



EXAMINATION OF THE CHALLENGES AND PROSPECTS OF TAXING THE INFORMAL SECTOR IN NIGERIA**

Abstract

Tax revenue from the informal sector does not make significant contribution to Nigeria's GDP. Efforts are being made by government at all levels to introduce policies and legal framework for taxing the informal sector in Nigeria. This paper examines existing policies and legal framework for taxing the informal sector in Nigeria. It doctrinally evaluates the challenges and prospect of taxing the informal sector in Nigeria. It finds that taxing the informal sector could lead to increased revenue generation, growth and development of the informal sector, equity considerations, improved tax morale, accountability and good governance. It recommends consolidation of taxes in the informal sector among others to actualize an efficient tax regime and administration of the informal sector in Nigeria.

Keywords: Taxation, Informal Sector. GDP, Revenue generation, Nigeria

1. Introduction

Taxation has been identified as one of the sustainable and oldest ways of generating income for the government, which is critical in the provision of amenities, infrastructures, to achieve economic growth and development, and the existence of a prosperous, functional, and orderly society.¹ Taxation is important to the survival of any modern society. Hence, Benjamin Franklin opines that: 'there are two things that are certain in this world – death and taxes.'² Taxation forms the basis for the social contract between the citizens and the government.³ In many developing countries, taxation has been administered mainly in the formal sector. However, taxing the informal sector has been challenging because of the nature and peculiar mode of conducting informal businesses in those countries. This notwithstanding, the prospect of taxing the informal sector still remain positive as many developing countries including Nigeria are improving their capacity to tax the informal sector.⁴ This is largely due to the dwindling revenue from oil resulting from fluctuations in the price of the crude oils, effect of COVID-19 pandemic; high debt profile and high interest rate; inflation and economic depression.⁵ The move by the government to tax the informal sector, are inhibited by certain challenges, which include the peculiar mode of operation of the informal sector, government-taxpayer relationship,⁶ the incidence of multiple taxation and illegal taxation, administrative issues, lack of tax education and awareness and the emergence of the e-informal sector. However, the prospects of taxing the informal sector include

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¹World Bank Group, 'Paying Taxes: Why it Matters?' (Doing Business) paras 1-2 <<https://www.doingbusiness.org/en/data/exploretopics/paying-taxes/why-matters>> accessed 3 December 2021.

²Jared Sparks, *The Works of Benjamin Franklin*, Vol 10 (Boston: Whittemore, Niles, and Hall, 1856) 410.

³World Bank Group, 'Paying Taxes: Why it Matters?' (Subnational studies, 2019) paras 1-2 <<https://www.doingbusiness.org/en/data/exploretopics/paying-taxes/why-matters>> accessed 3 December 2021.

⁴Adekoya A Augustine, Olaoye A Samuel and Lawal A Babatunde, 'Informal Sector and Tax Compliance in Nigeria-Challenges and Opportunities' *International Journal of Emerging Trends in Social Sciences*, (2020) 8 (2)59.

⁵African Development Bank Group, 'Nigeria Economic Outlook' (afdb.org) <<https://www.afdb.org/en/countries-west-africa-nigeria/nigeria-economic-outlook>> accessed 5 June 2022; Adeleke Salami, 'Taxation, Revenue Allocation and Fiscal Federalism in Nigeria: Issues, Challenges and Policy Options' *Economic Annals*, (2011) LVI (189) s 27, 28.

⁶*Ibid* 57.



increase in revenue for the government, and growth and development of the informal sector, equity considerations, improved tax morale, accountability, and good governance.

This paper examines the challenges and prospects of taxing the informal sector in Nigeria. The paper will proceed with a conceptual framework and discuss the challenges and prospect of taxing the informal sector in Nigeria and thereafter recommend strategies for the taxing of the informal sector in Nigeria.

2. Conceptual Framework

The concept of informal sector has evolved over the years. Hart described the informal sector as that labour force that is not within the purview of formal labour market. He likened it to those that fall in the category of self-employed.⁷ On the other hand, the ILO in its report defined the informal sector as those enterprises that are not captured by the regulation or taxation imposed by the government.⁸ Today the widespread definition of the concept of informal sector is the legal definition (initiated by De Soto) which refers to the legal status of the business: whether registered and complying with relevant legislation.⁹ The informal sector is characterized by its heterogeneous, context-specific, and multidisciplinary nature and due to this, it has been described in various ways such as, unregulated, non-structured, unmeasured, unofficial, irregular, shadow economy, underground economy, black market, unrecorded, grey, cash economy, unorganised, untaxed, survival sector, parallel, transitional activities.¹⁰ It is pertinent to note that the informal sector despite its seemingly low profile accounts for the employment of about two billion people which is above 61 per cent of the world's employed population and accounts for about 85.8% of the employment in Africa.¹¹

In Nigeria, the concept of the informal sector is hinged on the regulation or non-regulation of enterprise relationship by the state. Accordingly, the Central Bank of Nigeria, Federal Office of Statistics and Nigerian Institute for Social & Economic Research consider an informal enterprise as “that which operates without binding official regulations (but it may or may not regulate itself internally) as well as one which operates under official regulations that do not compel rendition of official returns to its productive process.”¹² The Nigerian informal sector constitutes approximately

⁷Keith Hart, 'Informal income opportunities and urban unemployment in Ghana' *Journal of Modern African Studies*. (1973) 11 (1) 61, 68 <<https://www.sv.uio.no/sai/english/research/projects/anthropos-and-the-material/Intranet/economic-practices/reading-group/texts/hart-informal-income-opportunities-and-urban-employment-in-ghana.pdf>> accessed 26 February 2022.

⁸International Labour Office, 'Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya' (Geneva, International Labour Organization 1972) < accessed 27 February 2022.

⁹Anuradha Joshi and Wilson Prichard and Christopher Heady, 'Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research' *The Journal of Development Studies*. (2014) 50 (10) 1325, 1326 <<https://doi.org/10.1080/00220388.2014.940910>> accessed 28 January 2022.

¹⁰Gorana Krstic and Peter Sanfey, 'Mobility, poverty and well-being among the informally employed in Bosnia and Herzegovina' (2007) 31 *Economic Systems* 311, 313; Alice Sindzingre, 'The Relevance of the Concept of Formality and Informality: A Theoretical Appraisal' (EGDI-WIDER Conference, Finland, September 17-18 2004) 4; Justin W Webb and R Duane Ireland and David J Ketchen Jr, 'Toward a Greater Understanding of Entrepreneurship and Strategy in the Informal Economy' *Strategic Entrepreneurship Journal*. (2014) 8 (1) 1, 8 <<https://doi.org/10.1002/sej.1176>> accessed 31 January 2022.

¹¹International Labour Organization, 'More Than 60 Per Cent of the World's Employed Population are in the Informal Economy' (International Labour Organization, 30 April 2018) <https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_627189/lang--en/index.htm> accessed 28 January 2022.

