EXAMINATION OF THE CHALLENGES OF COLLECTING TAX FROM THE INFORMAL SECTOR IN NIGERIA

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ABSTRACT

The informal sector refers to economic activities and incomes that are partially or fully outside of government regulation, taxation and observation. Informal economic activities in Nigeria consist of a wide range of small scale, self - employed activities. This paper examines the challenges the informal sector pose for tax administration. It reveals that informality constitutes a complex phenomenon for policy makers, including tax administrators. This is because activities in the informal sector are difficult to measure even though they contribute substantially to personal or household income in Nigeria. The paper therefore suggests that the knowledge gap about the character and appropriate role of the informal sector should be filled because of the proportion it occupies in the Nigerian work force, which is claimed to be approximately 70 percent. The Federal Inland Revenue Service (FIRS)recently revealed that out of about 70 million taxable adults, only about 14 million are paying tax, and 96% of this number is on the Pay As You Earn (PAYE) system. This is not the case in some other developed climes. The paper analysed what obtains in the United Kingdom in order to learn from their experiences. It also analysed relevant tax statutes with a bid to covering the tax leakages in the informal sector. The paper concludes that enforcement of tax laws is critical for economic planning and that effectivetax administration translates into better and higher tax compliance.

Keywords: Informal sector, tax, taxpayers, tax net, taxation, Nigeria

1. INTRODUCTION

The concept of informal sector was introduced into international usage in 1972 by the International Labour Organisation (ILO), which defined informality as "a way of doing things characterised by; (a) ease of entry (b) reliance on indigenous resources (c) family ownership (d) small scale operations (e) labour intensive and adaptive technology (f) skills acquired outside of the formal sector and (g) unregulated and competitive markets."[1]The informal sector also known as informal economy is the part of an economy that is neither taxed nor monitored by any form of government. Unlike the formal economy, activities of the informal economy are not included in a country's Gross National Product or Gross Domestic Product.

The informal sector can be described as a grey market in labour and it poses a great challenge for policy makers and tax administrators in Nigeria. Informal sector plays

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[1] International Labour Organisation (ILO) in its Kenya Mission Report, 1972.

an important and controversial role in economic development of many nations[2]. This is because activities in this sector are difficult to measure; even though they contribute substantially to personal and household income. Also, despite its large size, and the potential revenue that could be generated from the sector, there is still knowledge gap about its character and role. This makes the disadvantages to override the advantages and end up in large scale tax evasion.

This paper examines the challenges the informal sector poses to tax administration, especially in the area of revenue mobilization and tax compliance in Nigeriavisa vis the relevant income tax law in Nigeria, and profferssolutions and recommendations on how the activities of this sector can be captured and tax statutes implemented, in order to enhance tax compliance. In an attempt to do this, the paper takes a cursory look at what obtains in the United Kingdom which has a more advanced and workable tax administration system.

The Nigerian government has the responsibility to map out a framework that will cause majority of the informal businesses to migrate into the formal sector, and those who genuinely belong to the informal sector to be brought into the tax net. This will generate a wider tax base and also help the government to generate more revenue,[3] which can be deployed to fund governance, generate employment and ensure resources redistribution amongst others.[4]

The private and informal sector in Nigeria is said to contribute as much as 90per cent of the Nigerian work force. [5] The Federal Inland Revenue Service (FIRS)recently revealed that out of about 70 million taxable adults only about 14 million are paying tax and 96 per cent of this number are on the Pay As You Earn (PAYE) system.[6] This translates to the fact that only four per cent of those who pay tax in Nigeria are outside the PAYE Scheme. These four per cent comprise those who are in the corporate/private sector. The importance of tax cannot be overemphasized. It is a significant tool of fiscal and economic policy.[7] Moreover the Constitution of the Federal Republic of Nigeria makes it mandatory for every citizen

[2] J.E Udoh 'Taxing the Informal Economy in Nigeria: Issues, Challenges and Opportunities' Vol 6, No.10, (2015) *International journal of Business and Social Science* p.164 <https://ijbssnet.com> accessed 2Feburary, 2018

[3] This is in tandem with the Mission statement of the Federal Inland Revenue Service (FIRS) which is, "To operate a transparent and efficient tax system that optimizes tax revenue collection and voluntary compliance''.

