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DETERMINANT OF TAXPAYERS NON– COMPLIANCE IN THE INFORMAL SECTOR

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ABSTRACT: ***This study ascertained the determinants of taxpayers' non-compliance in the informal sector. The specific objectives of the study were to investigate the impact of resource constraint, illiteracy, lack of information, multiplicity of taxes, and low tax morale on taxpayers' non-compliance in the informal sector in Ebonyi South Senatorial District in Nigeria. This study employed the use of a well-structured questionnaire in eliciting responses from the sampled respondents, in the four (4) Local Government that made up of the Senatorial District which includes Ivo, Ohaozara, Afikpo North and Afikpo South. The 5-point Likert scale was used in developing the questionnaire. From the descriptive analysis of results, Resource Constraint (RCON) was found to have a negative impact that was not significant on taxpayers' non-compliance in the informal sector. Illiteracy (ILL), Lack of Information (LOI), and Low Tax Morale (LTM) were found to have positive and significant impact on taxpayers' non-compliance in the informal sector in Nigeria. However, Multiplicity of Taxes (MOT) was found to have a positive but not on a high significant impact on taxpayers' non-compliance. This study concluded that Illiteracy, Lack of information, and Low tax morale are strong determinants of taxpayers' non-compliance in the informal sector in state; while, Resource constraints and Multiplicity of taxes are not significant determinants of taxpayers' non-compliance in the informal sector in Nigeria. Therefore, was recommended that the government should make available sufficient human, financial and material resources for efficient tax administration; there should be continuous sensitization and awareness of taxpayers on the need to paytaxes; the government should encourage taxpayers to keep adequate financial records of their businesses; lastly, the government should ensure that taxpayers' money is judiciously utilized***

INTRODUCTION

Taxpayers' ethical values play an important role in the compliance decision of individual taxpayers. It is therefore asserted that individuals possessing sturdier ethical beliefs seem to have auspicious compliance attitude with the reason being that such individuals see compliance as either a responsibility or obligation that must be honoured. Ethical beliefs are the most important factors to consider in improving compliance decisions of individuals comprising the informal sector. Tax compliance is deemed higher when there exists a sturdier belief that tax evasion is unethical.

The present economic challenges in Nigeria, resulting primarily from the fall in price of crude oil in the international market and the weak value of the Naira against the US Dollar have raised serious concerns regarding the possible sources of revenue available to the Nigerian government to finance its expenditure. Since the discovery of crude oil in 1956 and in large commercial quantity in the 1970s, crude oil has become the main source of revenue to the Nigerian government. However, the shortfall from oil revenue accruing to the government in recent years has negatively affected the Nigerian economy. This has reawakened government's interest in taxation which has been described by Udoh (2015) as a veritable tool for wealth creation.

A major feature of a developing economy such as Nigeria is the presence of a large informal sector. The Civil Society Legislative Advocacy Centre (CISLAC) (2012:4) described the informal sector as "that part of an economy that is outside government regulation and, therefore, not taxed or captured in the national Gross Domestic Product (GDP)", but subject to local authorities' regulations for organized business activities (Mpapale, 2014). Ilaboya (2014) described the informal sector as consisting of all activities, whether legal or illegal, that generate economic benefits to those involved and which are not within the purview of the state. According to Onyegbule (2016), the types of businesses in the informal sector include: skilled acquisition center, computer center, hairdressing, dress making, transportation, food vending, subsistence agriculture, trading, artisanship and craftsmanship, painting, electrical technical and other businesses and services.

The issue of informal sector taxation in developing economies (Nigeria inclusive) has in recent years received increased attention from the government and researchers. However, the current concern has been catalyzed by increasing attention to the possible gains of taxing the operators of the informal sector in relation to revenue, growth, as well as governance (Joshi, Prichard, & Heady, 2014; Udoh, 2015). A foremost challenge encountered by governments of developing economies (including Nigeria) is the possible means to effectively incorporate the operators of the informal sector into the tax net. This statement was emphasized by Joshi and Ayee (2009) when they stated that the best way to tax the informal sector is still a pressing question. The subject of informal sector taxation in third world countries has in recent years have witnessed significantly increasing attention (A. Joshi., 25 May, 2019).

The informal sector in Nigeria is enormous and heterogeneous and it accounts for about 60-65% of the economy (CISLAC, 2012). According to Adesanya (2014), the United Nations Development Programme (UNDP) asserts that Nigeria's informal sector is estimated to account for 57.9% of Nigeria's rebased GDP and similarly, the National Bureau of Statistics (NBS) announced on July 12, 2019 that the number of informal sector businesses Micro Small and Medium Enterprise ($MSME_S$) have increase to 41,867 million in 2nd quarter of 2019, which constitute over 90% of all the firm and average of 60% to 70% of total Employment and 50% of Gross Domestic Products (GDP) of any Economy. The scope of the Nigerian informal sector cuts across trading, transportation, agricultural production, mining and quarrying, spare parts, food preparation, mechanical and electrical work, footwear, dress making, information, communication and technology, carpentry, just to mention a few. Adesanya (2014) broadly enumerated activities in the Nigerian informal secto r to include: Agriculture (small-scale farmers), Retail (street vendors, road-side sellers, hawkers, caterers), Education (private tutors), Financial services (thrift cooperative societies, money lenders, accountants), Transport (private-hire taxi drivers, tricycle operators, motorcycle operators-Okada), other service providers (make-up artists, Photo-graphers, fashion designers, event planners, artisans, technicians) etc. Despite its sheer size, the tax inflow from the sector is still very negligible.