¹²Central Bank of Nigeria, Federal Office of Statistics and Nigerian Institute for Social & Economic Research, *A study of Nigeria's informal Sector*, Vol 1 (Nigeria: Central Bank of Nigeria 2001).



60-65% of its' economic activities¹³ and accounts for about 80.4% of the total workforce in Nigeria.¹⁴ Basically, the sustenance and livelihood of most people in the rural and urban areas in Nigeria is from the informal sector.

Notwithstanding the huge contribution of the informal sector to employment and economic development in Nigeria; its contribution through taxation to the GDP of Nigeria is insignificant. Revenue from all sources including taxation are fundamental indices in determining the GDP of a nation. In Nigeria the tax to GDP ratio is about 10.8%,¹⁵ and about 98% of tax revenue from the informal sector are unaccounted for.¹⁶ This is largely attributable to the difficulty in taxing a sector you cannot easily ascertain its income or determine whether it is making profits or not. The informal sector in Nigeria is difficult to hold accountable because most of its participants have no fixed address, bank accounts or verifiable means of identifications. The down side to this is that even the part of the informal sector that can be contribute some tax in form of daily levies are overburdened by corrupt practices and illegal taxes which are hardly remitted to government coffers.

The drive by government to tax this sector may not be effective if the challenges are not addressed. While it holds a lot of revenue generation potentials, the regulatory structure must take into consideration the peculiarities of the informal sector. Taxation is statutory, which means there must be laws to regulate the imposition and collection of taxes from the informal sector. In the next part of this paper, we shall look at the legislative framework for the taxation of the informal sector. The focus on states is largely due to the fact that most income from the informal sector will likely be taxed under the Personal Income Tax Act and Local Government bye laws considering that the legislative control over individuals and small businesses is largely within the purview of states and local governments.

3. Policies and Legal Framework Regulating Taxation of the Informal Sector in Nigeria

The Constitution of Nigeria obligates all Nigerians who are eligible taxpayers irrespective of whether such taxpayers work in the informal sector or formal sector to pay tax.¹⁷ Pursuant to this provision, the federal, state and local governments have enacted various laws, regulations and policies on taxation. Whilst these laws are applicable and implemented on individuals and companies in the formal sector, it is difficult to implement them in the informal sector. This difficulty led to the introduction of a new tax regime in 2015 known as 'The Presumptive Tax Regime.'¹⁸

¹³ Civil Society Legislative Advocacy, 'Expanding the Tax Base in the Nigerian Informal Sector' (maketaxfair) 1, 5 <<https://www.maketaxfair.net/assets/policy-brief-on-informal-sector.pdf>> accessed 22 December 2021.

¹⁴Adepeju Adenuga, '80'4% of Nigerian Employment in Informal Sector, says W'Bank' *Punch* (Nigeria, 12 May 2021) <<https://punchng.com/80-4-of-nigerian-employment-in-informal-sector-says-wbank>> accessed 10th June 2022.

¹⁵ Desmond Okon, 'Nigeria's low Tax to GDP is problematic, says IMF' *The Cable* (19 April 2024) <<https://www.thecable.ng/nigerias-low-tax-to-gdp-is-problematic-says-imf->> accessed 22 April 2024.

¹⁶ Aderemi Ojekunle, 'Report: 98% of businesses in Nigeria's Informal Sector pay taxes-but to non-state actors' *The Cable* <<https://www.thecable.ng/report-98-of-businesses-in-Nigerias-informal-sector-pay-taxes-but-to-non-state-actors> > Accessed 15 May 2023.

¹⁷Constitution of the Federal Republic of Nigeria, s 24; See also, The African Charter on Human and People's right, (Ratification and Enforcement) Act, article 29(6), which provides that every individual shall have the duty to pay taxes impacted by law in the interest of the society.

¹⁸Bassej Udo, 'FIRS, JTB Propose New Tax Regime for Nigeria' *Premium Times* (Nigeria, 30 July 2019) <<https://www.premiumtimesng.com/business/128324-firs-jtb-propose-new-tx-regime-for-nigeria.html>> accessed 14 March 2022.



Presumptive taxation is an indirect form of assessment which assesses a taxpayer based on a perceived income¹⁹ as opposed to the normal procedure of self-assessment by the taxpayers themselves²⁰ or assessment based on actual income and returns. Presumptive taxation is employed when the tax payer's income cannot be ascertained or where it is impracticable for the tax payer to record his business transaction due to the mode of doing business such as business in the informal sector.²¹ There are various methods of assessing the liability of a taxpayer under a presumptive tax regime, some of which include: Standard assessment which is on the basis of the occupation or business activity; estimate assessment which relies on specific indicators such as the profession, level of economic activity, property location or industrial parameters; net wealth and asset; visible signs of wealth and minimum taxes.²² Presumptive Tax Assessment is statutorily provided for under section 36 (6) of the Personal Income Tax (Amendment) Act 2011.²³ The minister pursuant to the provision of this section enacted the Presumptive Tax Regulation 2018. It contains eight (8) parts and two (2) schedules, which provides the categories of taxpayers, registration process and procedure, payment procedure and rates (which states can depart from) as well as the mode of exit.

The National Tax Policy appraised the presumptive tax, noting that through this assessment, tax authorities can effectively capture individuals (taxpayers) who previously evaded and avoided tax due to the nature of their business.²⁴

In Nigeria, the activities of the informal sector are mostly regulated by state governments. This being the case, most laws and policies on informal taxation are state driven. This paper will therefore examine the policies and legal frameworks of at least one state selected from each of the six geopolitical zones in Nigeria. Particularly the policies and legal frameworks on informal taxation in Lagos state, Rivers state, Anambra state, Kwara state, Kano State, Gombe State and Edo State will be evaluated.

3.1 Lagos State

The Lagos State Internal Revenue Service (LIRS) administers taxation in the informal sector through various trade unions and the Presumptive Tax Income Assessment.²⁵ LIRS categorized the taxpayers in the informal sector into three (3): Market men/women and artisans; micro, small and medium scale enterprises (including professionals) and household domestic staff.²⁶ The minimum tax payable under the presumptive tax is ₦8,100 annually which is ₦675 a month. There is also

¹⁹Olufemi Idogun, 'Presumptive Tax in Nigeria' (Academia) 1 <https://www.academia.edu/32936804/Presumptive_Tax_in_Nigeria_docx> accessed 14 March 2022.

²⁰Federal Inland Revenue Service, 'Understanding Self-Assessment: Making Tax Payment Easy' (FIRS, 2016) <<https://www.firs.gov.ng/wp-content/uploads/2020/11/SELF-ASSESSMENT-pdf>> accessed 7 April 2022.

²¹Ibid.

²²Embuka Anna, 'Presumptive Tax: Equalizing the Distribution of Tax Burden (II)' *Vanguard* (Nigeria, 15 June 2015) <<https://www.vanguardngr.com/2015/06/presumptive-tax-equalizing-the-distribution-of-tax-burden-ii/amp>> accessed 14 March 2022.

