IMPROVING VOLUNTARY TAX COMPLIANCE WITHIN THE INFORMAL SECTOR

BY

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BEING A PROJECT SUBMITTED TO THE POSTGRADUATE SCHOOL OF AHMADU BELLO UNIVERSITY, ZARIA. IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA)

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FEBRUARY, 2013

DECLARATION

I declare that this research work titled “Improving Voluntary Tax Compliance within the Informal Sector” has been conducted and compiled by me. All quotations, references and materials used have been acknowledged in the references.

_____ _____

PYIKISON, NyikunYunana **Date**

CERTIFICATION

This is to certify that this research work titled "Improving Voluntary Tax Compliance within the Informal Sector" by PYIKISON, NyikunYunana meets the regulations governing the award of the Degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This research work is dedicated to the memory of my beloved father, late Pa Yunana Ahmadu Pyikison who passed on to glory on 13th August, 2011. He sacrificed all to make me what I am today. Daddy, may your gentle soul continue to rest in the bosom of the lord till we meet to part no more.

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To my brothers and sisters and the entire family, thanks for your prayers and support. And to all of you out there who in one way or the other have contributed to make this work a success which time and space will not permit me to mention one after the other, I pray that the lord who sees in the secret will reward every one of you in Jesus name, amen.

ABSTRACT

Taxation is not new in the scene of human existence as it has been part of it all along. However, despite its age long history, its importance and necessity, it has not received the required level of acceptance and compliance. Instead, people tend to avoid the payment of tax if they are not compelled to do so. The trend is worse among operators in the informal sector due to the nature of the sector. This study therefore, considered the ways the government can improve voluntary compliance within the informal sector which has not been properly harnessed or brought under the tax net. Both primary and secondary sources of data were used. The survey method which involves the use of questionnaire was employed to administer questionnaires on owners/entrepreneurs of small and medium scale enterprises in Enugu North Local Government of Enugu State and employees of Federal Inland Revenue Service (FIRS) and State Board of Internal Revenue (SBIR) in the State. Also, the simple percentage and the chi-square qualitative statistical methods were used to analyse the data collected and test the hypotheses formulated. The study found out that the perception of tax payers is that the government is not accountable to them. Moreover, tax payers are not aware of current development in the tax system. To achieve voluntary compliance, the study recommends that there is need to employ tools such as tax payers' education, increased interaction with tax payers, and collaboration with civil society, academia and other stakeholders in the tax system as well as the use of the mass media to promote a deeper tax culture amongst operations in the informal sector. On the whole, accountability on the part of government to the citizenry as well as cultivating a culture of harmony among tax payers and tax collectors by establishing tax payers' friendly environment and policies and appreciating their contributions to national development and progress is pivotal to achieving voluntary compliance in the sector.

TABLE OF ABBREVIATIONS

The following abbreviations are used in the study:

JTB: Joint Tax Board

FIRS: Federal Inland Revenue Service

SBIR: State Board of Internal Revenue

VAT: Value Added Tax

PPT: Petroleum Profit Tax

CITA: Companies Income Tax Act

PITA: Personal Income Tax Act

ITMA: Income Tax Management Act

PAYE: Pay As You Earn

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Tax compliance encompasses all activities necessary to be carried out by the taxpaying public in order to meet the statutory requirement of tax law. This includes preparation of tax returns that must be filed by individuals and/or organisations.

Voluntary tax compliance is a tax system based on tax payers complying with the tax laws without being compelled by the tax authority to do so. Under this system, tax payers are expected to report their income, calculate their tax liabilities and file returns. This is known as self-assessment. Self-assessment is one of the most prominent measures by the tax authority to secure voluntary compliance. It encourages voluntary compliance because of the liberty granted the tax payer which requires him to complete his tax himself, make payments and file return. But, its administration seems to be much easier in the organised (formal) sector. The government should endeavour to extend such taxation in general to the informal sector because it has the potential to contribute significantly to the growth of the economy taking into cognisance the fact that to achieve voluntary compliance, there must be mutual trust between tax payers and tax authority.

1.2 STATEMENT OF THE PROBLEM

The problem of non-compliance is as old as tax itself because it is a known fact that citizens hardly come out to pay their taxes without being compelled to do so. This stems from the fact that the citizenry has no confidence in the government making

judicious use of whatever she realises from taxes. The mistrust on the part of the tax payer and inadequate measures put in place as well as the negligence of the importance of taxation by the government are responsible for the present state of things.

For the informal sector, the problem can be said to be worse due to the fact that the sector can hardly be accounted for because of its nature and mode of transaction. Transactions here are often times not documented because record keeping is not a culture here. Most business transactions in the informal sector are done in cash thereby making it easy for businessmen to conceal taxable profits. However, in tax administration, a very important task is the correct determination of the income of the tax payer so that a meaningful assessment of the tax liability could be made. Without proper record keeping this could not be.

Furthermore, the peculiarity of the sector as well as its representation which gives the true picture of the mind-set of the ordinary Nigerian as regards taxation and government is the attraction in this research work.

1.3 **RESEARCH QUESTIONS**

These questions among others gave rise to the interest of the researcher in carrying out this research work:

i. Is there a high level of non-compliance in the informal sector?
ii. What is the level of accountability on government part with respect to tax proceeds?
iii. What are the measures that can be put in place in order to ensure orderliness in the informal sector?

1.4 OBJECTIVE OF THE STUDY

The primary objective of this research is to determine how the government can improve voluntary tax compliance within the informal sector. This study further seeks to assess:

i. The level of non-compliance in the informal sector.
ii. The level of accountability on the part of the government with respect to tax proceeds.
iii. The relationship between government accountability and proceeds from tax as well as voluntary compliance by the informal sector.

1.5 HYPOTHESIS OF THE STUDY

In line with the objectives of the study, the hypotheses to be tested are as follows:

1. H_0: Accountability on the part of government cannot enhance voluntary compliance within the informal sector.

   H_1: Accountability on the part of government can enhance voluntary compliance within the informal sector.

2. H_0: The unregulated nature of the informal sector is not responsible for the high level of non-compliance within the informal sector.

   H_1: The unregulated nature of the informal sector is responsible for the high level of non-compliance within the informal sector.

1.6 SIGNIFICANCE OF THE STUDY

Due to its wide applicability, the subject matter will be of great importance to the government, the tax administrators, the taxpaying public as well as students. The study will contribute to knowledge and also serve as a reference point to future researches.

1.7 SCOPE OF THE STUDY

This research work will focus mainly on tax compliance within the informal sector in Enugu North Local Government Area of Enugu state. This is because the researcher resides and works here which makes it easy to observe and obtain the necessary data relevant to this research work. Also, the informal sector will be limited to small and medium scale enterprises as well as those individuals doing business on their own. Particular reference will be made to government institutions responsible for tax administration such as the FIRS, SBIR as well as the local government revenue committee.

The period of the study will cover five years from 2007 – 2011. The researcher believes that this is adequate enough to achieve the desired result because it was during this period that the government decided to employ more hands in the tax collection bodies in order to ensure that they can effectively cover the areas to get targeted revenue.

1.8 LIMITATIONS OF THE STUDY

As with most researches, time and funds as well as availability of materials are the major limitations to the researcher. Also respondents are mostly unwilling to answer questions that hinge on the operation of the organisation because according to them the oath of office includes secrecy i.e. non-disclosure of mode of operations besides the fear of being exposed to the tax authorities as most activities here are unknown to the authorities concerned given that they were, by definition, illegal as they were operating there businesses without being registered for tax.