[4] Other benefits of taxes are, streamlining consumption of certain goods, reduction of inflation and stimulation of growth in the economy.

[5] M. Awodun, 'The Informality of the Informal Sector' Vol 2, issue 7, *Kwareve News* (A monthly publication of KWSIRS), June 2016, ISSN: 2489 – 0448 p.1

[6] Tackling Tax Evasion, the Spanish Example, Punch Newspaper Editorial, July 6, 2017, p.20

[7] O.A Somorin, *Taxes Around the Globe: A Concise Review of Different Tax Types,* Chartered Institutes of Taxation of Nigeria (CITN) ASCO Publishers Lagos Nigeria, 2015, p.1

to declare his income honestly to appropriate and lawful agencies and to pay his tax promptly.[8]

The problem is that in Nigeria, those who are in the informal sector do not voluntarily declare their incomes, nor pay taxes, except if and when they are compelled to do so. Not only because they do not want to pay tax, but partly because there is lack of transparency and accountability in the tax system. Moreover, because most of the people in the informal sector do not know how their tax exposures are arrived at, they are not willing to cooperate with tax officials.[9] This has continued to have negative impact on the revenue generation drive of government. Therefore, a research into the challenges of the informal sector in relation to tax administration is very essential for effective economic planning, employment creation, poverty alleviation[10]for boosting revenue from taxation.

Two groups have been identified under the informal sector: those who are genuinely in the sector because of the poor economic environment where earning opportunities are scarce and those entrepreneurs whose objective or rational behaviour is to escape state regulations in the operations of their business activities.[11] Even though, their enterprises are not strictly speaking informal, they have chosen to be categorized or labelled as informal because of the benefits that will accrue to them if they so do. The two types of informal sector activities have been described as follows: (a)Coping strategies or survival activities which include,casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, and multiple job holding. It has also been revealed that most people in this category are honest and law abiding citizens who do not want to cheat the revenue. The second category is (b)unofficial earning strategies or business activities characterized by illegality, such as tax evasion, avoidance of labour regulation and other government or institutional regulations, and none registration of business or company. Others falling into this second category are underground activities, crime, corruption, and activities not registered by statistical offices.[12]

The main objective of this paper is to identify how the activities of this sector can be formalised or captured. A business may be informal today and become formal tomorrow, and a business that is also formal but operating informally cannot be left uncaptured for too long, as doing so will be detrimental to the economy.[13]

[8]The Constitution of the Federal Republic of Nigeria 1999, chapter II, Section 24 (f).Captioned, "Duties of Citizens."

[9] Report of Baseline Study on Informal Sector Taxation Practices in Lagos State, carried out by Community Life Project(CLP) in May 2017.

[10] <www.nationalplanning.gov.ng/index.php/news–media/news/225.nigeria> accessed 3 March, 2017.

[11] M. Awodun, 'The Informality of the Informal Sector' Vol 2, issue 7, *Kwareve News*(A monthly publication of KWSIRS), June 2016, ISSN: 2489 – 0448 p.1.

[12]<inweb90.worldbank.org> accessed 2 February, 2018.

[13] M. Awodun, 'The Informality of the Informal Sector' Vol 2, issue 7, *Kwareve News* (A monthly publication of KWSIRS), June 2016, ISSN: 2489 – 0448 p.1