²³Cap P8 Vol. 13 LFN 2004.

²⁴ National Tax Policy 2012, chapter 1, 4.1. See Newman U. Richards, 'Overview of the National Tax Policy and its Implication for Tax Administration in Nigeria' *Nnamdi Azikiwe University Journal of International Law and Jurisprudence*, (2019) Vol. 10(2).

²⁵Judith Monye and Onyitare Abang 'Taxing the Informal Sector-Nigeria's Missing Goldmine' (Bloomberg Tax, October 15 2020) <<https://news.bloombergtax.com/daily-tax-report-international/taxing-the-informal-sector-nigerias-missing-goldmine>> accessed 14 March 2022.

²⁶ BLP, 'The Nigeria Informal Tax Sector and Potentials' (Blanchart Legal Practice,, 8 September 2021) <<https://www.blanchartlaw.com/the-nigerian-informal-tax-sector-and-potentials/>> accessed 14 March 2022.



room for additional assessment where such taxpayer deserves to pay more and self-assessment.²⁷ Payment of tax is made directly to the government account with a tax card. Taxpayers can opt to pay their tax from their shops/businesses through an electronic means called IBILE Hub.²⁸ Commercial motorists also pay a distinct type of tax²⁹ called the ‘Consolidated Informal Tax Sector Transport Levy.’ The levy is paid daily at a fixed price of ₦800.³⁰ The Lagos state government has also organized public enlightenment programs, and provided social services for the informal sector through some of its ministries³¹ to ensure voluntary compliance of taxpayers and attract unregistered businesses into the tax net.

The efforts made by the Lagos State Government towards taxing the informal sector are commendable. However, it is imperative for the state to work towards curtailing the issue of illegal and multiple taxes suffered by those in the sector³² as it would in the long run affect such businesses negatively, which may lead to lower tax returns.

3.2 Rivers State

The Rivers State Internal Revenue Service (RIRS) divided the informal sector into seven categories based on the type of activities, the size and structure of the businesses in the sector: each having a distinct rate. Collection of tax is through demand notice and cash payment is not allowed.³³ The RIRS also organized a sensitization scheme where it educated the various trade groups, trade unions and stakeholders in the informal sector on tax rules, tax offences, tax types and rates, mode of payment and clearance.³⁴ Just as with Lagos State, Rivers State’s informal players also suffer the incidence of illegal/multiple taxation. Thus, to ensure smooth operation of tax administration in the state, government should tackle this issue.

3.3 Anambra State

Anambra State established an online registration platform for businesses in the state, (including those in the informal sector) called ‘Anambra Social Service Identity Number’ (ANSSID). This registration was made compulsory and was a requisite for accessing and paying for government service in the state.³⁵ Community Revenue State Officers (CROs) were deployed in the informal

²⁷Anozi Egole, ‘IBILE Hub Initiative has Simplified Tax Collection System – Coker, LIRS Director’ *Punch* (Nigeria 13 March 2022) <<https://www.google.com/amp/s/punchng.com/we-review-tax-collection-system-to-enhance-growth-coker-lirs-director/%3famp>> accessed 19 March 2022.

²⁸ Ibid.

²⁹This tax covers for personal income tax and waste management in parks in the state

³⁰ Christaina T Alabi, ‘Lagos Begins New Tax System for Motorists’ *Daily Trust* (Nigeria, 20 January 2022) <<https://dailytrust.com/lagos-begins-new-tax-system-for-motorists>> accessed 14 March 2022.

³¹Tayo Ogunbiyi ‘Fresh Boosts for Lagos Informal Sector’ (Lagosstate.gov.ng, 14 March 2019) <<https://lagosstate.gov.ng/blog/2019/03/14/fresh-boost-for-lagos-informal-sector/>> accessed 14 March 2022.

³²Ayodeji Rotinwa, ‘Lagos: The Taxman Cometh’ *The African Report* (Nigeria, 2 July 2018) <<https://www.google.com/amp/s/www.theafricaareport.com/600/lagos-the-taxman-cometh/amp/>> accessed 6 May 2022.

³³Vanguard, ‘Rivers Government Rolls out Informal Sector Tax Rates, Modalities’ *Vanguard* (Nigeria, 30 July 2019) <<https://www.vanguardngr.com/2019/07/rivers-govt-rolls-out-informal-sector-tax-rates-modalities/amp/>> accessed 15 March 2022; Judith Monye and Onyitara Abang (n 9).

³⁴Ignatius Chukwu, ‘How Rivers Strives to Achieve ‘Tax with Ease’ as RIRS Unfolds Informal Sector IGR Drive’ *Business Day* (Nigeria, 26 May 2019) <<https://businessday.ng/amp/business-economy/article/how-rivers-strives-to-achieve-tax-with-ease-as-rirs-unfolds-informal-sector-igr-drive/>> accessed 15 March 2022.

³⁵AIRS and PERL and FCDO, ‘Case Study: Approach to Informal Taxation by the Anambra State Internal Revenue Anchored on Anambra Social Service Identity Number’ (AIRS, February 2020) <<https://airs.an.gov.ng/wp-content/uploads/2020/11/AIRS-Story.pdf>> accessed 19 January 2023.



sector for the registration of the businesses.³⁶ In 2022, the new government introduced a new tax regime for the informal sector to simplify the tax regime in the informal sector and eliminate illegal taxation.³⁷ It changed the rates and time of payment for the transportation sector.³⁸ These new rates were reached after consultations with the stakeholders in the sector and series of protests by the players in the informal sector.³⁹ For okada riders (motorcyclists) ₦1,000; keke operators (tricycle riders) ₦2,500; taxi drivers and shuttle buses ₦3,000; and mini trucks ₦3,750, weekly.⁴⁰ Taxes for heavy duty vehicle operators were suspended.⁴¹ For market traders, the tax and levies are to be paid annually and was divided into two: ₦7,400 for Private market and ₦12,200 for government market.⁴² The new regime also exempted petty traders, wheelbarrow pushers and vulcanizers from paying any tax.⁴³ This new regime introduced digital collection of taxes as opposed to proxy collection by agents of the government, and thus mandated all taxpayers in the Informal Sector to do biometrics capturing and registration.

It is hoped that the new reviewed rates would be fair to those in the informal sector to avoid any protest.⁴⁴ The government should further look into the matter of violent enforcement of these taxes as complained by businesses in the sector⁴⁵ and should ensure that going forward, matters of taxation and its administration should take due consideration of the nature of the informal sector in terms of the rates to be imposed and the time and mode of implementation.

3.4 Kwara State

The Kwara State Internal Revenue Service (KW-IRS) operates a presumptive tax regime in its informal sector. The service established the 'Informal Sector Tax Directorate' to administer the

³⁶Ibid.

³⁷Anambra Residents Lament Soludo's Tax Regime' *Daily Trust* (Nigeria, 22 October 2022) <<https://dailytrust.com/anambra-residents-lament-soludos-tax-regime/>> accessed 18 January 2023.