1.9 DEFINITION OF TERMS

The following terms are important in this research work and defined below; tax or taxation, tax compliance, voluntary tax compliance, informal sector, tax evasion and tax avoidance.

i. **Tax:** In its simplest form, it is seen as a compulsory levy imposed by the government for public good. But this research, adopts the term tax to mean, an obligatory levy, exacted by the government on eligible persons, goods or activities for particular purposes which may be expressed or implied in the interest of the nation (Agbonika, 2012).

ii. **Tax Compliance:** Tax compliance is operationally considered as complying with tax laws involving true reporting of the tax base; correct computation of tax liabilities, truly filing of tax returns and timely payment of the amount due as tax. Any behaviour contrary to the above is non-compliance.

iii. **Voluntary Tax Compliance:** This is a tax system based on tax payers complying with the tax laws without being compelled by the tax authority to do so. Under this system, tax payers are expected to report their income, calculate and file their tax returns.

iv. **Informal Sector:** In Nigeria, the informal sector refers to economic activities in all sectors of the economy that are operated outside the purview of government regulation. This sector may be invisible, irregular, parallel, non-structured, backyard, underground, subterranean, unobserved or residual (Magbagbeola, 1996). Informal economic activities in Nigeria encompass a wide range of small-scale, largely self-employment activities. Other financial and economic endeavours which are subsistent in nature include: retail trade, transport, restaurant, repair

services, financial inter-mediation and household or other services (Adamu, 1996). Activities in the informal sector in Nigeria are difficult to measure; they are highly dynamic and contribute substantially to the general growth of the economy and personal or household income.

v. **Tax Evasion:** H.L Bhatia defines tax evasion as an illegal way of avoiding tax liability and further described it as a fraudulent practice. In Bulletin v. Eisconsin, Justice Holmes defined tax evasion as the illegal or fraudulent attempts to escape or avoid the payment of their dues. Ayua I. A. says tax evasion denotes activities, which are responsible for a taxable person not paying the tax which he is under legal duty to pay. The term is also described as any form of fraud, wilful default or neglect to reduce the tax liability or escape the payment of tax altogether. Suffice here to say that this practice is common place in the informal sector.

vi. **Tax avoidance:** Although, tax avoidance and tax planning are used interchangeably, what tax authorities call avoidance is referred to by the taxpayers and their consultants as "planning". Tax planning (avoidance) has been defined as a deliberate arrangement of the taxpayers' financial affairs in such a way as to take advantage of the fiscal opportunities presented by relief provisions and/or loopholes in the tax legislation. It is understood to mean acts by which a person so arranges his affairs in such a way that he is liable to pay less tax than he would have paid but for the arrangement. It is in effect the act of dodging tax without breaking the law. This practice is common among big corporations.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Taxation is the oldest and perhaps the most valuable tool used by nations in raising revenue to provide welfare services for its people. Its origin is as old as the history of organized communal living. From the imposition of income tax in Britain by Pitt to finance the Napoleonic wars, taxation became an established tool in England and its scope widened to cover several activities thereby proliferating the base of taxation.

The British colonialist in Nigeria also realized the necessity of taxation to finance their administration and provide some essential services like building railways, roads, etc to facilitate their utilization of the natives; resources. They therefore devised means of restructuring the native taxation to make it more efficient and acceptable and introduced it forcefully in communities where it was lacking.

This chapter therefore, looks into the works of relevant authors on the subject matter ensuring that the concepts of tax compliance and the informal sector are put in perspective thereby establishing their relationship so as to see how they can be improved upon.

2.2 CONCEPTUAL FRAMEWORK

2.2.1 Concept of Tax

The concept of tax is as old as civilized or organized society. Its importance to the existence of any nation is enormous. Taxation spans over a wide gamut of human activity and is essentially aimed at providing the requisite revenue for the socio-

economic development of a nation or reducing the incidence of inequality in the nation. The importance of taxation to nationhood is aptly captured in the American case of Nicholas v Ames as follows: there is great power upon which the whole national fabric is based. It is as necessary to the existence and prosperity of a nation as is the air he breathes to the natural man. It is not only the power to destroy; it is the power to keep alive (Agbonika J.A.A 2012).

As important as taxation is, it seems to have suffered neglect from successive governments in the country; hence, the need to bring to the fore what the government can do to improve voluntary compliance within the informal sector. Lekan S. and Sunday (2006) see tax as a compulsory extraction of money by a public authority for public purposes while taxation is seen as a system of raising money for the purposes of running a state by means of contribution from individual persons or corporate bodies.
Agbonika J. A. A. (2012) in her piece observed that like most legal concepts, tax or taxation is not subject to a universally accepted definition. Attempts at providing an exclusively doctrinal definition has always been inadequate and consequently left room for improvement. She said the problem is further compounded by the failure to provide a statutory definition of the concept by successive legislatures and legislations. She cited an instance in the case of Shell v FBIR (2004) FWLR pt. 859 pp. 46 in which the Nigerian Supreme Court was presented with the opportunity of giving judicial meaning to the term "tax" and it shielded away from a clear-cut definition but held that tax should be deemed as a debt due to the government. She however opined that the various definitions given should be examined with the aim of identifying the obvious indicators or features of taxation.

Nightingale (1997) described tax as a compulsory contribution imposed by the government and concluded that even though taxpayers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated, healthy and safe society. From the above, we can deduce the following features from the definition of tax: Firstly, it is a compulsory contribution imposed on the citizens by the government. Secondly, tax as a source of income to government is paid by taxpayers and used by the government for the benefit of all citizens. Thirdly, tax is not levied in return for any specific service rendered by the government to the taxpayer. This third feature of tax distinguishes it from some other forms of payment to government which look like tax but are not tax in themselves. Examples of such payments include; fee, license fee, fines and penalties.

A fee is payment to defray the cost of each recurrent service undertaken by the government, primarily in the public interest, but conferring a measurable special advantage on the fee payer. Examples are court fee, registration fee of a property or marriage. A license fee is however different; while the fees mentioned above are paid for some services actually rendered, a license fee is charged by a public authority to grant permission to a person to perform a service. The aim is to exercise state control over certain categories of activities or services. GSM license fee, motor vehicle license fee, broadcasting fee are some of the popular examples of license fees. On the other hand, a fine includes penalties which are imposed not simply to collect revenue but to punish a person for infringement of state laws. Fees, license fees, fines and penalties therefore resemble taxes. What makes them different from tax is because a tax payer cannot claim a benefit from the government that is equivalent to the amount of the tax paid (Nightingale, 1997).

From the various definitions examined above, it is obvious that the author have consistently failed to avert their minds to the other purposes for which taxes are exacted. It is worthy of reiteration that, taxes are exacted for purposes other than supporting the government or raising revenue to meet its expenditure. Such purposes may include, discouraging the activity taxed or bridging the chasm of social inequality (among others). She therefore defined tax to mean, an obligatory levy, exacted by government on eligible persons, goods or activities for particular purposes which may be expressed or implied in the interest of the nation.

a. **Objectives of Tax**

To a layperson, the primary sole object of tax is to raise money for the running of government activities. However, to an economist, a lawyer, and indeed in modern governance, taxation transcends the realization of revenue for the satisfaction of government programmes. Today, taxes have important roles to play especially in any government's economic and social policy. These roles include:

i. **Raising of Money to meet Government Expenditure and Programmes**: The principal object of taxation is to raise sufficient money for government in order to enable it meet its economic and social responsibilities to its citizenry. Government needs money for the provision of services such as education, health defense, administration cost, law and order, building and maintenance of road and sundry social services that will improve the social well being of the people. Money is also used on capital projects such as the export processing zones, various research organizations, in order to guarantee continuous economic and technological growth of the country. The revenue realized from taxation is responsible for the actualization of most of these services by the government.

ii. **Distribution of Wealth**: There are two dimensions to the achievement of this objective. The first approach is the imposition of proportionate tax on the income of tax payers. Here, heavy taxes are imposed on the income of wealthy persons while a tax rate is imposed on the poor. This principle is predicated on the ability to pay i.e. that taxes should be imposed at rates proportionate to the tax payer's income and his ability to pay. The second approach is to impose tax at rates that make the rich to pay more in favour of the poor. This is aimed at reversing the wide gap between the rich and the poor. A good tax system which uses the above approaches, will consequently achieve the result of reducing to some extent the inequality in the society thus ensuring the equitable distribution of wealth.

iii. **Management of the Economy**: Taxation has become an important consideration in the planning of savings and investment and by harmonizing it with development strategy and changing economic structure. The government can also use taxation as a powerful fiscal weapon to plan and direct the economy as well as shaping, directing or redirecting the economic objective of a nation. For example, the provision of a number of allowances, reliefs, incentives and/or bonuses in certain sectors of the economy may boost investment in these sectors while high taxes or tariffs in certain sectors of the economy may scare investment. Taxation can also be used to regulate or discourage some activities in the private sector, which are generally regarded as injurious or harmful and therefore undesirable, such as drinking of alcoholic liquor, smoking of cigarettes, gaming and betting coming within this category.

b. **Characteristics of a Good Tax System**

i. **Equity**: This is divided into two, namely: horizontal and vertical equity. Horizontal equity requires that those with the same income should pay equal amounts of tax

while vertical equity requires that those with different income should pay different tax rates.

ii. **Neutrality**: A tax is neutral if it does not discriminate between different activities in the economy. However, in view of one of the objectives of taxation earlier identified as "the management of the economy", government must not necessarily be neutral if it needs to survey investment in a sector and discourage another or vice versa. For instance, investment in "pioneer industries" enjoy tax relief under the companies Income Tax Act, while the petroleum industries, liquor industries, tobacco industries among others are heavily taxed. This is in line with the principle of management of the economy as one of the objectives of tax.