According to Adeosun (2018), Nigeria's tax to GDP ratio is currently 6% which is one of the lowest in the world and which is far below the tax to GDP ratio in other countries and the generally accepted threshold of tax revenue to any country's GDP in the International Monetary Fund (IMF) August 27, 2018 estimated at 15%. For instance, the United States of America has 27%, United Kingdom 39%, Sweden 45%, and France 46%. In Africa, some countries such as Burkina Faso 11.5%, Tanzania 12%, Togo 14%, Cameroon 18%, and Ghana 15%, South Africa 24% (Ezomike, 2016, Adeosun, 2018) also have a higher ratio than Nigeria. However current economist report in 2019 will find that Nigeria Gross Domestic Product GDP in Nigeria 13.80 % in the first quarter of 2019 over the previous quarter GDP growth rate in Nigeria average 1.02 % from 2010 until 2019, reaching an all time high of 10.59 % in the third quarter of 2010 and record low of 13.98 % in the first quarter 2019. It is against this backdrop that. This study evaluates the determinants of taxpayers' noncompliance in the informal sector in Nigeria.

In an effort to achieve the required funding for developmental projects, and as a result of several factors like the crash of prices of crude oil in the international market, youth restiveness and insecurity in the Niger Delta region of the country and the current economic downturn, the government of Nigeria is on the lookout for ways to expand its tax revenue base (CISLAC, 2012), hence the need to bring in operators of the informal sector into the tax net.

Ariyo (1997) as cited in Uzonwanne (2015) asserted that the percentage of the informal sector in relation to the working population in Nigeria is large, yet the tax authorities have not developed appropriate/effective strategies of collecting personal income tax from this group. In fact, income from the activities of the informal sector is grossly untapped. Two decades after the assertion of Ariyo (1997), the relevant tax authorities in Nigeria are still faced with the challenges of effectively taxing the informal sector activities. Similarly, according to Ebifuro, Mienye, and Odubo (2016), despite the reforms targeted at incorporating the informal sector into the tax net in Nigeria, the government has not succeeded in bringing this critical sector under official purview.

The Nigerian tax system has witnessed a high rate of tax evasion especially in the informal sector despite its sheer size in the economy. In spite of the tax revenue abilities of the Nigerian informal sector as a result of its large size, Abiola (2007) states that the degree of tax compliance of the Nigerian informal sector is below 27%. Hence, indicating a high level of taxpayers' non-compliance in the Nigerian informal sector. Jolly-Boss (2016) quoted the Federal Inland Revenue Service (FIRS) Chairman- Babatude Fowler as stating that "the informal sector still holds the key that would lift the country from its current revenue crisis, as out of the recorded 37.5 million small businesses, only few are paying tax". Similarly, Osinbajo (2017) at the launched of the Voluntary Asset and Income Declaration Scheme (VAIDS) on June 29th, 2017, stated that according to the FIRS, the total number of taxpayers in Nigeria is just l4million out of 69.9million economically active Nigerians and out of the 1 4million, 96% have their taxes deducted at source from their salaries under the Pay-As-You-Earn (PAYE) system while only 4% comply to tax payment under Direct Assessment as self-employed which therefore implies that only 20% of people engaged in one form of business or the other are registered and paying taxes.

Taxation

According to the National Tax Policy (NTP, 2012), taxation is essentially the process by which taxes are collected within a specific area. Anyaduba (1999) sees taxation as "the process or system of raising income through the levying of various types of taxes". The principal objective of taxation is to generate revenue for government's expenditure on public welfare (Uzonwanne, 2015). Eze, lorwuese, and Abba (2016) see taxation as a veritable and sustainable source of income for any government and an instrument for fiscal policy and macroeconomic management. Taxation as a tool of fiscal policy performs four (4) economic roles for the development of a nation. It helps to allocate resources from private to public needs; used to control inflation; promotes economic growth; and used for income redistribution (Uzonwanne, 2015). From the above definitions, it can be deduced that taxation is the process of collecting revenue and not the revenue (tax) being collected.

Tax is any compulsory payment to government imposed by law without direct benefit or return of value or a service in order to yield revenue (NTP, 2016). According to Eiya (2012), tax is a compulsory imposition on the income or profit or capital gain of persons, corporate organizations or other legal entities by the government so as to generate revenue. The importance of tax in a country cannot be over emphasized. It is a fiscal instrument used by governments to combat social ills and bring stability to the economy (Eiya, 2012). Azubuike (2009) asserts that tax is a key factor in every nation of the world and thus serves as an avenue for the government to amass additional revenue required to execute its pressing responsibilities. Fasoranti (2013) asserts that tax constitute a means by which the government appropriates part of the income of the private sector. And the revenue so derived is used to finance government expenditures. From the above definitions, it can be deduced that tax is compulsorily imposed on the citizens by the government so as to generate more revenue for meeting its fundamental public expenditures.