³⁷Ibid.

³⁸The previous rates can be found in the AIRS website - <https://airs.an.gov.ng/transportation-tariffs/#>.

³⁹Ofomata, 'Soludo Announces Weekly Tax Payment for Commercial Vehicle Operators' *Standard Observers* (Nigeria, 19 January 2023) <<https://standardobservers.com/soludo-announces-weekly-tax-payment-for-commercial-vehicle-operators/?amp=1>> accessed 19 January 2023; Olalekan Fakoyejo, 'Soludo Cuts Taxes after Backlash from Simon Ekpa' (RipplesNigeria, 19 January 2023) <<https://www.ripplesnigeria.com/soludo-cuts-taxes-in-anambra-after-baclash-from-simon-ekpa/?amp>> accessed 19 January 2023.

⁴⁰Ibid.

⁴¹Ofomata, 'Soludo Announces Weekly Tax Payment for Commercial Vehicle Operators' *Standard Observers* (Nigeria, 19 January 2023) <<https://standardobservers.com/soludo-announces-weekly-tax-payment-for-commercial-vehicle-operators/?amp=1>> accessed 19 January 2023.

⁴²Raymond Ozoji, 'Anambra Begins 'Operation Show Your Receipts' For Traders In Markets' *Independent Newspapers* (Nigeria, 4 May 2023) <<https://independent.ng/anambra-begins-operation-show-your-receipts-for-traders-in-markets/>> accessed 5 May 2023; Emmanuel Ndukuba, 'Soludo Enforces Tax Compliance in Anambra Markets' *Business Day* (Nigeria, 21 April 2023) <<https://businessday.ng/news/article/soludo-enforces-tax-compliance-in-anambra-markets/>> accessed 5 May 2023.

⁴³David-Chyddy Eleke, 'Soludo Abolishes Taxes for Hawkers, Vulcanizers, Others' *THIS DAY* (Nigeria, 27 October 2022) <<https://www.thisdaylive.com/index.php/2022/10/27/soludo-abolishes-taxes-for-hawkers-vulcanizers-others/>> accessed 18 January 2023.

⁴⁴Joe Chukindi, 'Soludo's tax policies choking – Schools, traders Protest' *Daily Post* (Nigeria, 11 November 2022) <<https://dailypost.ng/2022/11/11/soludos-tax-policies-choking-schools-traders-protest/?amp=1>> accessed 18 January 2023; Ebuka Onyekwelu, 'Matters Arising from the Bus and Keke Operators' Protest in Awka' (Pilot News, 24 September 2022) <<https://www.westafricanpilotnews.com/2022/09/24/matters-arising-from-the-bus-and-keke-operators-protest-in-awka/>> accessed 18 January 2023.

⁴⁵ Dominica Nwabufu, 'Bakers Protest Multiple Taxation in Anambra State' (Voice of Nigeria, 14 January 2023) <<https://von.gov.ng/bakers-protest-multiple-taxation-in-anambra-state/>> accessed 18 January 2023.



collection of personal income tax from taxpayers in the informal sector. This directorate was further divided into three units: markets, micro businesses and artisans.⁴⁶ The tax rate for markets and artisans is a flat rate of ₦1500 annually, to be paid through the unions and associations' and for micro businesses, the rates contained in the Presumptive Tax Regulation or through best of judgment, which is to be paid through the Tax Assessment Directorate of the service.⁴⁷ Payment may be made online, through a bank transfer or with Point of Sales (POS) upon service of notice of assessment.⁴⁸ The KW-IRS also set up a Research and Data Gathering Department, embarked on strategic engagements with all stakeholders in the market, and organized Community Impact Programmes with direct impact on the taxpayers.⁴⁹

The policies of KW-IRS led to the increase in tax revenue in 2016 to 2017; however, studies have shown that there was a decline in 2018, which was attributed to the absence of an enforcement policy by the service to ensure consistent compliance.⁵⁰ This means that the service needs to employ and train more tax personnel as they serve as agents of enforcement.

3.5 Kano State

The Kano State Internal Revenue Service (KIRS) adopted the Presumption Tax Regulations. A presumption tax implementation committee was established for the implementation. Various meetings were held with the stakeholders in the Informal Sector to agree on the tax rate for the sector. The KIRS staffs were also trained on all aspects of the presumptive tax. Furthermore, the state signed a Memorandum of Understanding (MOU) with the Kano State Traders Union and Association of Small-Scale Industrialists, Kano state chapter. The purpose of this MOU was for the unions to educate their members to pay tax and on the part of the government to ensure ease of tax payment and provision of services to the sector. Additionally, the KIRS carried out sensitization program about presumptive tax regime⁵¹ and have set out to automate tax collection to ease the stress of payment on taxpayers and collection on its staff.⁵²

This implementation phase and other activities were carried out in collaboration with the GERMS 3 project, a project funded by the department of international development, United Kingdom.⁵³ This collaboration is welcomed and other states yet to introduce a policy for taxing the informal sector are urged to follow the footsteps of Kano state.

3.6 Gombe State

The Gombe State Internal Revenue Service (GIRS) fixed the sum of ₦3600 as the annual tax rate for the informal sector. To ease payment and collection, the GIRS deployed agents to markets

⁴⁶Mohammed Aminu Yaru and Muritala Awodin 'Tax Administration in the Informal Sector: Kwara State Internal Revenue Service Perspective' *Ilorin Journal of Economic Policy*, 2019 6 (1) 3, 4.

⁴⁷Ibid.

⁴⁸Editor, 'Tax Advocacy: KW-IRS Speaks on Informal Sector Collections' (Kwara State Internal Revenue Service, 4 August 2021) <<https://irs.kw.gov.ng/tax-advocacy-kw-irs-speaks-on-informal-sector-collections/>> accessed 15 March 2022.

⁴⁹Mohammed Aminu Yaru and Muritala Awodin 'Tax Administration in the Informal Sector: Kwara State Internal Revenue Service Perspective' *Ilorin Journal of Economic Polic*, (2019) 6 (1) 2.

⁵⁰Mohammed Aminu Yaru and Muritala Awodin 'Tax Administration in the Informal Sector: Kwara State Internal Revenue Service Perspective' *Ilorin Journal of Economic Policy*, (2019) 6 (1) 5.

⁵¹GEMS3, 'Presumptive Tax Report' (Nigeria Governors' Forum, 20 February 2017) <<https://www.nggovernorsforum.org/index.php/resources/category/21-igr-dashboard-resource-tools#>> accessed 14 March 2022.

⁵²David Agba, 'Kano Invests in Automation to Improve Tax Collection' *Blueprint Newspaper* (Nigeria, 3 November 2020) <<https://www.blueprint.ng/kano-invests-in-automation-to-improve-tax-collection/>> accessed 20 March 2022.