2. THE NATURE OF THE INFORMAL SECTOR IN DEVELOPING ECONOMIES

Informal sector exists globally; it represents a significant part of the economy of most countries in the world, especially developing nations. In the advanced economies, between 10% and 20% of income comes from the shadow economy. In some emerging countries, it can represent more than fifty per cent.[14] The size of the informal labour market varies from the estimated 4-6% in the high-income countries to over 50% in the low- income countries and its size and role in the economy increases during economic downturns and periods of economic adjustments and transition.[15]The sector may be invisible, irregular, parallel, non-structured, backyard, underground, subterranean, unobserved or residual.[16]Though often misconstrued, the black market is not equivalent to the informal economy but is rather a subset of the informal economy dealing with contraband goods and services. Informal trade is pervasive in developing countries,[17] and includes illegal activities such as drug pushing and smuggling. It also includes cleaning car wind shields at traffic lights or a labourer doing construction work. Informality remains a defining feature of developing economies around the world.[18] Thus, the informal workforce is at least half of the total workforce, and therefore subject to low incomes, high risks, no formal contracts or benefits, limited economic rights and limited representative voice.[19] The sector also includes situations where people must work without receiving any pay or where they receive payment in kind.

The informal sector therefore provides jobs and reduces unemployment and underemployment, but in many cases, the jobs are low-paid and the job security is poor. It bolsters entrepreneurial activities but at the detriment of state regulations compliance, particularly regarding tax and labour regulations.

There is an argument that "informal is normal" in the developing economies. This means that in developing countries, not only is the majority of workers informally employed – with the highest levels in South Asia and Sub – Saharan Africa – but also that most jobs are created in the informal economy and most informal workers

[14]<https://marketbusinessnews.com/financial-glossary/informal-sector> accessed 5 May, 2018

[15]<www.datamaniaconsult.com/nigeria-informal-sector-accounts–for-178.5b > accessed 5 February, 2018

[16]<www.worldbank.org/en/news/feature/2016/20 new-study-reveals–the–complexity of the informal sector.> accessed 12 Februrary, 2018

[17]K.G Beegie; N. C Benjamin; F. Recanatini; M. Santini.2014, 'Informal economy and the world bank policy.'Research Working Paper, 2014, no wps 6888. Washington DC: World Bank Group. <hppt://document.worldbank.org/curated/en/416741468332060156–informal–economy–on–the–worldbank.> accessed 02 February, 2018

[18] M. Chen, 'Crafting Polices where Informal is Normal' – part1. 06/27/2013, <https://blogs.worldbank.org/jobs/crafting-policies–where– informal–normalpart–1.> accessed 12 April, 2018

[19] M. Chen, 'Crafting Polices where Informal is Normal' – part1. 06/27/2013, <https://blogs.worldbank.org/jobs/crafting-policies–where– informal–normalpart–1.> accessed 12 April, 2018

are trying to earn honest living.[20]According to a study, most of those in the informal sector are not there because they are too illiterate or lazy but because they desire to be their own bosses and also love to be employers of labour.[21] Other reasons why many people are in the informal sector are: it is easier to enter; it is more flexible and dynamic; it is lucrative and more importantly, there are no jobs in the formal sector.[22]

However informality continues to constitute a complex phenomenon for statisticians, social scientists, as well as development practitioners and policy makers.This is because unlike the formal economy, economists do not include the informal sector components in Gross Domestic (GDP) computations.[23]What this means is that countries may not be as poor as official statistics suggest.Notwithstanding the fact that it remains largely unmeasured, it is large and central to the lives of hundreds of millions of people across the globe, most especially in the developing world, where it is an important source of livelihood for individuals, families and communities, and in actual fact, associated with a way of life, moulded by custom and tradition, than with a conscious decision to remain outside the formal sector.[24]

In Nigeria, the informal sector encompasses a wide range of small scale,largely self-employed activities most of which involve traditional occupations and methods of production. Others include economic and financial activities which are subsistent in nature, such as retail trades, transport, restaurant, repair services, financial inter – mediation and household or personal services,such as subsistent farming, street hawking, house helps and nannies, hairdressers and night traders such as *suya* spots and pepper soup joint amongst others. Therefore, even though a lot of economic activities and incomes are generated in this sector, they are not recorded and there is no way in which their economic impact can be measured.[25]

Despite the above mentioned factor, it should be emphasized that the contribution of the informal sector is significant and should not be overlooked.[26] It has great potential and plays a vital role in Nigeria's economic growth and it is said to contribute 58% to economy and accounts for $178.5 billionthat is 35% of the Gross Domestic Product (GDP).[27] It providesproductive outlets for a large number of

[20] Ibid

[21] Report of Baseline Study on Informal Sector Taxation Practices in Lagos State , carried out by Community Life Project (CLP) in May 2017.