According to Micah, Ebere, and Umobong (2012), taxation in Nigeria is operated by the Federal, State, and Local governments. The major taxes operational in Nigeria currently include Personal Income Tax, Petroleum Profits Tax, Companies Income Tax, Value Added Tax, Education Tax, Capital Gains Tax, Customs and Excise Duties, and Stamp Duties. Among these taxes, the tax matters relating to the informal sector (self-employed) in Nigeria is governed by the Personal Income Tax Act Cap VI Laws of the Federation of Nigeria, 2004 as amended (Angahar & Alfred, 2012). According to Eiya (2012), Personal Income Tax (PIT) is a compulsory payment made by individuals in employment (private and public employees inclusive) and the self-employed citizens of a state to the government based on taxable income. It should be noted that Personal Income Tax Act is dual administered i.e. its administration involves both the Federal and State governments. According to Part 1 of the Taxes and Levies (Approved list for collection) Decree, 1998, the Federal government administers the Personal income tax in relation to members of the armed forces of the federation; members of the Nigerian Police Force; Federal Capital Territory residents; and Staff of the Ministry of Foreign Affairs as well as non-resident individuals. On the other hand, the State government administers Personal income tax in relation to: Pay-As-You-Earn (PAYE); and direct taxation (self-assessment) relating to the self-employed.

The concept of informal sector taxation is often met with some confusion, not least because the informal sector itself is a contested construct, but also because informal sector taxation can refer to quite different practices in tax policy, and often these are not clearly delineated in the literature. In this section we specify our definition of the informal sector and we attempt to shed some light on the different approaches that have been used in informal sector taxation. We use the most common approach to defining the informal sector, namely the enterprise approach, which classifies as informal, businesses or operations that are not registered under the relevant national regulations, such as taxation or social security laws (CAMA, 2004; ILO, 2002). The terms 'informal sector' and 'informal economy' (the latter term used to collectively refer to unregistered enterprises and workers without formal contracts in formal and informal enterprises) are often used interchangeably in the tax literature. However, we prefer to use the term 'informal sector'

The Nigerian Informal Sector

According to Tax Justice Network-Africa (TJN-A) (2012), the 1972 International Labour Organization (ILO) report on unemployment in Kenya was the pioneer stride towards popularizing the concept of the informal sector. Similarly, CISLAC (2012) asserts that the term 'informal sector' was made popular by ILO in the early 1970s in an extensively read research on Kenya in 1972, as well as Keith Hart a British Anthropologist in a study in 1973 on Ghana. However, the precise definition of the informal sector remains a great dispute as asserted by Schneider and Enste (2000) and Ofori (2009). Similarly, Bongwa (2009) affirms that the informal sector is a vague concept opened to a number of interpretations.

According to ILO (1972), informal activities consist of all economic activities that are not regulated nor subjected to tax by the government, and are thus excluded from the government's Gross National Product (GNP) statistics. Rao (2014) asserts that the informal sector comprises of businesses and individuals that are partially registered and regulated and thus not captured in the tax net. The informal sector can also be viewed as consisting of any economic activity generating revenue, although on a trivial level, using elementary skills, and not restricted to any state laws (Institute of Economic Affairs-lEA, 2012). It consists of both self-employments in small enterprises that are not registered as well as wage employment in jobs that are not protected (Kassem, 2014). The underground economy, according to Uzonwanne (2015), is taken to consist of any undeclared economic activity such as non-registration of business that should be registered to pay tax; individuals working in the hidden economy like the rural areas with tough landscape and do not pay tax on their earnings; and individuals who pay tax on selected earnings but fail to make known other extra sources of revenue. The central theme of the above definitions of the informal sector is the absence of official registration and government regulations, and as such not taxed.

The informal sector has been described using different terms such as hidden economy (Burr, 2008; lEA, 2012), underground economy, shadow economy, black economy (Frey & Schneider, 2000), gray economy (Bongwa, 2009) all owing to researchers' inability to reach a consensus on the definition of the informal sector. However, Bongwa (2009) opines that the informal sector is increasingly being described as the informal economy so as to avoid the notion that informality is restricted to a particular sector of economic activity, but rather cuts across several sectors. Bongwa further asserts that a clear definition of the concept of informal sector is paramount as differing interpretations of the term could result to significantly different estimates and conclusions.

The informal sector is characterized by many features. The activities of the informal sector are often conducted predominantly using cash-based transactions, they are poorly regulated (Adesanya, 2014); mobile nature of the operators, absence of business records and information (Tanzania Knowledge Network-TKN, 2010), minute entry challenges into the informal sector in relation to skill, capital, and organization (Wedderburn, Chiang, & Rhodd, 2008), functioning as sole proprietors with very few workers (if any), lack of a formal organizational and administrative structure, very low use of technology, and commonly without a definite location of trade (Mpapale, 2014), typically unincorporated (Bongwa, 2009) and heterogeneous, thus cuffing across wide range of activities (ILO, 2007a), work is frequently labour intensive, needing low-level skills, and employer-employee relationship is often not documented and casual (ILO, 2007b); reliance on indigenous resources, unregulated and competitive operation (due to survivalist tendencies), explicit activities, dispersed locations especially in remote areas (Onyegbule, 2016).