iii. **Certainty**: The scope of tax, which every person is bound to pay, must be sufficiently clear and certain service taxes cannot be charged arbitrarily. The taxpayer needs to know his tax liability and the entire administration of it.

iv. **Administrative Efficiency**: Trained tax personnel must administer the tax system efficiently. The administration in Nigeria does not comply fully with these cannon. Enormous sums of money are used to consult tax experts or tax consultants at the expense of government revenue. The economy of administrative prudence is completely negative by the practice. For the revenue realized from such taxes is not usually proportionate to the huge sums expended as fees on consultants. These wastes can be avoided by using minimal sums to fully train and equip internal officers of the FIRS or SBIR to carry out such duties usually contracted to tax consultants

These cannon of taxation were first put forward by Adam Smith (1776) in his wealth of Nation. They still stand today as the criteria for judging a good tax system.

c. **Types/Classification of Taxes**

i. **Proportional Tax**: A tax is proportionate when the proportion paid by each tax payer bears the same ratio to the amount to be raised as the value of his property bears to the total taxable income. In other words, it takes a constant proportion of income and so can be said to be a neutral tax. Its aim is to redistribute income from the rich to the poor. A possible effect that it can discourage hard work and thereby become a disincentive.

ii. **Progressive Tax**: Progressive tax is a tax that imposes a higher rate on tax payers as their income increases. The underlying principle behind progressive tax is that persons with high income should pay higher taxes. The objective is to redistribute wealth from the well-to-do to the less-privileged

iii. **Regressive Tax**: In this situation, the rate of tax falls as income rises. Its structure is such that the revenue yield becomes smaller as the value of subject being taxed increases. It is not suitable for a developing economy like Nigeria as it cannot generate the require revenue.

iv. **Earned Income**: By virtue of S.1 of the first schedule of the personal income Tax act, earned income in relation to an individual is defined as income derived by him from trade, business, profession, vacation or employment carried on or exercised by him and the pension derived by him in respect of a previous employment.

v. **Unearned Income**: This is income derived from sources other than trade, business, vocations, employment or any reward for services rendered. Example is dividend, interest, rents etc.

vi. **Direct Tax**: Tax is also classified into direct and indirect taxes. A direct tax is one which is directly imposed and collected from the persons liable to such taxes.

Direct taxes are assessed upon the incomes, property, businesses, etc. of the taxable persons. The persons paying direct taxes are conscious of their existence, assessment and payment. Personal Income Tax, company Income Tax, Petroleum Income tax, and Capital Gains Tax are all examples of direct taxes.

vii. **Indirect Tax**: Indirect taxes on the other hand are demanded and collected from one person with the expectation that such a person will indemnify himself at the expense of another. The persons liable to indirect taxes sometimes pay them without their actual knowledge of its imposition and collection. Taxation on commodities, popularly called Value Added Tax (VAT) is a classical example of indirect tax. Here, the tax is imposed on commodities and paid by the final consumers of such commodities not as taxes per-se but as the market value of such commodities.

2.2.2 **Concept of the Informal Sector**

The informal sector covers a wide range of market activities that combine two groups of different nature. On the one hand, the informal sector is formed by coping behaviour of individuals and families in economic environment where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behaviour of entrepreneurs that desire to escape state regulation. The two types of informal sector activities can be described as follows:

i. Coping strategies (survival activities): casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, multiple holding;

ii. Unofficial earnings strategies (illegality in business): Unofficial business activities; tax evasion, avoidance of labour regulation and other government or institutional

regulations, no registration of company, underground activities; crime, corruption-activities not registered by statistics office.

The informal sector plays an important and controversial role. It provides jobs and reduces unemployment and underemployment, but in many cases the jobs are low-paid with poor job security. It bolsters entrepreneurial activity but at the detriment of state regulation and compliance particularly regarding tax payments. It helps alleviate poverty, but in many cases are low-paid and the job security is poor. 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. Its size and role in the economy increases during economic down turns and periods of economic adjustment and transition.

This concept of the informal sector is credited to Keith Hart (1973) a social anthropologist as the first person to bring the term into academic literature in the third world context during his 1971 study of economic activities among rural migrants in Accra Ghana but was introduced into international usage in 1972 by International Labour Organisation (ILO) in its Kenya Mission Report which defined informality as a "way of doing things characterized by (a) ease of entry; (b) reliance n indigenous resources; (c) family ownership (d) small scale operation (e) labour intensive and adaptive technology; (f) skills acquired outside of the formal sector; (g) unregulated and competitive markets".

Operationalizing the concept of informality for the purpose of measurement is not easy because the two categories of the informal sector overlap and the border between the informal and formal sector is blurry. First, if unofficial earning strategies are exercised

by a low-profit organization small enterprise with low quality working conditions, then workers of this enterprise and the enterprise itself can be classified as belonging to both informal market categories. An example of such a case is an unregistered one-person low profit street trade enterprise - these characteristics combine unofficial and survival activities. Second, some formal market jobs or enterprise can be classified as informal if it is found that they have poor work protection or if the life style and opportunities they entail are considered undesirable. If the street trader from the previous example registers her enterprise, the enterprise and the trader herself could be categorized as belonging to the formal sector if the profit is considered above survival level (ILO, 1972).

The informal sector in Nigeria refers to economic activities in all sectors of the economy that are outside the purview of government regulation. Its activities encompass a wide range of small-scale, largely self-employment activities, most of whom are traditional occupations using traditional methods of production. Others include such financial and economic endeavours of subsistence nature as: retail trade, transport, restaurant and repair services (Adamu, 1996). Activities in this sector are very difficult to measure; although, they contribute substantially to the general growth of the economy and personal or household income.

2.3 DEVELOPMENT OF INCOME TAX IN NIGERIA

As noted earlier, taxation is as old as organized human society. Its evolutionary existence can be traced back to several thousand years ago; perhaps with the development of ancient histories. There are also biblical accounts to support the immemorial existence of taxation as illustrated in the Holy Scripture when the issue

arose in Luke Chapter 20 verse 25 as to whether or not taxes should be paid to Caesar. The answer given was "Give unto Caesar what is Caesar's and to God what is God's".

In Britain, income tax was first introduced in 1799 by Pitt as tax to finance the Napoleonic wars (Ola C.S, 1999). In Nigeria, however, there existed diverse systems of direct taxation amongst some organized ethnic nationalities in the country prior to colonial invasion, especially in the north where there was an organized form of political administration established in consequence of the Islamic Jihad. This political organization was accompanied by an efficient tax regime. There exists a mass of historical and administrative literature on the efficient organization of government and its concomitant system of taxation in northern Nigeria. Johnston (1967) stated in his treatise that: evidence of taxation existed as far back as the 13th century in Kano in the form of land tax. Cattle tax popularly called jangali also existed as far back as 1640. Tax was usually paid in kind or community services until the introduction of cowry shells as currency in the 18th century.

According to Ayua I.A (1996), there were various forms of taxation in Northern Nigeria such as zakat a tax levied on Muslims for charitable, religious and educational purposes; Kudinkasa – an agricultural tax; shukka-shukka, another tax paid on all crops not liable to zakat. There was another called jangali- a cattle tax levied on livestock.

Smith (1976) also chronicled the system of taxation in the northern region of Nigeria between the periods of 1800-1900. According to him, the learned Islamic scholar called Usman Dan Fodio conquered the pagan Hausa states known as banzabokwai

vide a holy war (Jihad) and set an Islamic caliphate which ruled strictly according to Islamic tenets. Accordingly, a sharia system of taxation was introduced in these areas under his control. The taxes in existence then were categorized into: Kharaj Tax: this was a general tax on the farming community, Zakat: this was a form of tax imposed on Muslim for charitable, religious purposes. When this is paid by a non-Muslim, it is known as "kudinkasa". Jangali is a cattle tax on any member of the Muslim community. Taxes were also collected on certain crafts and trades such as dyers, leather, workers, weavers, butchers, blacksmiths, hunters, etc. Caravan tolls were also recognized throughout Africa.

The various accounts by various authors are unanimous on the organized system of taxation that existed in the Muslim communities that were subject to the caliphate and its accompanying sharia, political, legal and economic systems, which made it possible for Lord Lugard who was the then High Commissioner in Northern Nigeria to consolidate the multiplicity of taxes into a single uniform tax. Accordingly, traditional or Islamic taxes were consolidated under the Land Revenue Proclamation of 1904, imposing Personal Income Tax on each community. It is a historical fact, however, that northern Nigeria was the first part of the country that had a codified legislation on taxation (i.e. 1904). No such legislation existed in other part of Nigeria until the amalgamation of the Northern Province with the colony and protectorate in 1914.

