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Taxation and Sustainable Development in Nigeria: Informal Sector Challenges

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ABSTRACT
The increasing interest of government to tax the informal sector is driven by pressure on government to generate more revenue for the purpose of embarking on more socio-economic development programmes. However, over the years, this effort has not yielded meaningful results owing to operational constraints. This study examines this concern with a view to identifying the critical challenges, with particular focus on the Rivers State tax district. Data were provided by 75 selected informal business operators and five officials of the Rivers State Internal Revenue Service (RSIRS). Analysis and ranking of the responses indicated the main challenges as bordering on tax officials capacity constraints and largeness of the informal sector as well as the tax district. It is recommended that special training programmes be regularly organized for tax officials involved with the informal sector. The segmentation of tax districts is also advocated to enhance efficiency in the administration of informal sector taxation and promote sustainable development of the Nigerian economy. Keywords: Informal sector, Tax administration, Sustainable Development.

INTRODUCTION

Many developing countries, including Nigeria are faced with the problem of raising the necessary revenues to meet governments' expenditure. Governments' budgeted revenues usually fall short of the expected expenditures. To avoid excessive foreign financing which may in the long run lead to problem of debt sustainability, developing countries need to rely substantially on domestic revenue mobilization (Gupta, 2007; Bird, 1992). To strengthen domestic resource mobilization developing counties have to rely on taxation and seek to raise additional revenue by expanding the tax base and strengthening revenue administration. The Federal Inland resource service has embarked on sensitization campaigns on the presumptive tax regime, specifically targeted at the informal sector taxpayers in a bid to boost tax revenues for national development. The regime would help capture persons and business that are not properly structured, or are unable to keep records to their business transactions. Keep formal records within the sub-sector as part of the strategies to ensure their tax compliance. This study, therefore, aims at identifying the challenges of enhancing revenue mobilization through taxation of the informal sector. The research proposition arising from this is:

Ho: There are no critical challenges relating to taxation of the informal sector in Nigeria.

TAXATION AND PECULIARITIES OF THE INFORMAL SECTOR

Section 6 of the Personal Income Tax Act 2011 (as amended) introduces a new subsection (6) to section 36 of the Principal Act, which specifically provided that where for all practical purposes the income of the taxpayer cannot be ascertained for proper assessment of income, then such a taxpayer shall be assessed on such terms under a presumptive tax regime. Already operational in some developing economies like Nigeria, Zimbabwe and a few others, the proposed regime is administered based on presumed, not actual, income of the taxpayer in a structured way that ensures fairness. It seeks to remove the challenges confronting the revenue agencies in their efforts to achieve a more effective administration of taxes for individual and small scale enterprises in the informal sector.

Historically, the taxation of small businesses operating in the informal sector has been given limited priority. The costs of collection are high relative to the limited revenue potential, while taxing small operator's risks reducing the economic dynamism of small firms while imposing additional burdens on already vulnerable groups. However, while attention to taxing the informal sector has increased in recent years progress, in implementing more effective taxation has been comparatively slow (Allingham & Sandmo, 1972; Cowell & Gordon, 1988; Gberegbe, 2007). The stakeholders in the informal sector resistant to reform the sector is also issue responsible for the slow progress in the integration of the informal sector to be ripe enough for taxing. How to tax the informal sector remains' the main headache of the Nigeria Government.

The FIRS (Federal Inland Revenue Service) on their web site try to identify the informal sector of Nigeria economy, the causes for the slow progress in the integration of the informal sector, how to integrate the informal to formal sector, how to effectively tackle the problem of taxing the informal sector. Despite all suggestions on the way forward, less is achieved in Nigeria due to the fact that the actors in the informal sector have not seen any benefit from government in the areas of making the informal sector formal, incentive to their sector, provision of social amenities like water, energy road etc. Taxing the informal sector help the economy greatly in reducing the rate of dependence on foreign donor, unemployment and revenue generation.