⁵³Kaduna and Cross River are also part of the pilot states; *ibid* 1



and roadsides. These agents were equipped with POS to avoid cash payment which may lead to diversion of government revenue. With this provision, taxpayers can easily pay their tax without the hurdle of going to the GIRS office and be assured that their money goes straight to the government account.⁵⁴ Additionally, the board has also partnered with the Nigerian Labour Congress and various trade associations in the state to combat tax avoidance and evasion in the informal sector.⁵⁵ To ensure that the GIRS meets its expectations, this paper argues that the GIRS should embark on direct public sensitization and enlightenment with the taxpayers in the informal sector on the need to pay taxes just as other states have done.

3.7 Edo State

The Edo State Internal Revenue Service (EIRS) commenced implementation of the presumptive tax regime in 2015. To ensure smooth administration and avoid tax leakages and corruption, it banned external contractors from collecting tax.⁵⁶ In actively taxing its informal sector, the EIRS established a scheme known as ‘the Revenue Scratch Card and Dealership Scheme’, a mobile payment system to ensure compliance and efficient administration. Under this system, taxpayers make their payment from the comfort of their businesses as the stress of going to bank has been circumvented and replaced with an Android Point of Sales (POS) wherein taxpayers would simply present their scratch card to the EIRS staff handling the POS.⁵⁷ The withdrawal of external contractors from tax collection is worthy of commendation and emulation by other states considering the high level of corruption amongst external tax contractors and tax personnel.⁵⁸

4. Challenges of Taxing the Informal Sector in Nigeria

Generally, the informal sector is hardly taxed in Nigeria even though there is some merits in the argument that the informal sector actually pay taxes but these taxes are collected by unauthorised non state actors which makes it difficult to account for these informal taxes.⁵⁹ Taxing the informal sector is inhibited by a number of factors including peculiar mode of operation of the informal sector, government-taxpayer relationship, the incidence of multiple taxation and illegal taxation, administrative issues, lack of tax education and awareness and the emergence of the e-informal sector. In this part of the paper these challenges and their effect on the taxation of the informal sector shall be examined.

4.1 Peculiar Mode of Operation of the Informal Sector

The informal sector evolved in developing countries due to circumstances ranging from unemployment, surplus labour, saturated formal sector; poverty and economic hardship; ease of entry and quest for a means of generating additional income in the face of a weak economy amongst

⁵⁴Agency report, ‘Gombe Generates ₦300 Million IGR Monthly’ *Premium Times* (Nigeria, 28 June 2018) <https://www.premiumtimesng.com/regional/north-east/274213-gombe-generates-n300m-igr-monthly.html> accessed 20 March 2022.

⁵⁵Ibid.

⁵⁶Adide Emeonyonu, ‘Nigeria: Edo Bans Use of Revenue Collections Begins Presumptive Tax Regime’ (AllAfrica, 27 June 2015) <<https://allafrica.com/stories/201506291632.html>> accessed 15 March 2022.

⁵⁷Ekpen Osagie, ‘Taxation of the Informal Sector: Edo State IRS Introduces Revenue Scratch Card Dealership Scheme’ (Edo State Internal Revenue Service, 19 January 2019) <<https://eirs.gov.ng/taxation-of-the-informal-sector-edo-state-irs-introduces-revenue-scratch-card-dealership-scheme/>> accessed 14 March 2022.

⁵⁸ Ibid.

⁵⁹ Aderemi Ojekunle, ‘Report: 98% of businesses in Nigeria’s Informal Sector pay taxes-but to non-state actors’ (n 17).



others.⁶⁰ Thus, most of them do not carry out the mandatory registration of businesses with the Corporate Affairs Commission and are therefore not captured in the database of FIRS and SBIRS for them to be taxed.⁶¹ By and large, the businesses in the informal sector are carried out without proper documentation;⁶² mainly cash-based transactions as opposed to cashless transactions and most times they have no need for a business bank account.⁶³ In addition, they show preference for loans from family and friends over financial institutions;⁶⁴ and are largely unstable and mobile.⁶⁵ This makes it increasingly difficult for the FIRS and the various SBIRS to identify their tax base and access them correctly. It also makes the implementation of Tax Identification Number (TIN)⁶⁶ difficult in the Informal sector.⁶⁷

4,2 Weak Governance Structure

In Nigeria there are concerns over the performance of governmental obligations in the social contract entered with its citizens, which includes accountability and transparency of taxes paid;⁶⁸ the provision of infrastructure⁶⁹ and other necessary amenities that will enhance and sustain the total wellbeing of its citizens.⁷⁰ This seemingly breach of contract has dampened the tax morale of citizens and led to low voluntary tax compliance as citizens often use their personal funds to provide for themselves basic amenities such as road, water, electricity and security.⁷¹

⁶⁰Hernado De Soto, *Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (Basic Books 2000) cited in Onyemaechi Joseph Onwe, 'Role of the Informal Sector in Development of the Nigerian Economy: Output and Employment Approach' *Journal of Economics and Development Studies*, (2013) 1 (1) 60, 66; Usman Sani Kofar Wambai and Chek Derashid and Idawati Ibrahim, 'A Conceptual Review of the Challenges of Effective Tax Collection from the Informal Sector in Kano, Nigeria' (2019) 9 (1) *Journal of Business Management and Accounting* 1, 6.

⁶¹Joseph E Udoh, 'Taxing the Informal Economy in Nigeria: Issues, Challenges and Opportunities' *International Journal of Business and Social Science*, (2015) 6 (10) 160, 166; SB Morgen Intelligence, 'Under the Hood: A Look into Taxation in Nigeria's Informal Sector' (SB Morgen, 17 August 2021) 1, 6.

⁶²Obara Lawyer and Nangih Efeelo, 'Taxing the Informal Sector in Developing Countries: An Empirical Investigation From Rivers State Of Nigeria' *Journal of Accounting and Financial Management*, (2017) 3 (1) 47, 50; Riliwan Ayinde Adisa and Olabode James Ogunsiji and Oluwakemi Olaronke Oyekola, 'Taxation of the Informal Sector and Economic Development of Lagos State' *Accounting and Taxation Review*, (2019) 3 (4) 110, 113.

⁶³Usman Sani Kofar Wambai and Chek Derashid and Idawati Ibrahim, 'A Conceptual Review of the Challenges of Effective Tax Collection from the Informal Sector in Kano, Nigeria' *Journal of Business Management and Accounting*, (2019) 9 (1) 1, 8.

⁶⁴Olufunso Ola-Ojo and Oladejo Adeyemi, 'Effective Taxation of the Nigerian Informal Sector' *Business Day* (Nigeria, 11 December 2018) para 5.

⁶⁵Joseph E Udoh, 'Taxing the Informal Economy in Nigeria: Issues, Challenges and Opportunities' (2015) 6 (10) *International Journal of Business and Social Science*, 160, 166; Grace Oyeyemi Ogundajo and Ishola Rufus Akintoye and Ifayemi Moses Olayinka, 'Taxing the Informal Sector and Revenue Generation in Nigeria' *International Journal of Commerce and Management Research*, (2019) 5 (4) 81, 82.