Even as these developments were unfolding in the northern part of the country, in some organized ethnic nationalities in the South (south west) methods that could be well described as taxation were in place (employed) e.g. tributes, levies, and tariffs which were not necessarily paid in cash, with the exception of the egalitarian communities in

the South East where taxation was unknown basically because there was no recognized head to levy or collect taxes. The folks in this part of the country (East), especially the Igbos had no developed traditional system of ruler ship where experimental attempts to arbitrarily impose tax by the Europeans invaders and their native collaborators met a stiff resistance from the natives. An instance is the Aba women riot of 1929. Although, there are records of communal tributes in terms of obligatory personal services performed by age grades for instance: communal clearing of footpaths, digging of wells etc., these were basically communal efforts for the wellbeing of all as distinguished from varieties of taxes levied and collected by chiefs, or headmen in the northern and western parts of the country (Agbonika, J.A.A. 2012).

It is worthy to note here that, before the coming of the Europeans, the level of compliance was high as the Natives paid their taxes cheerfully knowing that they were contributing to the well-being of one another and not to an alien or foreign domination. The period 1940- 1958 which is termed or considered the period of unification (Agbonika, 2012) of the various ordinances that regulated taxation in the regions such as the Native Revenue Ordinance of 1917, Native Revenue (Amendment) Ordinance of 1927 that saw the eventual introduction of taxation in Eastern Nigeria and expectedly sparked off serious uprising in fierce resistance to tax as evident by the famous Aba women riot of 1929 which resulted in serious loss of lives and property were unified under two major legislations; the income tax ordinance of 1940 which applied to expatriates and Nigerians living in the township of Lagos and the direct taxation ordinance No. 4 of 1940 which applied to all Nigerians except those in the township of Lagos. These were the first legislations that covered the entire country thereby consolidating the previous tax legislations.

The Income Tax Ordinance, as well as the implementation of the recommendation of the Raiman Committee of 1958 which gained constitutional recognition in 1960, gave birth to the eventual enactment of the Income Tax Management Act (ITMA) in 1961. It is worthy to note here that it was the Income Tax Management Act of 1961 that provided for the definition of taxable income and the basis of charge, the period of assessment, list of allowable deductions, the treatment of dividends etc. the Act was applicable to only individuals and after its enactment, all regional tax laws in existence3 were amended in conformity with it (ITMA).

The political development of the 1960s and 1970s saw the military at the helm of affairs. These development further necessitated changes in our tax system. The year 1993 was a milestone in the history of taxation in the country as a major tax legislation was promulgated (enacted) known as the Personal Income Tax decree which is the extant legislation on taxation as adopted by the Federal Government in 2004. This culminated in the amendment of PITA as reflected in the Personal Income Tax (Amendment) Act, 2011.

2.4 **PROBLEMS WITH TAX ADMINISTRATION IN NIGERIA**

The Nigeria tax administration has over the years faced serious challenges. These challenges are complex and multidimensional. They can be viewed from two major perspectives:

i. The system as a whole which comprised the government, the people(taxpayers) and the society and

ii. The tax machinery i.e. tax collecting agencies or authorities which include; the FIRS at the federal level, the SBIR at the state level and the local government revenue committees at the grass root level.

The problems with the system range from government's neglect of taxation(tax system) due to its over reliance on oil revenue, inadequate tax laws, absence of proper conceptualization of taxation, illiteracy, apathy on the part of not only the uneducated but also the educated, the problem of involuntary compliance, lack of financial discipline i.e. corruption, lack of tax incentives, tax evasion and avoidance, poor record management, problem of double taxation, structural problems in the economy i.e. the predominance of the informal sector, taxpayers orientation among others.

Taxation, being one of the oldest governmental activities since the country's unification in 1914, one would expect that tax statistics and the enabling laws should be readily available. This expectation is however misplaced because the politics of revenue allocation in Nigeria does not prioritise tax efforts. It is instead anchored on such factors as equity of states, population, land mass and terrain, social development and internal revenue efforts. This syndrome of national cake sharing discourages proactive revenue drive particularly for internally generated revenue as all government tiers heavily rely on unstable oil revenue which are affected by the volatility of international markets.

This shift of attention from internally generated revenue (taxation) has affected in no small measure the administration of taxation in Nigeria as it limits government resourcefulness and imagination in searching for alternative sources of revenue. This

has also made the government to be unaccountable to its citizenry as it sees little or no need for accountability to its citizens, since the revenue are being raised without their active participation. This attitude in turn affects the tax payers who feel that there is no need to pay taxes to a government that is not accountable. Therefore, the bane in the country's tax administration problem can largely be ascribed to the effect of "resource curse" and the attitude of our leaders, corruption, non-accountability and lack of the required drive to ensure that the proper tax system is put in place, although some form of progress has been made in recent times.

The problems associated with the tax machinery include; inadequate staff strength, corruption on the part of some tax officials, unfriendly approach i.e. a culture of coercion instead of appeal which breeds hatred and enmity between tax officials and taxpayers, lack of capacity building/training needed to execute their task effectively and efficiently, poor nature of data collection and management etc. it is reassuring to know that efforts are being made by the present administration to ensure that our tax system is brought into step with best practices obtainable in other climes.

2.5 **THEORETICAL FRAMEWORK**

The informal sector in Nigeria accounts for over 50% due to the high rate of unemployment in the country and the harsh economic conditions among other obvious reasons such as the desire to escape state regulation. Quite a few theories have been developed on how to handle tax compliance in the sector. But first, let get to know what tax compliance is.

According to Brown and Mazur (2003), tax compliance is a multifaceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance. Organisation for Economic Cooperation and Development (2001) advocates divided compliance into categories in considering definition of tax compliance. These categories are administrative compliance and technical compliance where the former refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the latter refers to complying with the technical requirements of the tax laws in calculating taxes or the provision of the tax laws in paying the share of the tax.

Taxpayers and tax collectors view taxcompliance as simply adhering to the tax laws which are different from one country to another. In our system, tax compliance means tax payers' complying with their obligations under the tax laws that is to "act as required by the law". Tax compliance is manifested in the following:

i. On time registration
ii. On time filing of tax returns
iii. Honest and full disclosure of tax liability
iv. On time payment of tax due

Any tax payer who fails in any of the specific obligations listed above is considered to be non-compliant.

The characteristics of the informal sector pointed out earlier obviously means that an extra and a more determined effort is needed from the tax authority and indeed the government in order to achieve tax compliance in this sector as most of their activities

are largely unregistered, inadequate or lack of proper record keeping as most transactions are undertaken on cash basis. In explaining tax payers' compliance behaviour that is, the reasons why tax payers comply or do not comply, Trivedi&Shehata (2005) identified two broad classes of theories; economic based theories which emphasise incentives and psychology based theories which emphasises attitude.

2.5.1 **Economic Theory**

The economic theory of tax compliance is also referred to as the deterrence theory. Trivedi and Shehata (2005) referred to earlier noted that economic theory suggest that tax payers "play the audit lottery" i.e. they make calculation of the economic consequences of different compliant alternatives, such as whether or not to evade tax, the probability of detection and consequences thereof and choose the alternative which maximizes their expected after tax return/profit (possibly after adjustment for the desired level of risk).

The theory suggests that tax payers are amoral utility maximizers; hence, the theory emphasises increased audit and penalties as a solution to compliance problem. Economic based studies suggest that tax payers' behaviour is usually influenced by economic motives such as profit maximization, probability of detection, underreporting of business income of businesses operating in the informal economy among other factors (Erard, H. 2002; Cobham, 2005).

2.5.2 **Psychology Theory**

Psychological theories of tax compliance assume that psychological factors including moral and ethical concerns are also important to tax payers and so tax payers may

comply even where the risk of audit is low. Psychology theories de-emphasize audits and penalties and instead focus on changing individual tax payers' attitude towards the tax system.

Trivedi and Shehata (2005) concluded that some tax payers' behaviour may follow economic theory while others may follow the psychology theory and a mixture of both is also possible. The researcher however, recommends the adoption of the psychology theory for the country or rather particular attention should be paid to the psychology theories because what the country needs is a change in our value system and this change should be from top down.