The informal sector presents an enormous opportunity to enlarge the tax base of any government due to its continuous increase over the years (lEA, 2012). The incidence of large informal sector in developing countries including Nigeria has been credited to a number of factors such as entry barriers into the formal sector, registration cost, tax and social security burdens (Bongwa, 2009; TEA, 2012), high rate of unemployment in the formal sector (Chen, 2012; IEA, 2012; Adesanya, 2014; Ilaboya, 2014; Mpapale, 2014), low tax compliance culture, unduly excessive regulatory system, administrative corruption, culture of self-reliance or entrepreneurship, high level of illiteracy, low income levels in the public sector, poor infrastructural facilities (CISLAC, 2012), large population, lack of defined structure, high prevalence of poverty in the country (Adesanya, 2014), ease of entry and exit, low level of education (Mpapale, 2014), limited enforcement of legal obligations, change in social norms (Chambwera, MacGregor, & Baker, 201 1), economic crisis or downturns (Chen, 2012), dormancy of the manufacturing sector, multiplicity of taxes, low tax morale resulting from fiscal recklessness and government failure, poor tax administration emanating from resource constraint, and economic meltdown (Ilaboya, 2014).

Taxation of the Informal Sector

According to Joshi et al. (2014), "the issue of whether taxation of the informal economy is justified has been a subject of longstanding controversy". In the same vein, Ilaboya (2014) asserts that informal sector taxation has been viewed from two conflicting perspectives thus giving rise to opponents and proponents of informal sector taxation. From the perspective of the opponents of informal sector taxation, the likely revenue yields from the sector are low, there is high administrative/collection costs on the part of the tax authorities which will negate the economic principle of a good tax system, the incidence of tax is likely to be regressive since the sector consists of relatively low income earners, and existence of tax implementation risks exposing susceptible firms to harassment. Also, taxing the informal sector may shrink the growth advantage of small as well as medium scale businesses (Dc Soto, 2000). To buttress further their point, the critics of informal sector taxation also argued that taxing the operators of the informal sector or regulating them for formalization may chase them out of business and thus resulting in greater poverty' and higher unemployment rate in the country (Ilaboya, 2014).

Contrary to the foregoing, there has been recent interest in informal sector taxation. This new interest has been catalyzed by increasing attention towards the likely gains of informal sector taxation in terms of revenue, growth, and governance (Joshi et al., 2014). The proponents of informal sector taxation therefore advanced the following: In relation to revenue, informal sector forms an enormous share of the GDP of many developing countries including Nigeria as earlier stated and hence represents a substantial source of income to financially handicapped governments (Schneider, Bruehn, & Montenegro, 2010; Ilaboya, 2014). In relation to growth, formalization may accelerate the growth of an economy. And in relation to governance, fresh views have been made that the payment of taxes by enterprises in the informal sector may be a technique of engaging business enterprises with the government, thereby encouraging legitimacy, good governance, and political accountability (Joshi & Ayee, 2008; Pricharch, 2009). According to Dube (2014), informal sector taxation raises equity issue and thus, operators of the informal sector actually ought to be taxed just like the operators within the formal sector.

Similarly, the proponents of informal sector taxation also argued from the perspective of its influence on tax compliance in the formal sector. Terkper (2003) asserts that genuine taxpayers within the formal sector may see the government as being partial in trailing them for taxes whereas those in the informal sector continue to function without being taxed. Thus, disregarding the activities of the informal sector will result in low tax morale and escalate the risk of general non-compliance. Also, taxing informal sector activities will imbed tax culture on smaller businesses which will become advantageous as they perhaps enlarge in size and move towards the formal sector (Ilaboya, 2014). Outside the direct revenue loss from the sector, not taxing the informal sector might result in unwarranted competitive advantage over the operators of the formal sector (Mpapale, 2014). Since both sectors in the country produce virtually similar products, regulating the formal sector tightly and ignoring the informal sector without a regulatory framework serves as disadvantage to the operators of the formal sector. Also worthy of note is the issue of constitutionality of tax. From Nigerian perspective, Section 24 (t) of the 1999 Constitution emphasized “that it shall be the duty of every citizen to declare his income honestly to appropriate and lawful agencies and pay his tax promptly”. This provision makes it a constitutional responsibility for all income earners (both formal and informal sector operators) to pay tax. Flowing from the above, there is thus a great need to incorporate the operators of the informal sector into the tax bracket in Nigeria.

Making Informal Sector Taxation Work: Lessons from Other Countries

Taxing the operators of the informal sector in developing countries has been a challenging task for the tax authorities as earlier stated. However, some of these developing countries have been able to put in place some mechanisms so as to reduce these challenges and to a large extent incorporate the operators of the informal sector into the tax net. In the case of Zimbabwe, Dube (2014) conducted a study on “Informal sector tax administration in Zimbabwe” with the aim of assessing the challenges the tax authority encounter in trying to collect tax revenue from the informal sector. The study revealed that lack of information both on the part of the taxpayer and on the part of the tax authority; lack of adequate manpower in the Zimbabwe Revenue Authority (Z1ML4); and low tax morale as a result of the political situation in Zimbabwe affected the tax authority in effectively taxing the operators of the informal sector. However, Dube (2014) stated that one technique that appears to have been used to increase the tax revenue from the informal sector in Zimbabwe is the use of Landlords.

