A Look into Taxation in Nigeria’s Informal Sector

Under the Hood

A Look into Taxation in Nigeria’s Informal Sector

August 2021
Disclaimer

The data contained in this report is only up-to-date as of Wednesday, 2 June 2021. Some of it is subject to change during the natural course of events. SB Morgen Intelligence cannot accept liability in respect of any errors or omissions that may follow such events that may invalidate data contained herein.

Our researchers employed methods such as one-on-one interviews, desk research and polling to collate the available data. Our editors sifted through the data and prepared the report, using various proprietary tools to fact-check and copy edit the information gathered. Our publicly released reports are formatted for easy and quick reading, and may not necessarily contain all the data that SB Morgen gathered during a given survey. Complete datasets can be made available on request.

lıkl Sbmintel.com
✉️ info@sbmintel.com
🐦 @sbmintelligence
 publicKey.com/sbmintel
Background

The recurring theme in many reports about Nigeria’s tax base or compliance is that a huge part of the country’s working population do not pay taxes. In this report, using data from our recent survey, we challenge the assumption. Instead, we show that Nigerians do indeed pay taxes, however, in an informal way and many times to non-state recognised actors. We also show that in many cases, these taxes are extracted before and irrespective of whether the payer makes any money. In most cases, the payers get little benefit from these non-state collectors and are only constrained to comply with the threat of force or loss.

The decline in oil prices has had a tremendous impact on Nigeria’s revenue and the country’s ability to finance its obligations. In confronting this reality, the Federal Government (FG) has indicated its desire to maximise its tax potentials. Expanding Nigeria’s tax base and encouraging tax compliance has proven to be a rather herculean task, as the country has a large shadow/informal economy. Thus, it becomes difficult to measure the unreported economy - possible tax evasion - and the “unrecorded and non-observed” economy, which indicates the income excluded from national income data following the inability to adequately account for them.

According to World Bank data, Nigeria has a Gross Domestic Product (GDP) of 448.1 billion USD as of 2019, leading as Africa’s largest economy by GDP. This translates to a GDP per capita equalling US$ 2400, placing Nigeria as 17th among the African countries with the highest GDP per capita. Coupled with a large informal sector filled with unregistered businesses, tax collection and compliance in Nigeria becomes a complex issue.
A 2018 International Monetary Fund (IMF) report indicates that as at 2016, Nigeria had about 56,329 active corporate taxpayers, which accounted for companies income tax. According to the International Survey on Revenue Administration (ISORA), as of 2016, the country had about 14,823 tax paying individuals or businesses, which accounted for personal income tax. For value added tax (VAT), the numbers were also abysmal. Just about 77,082 businesses were compliant with VAT filing. This number was out of about 3,098,193 business names, companies and the like incorporated with the Corporate Affairs Commission of Nigeria. As of the end of Q4 of 2020, about 30.57 million individuals were fully employed, that is working 40 hours or more, while 15.9 million people worked between 20 and 39 hours. With such staggering numbers, and an unemployment rate sitting at 33%, there is little wonder why increasing the tax base has been a problem.
A Look into Taxation in Nigeria’s Informal Sector

Data on individual taxes suggests that only around 16.7% of Nigeria’s economically active population pay taxes. Of this number, about 80% can be attributed to the informal sector, making it possible for Nigeria to surpass the global average of 67%.

This report studies the complexities involved in tax compliance amongst Nigerians, taking a look into taxation of the informal sector, impediments and recommendations to improving Nigeria’s tax base. The primary data for this study was obtained through surveys in nine states across Nigeria including the Federal Capital - Abuja, Anambra, Bauchi, Cross River, Delta, Oyo, Kano, Lagos and Rivers.

Table 1. Nigeria: Registered Taxpayers (2016)

<table>
<thead>
<tr>
<th>Type of tax</th>
<th>No. of registered taxpayers</th>
<th>No. of active taxpayers</th>
<th>Percent active (percent total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIT</td>
<td>761,057</td>
<td>14,823</td>
<td>1.95</td>
</tr>
<tr>
<td>CIT</td>
<td>1,003,010</td>
<td>56,329</td>
<td>5.62</td>
</tr>
<tr>
<td>VAT</td>
<td>1,505,831</td>
<td>77,082</td>
<td>5.12</td>
</tr>
</tbody>
</table>

Source: International Survey on Revenue Administration (ISORA)

Data on individual taxes suggests that only around 16.7% of Nigeria’s economically active population pay taxes. Of this number, about 80% can be attributed to the informal sector, making it possible for Nigeria to surpass the global average of 67%.