2.6 **EMPIRICAL FRAMEWORK**

Empirical evidence on the ground shows that tax non-compliance is not peculiar to Nigerian tax payers alone. Studies carried out by researchers in other climes indicate that government and stakeholders in these countries are battling hard to see that the menace of involuntary or non-compliance is removed or reduced to the barest minimum. This trend may not be unconnected with the high level of unemployment, poverty, poor tax administration system and the feeling among tax payers that the government is not living up to its bidding (non-accountability on its part). Although, evidence on ground shows that there has been hostility between the tax payers and the collectors on issues relating to compliance. Hostility towards compliance dates back to the history of taxation".

Taxes are considered a problem by everyone as studies have shown that taxation problems date back to the earliest recorded history. According to Organisation for

Economic Cooperation and Developmentreport on tax (2001), during the Roman Empire, in 60AD, Boadicea Queen of East Anglia led a revolt that can be attributed to corrupt and arbitrary tax policies. In Great Britain, the cause of the 100 Year War (1337-1453) between England and France which was further renewed in 1369 by among other key factors, was the rebellion of the nobles of Aquitaine over the oppressive tax policies of Edward, the Black Prince and in Post - Revolution America, Tax Act of 1864 was challenged several times.

Hostile tax behaviour and a feeling of non-satisfaction with the way things are being done will imply that given a chance, taxpayers would not comply with tax laws. Perhaps, understanding the taxpayers behaviour in terms of factors that influence their attitude towards compliance and how to influence the very factors would put the government and the tax authority in a better position to tackle the non-compliance problem i.e. would be a solution to the non-compliance problem.

Studies carried out in Kenya, South Africa, Tanzania as well as India all exhibit or possess similar characteristics of the informal sector and its prevalent high rate of non-compliance (Mbiliyi, 2010). With careful study and diligent measures put in place by some of these countries, they are gradually surmounting the problem. Studies carried out with respect to the economies of these countries, linked voluntary compliance with accountability. They identified the perception of the citizens on the merit of paying taxes in general as one fundamental thing in trying to broaden the tax base through the informal sector. They observed that voluntary tax compliance increases as people's faith in what the government is doing with taxes increases. That implies that voluntary tax compliance is necessary to persuade the informal sector potential tax payers in

order to enable them to be identified. This view was corroborated by a primer guide from the World Bank which states that "successful broadening of tax to the informal sector activities requires paying attention to government accountability, since the culture of compliance depends on tax morale i.e. the extent to which the citizens trust the state" (Mbiliyi, 2010).

Furthermore, Mbiliyi went further to say that one may wonder why the discussion of informal sector taxation goes as far as touching governance and other issues such as transparency, accountability, fiscal policies such as budget and state management of the economy. The reason according to him is that in principle tax links a state and its citizens. Once the state is run by 'citizens' taxes, it has to be accountable for them and use the revenue collected from taxation to provide public services such as education, health, roads, safety, etc. On the contrary if the government is run from other sources like aid or foreign grant or wealth from mineral deposit, that link is lost. This statement is not far from the truth in our own situation as it may well be what has necessitated the neglect of informal sector taxation and taxation in general among other factors in Nigeria.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter highlights the method of data collection for the study, the population, the sample size as well as the sampling technique used in drawing the sample size from the population. Finally, it shows the method employed in analysing the data collected.

3.2 RESEARCH DESIGN

Research design refers to the structure of an enquiry. Yere (2012) observed that a research design is a procedural plan that is adopted by the researcher to answer questions vividly, objectively, accurately and economically. A research design is the plan, structure and strategy of investigation that guide the collection and analysis of data in any research. The structure of the research is the guiding model to be followed by the investigator while the strategy includes the methods to be used to gather and analyse data.

This research work makes use of the survey research method, although, elements of the other methods can also be found due to the nature of the area of study. The primary and the secondary sources of data such as questionnaires, interviews and written documents of materials were used. The data will be analysed, via the use of distribution tables, simple percentages and the chi-square. These methods were used because they are believed to be most appropriate for a research of this nature.

3.3 POPULATION SAMPLE SIZE OF THE STUDY

The population consists of owners/entrepreneurs of small and medium scale enterprises as well as the employees of FIRS and SBIR. This consists of 280 small and medium scale enterprises, 100 employeesof FIRS and 70 employees of SBIR respectively. Due to the nature of the research, more emphasis was placed on the owners of small and medium scale enterprises; hence, the ratio 28: 10: 7 respectively was used to distribute the population among them.

The population sample of the study was randomly selected from the owners of small and medium scale enterprises. The sampling technique employed was the random sampling technique. The questionnaire administered to owners of small scale enterprises, employees of FIRS and SBIR was in the order of 51, 18 and 13 totalling 82. The formula used to arrive at the sample size by the researcher is hereby shown below:

$$n = \frac{N}{1 + N\,(r)^2}$$

Source: Israel, G. D. (1992)

Where:

n = is the sample size

N = is the population size

r = is the coefficient of confidence of margin error

$$n = \frac{450}{1 + 450\,(0.1)^2}$$

$$n = \frac{450}{5.5}$$

$$n = 81.81 \approx 82$$

Thus, the sample size used for this study is 82. The same ratio of 28:10:7 applied on the population of the study was also used to divide the calculated sample size among the various components of the population. Thus, we arrive at 51, 18 and 13 respectively.

3.4 SOURCES OF DATA

The sources of data collection used in this study are the primary and the secondary sources. The primary data involved the use of questionnaire and interview while the secondary source was through the use of documented or written materials. This contributed immensely in making the research work very rich as the information gotten from these two sources helped to checkmate bias by either confirming or contradicting themselves.

3.5 METHOD OF DATA COLLECTION

The peculiarity of the informal sector and lack of reliable data on the sector necessitated some level of innovation to improve the prospect of participation. Methods or strategies used are as follow:

i. **Field Work**: This method was base on respect and trust. With the help of friends and colleagues who are familiar with the respondents, the researcher was confident

as it enabled respondents to feel more confident about participation in the study without fear that they would suffer sanctions besides they were meant to understand that the aim is to see how government can encourage them /improve the situation.

ii. **Snowballing or Referral Technique**: This was used i.e. employed to obtain further respondents. This was built on the confidence of previous respondents who by virtue of their participation were content to provide referrals to other informal SMEs with whom they are trading as suppliers or customers and /or who they know by virtue of social relationship or proximal locations.

iii. **Confidentially**: Finally, strong confidentiality agreement or parameters such as not asking respondents to write their name on the questionnaire they collect to answer was established and provided to respondents that assured them that their participation would in no way compromise them and their enterprise.

3.6 METHOD OF DATA ANALYSIS

Information extracted from the questionnaire administered are presented in the form of frequency distribution tables, while the analysis and interpretation will be carried out through the use of simple percentages and the hypothesis tested via the use of the chi-square qualitative statistical technique.

$$\text{Percentage formular} = \frac{\text{Frequency} \times 100}{\text{(Sample Size) Questionnaire answered and Returned}}$$

$$\text{Chi-square formular} = X^2 = \frac{\Sigma (F_0 - F_e)^2}{F_e}$$

Where:

Σ = Summation of all variables

F_o = Observed frequencies

F_e = Expected frequencies

Source: Murray R. Spiegel & Larry J. Stephens (2000)

3.7 JUSTIFICATION OF METHODS USED

Both the methods and strategies used are considered justifiable considering the nature of the informal sector such as the survey research method which involves the use of questionnaires, the simple percentage method as well as the chi-square method which were used to analyse the data collected as well as test the hypotheses as formulated in chapter one of this research.

Furthermore, the use of field workers or volunteers is appropriate because it gave respondents a high level of confidence and trust in the study which encouraged more participation.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

The data collected through the administration of the questionnaire are presented and analysed while the hypothesis as formulated in chapter one of this study are tested here. Also, discussion of the findings based on the result of the test of hypothesis is given in this chapter.

4.2 Presentation and Analysis of Data

A total of eighty two 82 questionnaire were administered to owners of small scale enterprises, employees of FIRS and SBIR in the proportion of 51, 18 and 13 in order to ascertain the tax compliance level in Enugu Local Government Area of Enugu State. Out of the questionnaire administered, only seventy six (76) were duly completed and returned in the order 48, 16 and 12 respectively. Thus, the presentation as well as analysis of data shall be based on the questionnaires returned.

4.2.1 Owners of Small Scale Enterprises

Table 4.1: Sex Distribution of Respondents

Options	Frequency	Percentage (%)
Male	29	60
Female	19	40
Total	48	100

Source: Field Survey, 2013

Table 4.1 shows that 29 i.e. 60% of total respondents are male while the remaining 19 i.e. 40% of total respondents are female. This shows that most of the respondents are male. This is due to the fact that it is the more customary for the male to own and operate small scale enterprises in this area.