The ZIMRA use Landlords who let their properties to informal sector operators to collect presumptive taxes as part of their rent fee. These Landlords are not really given incentives in any way but they are allowed by the tax authority to hold the taxes they collected for a month before remittance. Another technique that has been employed by ZIMRA is the “1TF263 Withholding Tax” (Dube, 2014). It is a form of taxing the operators of the informal sector indirectly. The technique requires all firms registered for tax purpose buying merchandises from non-registered business to hold back 10% of the selling price as tax and pay same to the tax authority. The non-registered firms that have suffered such tax can then offset it against the taxes owed to the tax authority which may end up being a final tax.

In the case of Kenya, IEA (2012) asserts that the informal sector in Kenya constitutes 34.3% of its economy and accounting for 77% of its employment statistics. However, in an effort to rally revenue from the sector and shrink the tax gap, the Kenyan government has made efforts to incorporate the operators of the informal sector into the tax bracket under a Presumptive tax regime known as Turnover Tax (TOT) which was introduced in 2007 (TEA, 2012). The TOT is a form of presumptive tax with turnover as the tax base, and any business with a turnover that exceeds Kshs. 500,000 but below Kshs. 5million is taxed at a flat rate of 3% on the gross annual sales of the entity (Mpapale, 2014). The TOT is specifically designed for small businesses and its main aim is to incoiorate the operators of the informal sector into the tax net by making simpler tax processes, encourage proper record keeping, and tax computation, thus making it easier to file tax returns and lessen the cost of tax compliance (lEA, 2012). According to Mpapale (2014), the Turnover Tax is a final tax. In the year 2008/2009, TOT recorded 31% with a total of Kshs. 136 million against a set target of Kshs 442 million (lEA, 2012).

According to Chambwera et al. (2011), in Ghana, the workers in the informal sector accounts for 85% of employment nationwide. Yet the tax revenue from the sector compared to its large size is just a drop in the country’s treasuries (Somuah, 2011). However, in an attempt to bring the operators of the informal sector into the tax net, the Ghanaian Internal Revenue Service (GIRS) developed Associational taxation between the period 1981 to 2000 (Joshi & Ayee, 2008). Under this system, the GIRS delegated the responsibility of income tax collection to associations in the informal sector in a strategy known as Identifiable Grouping Taxation (IGT) (Joshi et al., 2014). The system (Associational taxation) overpowered a number of the challenges linked with tax collection from small businesses.

From the viewpoint of tax administration, Ilaboya (2014) states that Associational taxation reduced the administrative cost of informal sector tax collection to a minimal value of 2.5 per cent payable to the respective associations for their role in tax collection. On the other hand, from the perspective of the operators of the sector, being tax compliant allowed them legitimacy, and assisted to shield them from more arbitrary harassment by tax officials (Joshi et al., 2014). The drawback of the system according to Joshi et al. (2014) was that the associations were often not democratic internally, in the sense that the revenues collected from members were not remitted in full to the tax authority. Also, bigger firms formally in the formal sector saw it as an opportunity to evade tax by being listed under Identifiable Grouping Taxation (Ilaboya, 2014). However, despite these shortcomings, one of the main achievements of Associational taxation-Identifiable Grouping Taxation (lOT) was the ability to instill taxpaying culture among operators of the sector (Joshi et al., 2014).

In the case of Tanzania, the share of informal sector to Tanzania’s GDP is estimated at 40% (TKN, 2010), thus signifying that when they are not taxed substantially, the government loses revenue. According to Joshi et al. (2014), the most direct approach for enhancing informal sector taxation is to restructure or segment tax administration in order to strengthen monitoring, services, and incentives for tax administrators. This approach can best be described as Block Management System (BMS). Tanzania adopted this method as a component of a wider set of reforms aimed at small businesses when it initiated the Block Management System in 2002 geared towards promoting tax compliance and registering all qualified traders in specific geographical locations (Shelcidele, 2009). The BMS involves dividing an area into small and controllable blocks based on logical geographical boundaries and a BMS team mandated to carry out all important tax functions move block by block identifying, registering, educating, and interacting with taxpayers, especially those within the informal sector. And such taxpayers are assessed using presumptive taxes (Joshi et al., 2014). And this system improved the number of taxpayers registering for tax purpose with 16% new registrants recorded in 2006-2007 increasing to 41% in 2008-2009. The system could also be described as privatization of tax administration.

In Cameroon, informal sector taxation is vested in local government authorities (Ilaboya, 2014). According to Joshi et al. (2014), a more radical option for effectively taxing the operators of the informal sector is to decentralize tax collection responsibility to local governments. In the light of this, Bodin and Koukpaizan (2008) suggest four potential advantages to such approach. First, local governments have a greater thirst for resources and as a result will have robust motivations to vigorously pursue taxation in the informal sector. Secondly, local governments are in a better position to negotiate productively with the operators of the sector and respond by providing basic social services. Also, tax collection will be nearer and responsive to local settings. Lastly, it may inspire greater coherence in tax administration, as there are large and detrimental overlaps between taxes imposed by different levels of government. However, this strategy is not without some inherent risks as local governments may in some situations be specifically subjective and coercive in their tax practices (Moore, as cited in Joshi et al., 2014).

