

## Harnessing the bottom billions in the Informal sector: Are tax authorities willing to engage?

A pre-eminent objective of the NTP remains how to create, deepen and institutionalise in a sustainable manner, a culture of voluntary tax compliance amongst individuals and corporate citizens of Nigeria

It is not unusual to broadly classify the economy into formal and informal sectors. The informal sector is generally accepted to comprise the economic activities or interactions of individuals, enterprises or other unincorporated entities or organisations whilst the formal sector represents the economic interactions of organised individual or corporate entities.

One major diagnostic conclusion in the National Tax Policy (NTP) is that "compliance has been a great problem in the Nigerian tax system as a result of the large scale informal sector". The NTP admits that "the administrative burden of applying of tax laws may be cumbersome for some of these entities and therefore efforts should be made to deal effectively and efficiently with them. This involves strategies to increase both compliance and revenue whilst keeping the cost of administration low as possible".

Taxpayers are the single most important group of stakeholders in the tax system. They are therefore the focus of all tax authorities. The appeal for administrative efficiency which dictates short-term focus on the basis of 80/20 rule must be balanced with the need to ensure equality amongst existing and potential taxpayers as well as release the potential revenue due to government but substantially locked up in the informal sector.

The NTP envisages already that tax authorities need to evolve strategies which would enable them to increase compliance and revenue from the informal sector. This reflects implicitly the limitation of any present approaches adopted so far. In evolving fresh strategies to drive increased compliance and revenue from the informal sector, it may be necessary to pose and seek answers to the following questions:

- Is there a need to stratify the informal sector?



- If so, along what lines to achieve optimum stratification?
- Is the current tax regime optimal for the informal sector?
- Is there a need for an alternative tax regime for the informal sector?
- Is the informal sector eligible for incentives? If so, what type?
- Should focus be on direct or indirect taxation for the informal sector?
- What assurances are available in respect of voluntary disclosures of tax default?

The issue of stratification is important in that Small & Medium Enterprises (SMEs) are sometimes classified within the informal sector. This is to ensure appropriateness of strategy and focus. There is also the concern that the existing tax rates whether at personal income tax level or companies income tax level are still too high in relation to the margins

earned from their respective businesses.

Players in the informal sector are generally aware that it is part of their civic duties to pay the taxes due on their income to government. It is important however to stress that it is a constitutional duty for every citizen to declare his income honestly to the appropriate and lawful agencies and pay taxes promptly.

While the legislation provides for self-assessment and payment of taxes, there are no direct strict penalties for non-payment of tax (as we have it under the PAYE scheme). The guiding tax legislation and regulations in respect to the compliance process assumes that the tax payers understand the tax system and procedures, possess adequate tax knowledge, to be aware of their compliance obligations and are willing to comply by the provisions of the tax legislation.

The provisions of the tax laws empower tax authorities to call for further returns and access the books and related documents of the tax payers to ensure compliance, which in the informal sector may be non-existent. A critical path forward would be an approach that either de-emphasises documentation or makes documentation easier to arrange and present by players in this sector.

A huge relief for the informal sector players would be what treatment the tax authorities would mete out if they make voluntary disclosure of tax defaults. If there is uncertainty, some segment of this sector may opt to sit on the fence and wallow in non-compliance on the chance that they may not ever be discovered.

The dire straits in which the revenue position of most states of the Federation is makes counter-productive any approach which does

not seek to boost revenue accruable from the informal sector. The poor employment statistics in the formal sector imply that increasing number of the working population are in the informal sector and this may mean an increase in the loss of tax revenue to government if the attitude to this sector remains unchanged.

A pre-eminent objective of the NTP remains how to create, deepen and institutionalise in a sustainable manner, a culture of voluntary tax compliance amongst individuals and corporate citizens of Nigeria. There are players in the informal sector who desire to ensure voluntary registration with tax authorities; timely, correct, and complete tax returns; and payments as required by law, but are only waiting for the necessary wholistic signals from government and its tax authorities.

It must be borne in mind that a law that encourages its own violation is no law (anon).

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