Table 4.2: Age Distribution of Respondents

Options	Frequency	Percentage (%)
18 – 28 years	6	13
29 – 39 years	34	71
40 – 50 years	4	8
51 years and above	4	8
Total	48	100

Source: Field Survey, 2013

Table 4.2 shows that 6 representing 13% of total respondents are between the ages of 18 - 28 years, 34 representing 71% of total respondents are between 29 – 39 years, 4 representing 8% of total respondents are between 40 – 50 years while the remaining 4 representing 8% of total respondents are 51 years and above. This shows that most of these businesses are operated and owned by people between the ages of 29-39 years as seen in by the 71% of the total respondents falling within this age category.

Table 4.3: Highest Academic Qualification of Respondents

Options	Frequency	Percentage (%)
WAEC/GCE	38	79
Undergraduate	6	13
HND/B.Sc.	4	8
MBA/M.Sc.	0	0
Ph.D.	0	0
Total	48	100

Source: Field Survey, 2013

Table 4.3 shows that 38 i.e. 79% of total respondents are holders of WAEC/GCE certificates as their highest academic qualification, 6 i.e. 13% of total respondents are undergraduates while the remaining 4 representing 8% of total respondents are HND/B.Sc. holders. None of the respondents are neither MBA/M.Sc. nor Ph.D. holders. This shows that most of the owners of small scale enterprises in the study area are averagely educated, a factor which strongly contributes to their level of tax awareness and compliance.

Table 4.4: Period of Business Operation

Options	Frequency	Percentage (%)
Less than 5 years	0	0
5 - 10 years	15	31
More than 10 years	33	69
Total	48	100

Source: Field Survey, 2013

Table 4.4 shows that 15 representing 31% of total respondents have been operating their business between 5 and 10 years while the remaining 33 representing 69% of total respondents who are in the majority have been operating for more than 10 years. None of the respondents have been operating for less than 5 years. This shows that most of the small scale owners are old-timers and ought to have known about the importance of tax compliance.

Table 4.5: Possession of Taxpayers Identification Number (TIN)

Options	Frequency	Percentage (%)
Yes	13	27
No	35	73
Total	48	100

Source: Field Survey, 2013

Table 4.5 shows that 13 representing 27% of total respondents said that they have a Taxpayers Identification Number (TIN), while the remaining 35 representing 73% of total respondents said they do not have a Taxpayers Identification Number (TIN) as indicated in their responses. This shows that majority of the owners of small scale enterprises are yet to duly register their business enterprises.

Table 4.6: Assessment of Business by Tax Officials

Options	Frequency	Percentage (%)
Yes	11	23
No	37	77
Total	48	100

Source: Field Survey, 2013

Table 4.6 shows that 11 representing 23% of total respondents said that their businesses have been assessed by tax officials while the remaining 37 representing 77% of total respondents said that their business enterprises are yet to be assessed by tax officials. This shows that majority of businesses in the study area, are yet to be assessed by tax officials.

Table 4.7: Filing of Tax Returns by Business Owners

Options	Frequency	Percentage (%)
Yes	10	21
No	38	79
Total	48	100

Source: Field Survey, 2013

Table 4.7 shows that 10 representing 21% of total respondents said that they usually file tax returns to tax authorities while the remaining 38 representing 79% of total respondents saidthey do not file tax return. This shows that most of the respondents are not conducting a self-assessment on themselves thus their inability to file the appropriate tax returns.

Table 4.8: Justification for the Payment of Tax by Business Operators

Options	Frequency	Percentage (%)
To enhance the provision of basic infrastructures	41	85
To help the government to manage the economy better	7	15
Total	48	100

Source: Field survey, 2013

Table 4.8 shows that 41 respondents representing 85% of the total said that the provision of basic infrastructures by the government is the major reason why business operations should pay tax while the remaining 7 respondents representing 15% of the total believe that business operators should pay tax in order to help government to manage the economy better. This shows that the major reason based on the respondents is to aid the provision of basic infrastructures such as good roads, electricity, health care facilities, and drinkable water.

Table 4.9: Identification with a Business Association

Options	Frequency	Percentage (%)
Yes	19	40
No	29	60
Total	48	100

Source: Field Survey, 2013

Table 4.9 shows that 19 representing 40% of total respondents said that they have joined a business association while the remaining 29 representing 60% of total respondents do not belong to any business association. This shows that most of the owners of small scale enterprises in the state do not belong to any business association which is a strong reason why most of them have not registered their businesses, thus the low level of tax compliance.

Table 4.10: Awareness of the Civil Obligation of Tax Payment

Options	Frequency	Percentage (%)
Yes	22	46
No	26	54
Total	48	100

Source: Field Survey, 2013

Table 4.10 shows that 22 representing 46% of total respondents said that they are aware of the civil obligation of tax payment, while the remaining 26 representing 54% of total respondents who are in the majority do not have such awareness. This may be one of the reasons for the poor level of business registration and tax compliance.

Table 4.11: Whether the Obligation is being fulfilled

Options	Frequency	Percentage (%)
Yes	12	25
No	36	75
Total	48	100

Source: Field Survey, 2013

Table 4.11 shows that 12 representing 25% of total respondents said that they do fulfil their tax obligation, while the remaining 36 representing 75% of total respondents do not fulfil their tax obligation. This shows that most owners of small scale enterprises do not pay their tax at all, because even some of them who have registered their business enterprises are defaulters.

Table 4.12: Reasons for not Fulfilling Civil Obligation of Tax Payment

Options	Frequency	Percentage (%)
Ignorance	7	15
Poverty	17	35
Lack of accountability on the part of government	24	50
Total	48	100

Source: Field Survey, 2013

Table 4.12 shows that 7 representing 15% of total respondents assert that their non-compliance is due to ignorance, 17 representing 35% of total respondents assert that their non-compliance is due to poverty while the remaining 24 representing 50% of total respondents assert that their non-compliance is due to lack of accountability on the part of government. This shows that most of the respondents do not fulfil their obligation because they believe that the government is not making judicious use of the tax collected.

Table 4.13: Awareness of the Consequences of Non-Compliance of Tax Payment

Options	Frequency	Percentage (%)
Yes	16	33
No	32	67
Total	48	100

Source: Field Survey, 2013

Table 4.13 shows that 16 representing 33% of total respondents said that they are aware of the consequences of non-compliance to tax payment while the remaining 32 representing 67% of total respondents said they are not aware of any consequence of non-compliance. This shows that indeed most of the respondents are not aware of current developments in the payment of tax as well as the consequences of non-compliance.

Table 4.14: Issuance of Receipt to Customers

Options	Frequency	Percentage (%)
Yes	15	31
No	33	69
Total	48	100

Source: Field Survey, 2013

Table 4.14 shows that 15 representing 31% of total respondents said that they usually issue receipt to customers while the remaining 33 representing 69% of total respondents said no to this question. This shows that most of the respondents do not keep tab with the income flow from their businesses.

Table 4.15: Keeping of Proper Books of Account

Options	Frequency	Percentage (%)
Yes	13	27
No	35	73
Total	48	100

Source: Field Survey, 2013

Table 4.15 shows that 13 representing 27% of total respondents assert that they normally keep proper books of account while the remaining 35 representing 73% of total respondents affirm that they do not keep the proper books of account. This shows that most of the respondents do not keep the proper books of account.

Table 4.16: Non-Judicious use of Tax Proceeds by Government

Options	Frequency	Percentage (%)
Yes	40	83
No	8	17
Total	48	100

Source: Field Survey, 2013

Table 4.16 shows that 40 representing 83% of total respondents said that the government is not making judicious use of the proceeds from tax while the remaining 8 representing 17% of total respondents disagree with this statement. This shows that most of the respondents believe that the government is not making judicious use of the proceeds from tax.

Table 4.17: Possible Ways of Government Assistance to ensure Tax Compliance

Options	Frequency	Percentage (%)
By simplifying tax laws	5	10
By making payment procedure easier	9	19
By adequately educating tax payers	15	31
By making judicious use of tax proceeds	19	40
Total	48	100

Source: Field Survey, 2013

Table 4.17 shows that 5 representing 10% of total respondents said that the best way in which government can assist to ensure tax compliance is by simplifying tax laws, 9 representing 19% of total respondents said it is by making payment procedure easier, 15 representing 31% of total respondents say it is by adequately educating tax payers while the remaining 19 representing 40% of total respondents said it is by making judicious use of tax proceeds.

4.2.2 **Responses from Tax Authorities**

Table 4.18: Sex Distribution of Respondents

OPTIONS	FIRS	SBIR	TOTAL	%
Male	9	8	17	61
Female	7	4	11	39
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.18shows that 17 representing 61% of total respondents are male while the remaining 11 representing 39% of total respondents are female.