⁶⁶Federal Inland Revenue Service (Establishment) Act 2007, s. 8(1) (q).

⁶⁷Ohaka John and Zukbee John D, 'Taxation and Sustainable Development in Nigeria: Informal Sector Challenges' *Research Journal of Finance and Accounting*, (2015) 6 (10) 249, 250.

⁶⁸Ohaka John and Zukbee John D, 'Taxation and Sustainable Development in Nigeria: Informal Sector Challenges' *Research Journal of Finance and Accounting*, (2015) 6 (10) 249, 250.

⁶⁹Norbert Osemeke and Nzekwu David and Robert O Okere, 'The Challenges Affecting Tax Collection in Nigerian Informal Economy: Case Study of Anambra State' *Journal of Accounting and Taxation*, (2020) 12 (2) 61, 65 <DOI:10.5897/JAT2020.0388> accessed 15 March 2022.

⁷⁰Grace Oyeyemi Ogundajo and Ishola Rufus Akintoye and Ifayemi Moses Olayinka, 'Taxing the Informal Sector and Revenue Generation in Nigeria' *International Journal of Commerce and Management Research*, (2019) 5 (4) 81.

⁷¹Norbert Osemeke and Nzekwu David and Robert O Okere, 'The Challenges Affecting Tax Collection in Nigerian Informal Economy: Case Study of Anambra State' *Journal of Accounting and Taxation*, (2020) 12 (2) 61, 65 <DOI:10.5897/JAT2020.0388> accessed 15 March 2022.



In addition, there has been a neglect on the part of the government to make conscious effort to ensure that the informal sector is included in the tax net. This may be because, political actors may lack the moral courage to tax the informal sector dominated by poor citizens who are expecting government to change their stories considering that they form a large chunk of the electorate.⁷²

4.3 Incidence of Multiple and Illegal Taxation

Multiple taxation occurs when the same profit or income made by a company or person is subjected to taxation by different tax authorities.⁷³ On the other hand, tax is illegal if it is not imposed by legislation.⁷⁴ The incidence of multiple and illegal taxation in the informal sector comes in two forms: firstly, some taxes paid to local and state governments, which are unlawful and are collected through the use of intimidation and harassment of tax payers⁷⁵ and secondly, taxation under the guise of fees and charges.⁷⁶ Multiple taxation has been identified as one of the major impediments to the growth and survival of Small and Medium Scale Enterprises in Nigeria.⁷⁷ It also leads to increase in price of goods and services; reduction of profit, which is the basis for taxation;⁷⁸ and decrease of tax morale and trust in the government.⁷⁹ Above all multiple and illegal taxation contradicts the cardinal principles of taxation.⁸⁰ It is a major challenge affecting taxing of the informal sector.

In a survey conducted by SBM Intelligence in Anambra, Bauchi, Cross River, Delta, Kano, Lagos, Oyo, Rivers states and the Federal Capital Territory, Abuja covering informal businesses in the categories of open market traders, bus drivers, dress makers, bike riders, hairdressers and vulcanizers, it was shown that majority of people/businesses in the informal sector are subject to daily payment of tax, some of them pay more than thrice a day to different groups. These groups were identified as state government, local government, market organization and unions.⁸¹ Similarly, a study conducted in Anambra State identified that those in the informal sector are plagued with different forms of taxes, all in the guise of levies such as levies for sanitation,

⁷²Mohammed Aminu Yaru and Muritala Awodun, 'Tax Administration the Informal Sector: Kwara State Internal Revenue Service Perspective' *Ilorin Journal of Economic Policy*, (2019) 6 (1) 1, 2.

⁷³Osita Aguolu, *Taxation and Tax Management in Nigeria* (3rd edn Enugu: Meridan Associates 2004).

⁷⁴*S. A. Authority v Regional Tax Board* (1967) NCLR 452; *Coltness Iron Company v Black* (1881) 6 AC 315; M T Abdulrazaq, *Nigerian Revenue Law* (Malthouse Press Limited 2005) 1.

⁷⁵Adedotun O Philip, *Nigerian Tax Reform in 2003 and Beyond: Main Report of the Study Group on the Nigerian Tax System* (Study Group on the Nigerian Tax System, 2003).

⁷⁶Abiola Sanni, 'Multiplicity of Taxes in Nigeria: Issues, Problems and Solutions' (2012) 3 (17) *International Journal of Business and Social Science*, 229.

⁷⁷Si Ocheni and TI Gemade, 'Effects of Multiple Taxation on the Performance of Small and Medium Scale Business Enterprises in Benue State' *International Journal of Academic Research in Business and Social Sciences*, (2015) 5 (3) 345, 347 <<http://dx.doi.org/10.6007/IJARBS/v5-i3/1525>> accessed 11th April 2022.

⁷⁸SBM Intelligence, 'Under the Hood: A Look into Taxation in Nigeria's Informal Sector' (SB Morgen, 17 August 2021)1, 32.

⁷⁹Judith Monye and Onyitare Abang 'Taxing the Informal Sector-Nigeria's Missing Goldmine' (Bloomberg Tax, 15 October 2020) 6<<https://news.bloombergtax.com/daily-tax-report-international/taxing-the-informal-sector-nigerias-missing-goldmine>> accessed 20 April 2022.

⁸⁰Abiola Sanni, 'Multiplicity of Taxes in Nigeria: Issues, Problems, and Solutions' *International Journal of Business and Social Science*, (2012) 3 (17) 229, 231.

⁸¹SBM Intelligence, 'Under the Hood: A Look into Taxation in Nigeria's Informal Sector' (SB Morgen, 17 August 2021) 1, 15, 16, 22, 24.



banner, sticker, etc.⁸² Corroborating this issue of multiple and illegal taxation, during an interview conducted with market sellers and street vendors in Rivers State, Nigeria, it was gathered that sellers are subjected to different illegal taxes from the local government, community youths, alleged owners of the land and even police officers. These taxes as narrated by the sellers are paid to the multiple subgroups of the various identified groups. Some end up paying to four different sub groups in a day.⁸³ These taxes are also characterized with arbitrariness and violent forms of enforcement through the use of thugs (and touts) and are collected whether or not such person has made profit and/or irrespective of the profit made.⁸⁴ A default in payment of such taxes would lead to confiscation of goods, fine, arrest, bodily harm, and/or other forms of harassment and embarrassment such as being threatened to be stripped naked.⁸⁵ Due to these unruly acts of enforcement and penalties, these traders and business owners have no other choice than to pay amidst the hardship.⁸⁶

4.4 Emergence of the E-Informal Sector

E-commerce has evolved to accommodate both the formal e-commerce platform such as Amazon, Jumia, Konga and Ali Express and informal e-commerce platform through the use of social media such as WhatsApp, Telegram, Twitter, Facebook and YouTube. The Consultative Group to Assist the Poor (CGAP) characterized informal e-commerce as ‘a largely hidden but significant form of digital commerce that runs parallel to formal e-commerce’⁸⁷ The e-informal sector arose due to the difficulties of accessing the formal online platforms as eligibility to own a shop in any of these platforms requires a registered business and a formal financial account, both of which are unavailable to the informal sector players.⁸⁸ The e-informal sector is also preferred due to the flexibility of doing business whilst multitasking.