[22] Ibid

[23]<https://marketbusinessnews.com/financial-glossary/informal-sector.> accessed 05/06/18 U) computations.

[24] <www.nationalplanning.gov.ng/index.Php/news–media/news/225-Nigeria> accessed 23 March, 2017

[25] J.E Ogbuabor, Victor Malaolu,: Size and Causes of the Informal Sector of the Nigerian Economy: Evidence from Error Correction Mimic Model, Vol 4, No1, 2013, *Journal of Economics and Sustainable Development*. p.87

[26] Ibid

[27]<www.datamaniaconsult.com/nigerias-informal-sector>- accessed 23 March, 2017

people who are self-employed, thereby contributing to the national economy in terms of output, employment and competition. However, at 6.1 per cent, Nigeria logs one of the lowest tax – to – GDP ratios in the world, compared with South Africa (26.9), Egypt (15.8), Botswana (35.2) and the Organization for Economic Co-operation and Development (OECD) Countries (38.8), who all have better ratios.[28]

3. TAX COMPLIANCE IN NIGERIA

Tax Compliance in Nigeria is very low, and many individuals and corporate entities do not pay taxes at all. Those who pay, pay an inconsequential amount of what they are supposed to pay as tax or they do not pay as and when due.[29] Nigeria therefore cannot be described as a tax compliant nation when compared with other nations of the world. For example more than 85 per cent of Japan revenue is derived from its taxes and in Australia, appropriately 93 per cent of government revenue comes from taxes.[30] In Nigeria it is estimated to be about 16 per cent.

With the renewed focus on taxation in Nigeria, government revenue has witnessed some increase,[31] but this is a far cry from what Nigeria can generate from taxation if the tax system is efficiently or properly administered and if all those who are outside the tax net are brought in.

Many reasons have been adduced for Nigerians apathy towards tax payment, some of which are, lack of tax education and enlightenment, corruption in public office and lack of accountability among others.[32] Also, even though the Nigerian tax legislation consist of array of tax offences and penalties, these are hardly enforced; thus, encouraging the habit of none compliance.[33] It should be emphasized that many of the above mentioned reasons border on inefficient tax administration. For instance there is no strict compliance to Section 36 (6) of the Personal Income Tax (Amendment) Act 2011 which provides as follows:

> Notwithstanding any of the provisions of this act, where for all practical purposes the income of the taxpayer cannot be ascertained or records are not kept in such a manner as would enable proper assessment of income, then such a taxpayer shall be assessed on such terms and conditions as would be prescribed by the Minister in regulations by order of gazette under its presumptive tax regime.

The government in the year, 2010 inaugurated the Taxpayer Identification Number (TIN) as one of the ways to get all eligible taxpayers into the tax net (even though

[28] The punch Newspaper Editorial, Thursday July 6, 2017, p. 20

[29] O.D. Akintoye "Examination of the Powers of the FIRS and Taxpayer's Right in Nigeria." Unpublished PhD Thesis 2015, Faculty of Law, University of Ilorin, Ilorin Nigeria. p .1

[30] B. Vicki, 'Tax Administration in Japan' R.L.J (4) ISS2, article 3, 1994 <http://epublications.bond.edu.au/rljvd4/1882/> accessed on 8 July, 2011.

[31] In the year 2009, total collection was ₦2.197 trillion, in 2011 ₦2.91 trillion was collected. The FIRS is however targeting an income of ₦5.2 trillion in 2017

[32]L.A Faseun, 'Tax Practice', Paper presented at the special training programme organized by the CITN between 3rd – 5th May 2011 at NECA House, Ikeja, Lagos. P.36

[33] O.D Akintoye "Examination of the Powers of the FIRS and Taxpayer's Right in Nigeria." Unpublished PhD Thesis 2015, Faculty of Law, University of Ilorin, Ilorin Nigeria

the law has been in existence since the promulgation of the Federal Inland Revenue Service Establishment Act).[34] This has failed to yield the desired result, even as many other options have been propounded when government realized the need to raise internally generated revenue. One of these is the use of enforcement as provided for in the tax law.[35] Tax analysts, economists and some tax administrators have given divergent views on this proposal. While some supported the need to enforce compliance, others said more efforts should be put into educating taxpayers, and promoting good tax culture.