Strengthening taxpayers' services is also another strategy gaining acceptance by tax authorities across the globe to enhance informal sector taxation. For instance, in Gambia, the Gambia Revenue Authority (GRA) has adopted this strategy by putting in place a range of actions targeted at enhancing the customer interface. Some of which include decentralised tax offices, cost-effective tax tribunals, tax clinics to assist with the filing of tax returns, as well as a taxpayer education programme which permits direct communication/dialogue between the GRA and the taxpayers (Joshi et al., 2014).

Attempt to Incorporate the Informal Sector into the Tax Net in Nigeria

Informal sector taxation remains a central problem not only in Nigeria but in the global economy, although the intensity of the problem varies from one country to another (Ilaboya, 2014). In an attempt to incorporate the operators of the informal sector into the tax net in Nigeria, the Personal Income Tax (Amendment) Act, 20 1 introduced a new subsection 6 in Section 36 of the Act. Precisely, Section 36 (6) of Personal Income Tax (Amendment) Act, 2011 provides thus:

Notwithstanding any of the provisions of the 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 condition as would be prescribed by the Minister in regulations by order of gazette under a Presumptive Tax Regime'.

In relation to the above Act, the Federal Inland Revenue Service (FIRS) has embarked on sensitization campaigns on the Presumptive Tax Regime (PTR), specifically targeted at the operators of the informal sector in a bid to boost tax revenues for national development (Ohaka & Zukbee, 2015). A presumptive tax regime is a system where the anticipated tax base is not itself measured but rather inferred from some simple indicators such as turnover. Assets, farm size, value of land, shop value, etc., which are more easily measured in place of complex financial statements. Presumptive taxation is an attractive method of government's unending effort at making the tax system more productive and efficient while inculcating responsibility of citizenship and ownership simultaneously. According to Embuka (2015), presumptive taxation is adopted predominantly in countries where 'hard-to-tax' taxpayers make up the majority of the population and administrative resources are limited. In these nations, most taxpayers lack the financial transparency that allows for effective taxation by the government. The result therefore, is that the government estimates or presumes the applicable income on which taxes should be levied.

The presumptive tax regime would help to capture individuals and businesses that are not suitably organized or are unable to maintain accurate business records as it provides taxpayers with a simplified alternative for tax compliance without demanding complete financial transparency. Although Section 36 (6) of the Personal Income Tax (Amendment) Act, 2011 made provision for tax assessment using PTR in cases where there are no proper record keeping, the Act failed to state categorically the base upon which the PTR will be operational. For instance, literature revealed that countries (such as Kenya, Ghana, Zimbabwe) that have adopted the PTR at one time or the other had a base upon which it is operational and the specific rate to be charged on such tax base.

Tax Non-Compliance and the Informal Sector

Tax compliance denotes the ability of a taxpayer to present exact, complete and acceptable returns in accordance with tax laws of the nation to the relevant tax authority for the aim of tax assessment (Kirchler, 2008). Tax compliance can also be defined as the extent to which a taxpayer obeys tax rules and regulation (Alabede, Ariffin, & Idris, 2011). The Organization for Economic Cooperation and Development (OECD) (2001) classified tax compliance into two: administrative and technical compliance. Administrative compliance is made up of reporting compliance, procedural compliance and regulating compliance and it is largely concerned with obeying the rules relating to the lodging and payment of tax. Technical compliance, on the other hand, involves stashing the technical requirements of tax laws in computation of income tax liability. Birskyte (2013) divided income tax compliance into three distinct types: reporting compliance (i.e. the correct declaration of earnings and tax), filing compliance (the amount of earnings required to be filed that are really filed), lastly, payment compliance (the exact amount of tax reported actually paid).

According to Okoye et al. (2012), tax compliance is affected by a number of factors, some of which include: insufficient provision of basic social amenities by the government, high tax rate, low degree of taxpayers' satisfaction, lack of effective deterrent measures, I. deficiency in tax administration, lack of accountability of public funds, absence of functional tax audit, etc. Despite the tax revenue abilities of the informal sector in Nigeria as a result of its large size, Abiola (2007) conducting a study on "the informal sector and tax compliance in Nigeria", states that the degree of tax compliance of the Nigerian informal sector is below 27%. This therefore connotes that there is high rate of tax non-compliance in the Nigerian informal sector. According to Jackson and Milliron (1986), tax non-compliance refers to the failure of a taxpayer to remit a proper amount of tax, perhaps due to the complexity or even ambiguities in the tax law or tax code administrative process. James and Alley (2004) define tax non-compliance as the failure of a taxpayer to meet his/her tax responsibilities whether deliberately or not deliberately. Similarly, Kirchler (2007) largely categorized tax noncompliance as default in filing tax return, underreporting of taxable income, overstating tax claims such as allowable deductions and exemptions, and defaulting in making timely payment of tax liability.