The fact that these businesses do not need to be registered makes it difficult for tax officials to track them as their existence is not captured in any database. There is also the issue of determining the tax base of these vendors as they carry out transactions with customers simultaneously and at different locations.⁸⁹ In addition, the payment method of cash payment on delivery or paying to the vendor’s personal account⁹⁰ makes it difficult for the tax authorities to assess such taxpayer using their bank transactions.

⁸²Norbert Osemeke and Nzekwu David and Robert O Okere, ‘The Challenges Affecting Tax Collection in Nigerian Informal Economy: Case Study of Anambra State’ *Journal of Accounting and Taxation*, (2020) 12 (2) 61, 68<DOI:10.5897/JAT2020.0388> accessed 15 March 2022.

⁸³ Ripples Nigeria, ‘Investigation...Thugs Rule in Rivers Markets, Force Multiple Illegal Taxes on Petty Traders, as Govt Feigns Ignorance’ *Ripples Nigeria* (Nigeria, 31 July 2021) 1 - 9.

⁸⁴ SBM Intelligence, ‘Under the Hood: A Look into Taxation in Nigeria’s Informal Sector’ (SB Morgen, 17 August 2021) 1, 30.

⁸⁵ Ibid 15, 31; Norbert Osemeke, Nzekwu David and Robert O Okere, ‘The Challenges Affecting Tax Collection in Nigerian Informal Economy: Case Study of Anambra State’ *Journal of Accounting and Taxation*, (2020) 12 (2) 61, 70; Ripples Nigeria, ‘Investigation..Thugs Rule in Rivers Markets, Force Multiple Illegal Taxes on Petty Traders, as Govt Feigns Ignorance’ *Ripples Nigeria* (Nigeria, 31 July 2021) 1, 8, 11.

⁸⁶ O M Atoyebi, ‘Is the Untaxed Informal Sector Nigeria’s Unexplored Eldorado’ (omaplex.com.ng, 2 December 2021) 1, 14 <<https://omaplex.com.ng/nigerias-unexplored-eldorado>>accessed 19 April 2022.

⁸⁷Roest Joep and Yasmin Bin-Humam, ‘Business Her Own Way: Creating Livelihoods through Informal Online Commerce’ (Focus Note, Washington D C:CGAP 2021) 1.

⁸⁸Ibid.

⁸⁹Shariq Nadeem and A K Saxena, ‘The Challenges of Taxing E-Commerce’ *International Journal of Management Studies*, (2018) 5 (4) 56, 60 <[http://dx.doi.org/10.18843/ijms/v5i4\(4\)/07](http://dx.doi.org/10.18843/ijms/v5i4(4)/07)> accessed 22 April 2022.

⁹⁰Roest Joep and Yasmin Bin-Humam, ‘Business Her Own Way: Creating Livelihoods through Informal Online Commerce’ (Focus Note, Washington D C:CGAP 2021) 1.



5 Prospects of Taxing the Informal Sector in Nigeria

Notwithstanding the challenges of taxing the informal sector, the sector holds some prospects which if properly harnessed can stimulate increase in revenue and the development of the informal sector. In this part of the paper, some of the prospects of taxing the informal sector are discussed.

5.1 Revenue Generation

The primary reason for taxing the informal sector is to create additional revenue for the government.⁹¹ Taxing the informal sector would help to generate revenue for states in the country rather than solely depending on federal allocation.⁹² Lagos State and Rivers State have made commendable efforts in taxing its informal sector and this has led to the continued increase of its internal generated revenue over the years.⁹³ Keem however argues that taxing the informal sector would be highly unproductive as the cost of tax enforcement and collection would outweigh the revenue generated.⁹⁴ Notwithstanding this view, it is argued that this issue can be circumvented if the government deploys an effective means of tax administration and collection such as adopting the presumptive tax regime, partnering with trade and community associations,⁹⁵ and appointment of tax agents from the sector itself and/or through adaptive e-taxation.

5.2 Growth and Development of the Sector

Taxing the informal sector will enable them to be captured into the database of the country, which will in turn bring about policies that would strengthen the legal and institutional /framework of the Informal sector,⁹⁶ ensure the welfare of the vulnerable businesses and workers of the Informal sector,⁹⁷ and open opportunities for the sector such as grants, trainings, tax incentives and tax holidays, credit facilities, improved structures, and modern equipment. As opposed to the views of other authors,⁹⁸ formalization is not the prerequisite for growth and development of the informal sector. This is because the informal sector would continue to exist and expand; it would always be

⁹¹Grace Oyeyemi Ogundajo and Ishola Rufus Akintoye and Ifayemi Moses Olayinka, 'Taxing Informal Sector and Revenue Generation in Nigeria' *International Journal of Commerce and Management Research*, (2019) 5 (4) 81, 86; Riliwan Ayinde Adisa and Olabode James Ogunsyi and Oluwakemi Olaronke Oyekola 'Taxation of the Informal Sector and Economic Development of Lagos State' *Accounting and Taxation Review*, (2019) 3 (4) 110, 117.

⁹²Usman Sani Kofar Wambai and Chek Derashid and Idawati Ibrahim, 'A Conceptual Review of the Challenges of Effective Tax Collection from the Informal Sector in Kano, Nigeria' (2019) 9 (1) *Journal of Business Management and Accounting* 1, 3.

⁹³Diane de Gramont, 'Governing Lagos: Unlocking the Politics of Reform' (Carnegie Endowment for International Peace, 2015)1, 17-25.

⁹⁴Michael Keen, 'Taxation and Development – Again' (2012) IMF Working Paper WP/12/220 1, 15; see also Fiscal Affairs Department, 'Revenue Mobilization in Developing Countries' (International Monetary Fund 2011)1, 39.

⁹⁵Good Governance Africa 'Effective Taxation of Informal Sector through Local Community Partnership' (africaportal.org, 30 October 2019) 1, 2-3 <<https://www.africaportal.org/publications/effective-taxation-informal-sector-through-local-community-partnership/>> accessed 11 March 2022.

⁹⁶Taffere Tesfachew, 'Government Policies and the Urban Informal Sector in Africa' (1992) World Employment Programme Research Working Paper WEP2-19/WP59, 3<http://www.ilo.org/public/libdoc/ilo/1992/92B09_265_engl.pdf> accessed 25 April 2022.

⁹⁷Onyemaechi Joseph Onwe, 'Role of the Informal Sector in Development of the Nigerian Economy: Output and Employment Approach' *Journal of Economics and Development Studies*, (2013) 1 (1) 60, 72.