THE PROBLEMS OF TAXATION OF THE INFORMAL SECTOR

The bane of Nigerian taxation is not only a party but lack of transparency and proper accountability in the spending and often times fraudulent utilization of the government revenue. Even though these informal sectors are eventually assessed and tax duly collected leading to maximization of the revenue, what is the guarantee that when the optimal taxation is achieved, the funds generated would not develop wings, diverted or out rightly disappear? This is the basis of the lack of interest to pay taxes amongst Nigerians. It is also the direct lack of faith in the government of the day. This leads us to injudicious and reckless spending by successive Nigerian Governments. Worse still, there are absences of durable infra-structures and amenities of life in the villages/areas of collection and the tax payers do not enjoy the amenities for the taxes he/she paid. To cure this social malaise, the tax laws should be amended to stipulate that at least 40 percent of the proportion of the total revenue collected should be utilized on the projects cited within their environments or locality. This would be sufficient inducement for tax compliance. This is the magic which governor Fashola of Lagos State has been exhibiting through the tax education of the residents whereby they are constantly being enlightened on the benefits of tax compliance in terms of the provisions of amenities, infra-structures and as indices of economic development.

The major problem as regards the taxation of this informal sector is the lack of tax identification number (“TIN”) of all the Taxable persons’ resident within the area. This has hampered identification assessment and collection. S. 8 (1) (q) FEDERAL BOARD OF INLAND REVENUE (FIRS) ACT 2007 enjoins FIRS to issue tax identification number to even’ company, enterprise and individuals in collaboration with the State Boards of Internal Revenue (SBIR) and other Local Government Revenue Bodies. This is a bold statutory attempt to tract down tax defaulters. The mandatory implementation of TIN commenced on 1st February 2008 to improve taxation and FIBR is required to issue 14 digits TIN as part of the process of registration of tax payers. This is in form of electronic card which an individual is required to obtain from any bank to facilitate on-line payments of taxes by logging-on to the website www firs.gov.ng. This has been implemented in the formal sector but it is very difficult in the informal sector. Secondly, the business transactions in these zones of informal sectors are carried out in cash and they refused to accept banks cheques as medium of payments and in so doing, they conceal taxable profits. Due to lack of documentary evidence of the various transactions the prospective taxpayers are able to manipulate records, turn over figures, and also eliminate third party information relating to the purchasers and sales. This lack of records keeping inhibits proper accounting and determination of gross and net income in the computation and determination of tax liability. These processes eventually lead concealment of taxable profits in Business activities and eventually lead to concealment of huge taxable profits.

This problem may be eradicated in the near future by the cashless policy being implemented by the Central Band of Nigeria (“CBN”) whereby individuals can be taxed based on the banks statements of accounts and the customers’ payment receipts would become the best evidence of records for the tax assessment. With the National Registration Policy, every taxable individual would be given a national identity card number. It is certain that not too long, every person’s data base could be accessed and addressed for the purpose of tax assessment and collection.

METHODOLOGY

The target population of this study is the informal sector as well as the staff of Rivers State Internal Revenue Service (RSIRS) in the tax district of Rivers State. The informal sector operators include hairdressers and beauticians, dressmakers and fashion designers, artisans, food vendors, butchers, contractors and general traders. The total number of businesses in the informal sector registered with the Registrar Generals’ Department and had one time or the other filed tax returns in the tax district of Rivers State and the staff strength of IRS at the time of the research, that is, January 2014, is one hundred and twelve (112) and twenty seven (27) respectively. A sample size of seventy five (75) respondents was used for the study. This consists of seventy (70) taxpayers and flyer (5) tax officials. The stratified and simple random sampling techniques were used to select the respondents from the informal sector due to the heterogeneous nature of the informal sector.

In the case of the respondents from RSIRS purposive sampling technique was used. All the five (5) tax officials were purposively selected from the operations department since they deal directly with taxpayers so far as assessment and collection of taxes are concerned. The five (5) respondents are made up of three (3) senior and two (2) junior staff members. The data collected were edited to detect and correct, possible errors and omissions that were likely to occur, to ensure consistency across respondents. The data were then coded to enable the responses to be grouped into limited number of categories. In analyzing the data, descriptive statistical tools such as graph, pie charts complemented with mean and mode were used (Emory & Cooper, 1991; Bryman, 2004).

RESULTS

It was detected that an overwhelming 100% respondents agreed that there exist challenges starring at IRS in the face. The five major challenges identified, are shown in Table I:

Table 1: Challenges of Informal Sector Taxation

Challenges	Marks					Total	Rank
Capacity constraints	5	5	3	5	1	19	1st
Large size of informal sector	4	4	1	4	0	13	2nd
Large size of tax district	3	3	1	3	0	10	3rd
Notions of equity	2	2	3	2	0	8	4th
Political interference	1	1	4	0	0	7	5th
Others (mobility of operators)	1	1	1	0	0	3	6th

Source: Survey Data (Respondents' rankings)