Table 4.19: Age Distribution of Respondents

OPTIONS	FIRS	SBIR	TOTAL	%
20 – 30 years	3	0	3	11
31 – 40 years	8	3	11	39
41 – 50 years	5	9	14	50
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.19 shows that 3 representing 11% of the respondents are from 20 – 30 years of age, 11 representing 39% of total respondents are from 31 – 40 years while the remaining 14 representing 50% of total respondents are 41 – 50 years of age. This shows that most of the respondents are of age and therefore more mature in their outlook to life.

Table 4.20: Highest Academic Qualification of Respondents

OPTIONS	FIRS	SBIR	TOTAL	%
WAEC/GCE	2	1	3	11
OND/NCE	3	3	6	21
HND/B.Sc.	9	7	16	57
MBA/M.Sc.	0	1	1	4
Ph.D.	2	0	2	7
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.20 shows that 3 representing 11% of total respondents have WAEC/GCE as their highest academic qualification, 6 representing 21% of total respondents have OND/NCE as their highest academic qualification, 16 representing 57% of total respondents have HND/B.Sc. as their highest academic qualification, 1 representing 4% of total respondents have MBA/M.Sc. as their highest academic qualification while the remaining 2 representing 7% of total respondents have Ph.D. as their highest academic qualification. This shows that most of the respondents are predominantly HND/B.Sc. holders, thus showing that the parastatals have a crop of highly educated personnel.

Table 4.21: Level of Non-Compliance to Payment of Tax

OPTIONS	FIRS	SBIR	TOTAL	%
Yes	12	11	23	82
No	4	1	5	18
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.21 shows that 23 representing 82% of total respondents agree that the level of non-compliance to tax payment is very high while the remaining 5 representing 18% of total respondents who are in the minority do not agree with this assertion. This shows that indeed the level of non-compliance to the payment of tax is quite high.

Table 4.22: Factors Responsible for Non-Compliance

OPTIONS	FIRS	SBIR	TOTAL	%
Not keeping proper books of account	9	7	16	57
Ignorance	5	3	8	29
Unwillingness to part with money	2	2	4	14
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.22shows that 16 representing 57% of total respondents assert that non-keeping of proper books of account is responsible for the high level of non-compliance, 8 representing 29% of total respondents said it is ignorance while the remaining 4

representing 14% of total respondents believe that it is due to the unwillingness to part with money on the part of the eligible tax payers.

Table 4.23: Government Judicious use of Tax Proceeds

OPTIONS	FIRS	SBIR	TOTAL	%
Yes	11	9	20	71
No	5	3	8	29
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.23 shows that 20 representing 71% of the respondents agree that the government makes judicious use of tax proceeds while the remaining 8 representing 29% of total respondents who are in the minority do not agree with this assertion. This shows that the government is quite mindful of what it uses the tax proceeds to do.

Table 4.24: Voluntary Compliance of Tax Payers

OPTIONS	FIRS	SBIR	TOTAL	%
Yes	4	2	6	21
No	12	10	22	79
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.24 shows that 6 representing 21% of total respondents assert that tax payers voluntarily comply with the law while the remaining 22 representing 79% of total

respondents do not agree with this assertion. This shows that indeed most tax payers do not comply voluntarily with the payment of tax.

Table 4.25: Government Assistance to ensure Tax Compliance

OPTIONS	FIRS	SBIR	TOTAL	%
By simplifying tax laws	2	1	3	11
By encouraging business owners to belong to business associations	2	4	6	21
By adequately educating tax payers	7	4	11	39
By ensuring the effectiveness of E-payment	5	3	8	29
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.25 shows that 3 representing 11% of total respondents assert that the only way that government can help to ensure tax compliance is by simplifying the tax laws, 6 representing 21% of total respondents assert that it is by encouraging business owners to belong to business associations, 11 representing 39% of total respondents say it is by adequately educating tax payers while the remaining 8 representing 29% of total respondents said it is by ensuring the effectiveness of E-payment. This shows that adequately educating tax payers is most favoured among the various opinions because it has the highest percentage of respondents.

Table 4.26: Whether Activities in the Informal Sector are regulated

OPTIONS	FIRS	SBIR	TOTAL	%
Yes	5	3	8	29
No	11	9	20	71
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.26 shows that 8 representing 29% of total respondents assert that activities in the informal sector are regulated while the remaining 20 representing 71% of total respondents believe that activities in the informal sector are unregulated. This shows that activities in the sector are highly unregulated as most of the respondents attest to this fact.

Table 4.27: Bringing the Informal Sector under the Tax Net

OPTIONS	FIRS	SBIR	TOTAL	%
By ensuring transparency and accountability	3	2	5	18
By promoting an atmosphere of trust	5	4	9	32
By ensuring a sustained public education	8	6	14	50
Total	16	12	28	100

Source: Field Survey, 2013

Table 4.27 shows that 5 representing 18% of total respondents believe that the best way to bring the informal sector under the tax net is by ensuring transparency and accountability of tax proceeds, 9 representing 32% of total respondents say it is by promoting an atmosphere of trust while the remaining 14 representing 50% of total

respondents say it is by ensuring a sustained public education. This shows that the best way to bring informal sector under the tax net is by ensuring a sustained public education as attested to by majority of the respondents.

4.3 **Test of Hypotheses**

4.3.1 **Hypothesis One**

The hypothesis as postulated in chapter one of this work will be tested here through the use of the chi-square (X^2) method of quantitative analysis. The hypothesis to be tested is hereby stated below:

H_0: Accountability on the part of government cannot enhance voluntary compliance within the informal sector

H_1: Accountability on the part of government can enhance voluntary compliance within the informal sector

In order to have a comprehensive standard for the test of this hypothesis, the researcher decided to pick questions 7 and 16 in tables 7 and 16 respectively.

Table 4.28 Table of Observed Frequencies

Options	**Table 4.7**	**Table 4.16**	**Total**
Yes	10	40	50
No	38	8	46
Total	48	48	96

Source: Field Survey, 2013

The computed value for the expected frequency (Fe) for the "Yes" option is:

$\frac{48}{96} \times 50 = 25$

The computed value for the expected frequency (Fe) for the "No" option is:

$\frac{48}{96} \times 46 = 23$

Hence, our degree of freedom is calculated as follows:

Degree of freedom = df = (r – 1) (c – 1)

Where: r = row and c = column.

Therefore, df = (2-1) (2-1)

= (1) (1)

= 1

The chi-square formula to be used is:

$$X^2 = \Sigma \frac{(F_0 - F_e)^2}{F_e}$$

Where:

Σ = Summation of all variables

F_o = Observed frequencies

F_e = Expected frequencies

Table 4.29 CHI-SQUARE CALCULATION TABLE

Fo	**Fe**	**Fo – Fe**	**$(Fo-Fe)^2$**	**$(Fo-Fe)^2/Fe$**
10	25	-15	225	9.000
38	23	15	225	9.783
40	25	15	225	9.000
8	23	-15	225	9.783
			χ^2 =	37.566

Source: Field Survey, 2013

DECISION RULE

The calculated (χ^2) is 37.57 while the tabulated (χ^2) at 1 degree of freedom is 3.84. Since the calculated value is greater than the tabulated value, we therefore, accept the alternate hypothesis which states that accountability on the part of government can enhance voluntary compliance within the informal sector and reject the null hypothesis

which states that accountability on the part of the government cannot enhance voluntary compliance within the informal sector.

4.3.2 **Hypothesis Two**

The hypothesis to be tested is hereby stated below:

H_0: The unregulated nature of the informal sector is not responsible for the high level of non-compliance within the informal sector

H_1: The unregulated nature of the informal sector is responsible for the high level of non-compliance within the informal sector

In order to have a comprehensive standard for the test of this hypothesis, the researcher decided to pick questions 4 in table 4.21 and questions 9 in tables 4.26 respectively.

Table 4.30 Table of Observed Frequencies

Options	**Table 4.21**	**Table 4.26**	**Total**
Yes	24	8	32
No	4	20	24
Total	28	28	56

Source: Field Survey, 2013

The computed value for the expected frequency (Fe) for the "Yes" option is:

$$\frac{28}{56} \times 32 = 16$$

The computed value for the expected frequency (Fe) for the "No" option is:

$$\frac{28}{56} \quad x \quad 24 \quad = 12$$

Hence, our degree of freedom is calculated as thus:

Degree of freedom = df = (r – 1) (c – 1)

Where: r = row and c = column.