Also,with regard to Taxpayer Identification Numbers (TIN), the Value Added Tax (VAT) (Amendment) Act 2007provides: "with effect from May 23, 2007, all current and existing bank account holders must have a unique TIN, to be provided by the FIRS". This is supposed to be a pre-requisite for opening of bank accounts as well as a pre-registration requirement for the companies, enterprises and other organizations being registered by the Corporate Affairs Commission (CAC). In addition, all regulatory authorities and stakeholders are requested to note this for Compliance.[36] After more than a decade, this requirement and many others are yet to be strictly complied with.

In recent times, Nigeria is now diverting its attention on taxation since it is no longer generating enough revenue from petroleum due to the global fall in oil prices. With the renewed focus on taxation, government revenue has witnessed some increase,[37] but this is still a far cry from Nigeria's tax potentials if the tax system is efficiently or properly administered, and if all those who are outside the tax net are brought in. There has been a clamour by the stakeholders for a review of the country's tax system, because of the belief that there are some factors militating against its workability. Some of which are; multiple taxation, lack of skilled manpower and inadequate funding.[38]Some of these factors make the Nigerian Taxpayers see tax as a burden instead of seeing it as their civic responsibility.

4. THE UNITED KINGDOM EXPERIENCE

In the United Kingdom, taxpayers are more compliant, not because they are more law abiding but largely because they have a tax administration that is effective, and which can be enforced. According to Richard Bird, the "smartest" revenue policy needs to be underpinned by "smart" tax policy, and the best tax policy in the world

[34]No.13 of 2007 (FIRSEA, 2007).

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[36]M.T Abdulrazaq, *'An Overview of Nigeria's VAT Regime; Taxation System in Nigeria'*, Gravitas Legal & Business Ltd, Ikeja Lagos 2016, p7

[37] In the year 2009 total tax collected was N2.197 trillion, In 2011, ₦2.91 trillion was collected while at the end of September, 2012, a total of ₦3.81 trillion has been collected. The FIRS is targeting an income of 5.2 trillion in 2017. Source FIRS Communication and Liaison Department.

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is worth little if it cannot be implemented effectively.[39]AbiolaSannilent credence to this when he said that taxation in modern times stands on a tripod, namely: the policy, the law, and the administration; and that to have a good and efficient tax system, the three aspects must be roundly developed, and in tune with one another,otherwise the tax system will be dysfunctional.[40]The World Bank also identified three main ingredients essential to effective tax administration, namely: political will, a clear strategy, and adequate resources.[41] I.A Ayua summed it all up that, even if effective tax policy decisions are made, their efficacy in practice is dependent on the kind of administrative machinery that is available. He concluded by quoting R.M Bird that, "in the hands of an incompetent administration, good tax policy and bad tax policy may end up looking remarkably alike."[42] In view of the above we shall look at some of the policies introduced into the United Kingdom tax system, which make it to be more effective.

5. INTRODUCTION OF PERSONAL ALLOWANCE AND NATIONAL INSURANCE

In the United Kingdom (UK), everyone including students have what is called a Personal Allowance, that is,the amount you are allowed to earn each tax year before you pay income tax. Therefore, if acitizen's income is more than his personal allowance in a year, he has to pay tax. The tax year runs 6th April to 5th April and for the 2017-2018 tax year the standard Personal Income Allowance is £11,500.[43] Anyone that earns less than this does not have to pay anyincome tax. The amount of the personal allowance is set by the government and can change from one tax year to the next.[44]