As shown in Table 1 above, tax officials considered capacity constraints as the foremost challenge in the collection of informal sector taxes in the Rivers State. This is followed by challenges such as large size of informal sector, large size of tax district, notions of equity, political interference, and mobility of operators, in that order. Individual can be dissuaded from engaging in evasion out of fear of the social sanctions incurred should their action be discovered and revealed publicly (Grasmick and Green, 1980: Grasmick and Scoff, 1982). Moreso, evidence from behavioural science suggests that the greater the individual participation in decision making process the greater the level of Tax compliance (Lewis, Webley & Furnham, 1995): This is partly so because participation implies some commitment to the institution and such commitment in turn requires behavior that is consistent in words and actions. Thus, it is expected that compliance level will be higher when taxpayers feel that they have a voice in the way their taxes will be spent.

DISCUSSION

There has been a growing interest in taxing the informal sector in most developing countries for a number of reasons which include revenue needs; the phenomenal size and growth of informal sector; the impact of tax compliance in the formal sector; state legitimacy; demands from the informal sector and tax- accountability (Aryee, 2007; Amin, 1989). As a measure to expand the tax base to the informal sector, the Government of Rivers State has introduced several taxes to specifically target the informal sector operators. These include the Vehicle Income Tax (VIT) on public transport operators, the Tax Stamp for collecting income tax from small traders and Flat Rate Scheme for expanding the reach 'of the Value Added Tax (VAT). This has brought some improvement in the revenue yield but the overall collection from the informal sector has remained small relative to other taxes such as Pay As You Earn (PAYE) and corporate tax. The self-employed made a record growth in revenue of about 45% against average of 20% over the past four years. This great performance was attributed to effective monitoring of withholding tax which contributed about 35% of the revenue. This means that the direct payments by the taxpayers themselves were nothing to write home about.

Revenue generation in governance, either in pre-independence era in Nigeria is certainly not a strange phenomenon. Indeed, the traditional African style of governance relied solely on taxes and voluntary contributions (cash and kind) from members of society to finance communal projects. As modern forms of government emerged, other sources of revenue came into the fore. These include revenue from natural/mineral resources with which the community is endowed. In Nigeria, successive governments gradually became more and more aggressive in collection of revenues that were due to them. The post independence era witnessed the emergence of scientific principles in assessing incomes of individuals and corporate bodies for the purpose of imposing taxes. Indeed, approaches to revenue generation have since varied from government to government based on prevailing circumstances. In recent times, there is the emergence of Accelerated Revenue Generation Programmes (ARGPs) being embarked upon by public institutions and agencies including state governments.

CONCLUSION

The informal sector is noted for not keeping proper books of accounts, thereby causing a lot of difficulty in the assessment of their tax liabilities. Accordingly, in appreciation of the difficulties faced by the informal sector operators in complying with the record keeping requirements of the standards of RSIRS, easier to operate and more simplified in its record keeping requirements, the agency is currently working feverishly to get the various associations to be trained in the said area. The study exhibited a strong support to the submissions of Aryce (2007), reiterating the interference of politicians in tax planning and administration.

The RSIRS is expected to adopt a strategy of segmentation of the district for efficient tax administration. Further prying revealed that RSIRS has already initiated what they term Associational taxation meant to address some of this problem by using informal sector associations as agents for income tax collection. The associations had intimate knowledge of the activities of their members and could collect taxes without much additional effort. The taxes were collected daily at first, and later weekly to reduce the high costs of printing and monitoring daily receipts, making the payments small and affordable to most members. It is only prudent for RSIRS to intensify this strategy by encouraging and providing incentives to the associations. In the area of political interferences, government officials and opposition members alike need to be circumspect with their interferences into the activities of IRS. By virtue of their positions; their interferences may lead to a shortfall in the collection of taxes in Nigeria.

Moreover, government trustworthiness tends to legitimize the public sector and therefore impose some social norm to pay taxes. When government is perceived to be trustworthy, citizens are more likely to comply with its demands in general. As long a individuals (and firms) do not trust the government they will be unwilling to pay their taxes (Wintrobe 2001). Government trust worthiness is linked to citizen's perceptions of the capacity of the government to make credible commitments about the use of their taxes. Accordingly, individuals (and firms) believe that the tax code is fair and if it is applied fairly, they will be more willing to pay their taxes. Thus, coercion and social influences compel people to pay taxes in general and this research is an attempt to establish that the same is true with taxation of the informal sector in Rivers State.

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