Therefore, df = (2-1) (2-1)

= (1) (1)

= 1

The chi-square formula to be used is:

$$X^2 = \Sigma \frac{(F_0 - F_e)^2}{F_e}$$

Where:

Σ = Summation of all variables

F_o = Observed frequencies

F_e = Expected frequencies

Table 4.31 CHI-SQUARE CALCULATION TABLE

Fo	**Fe**	**Fo – Fe**	**$(Fo-Fe)^2$**	**$(Fo-Fe)^2/Fe$**
24	16	8	64	4
4	12	-8	64	5.33
8	16	-8	64	4
20	12	8	64	5.33
			χ^2 =	18.67

Source: Field Survey, 2013

DECISION RULE

The calculated (χ^2) is 18.67 while the tabulated (χ^2) at 1 degree of freedom is 3.84. Since the calculated value is greater than the tabulated value, we therefore, accept the alternative hypothesis which states that the unregulated nature of the informal sector is responsible for the high level of non-compliance within the informal sector and reject the null hypothesis which states that the unregulated nature of the informal sector is not responsible for the high level of non-compliance within the informal sector.

4.4 DISCUSSION OF FINDINGS

Based on the data collected, presented and analysed as well as the result from the hypotheses tested, the following findings were revealed:

i. Most small scale enterprises in the informal sector are yet to be assessed by tax officials as indicated by thehigh percentage of 77% recorded under table 4.6.

ii. Most of the owners of small scale enterprises do not file tax returns as attested to by the overwhelming response of 38 respondents representing 79% of total respondents.

iii. Most business enterprise owners do not see the benefit of belonging to a business association and so are just existing as an island this is reflected in the percentage of the total respondents who said they do not belong to any business association as shown in table 4.9.

iv. Most owners of small scale enterprises in the informal sector are not fulfilling their tax obligation due to ignorance, poverty and a feeling of lack of accountability on the part of the government. This is shown in table 4.12

v. Most of the owners of small scale enterprises do not issue receipt to customers this has adverse effect on their ability to keep the proper books of account as shown in tables 4.14and 4.15

vi. That most eligible tax payers are not aware of the consequences of non-compliance to tax payment, thus they are nonchalant in the payment of their taxes. Table 4.10

vii. That the level of non-compliance to the payment of tax by owners of small scale enterprises is quite high (table 4.21), as most of them do not keep proper books of account (table 4. 15), highly ignorant and unwilling to part with their money. The last two factorsare illustrated in tables 4.21 and 4.22.

viii. That the level of voluntary compliance of tax payers is very low as most of those who comply with tax payment do so out of fear of punishment. Table 4.21

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

The purpose of this study is to determine how the government can improve voluntary tax compliance within the informal sector with particular reference to the Enugu Local Government Area of Enugu State. Thus the researcher focused on owners of small scale enterprises as well as tax officials both at the state and federal level.

The research looked at of the concept of tax, and the informal sector. The background of the study, statement of the problem, statement of research questions, objectives of the study, significance of the study, scope of the study, research hypotheses as well as definition of key terms were enunciated. A review of related literature on the subject matter of this research work was also comprehensively carried out in order to acquire a sound sense of direction for the work.

The survey researchmethod was adopted through the administration of questionnaires as well as use ofdocumentary materials.Data was also collected, presented and analysed using tables and percentages while the hypotheses postulated in chapter one of the study was tested through the use of the chi-square quantitative statistical analysis tool. This led to the acceptance of the first and second alternate hypothesis.

5.2 CONCLUSION

From the findings of the study, it is obvious that most owners of small scale enterprises are not willing to comply voluntarily in payment of their taxes. Only a small group actually take time to file their tax return asrequired by the law.

Furthermore, it has been revealed that most tax payers do not see the need to pay tax because according to them the government is not putting the proceeds from tax into judicious use to benefit those who contributed it. This means that tax payers believe that the government has not provided the needed infrastructures.

Finally, it has been observed that there is need for tax payers and the tax authority to begin to see themselves as partners in progress in order to achieve voluntary compliance.

5.3 RECOMMENDATIONS

In view of the research findings, the under-listed recommendations are presented, and if properly implemented, it will go a long way to enhance voluntary tax compliance of members of the populace, especially in the informal sector:

i. The government should endeavour to track emerging businesses, register and support them so as to yield desired tax revenue through voluntary compliance.
ii. The government should as much as possible simplify tax payment procedures which will serve as a motivation to tax payers to comply as revealed in their responses in table 4.17

iii. The citizens should be made to recognise the benefits as well as consequences of not paying taxes through efficient and effective education.

iv. There is need for the tax authority to work to improve peer attitude, i.e. a belief that tax is for the good of all and rewarding tax payers

v. The government should endeavour to ensure that it upholds the highest standard of both collection and utilization of tax proceeds.

vi. The government through its agencies should do all that is in its power to encourage and sustain E-payment. Table 4.25

vii. Promoting an atmosphere of trust between the tax payers and the tax authorities.

viii. The government through its agencies should endeavour to use the weapon of incentives to motivate new and emerging businesses as well as old ones to pay up their tax voluntarily as at when due.

ix. Finally, the government at all times should endeavour to always enforce basic provisions of the tax laws.

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APPENDIX I

LETTER OF INTRODUCTION

Department of Business Admin.,
Faculty of Administration,
Ahmadu Bello University,
Zaria.
3rd December, 2012

Dear Respondent,

QUESTIONNAIRE

The undersigned, a master student of the Department of Business Administration in the above named institution is undertaking a research titled "Improving Voluntary Tax Compliance within the Informal Sector". The purpose of this is to aid in gathering relevant information for this research study.

This is purely an academic exercise; therefore, views expressed shall be treated with strict confidence. Honest answers in each case would be highly appreciated.

Yours Faithfully

Pyikison N. Yunana

G10BAMP8171

FOR TAX PAYERS

Instruction: Please, tick (√) one answer for each question among the alternatives and fill in the gaps where necessary.

1. Sex:

a. Male ( ) b. Female ( )

2. Age:

a. 18 – 28 years ( ) b. 29 – 39 years ( )

c. 40 – 50 years ( ) d. 50 years and above ( )

3. Highest Academic qualification

a. WAEC/GCE ( ) b. OND/NCE ( )

c. HND/B.Sc. ( ) d. MBA/M.Sc.( )

e. Ph.D. ( )

4. How long have you been operating your business?

a. Less than 5 years ( ) b. 5 – 10 years ( )

c. More than 10 years ( )

5. Does your business have a Taxpayer Identification Number (TIN)?

a. Yes ( ) b. No ( )

6. Has your business ever been assessed by any tax official?

a. Yes ( ) b. No ( )

7. Does your business file tax returns?

a. Yes ( ) b. No ( )

8. Why in your opinion should business operators pay tax?

……

……

9. Does your business belong to any association?

a. Yes ( ) b. No ( )

10. Are you aware that the payment of tax is a civil obligation?

a. Yes ( ) b. No ( )

11. Are you fulfilling the obligation?

a. Yes ( ) b. No ( )

12. If your answer in question 11 is no, what are your reasons for not fulfilling your obligation?

……

……..……

13. Are you aware of the consequences of non-compliance?

a. Yes ( ) b. No ( )

14. Do you usually issue receipt to your customers?

a. Yes ( ) b. No ( )

15. Do you normally keep the proper books of account which could lead to the preparation of accounts to determine your profitability in a period?

a. Yes ( ) b. No ( )

16. Do think that the government is not making judicious use of the proceeds from tax?

a. Yes ( ) b. No ( )

17. How can the government assist you to pay your tax better?

……

……

……

……

FOR TAX AUTHORITIES

Instruction: Please, tick (√) one alternative for each question

1. Sex:

a. Male ( ) b. Female ( )

2. Age:

a. 20 – 30 years ( ) b. 31 – 40 years ( )

c. 41 – 50 years ( )

3. Highest Academic qualification

a. WAEC/GCE ( ) b. OND/NCE ( )

c. HND/B.Sc. ( ) d. MBA/M.Sc.( )

e. Ph.D. ( )

4. Is the level of non-compliance to the payment of tax very high?

a. Yes ( ) b. No ( )

5. What in your opinion are the factors responsible for the level of non-compliance?

……

……

6. Is the government not making judicious use of the proceeds from tax?

a. Yes ( ) b. No ( )

7. Do you agree that tax payers are voluntarily complying with tax payments?

a. Yes ( ) b. No ( )

8. In what ways do you think the government and the tax authorities can assist tax payers to achieve voluntary tax compliance?

……

.....

9. Are activities in the informal sector regulated?

a. Yes ( ) b. No ( )

10. How do you think that the informal sector can be brought under the tax net?

……

……..……