Resource Constraint

Resource constraint connotes the inadequacy of the necessary resources for effective and efficient tax administration. CISLAC (2012) opine that the tax authorities in Nigeria (irrespective of the level of government) suffer from capacity constraint in the form of lack of sufficient personnel with the required skills needed to incorporate the largely untaxed operators of the informal sector in Nigeria into the tax net. According to Ilaboya

(2014), the human, financial and material resources needed to effectively tax the operators of the informal sector are either not available or in short supply in most developing countries including Nigeria.

Illiteracy

Ilaboya (2014) asserts that there is high illiteracy rate in developing countries generally; hence, the informal sector, characterized by low-income group, may be more vulnerable. It is estimated that the illiteracy rate in third world countries is high. Ofori (2009) in his study undertaken in Ghana found that 61.12% of the operators of the informal sector have little or no education, 28.10% have medium or secondary school level education, and only 10.67% have higher level education. Thus, illiteracy affected the understanding of the tax laws by the taxpayers in the sector. The result of Ilaboya (2014) revealed that illiteracy is a challenge of informal sector taxation with a model qualification of primary school leaving certificate. Generally, income tax returns Forms are difficult to fill and hence calls for one to be fairly literate to enable one complete it appropriately (Ofori, 2009).

Lack of Information

Adequate information is a necessity in efficient tax administration. According to Ilaboya (2014), information is germane to effective and efficient tax administration, be it from the perspective of the taxpayers or the tax authority. On the part of the taxpayers, there appears to be lack of adequate record keeping of their business activities emanating primarily from illiteracy. CISLAC (2012) asserts that most operators of the informal sector are generally negligent when it comes to keeping up to date records, hence, determining the accurate level of income made by these businesses and giving a meaningful assessment of tax liability is rendered practically impossible. According to Okoye et al. (2012), most of the operators of the informal sector in Nigeria are indifferent to appropriate record keeping, thus, making tax administration a herculean task as without appropriate record keeping, effective determination of taxpayers' earnings cannot be done. In several scenarios, they combine their business affairs with their personal activities, thus making it challenging to ascertain their taxable income (Angahar & Alfred, 2012). Dube (2014) opines that the process of identifying taxpayers and determining tax liabilities becomes very challenging without information. Hence, without information, taxpayers will not know what taxes they are to pay and how the payments of these taxes are to be made.

Mpapale (2014) recognized that "the basis of computing tax liability in any accountable and transparent tax regime is the availability of accounting records without which nobody will ever tell how much is due and when it is due". Thus, without proper business records by the operators of the informal sector, the tax authority will find it nagging to incorporate them into the tax net. Agyei (1984) as cited in Otabil (2015): organized three key factors that contribute to improper record keeping by the informal sector waters: high illiteracy level, insufficient accountants, and high cost of hiring accountants. le (2014) asserts that many operators of the informal sector fail to keep proper siness records due to a number of reasons which include: absence of required knowledge [d skill to keep sensible records; the related cost of maintaining proper records which they nd difficult to sustain; and their deliberate effort to avoid meeting up with their tax (igations because the capacity of the tax authorities to chase tax defaulters is too weak.

On the part of the tax authority, there is lack of accurate database for informal sector operators in Nigeria, thus incorporating them into the tax bracket becomes very cumbersome Angahar & Alfred, 2012). This is perhaps as a result of the enormous size of the sector and the heterogeneous nature of businesses in the sector. For efficient and effective tax administration in the informal sector; there is need to have the location and addresses of its operators. And this could help reduce the level of taxpayers' non-compliance in the sector.

Multiplicity of Taxes

The issue of multiplicity of taxes arises when a particular income/profit is subjected to more than one tax treatment (Izedonmi, 2010). Ifueko (2008) found out that multiple tax practices in Nigeria originated as a result of the nonexistence of a national policy document that defines who has the responsibility to collect tax and what amount to collect by each tier of government. However, this is far from the truth as the Taxes and Levies (Approved List for collection) Decree, 1998 clearly addressed this issue. According to Oboh, Yeye, and Isa (2013), several factors have been recognized as the cause for multiple tax practices in Nigeria among which are: biased revenue allocation formula, declining of State income from federal allocation, unhealthy States rivalries, political patronage, source of compensating 'political god-fathers', absence of political will to put an end to multiple taxation by some States and local governments, inadequate equipping and training of staff of the tax authorities, and greed on the part of the officials of the relevant tax authority.

According to llaboya (2014), different tax authorities at the Federal, State, and Local government level impose different taxes, levies, and fees on informal sector operators. In some cases, same levies (sometimes rebranded) are replicated as a taxpayer moves from one state to another, thus, resulting in multiple taxation. This has negatively affected taxpayers' attitude and compliance towards civic obligations, thus resulting to an increase in tax avoidance and evasion (Oboh et al., 2013). High tax rates alongside with the multiplicity of taxes escalate the cost of carrying out businesses in Nigeria. Thus, in an attempt to survive their tax liability, most businesses tend to understate their reported income thereby increasing the level of tax non-compliance (Okoye et al., 2012).

Low Tax Morale

Tax morale is considered as a key factor in affecting tax compliance behaviour especially in the informal sector. According to Cummings, Martinez-Vazquez, Mckee, and Torgler (2006), tax morale can be described as an inherent motivation to pay tax by taxpayers, where they believed that it is their obligation to pay taxes and see tax payment as compensation to the community. But, where taxpayers now believe that it is not their obligation to pay taxes, such attitude could be described as low tax morale. In other words, low tax morale connotes the lack of motivation or the unwillingness to pay tax by the citizens of a country as a result of government's insensitivity to their yearnings and aspirations.