⁹⁸Thorben C Kundt, 'Opportunities and Challenges for Taxing the Informal Economy and Subnational Taxation' (K4D Emerging Issues Report, UK: Institute of Development Studies 2017) 1, 7.

1, 7; Nancy Benjamin and Ahmadou Aly Mbaye, 'The Informal Sector in Francophone Africa: The Other Side of Weak Structural Transformation' (Policy Brief, Brookings: African Growth Initiative 2020) 1, 4; Jan Loeprick, 'Small Business Taxation: Reform to Encourage Formality and Firm Growth' (Investment Climate in Practice, World Bank Group 2009) 1 <<https://openknowledge.worldbank.org/handle/10986/10571>> accessed 27 April 2022.



a form of employment and income for the poor, uneducated, unskilled and even those in the formal sector seeking to make extra income.⁹⁹ Secondly, it is possible to tax this sector whilst it remains informal.¹⁰⁰ More so, transitioning to the formal sector might will expose the informal sector to the risk the continuous operation and survival of businesses in the informal sector due to formalization and statutory burdens, expenses and funds.¹⁰¹

5.3 Equity Considerations

It would be unfair to tax those in the formal sector based on their profits and leave out those in the informal sector who also make profit.¹⁰² On this issue, some authors contend that since the informal sector is subjected to regressive and informal taxes such as licenses fees, local fees, bribes, land space etc., a further levy of tax would occasion hardship.¹⁰³ Whilst this is true, this paper argues that by officially including the informal sector in the tax net, the players in the informal sector would have moral and legal grounds to stand against those illegal taxes and the government would accede to their objection considering that they are officially captured and to ensure that these businesses do not lose profits or close down which would reduce/stop their taxes. The argument on exempting the informal sector on the basis that they do not enjoy public services as much as the formal sector¹⁰⁴ may not stand considering that the informal sector also enjoys available social amenities based on their needs.¹⁰⁵

6 Conclusion and Recommendations

This paper examined the challenges and prospects of taxing the informal sector in Nigeria. It found that the informal sector in Nigeria has existed for a very long time before the official designation of the sector as 'informal.' Also, the informal sector constitutes approximately 60- 65% of the economic activities and houses 80.4% of the workforce in Nigeria. The informal sector in Nigeria covers a wide range of activities and operates in the urban and rural areas. While at the federal level, informal sector taxation is regulated under the Presumptive Tax Regime, the position is different at the state level, as many states are yet to commence informal sector taxation. However, some states such as Lagos State, Rivers State, Anambra State, Kwara State, Kano State, Gombe State and Edo State have introduced policies and legal framework on informal sector taxation in

⁹⁹ Kristina Flodman Becker, 'The Informal Economy: A Fact-Finding Study' (SIDA3630en, Sida 2004) 3, 17; Taffere Tesfachew, 'Government Policies and the Urban Informal Sector in Africa' (1992) World Employment Programme Research Working Paper WEP2-19/WP59, 2<http://www.ilo.org/public/libdoc/ilo/1992/92B09_265_engl.pdf> accessed 25 April 2022.

¹⁰⁰Favourate Y SebeleMpofu, 'Informal Sector Taxation and Enforcement in African Countries: How plausible and achievable are the motives behind? A Critical Literature Review' (2021) 4 *De Gruyter* 62, 82.

¹⁰¹Ibid.

¹⁰²Godwin Dube, 'Informal Sector Taxation: The Case of Zimbabwe' (PhD theses, University of KwaZulu-Natal, Durban 2014) 4.

¹⁰³Pimhidzai Obert and Louise Fox, 'Taking from the Poor or Local Economic Development: The Dilemma of Taxation of Small Informal Enterprises in Uganda' (Washington DC: World Bank 2012) 1, 7, 7, 10; Meagher Kate, 'Taxing Times: Taxation, Dividend Societies and the Informal Economy in Northern Nigeria' *Journal of Development Studies*, (2018) 54 (1) cited in Michael Rogan, 'Tax Justice and the Informal Economy: A Review of the Debates' (2019) WIEGO Working Paper No. 41, 9.

¹⁰⁴ Favourate Y Sebele Mpofu, 'Informal Sector Taxation and Enforcement in African Countries: How plausible and achievable are the motives behind? A Critical Literature Review' (2021) 4 *De Gruyter* 62, 87.

¹⁰⁵Patrick Oluwole Ojo and Friday Aworawo and Ifedayo Tolu Elizabeth, 'Governance and the Challenge of Socio-economic Development in Nigeria' *Journal of Sustainable Development Law and Policy*, (2014) 3 (1) 132, 133; Blueprint, 'Nigeria Needs Basic Amenities' *Blueprint Newspaper* (Nigeria, 25 October 2021) <<https://www.blueprint.ng/Nigeria-needs-basic-amenities/>> accessed 8 May 2022.



Nigeria. This includes adoption of a type of presumptive assessment; associational taxation; engagement with key stakeholders; public sensitization; provision of social services; and an online payment system for tax collection.

Notwithstanding these policies and framework put in place by the federal and states governments that have commenced informal sector taxation; the effective administration of informal sector taxation have been inhibited by some challenges such as: the difficulty in conducting accurate assessment due to the nature and mode of operation of businesses in the informal sector; weak government structure characterized by lack of trust between the government and the people and viewing the sector as merely a tool for amassing political followers. Furthermore, the insurgence of informal e-commerce in Nigeria through the use of social media platforms have frustrated the efforts to efficient informal sector taxation in Nigeria. Despite claims that the informal sector does not pay tax, this paper found out that they are in fact subjected to illegal and multiple taxation schemes and this is a major impediment to effective informal sector taxation in Nigeria. However, despite the challenges of taxing the informal sector, there are prospects of taxing the informal sector in Nigeria as taxing the informal sector would in the long run lead to increase revenue and growth and development of the sector without the need to formalize the sector. It would also bring about equity amongst taxpayers and promote tax morale, tax compliance, and good governance. The following recommendations could help in repositioning the taxation of the informal sector in Nigeria:

1. The government needs to engage and collaborate more with stakeholders and relevant authorities in the informal sector and introduce a tax system that would curb the challenges and enhance the prospects of taxing the informal sector in Nigeria.
2. All states in Nigeria should tax its informal sector and design a presumptive tax scheme suitable for the sector.
3. To combat the issue of multiple and illegal taxation, all taxes, and levies to be paid by those in the informal sector should be consolidated into one tax and remitted only to authorized agents.
4. Tax Identification Number (TIN) should be made mandatory and linked to something every Nigerian needs. The approach used for National Identity Number (NIN) by linking it to the Subscriber Identification Module (SIM) could be adopted but with a stricter penalty for defaulters.
5. Information technology should be fully integrated in the tax regime for the informal sector. In this direction, a partnership with banking institutions and telecommunication service providers to generate an Unstructured Supplementary Service Data (USSD) for online tax payment will be helpful.