad economy (20.0%, 58.3%), inability to calculate tax payable (30.8%, 5.8%) lack of tax conscience (20.0%, 41.7%), high amount of chargeable tax (31.7%, 88.3%) and poverty (45.8%, 62.5%) were also presented as some of the reasons people evade or avoid tax. The implication of this is that as long as the tax being paid by the tax payers that is meant for development is diverted or embezzled by those at the helms of affair, people will continue to evade or avoid tax, even if the tax payable is high, so far the use to which it is put is feasible people will be willing to pay tax.

Table 3. Determinants of tax evasion and avoidance

S/n	Determinants	Self employed*	Employed*
1	Corruption	20(16.7%)	42(35.0%)
2	Reduction of profit	80(66.7%)	10(8.3%)
3	Bad Economy	24(20.0%)	70(58.3%)
4	Poverty	55(45.8%)	75(62.5%)
5	No benefit derived	88(73.3%)	40(33.3%)
6	Poor sales	38(31.7%)	10(8.3%)
7	Lack of tax conscience	24(30.8%)	50(41.7%)
8	Inability to calculate tax payable	37(30.8%)	7(5.8%)
9	High amount of tax payable	38(31.7%)	106(88.3%)

3. Research Question 3: What are the attitude of respondents to tax evasion and avoidance?

The result presents the attitude of respondents towards tax evasion and avoidance. About 56.7% of self-employed respondents were willing to pay tax while 43.3% were not willing to pay tax. 90.8% were discouraged about paying tax while 9.7% were not discouraged. The discouragement may be as a result of the low level of development being experienced in the state, despite the payment of tax by the citizenry, and if tax payers do not benefit from the tax they pay they will not be encouraged to continue to pay. About 8.3% of the self-employed respondents declare their total profit while 91.7% do not declare their profit. Majority (85.5%) of self-employed respondents do not keep account record for business while 7.5% keep account record, the implication of this is that tax officers will not be able to determine the amount payment as tax. Majority (98.3%) of the employed respondents were discouraged about paying tax. Also, majority (95.8%) of self-employed avoid tax officers. About 13.0% of self-employed respondents pay their tax regularly, while 87.5% do not pay regularly. The employed respondents (100.0%) indicated that they pay their tax regularly.

Table 4. Attitude to tax evasion and avoidance

S/n	Attitude	Self employed		Employed	
		Yes	No	Yes	No
1	Do you like to pay tax?	68(56.7%)	52(43.3%)	113(94.2%)	7(5.8%)
2	Is there enough awareness of tax payment	58(48.3%)	62(51.7%)	105(87.5%)	15(12.5%)
3	Are you discouraged in paying tax	109(90.8%)	11(9.7%)	118(98.3%)	2(1.7%)
4	Do you declare your total profit	10(8.3%)	110(91.7%)	120(100.0%)	0(0.0%)
5	Do you keep account record for business	18(15.0%)	102(85.0%)	0(0.0%)	120(100.0%)
6	Do you avoid tax officers	115(95.8%)	5(4.7%)	0(0.0%)	120(100.0%)
7	Do you bribe tax officers	85(70.8%)	35(29.2%)	0(0.0%)	120(100.0%)
8	Do you pay shops and kiosk rates	20(16.7%)	100(83.3%)	0(0.0%)	120(100.0%)
9	Do you pay tenement rates	15(12.5%)	105(87.5%)	0(0.0%)	120(100.0%)
10	Paying tax affect income	120(100.0%)	0(0.0%)	118(98.3%)	2(1.7%)
11	Do you beat up tax officers	11(9.2%)	109(90.8%)	0(0.0%)	120(100.0%)
12	Do you pay tax regularly	15(12.5%)	105(87.5%)	120(100.0%)	0(0.0%)

Discussion

The result presents the attitude of respondents towards tax evasion and avoidance. About 56.7% of self-employed respondents were willing to pay tax while 43.3% were not willing to pay tax. 90.8% were discouraged about paying tax while 9.7% were not discouraged. The discouragement may be as a result of the low level of development being experienced in the state, despite the payment of tax by the citizenry, and if tax payers do not benefit from the tax they pay they will not be encouraged to continue to pay. About 8.3% of the self-employed respondents declare their total profit while 91.7% do not declare their profit. Majority (85.5%) of self-employed respondents do not keep account record for business while 7.5% keep account record, the implication of this is that tax officers will not be able to determine the amount payment as tax. Majority (98.3%) of the employed respondents were discouraged about paying tax. Also, majority (95.8%) of self-employed avoid tax officers. About 13.0% of self-employed respondents pay their tax regularly, while 87.5% do not pay regularly. The employed respondents (100.0%) indicated that they pay their tax regularly.

Conclusion

The findings of this study reveal that taxation remains one of the most unpredictable and complex issues affecting economic development. Tax evasion and avoidance significantly reduce the revenue the government should generate, ultimately impacting its ability to fulfill social obligations and improve citizens' lives. The study, conducted in Oyo State with 240 respondents from both self-employed individuals and civil servants, showed that although many were willing to pay tax, they were discouraged by factors such as corruption, high tax rates, and the lack of visible benefits. Most respondents were male, married, with secondary education, and self-employed. Common evasion tactics included bribing tax officers, issuing

fake invoices, and avoiding receipt issuance. A majority also displayed a favorable attitude toward tax evasion, largely due to economic hardship, high tax burdens, and distrust in the system.

Based on these findings, several recommendations are proposed. The government should intensify public awareness through radio, TV, and billboards to educate citizens on the importance of tax compliance and the penalties for evasion. Specialized revenue courts should be established to enforce stringent penalties for defaulters. Tax policies must be revised to reduce burdens on low-income earners, and efforts should be made to combat inflation. Furthermore, competent and well-compensated tax personnel should be recruited, regularly trained, and shielded from corruption through improved working conditions.

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