This report studies the complexities involved in tax compliance amongst Nigerians, taking a look into taxation of the informal sector, impediments and recommendations to improving Nigeria’s tax base. The primary data for this study was obtained through surveys in nine states across Nigeria including the Federal Capital - Abuja, Anambra, Bauchi, Cross River, Delta, Oyo, Kano, Lagos and Rivers.

---


Nigerians, Taxes and the Complexity of Compliance

In 2018, the Nigerian government met one of its economic goals of increasing its tax-to-GDP ratio, a number that sits at about 6.3%, which is lower than the average of 30 African countries as surveyed by the Organisation for Economic Cooperation and Development (OECD) in 2018 by 10.2 percentage points (16.5%) and also lower than the Latin America and the Caribbean (23.1%). What this implies is that Nigeria’s tax-base has been on a steady decline due to growing unemployment rates. The highest tax-to-GDP ratio in Nigeria was 9.6% in 2011, with the lowest being 5.3% in 2016.

A major reason for the low tax-to-GDP ratio in Nigeria is the large size of its informal economy, estimated by the International Monetary Fund to be around 65% of the GDP, which is higher than the sub-Saharan average of 34%. By comparison, the informal economy in Europe is 23% of its GDP, and 17% of the GDP in OECD countries.

Despite repeated attempts by tax authorities to tax the informal sector, there hasn’t been much success due to challenges including the lack of information on businesses in the sector, lack of documentation and proper regulation. The strengths and weaknesses of businesses in the informal sector make it difficult for them to be taxed: the ease of starting an MSME in the informal sector means that the businesses might not be legally registered, making it hard to assess for tax purposes. Additionally, a prevalence of informal funding rather
than structured loans for these businesses to start or expand further reduces the obligation for business registration and information available to the tax authorities or regulators. Then, poor bookkeeping practices by MSMEs, even legally registered ones, complicates the process of assessing them for tax purposes.
As a result, tax authorities end up using bank account transactions and receipts to assess the businesses for tax purposes, exposing them to punitive tax assessments, liabilities and audits. Physical MSMEs are at greater risk of multiple taxation and levies by agencies at all levels of governments. Local governments, for example, are notorious for using force through task forces and touts to compel such businesses to pay their taxes.

This method of tax collection worsens tax compliance by creating distrust between the MSMEs and the government, and leading the MSMEs to view the approach of government as a lack of support for MSMEs rather than as a drive for improved tax compliance.

The increasing adoption of social media for commerce and remote working will further complicate the ability of tax authorities to assess MSMEs for the purposes of tax compliance, even when some of the businesses exceed the ₦25 million threshold beyond which businesses have to pay taxes.

However, although tax authorities struggle with tax compliance with the informal sector, it does appear that businesses in the informal sector pay taxes, often to one agency on a more frequent basis (daily rather than monthly or yearly) and with the taxes forming a larger proportion of their incomes in the same time period compared to taxes on the formal sector.

---

A dive into the taxation of Nigeria’s Informal Sector

The Informal sector plays a crucial role in many economies and accounts for 60% of the global workforce. Nigeria’s bulging youth population and unemployment issues fuels the continuous growth of this sector as opportunities in the formal sector shrink and are unable to absorb the teeming population.