Self-employed individuals in the U.K are responsible for paying tax and national insurance on their income. It is therefore important for the self-employed to stay on top of all his records in order to calculate and work out how much he needs to pay. To be able to do this successfully, heis expected to do the following:

i. Work out His Employment Status

That is work out whether he is employed or self-employed. This confusing situation happens when a person is employed in one job and at the same time self-employed in a different job. The Her Majesty's Revenue and Customs (HMRC) website has a tool called the Employment Status Indicator (ESI), which works out people's

[39] M.B Richard, 'Smart Tax Administration' The World Bank Poverty Reduction and Economic Management Network (PREM) Publication Oct, 2010.accessed on 4 October, 2014 and Richard Bird,'Taxation and Development Lessons From Colombia Experience', (Cambridge, 1970) at p. 192.

[40] A. Sanni, 'Revenue Law' <http://www.citn.org/others/Revenuelaw,pdf.> accessed 5 August, 2016

[41]<www.worldbank.org./economicspremise>. accessed 7 May, 2011

[42] I. A. Ayua, '*Nigerian Tax Law*' Spectrum Law Publishing Ibadan,1999, p.11 and Richard Bird, 'Taxation and Development Lessons From Columbia Experience', (Cambridge, 1970). p.200

[43] In France, Citizens pay tax only if they earn above £5,963 a year and £ 5,165 in Spain. The rate is £8,354 in Germany. A common thread in all these countries is that taxation is progressive as income rises

[44]'The Money Advice Service (GB)'<https://www.moneyadviceservice.org.uk/en/articles/income-tax. accessed 2 February, 2018

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[44]'The Money Advice Service (GB)'<https://www.moneyadviceservice.org.uk/en/articles/income-tax. accessed 2 February, 2018

employment status based on their answers to a series of question. The ESI is completely anonymous and will not ask for people's name or any other personal details.

ii. Register with HMRC as Self-Employed

As soon as a British citizen becomes self-employed, he must tell HMRC. The latest he can register with HMRC is by 5th October after the end of the tax year for which he needs to file a tax return.[45] Late registration attracts penalties. In the U.K, technology has been embraced because people can register online to pay taxes on the HMRC website or by calling the HMRC's "newly self-employed hotline."[46]

iii. Find out How Much Tax and National Insurance He is To Pay as Self-Employed

In the U.K, the self-employed pays National Insurance Contributions (NICs) as well as Income Tax. This currently includes Class 2 NICs which is a flat rate charge on the self-employed and Class 4 NICs (contributions based on profits made). Employees pay NICs if they earn more than £157 a week.These contributions pay for benefits such as Basic State Pension, Maternity Allowance and Bereavement Benefit. Not keeping the contributions up to date or late payments could make it difficult to claim these benefits.[47]

iv. Check Whether You Need To Register for Value Added Tax (Vat)

This becomes imperative as some self-employed people need to register for VAT and those who register voluntarily might benefit.

v. Keep Your Records

To be able to work out one's tax correctly, one needs to keep good records of the money that comes into and goes out of one's business. It will be easier to fill in one's tax return if one keeps good records as one goes along rather than trying to find all the invoices and receipts at the end of the year. One can also be fined in the U.K for failing to keep records.The basic record includes all sales and takings, all purchases and expenses.[48]

Although it is equally an offence under the Nigerian P.I.T.A section 52(1) which provides that:

> If a taxable person fails or refuses to keep books of account which in the opinion of the relevant tax authority, are adequate for the purpose of the tax (a) such a taxable person, other than those in salary employment shall be liable on conviction to a penalty of N50,000 for individuals and N500,000 for corporate entities and (b) the relevant tax authority may by notice in writing direct the person to keep such

[45] The tax year runs from 6 April one year to 5 April the next year.

[46] The HMRC newly self-employed hotline is 03002003504

[47] The United Kingdom government has however announced that Class 2 NLCs will be abolished from April 2018

[48] To work these out, keep any paperwork or electronic documents relevant to your business including cashbooks, invoices, mileage records, bank statements, receipts for purchases.

> records, books, and accounts in such forms and in such language as may be specified in the notice.