In developing countries characterized by government insensitivity to the yearnings and aspirations of her citizens, fiscal recklessness, corruption, low standard of living and infrastructural decay, the willingness to pay tax by her citizens is at its lowest ebb (Ilaboya, 2014). Similarly, Okoye et al. (2012) assert that in Nigeria, citizens oppose to the payment of any form of tax on the ground that governments at all levels have been biased in the provision of basic amenities and other public infrastructures.

Gaps in Prior Empirical Studies

The issue of informal sector taxation has attracted the attention of several researchers (Ofori, 2009; Somuah, 2011; Okoye et al., 2012; Pyikison, 2013; Dube, 2014; llaboya, 2014; Ehun, 2015; Ohaka & Zukbee, 2015; Otabil, 2015; Udoh, 2015; Olaitan, 2016) in developing countries over the years, especially due to the need of increased revenue generation by the government. Specifically, Ofori (2009), Somuah (2011), Dube (2014), Ilaboya (2014), Ohaka and Zukbee (2015), Otabil (2015) and Udoh (2015) in their separate works examined the challenges of informal sector taxation in their various localities. However, in these prior studies, it was observed that a large chunk of them used a seemingly small sample size.

For instance, 75 respondents were used by Somuah (2011), 80 respondents (Ilaboya, 2014), 75 respondents (Ohaka & Zukbee, 2015), 200 respondents (Ofori, 2009), as well as Udoh (2015) and Otabil (2015) who used 300 respondents and 397 respondents respectively. Udoh (2015) using a sample size of 300 respondents in assessing the challenges in taxing the informal sector in Akwa Ibom State, stated that although the sample size is negligible, it will form a major parameter for future research. Also, prior Nigerian studies on taxation and the informal sector used a particular state or geo-political zone as their study population as evidenced in Okoye et al. (2012), South-East region; Pyikison (2013), Enugu State; Ilaboya (2014), Edo State; Ohaka and Zukbee (2015), Rivers State; and Udoh (2015), Akwa-lbom State. And their findings were used as generalization of the informal sector in Nigeria. Furthermore, these prior studies were descriptive in nature as they employed tools like simple percentages, sample mean, population mean, graphs, pie charts, mode, and simple mathematical tables.

Thus, these studies fed to take into consideration the causal relationship that exist among the variables under study. For instance, llaboya (2014) carried out a micro study on the challenges of informal sector taxation in Nigeria using sample mean and population mean in analysing the data gathered. He rightly asserted that although the estimation technique used was limited by the level of sophistication, a more sophisticated approach to the determinants of tax non-compliance in the informal sector in Nigeria may be achieved using an econometric model. This study therefore seeks to fill these gaps by taking an inferential approach using an econometric model in analysing the data collected and by employing a larger sample size in investigating the determinants of taxpayers' non-compliance in the informal sector using three geo-political zones.

Review of Theories

This study is underpinned by the following theories: the Legalist Theory (Hernando De Soto, 1989) and the Voluntarist theory (Maloney, 2004).

Legalist Theory

The Legalists see the informal sector as consisting of small entrepreneurs who deliberately decide to function informally so as to avoid government's over-regulation and the cost, time as well as the rigorous processes associated with the formal registration of their businesses and the costs of remaining formal which include tax burden. This theory was popularized by De Soto (1989). According to Dc Soto (as cited in Ofori, 2009), small entrepreneurs will keep operating informally inasmuch as government processes are difficult and expensive.

By this school of thought, the excessive demand imposed on businesses by the government's promulgation of several business laws and regulations is a catalyst to the continuous growth in the informal sector. Often times, these several business laws and regulations by the government lead to multiple taxation and by extension lower the morale of informal sector operators towards compliance to tax payment. Also, some of these laws and regulations are often too complex for the operators of the sector to understand as most of them are not literate. And all these put together increase the rate of taxpayers' noncompliance in the informal sector.

However, the proponents of this theory argue that the government should introduce simplified administrative procedures in order to encourage informal sector businesses to become formalized and by extension become more compliant to tax payment (Chen, 2012). Ilaboya (2014) criticized this theory by asserting that avoiding the rigorous processes and registration cost of formalization cannot be a driving force for informality.

Voluntarist Theory

The Voluntarists see the informal sector to consist of businesspersons who intentionally seek to by-pass government regulations and taxation by not keeping adequate financial records of their businesses as without adequate financial records, determining the accurate level of income made by these businesses and giving a meaningful assessment of tax liability is rendered practically impossible, hence increasing the high rate of taxpayers' non-compliance in the informal sector. Also, the Voluntarists pay fairly slight concern to the economic links between informal sector businesses and formal firms but support the belief that informal businesses create unfair competition for formal firms because they circumvent government regulations, taxes, as well as other production costs. However, the proponents of this school of thought contend that informal sector businesses should be brought within the purview of government regulations so as to raise the tax base as well as minimize the unfair competition to operators of the formal sector. This theory was popularized by Maloney (2004).

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