Even though this law exists in our tax legislation, the Nigerian government lack the political will to enforce the law.[49]

vi. Fill in a Tax Return Every Year and Pay Your Tax on Time

HMRC offers guides, videos and live recordings to help people complete a self-assessment tax return.In April each year, HMRC sends out letters telling people to complete a tax return online, or a paper tax return, to fill in for the tax year just ended. There are different deadlines for completing tax returns and for paying tax owned.[50]

vii. Know Payment Deadlines

In the U.K, 31st January is the payment deadline for the balance of what is owed for the previous tax year. This is also the deadline for making payment on account for the current tax year. Taxpayers are also encouraged to pay several months before tax is due. This is the nature of self-assessment and its good practice to make provisions for any tax owed on an on-going basis.[51] It is important to note that even though all these practices are also embedded one way or the other in the Nigeria tax statutes, the problem is that they are hardly enforced or implemented. Thus, pointing to lack of efficient tax administration where all the tax laws are available in our tax statutes but the government does not have the political will to implement.

6. INCOME TAX IN NIGERIA

Income tax was first introduced in Nigeria in 1904 by the late Lord Lugard and gradually developed through the various Direct Tax Ordinances of 1917, 1918, 1928, 1937, and 1940.[52] In 1940, there was a major legislation, the Direct Tax Ordinance No. 4 and the Income Tax Ordinance No. 3 of 1940 which repealed all the previous ordinances. The 1940 Ordinance provided for the assessment of income of persons, the assessment on income of communities and also the assessment of cattle tax. Another income tax ordinance was passed in 1943 which repealed the 1940 0rdinance and also revised the rates of tax.[53]

Income tax is a progressive tax because the tax rate increases with increasing income. Some critics had however criticised this tax as a form of a "punishment" for economic productivity.[54]

[49] Section 52 (1)(a)(b) P.I.T.A 2011

[50] Tax Return Deadlines: Online tax return: 31 January after the end of the tax year; paper tax return: 31 0ctober after the end of the tax year.

[51] The Money Advice Service (GB).<https://www.moneyadviceservice.org.uk/en/articles/income-tax. accessed 2 February, 2018

[52] Ibid

[53] ibid

[54] O.A Somorin, *Taxes Around the Globe: A Concise Review of Different Tax Types,* Chartered Institutes of Taxation of Nigeria (CITN) ASCO Publishers Lagos Nigeria, 2015,

Income tax takes into account a variety of factors, such as work-related expenses, donations to charities which are tax-deductible, that is, subtracted from the taxable revenue.

It should be noted that liability to income tax under PITA Section 3(1)(b) arises only if an individual is a holder of an office or employment. Income tax is paid on the following types of income: income from employment, social-security income, self-employment income, income from property, income from savings and investments and miscellaneous income.[55]

There are two types of income tax. personal income tax levied on incomes of individuals, partnership and sole-proprietorship, and corporation/companies income tax, levied on profits of incorporated firms.

From the above exposition on income tax, income tax derived from the informal sector can be classified under the personal income tax levied on incomes of individuals, and mostly administered by each state'sInternalRevenue Service.

7. PERSONAL INCOME TAX IN NIGERIA

The Personal Income Tax is the tax levied on the total income of an individual, group of individuals, proprietors, corporation sole, communities, families, trustees and executors who are resident in a state.[56] All the states' Internal Revenue Service administer PITA for residents oftheir respective states and every individual who earns income in Nigeria either from employment or from doing business is subject to tax under the Personal Income Tax Act (PITA).

PITA provides that in each year of assessment, a taxable person "shall, without notice or demand made on him, file a return of income together with a statement in writing containing the amount of income from every source in the year preceding the year of assessment and particulars in respect of the income, relief, allowances and deductions."

8. BRINGING IN THE INFORMAL SECTOR

Up until now, no legislation has been enacted to bring the informal sector into the tax net. However, the Lagos State Internal Revenue Service which is at the vanguard of generating substantial percentage of its Internally Generated Revenue (IGR) from taxation has introduced into its tax system, a low assessment, ranging from N2,500 to N5,000 for businesses and individuals operating in the informal sector in order to bring them into the tax net.

The presumptive tax regime,[57] which was introduced into the Nigerian Tax System,[58] should be extended to cover small businesses in the informal sector, so as to bring them into the tax net. Although, one can argue that presumptive taxes have always existed because of shared similarity to the Best of Judgement (BOJ)

[55] http://www.adviceguide.org.uk/index/life/tax/terms_used_in_tax_information.htmaccessed 2 February, 2018

[56] Section 32 of Personal Income Tax Act (PITA) Cap P8 LFN 2004

[57] Presumptive tax is the tax based on an assumed income of a taxpayer. The income is "assumed" because the taxpayer does not keep records of his business activities on which to base his tax liability.

[58] The Presumptive Tax Regime is anchored on Section 36 (6) of PIT (Amendment) Act, 2011

assessment; it is however different from BOJ. This is because it offers more than assumptions of payable income taxes, but it also offers in addition, a streamlined method for transiting from the informal to the organized structure.[59]

9. CONCLUSION AND RECOMMENDATIONS

This paper, while examiningtax administration as it pertains to the activities of the informal sector, concludes that there are loopholes in the Nigeria tax administration system, which makesit difficult to generate revenue from the informal sector. For example,government has not paid serious attention to the sector as there are no linkages in the system, whereas in other climes such as the United Kingdom, there is a linkage, for example between the National Insurance Scheme and Her Majesty Revenue and Customs (HMRC). There should also be a link between the FIRS, the Nigerian Customs Service and the Corporate Affairs Commission (CAC).

The linkage envisaged between our banks and tax authorities by the provisionthat new and old bank customers should register with their Personal Identification Number (PIN) has not been complied with by most banks.

Also it was discovered that many self-employed have not yet been captured for their TIN despite the fact that it has been inaugurated since the year 2010 and it is a prerequisite for opening bank accounts. The bane of our tax system thereforeis lack of political will to implement government policies no matter how good the policies are.

In conclusion, our tax laws should be simplified as they are too difficult for the ordinary citizen to understand, thereby making it difficult for them to comply.

In view of the foregoing, the following recommendations are proposed:

- Preliminary tax (provisional tax) should be introduced into the informal sector in Nigeria. This is tax based on assumed income of a taxpayer. The income is "assumed" because the taxpayer does not keep records of his business activities on which to base his tax liability. Section 36(6) of the Personal Income Tax Amendment Act 2011 makes provisions for the presumptive tax method.This should be adopted for the informal sector such that assessment will be based more on variables such as volume of trade, value of land or turnover of trade, net wealth and asset value. This will make it difficult for tax evaders who have not yet registered with tax authorities or those who have refused to file their tax returns to continue to escape their tax liabilities. However, because of the high degree of discretion which the presumptive tax regime confers on tax officers, they need to be supervised so that corrupt revenue officers do not enrich themselves through it.
- The self-employed must be educated about the importance of keeping adequate records in order to calculate and work out how much he needs to pay as tax. Not keeping records is an offence and defaulters should be penalised for it.

[59] O.D Akintoye, 'Examination of the Powers of the Federal Inland Revenue Service and Taxpayers' Rights in Nigeria', Unpublished Ph.D Thesis 2014.Faculty of Law University of Ilorin, Nigeria.

- The FIRS should adopt the U.K style of creating a tool called the "Employment Status Indicator" which works out people's employment status based on their answers to a series of questions.
- There is the need to make it mandatory for every Nigerian citizen who has become self-employed to register with the FIRS.Failure to register and to file tax return at the appropriate time should attract penalty.
- Nigeria should embrace technology so that people can register online to pay taxes on the FIRS website or by calling certain designated hotlines which may be tagged "newly self-employed hotlines".
- Government and stakeholders should introduce easier and more innovative e-channels in paying taxes.
- Government should organize town hall meetings with informal sector operators to demonstrate how they arrive at tax exposures to improve accountability and transparency and in order to prevent exploitation and arbitrariness.
- More states should emulate Lagos State which has introduced into its tax system a low assessment ranging from N2,500 to N5,000 for businesses and individuals operating in the informal sector.