Traditionally, the informal sector or shadow economy describes business activities that operate outside of government regulation and are largely unregistered. A wholesale adoption of this definition suggests that the sector is untaxed, unregulated and largely operates underground. While this explains the informal economy of developed nations, developing countries do not have these clear distinctions. Informality in developing countries is characterised by relics of traditional trading patterns such as open air market, quirky transportation modes like okada (motorcycle taxis) and businesses that emerged in response to unplanned urbanisation like stall trading, hawking, vulcanising (patching tyres) and the likes. Unlike the underground economy of the developed world where the informal economy operates parallel to the formal economy, the informal economy in Nigeria provides some basic services that are absent in the formal economy. For instance, grocery shopping in formal supermarkets, almost absent prior to 2001, is taking a retreat and is becoming more limited where it is available. The growing gap is being reclaimed by informal grocers. Vulcanising services are another entirely informal activity which are typically done by organised garages in the developed world.
Following the enduring character of the informal economy despite earlier attempts at elimination, the last decade has seen attempts at legalising the sector and inventing approaches for enlisting the sector’s participants into the government’s tax net by curbing evasion and expanding the country’s tax base. Debates on the topic also focus on the high administrative cost of obtaining tax from the sector considering its meagre contributions, the argument that not taxing the sector breaches equity which may reduce the willingness of bigger firms to pay their tax and the debate that taxing informal businesses increases their ability to engage the government and hold them accountable for shortfalls in service provision. These explanations are premised on the assumption that informal businesses do not pay tax and should be brought into the government tax net.

This assumption does not apply to Nigeria, while informal businesses appear to be outside of government regulation and taxes, they are confronted with multiple layers of tax collectors who are backed by government agencies. More so, the process of these tax collections are arbitrary, backed with violence, and with record spans that do not exceed one day. Enforcing these taxes often leads to violent clashes such as the NURTW/OKADA riders clash on 26 April 2021 at Iyana Oba, a suburb of Lagos. Although these parallel systems of taxation are not unique to Nigeria, their nature, operations and perception has been largely unexplored. Earlier versions of these were recorded in 19th and early 20th Century America, with the activities of the Italian Mafia, and similar tax arrangements such as the “Identifiable grouping taxation” which were recorded in Ghana.

Worthy of note is that the informal sector as discussed here excludes registered Micro, Small and Medium enterprises who are taxed by the government and comply with other government regulations. The informal businesses as used here refers to those involved in subsistence businesses which span across open market traders, commercial bus drivers, artisans such as dressmakers, hairdressers, vulcanisers etc,
mainly consisting of those in the low socio-economic strata, with low skills and poor education.

Against this background, this research is aimed at assessing the percentage of income that informal businesses spend on taxes, the frequency and types of taxes paid and its effect on their businesses. For a balanced view, tax enforcers and collectors will be interviewed to get an understanding of the authority backing their tax collection and their system of remission.

This research will explore the following questions:
• Total daily revenue of some informal businesses and percentage of this income spent on taxes
• Number of taxes paid daily, weekly or monthly and consequences for non-compliance
• Perceived effect on businesses and general perception of these tax arrangements
• Legitimacy of these tax networks, remittance networks and their stalks.
# A Look into Taxation in Nigeria's Informal Sector

## Results at a Glance

<table>
<thead>
<tr>
<th>Informal sector pay taxes</th>
<th>Earn N2100-N5,000</th>
<th>N5,000 and above</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>98%</strong></td>
<td><strong>54%</strong></td>
<td><strong>38%</strong></td>
</tr>
</tbody>
</table>

**People earning N5000 a day and above**

- 52% of bus drivers
- 52% open market traders
- 48% okada riders
- 33% hairdressers
- 30% dressmakers

**Lowest Tax Bracket (N2,400 – N12,000 a Year)**

- 66% okada riders
- 61% hairdressers
- 62% vulcanisers

**Yearly Tax Payments by Bus Drivers**

- 14% bus driver pay N36,000 and above
- 18% bus drivers pay N24,000 – N36,000

**Payment Frequency**

- 45% daily
- 33% yearly
- 17% monthly
- 5% weekly

**Frequency of Daily Payments**

- 63% once a day
- 19% twice a day
- 18% thrice or more a day

**Groups paid to**

- 58% of informal sector pay to one group
- 29% pay to two groups
- 9% pay to three groups
- 4% pay to more than three groups

**Most Common Tax Bracket Per Day by Bus Drivers in Selected States**

- 67% Lagos bus drivers pay more than 3,000
- 89% Delta state bus drivers pay N2,100 - N3,000
- 92% Kano bus drivers pay N50 - N200
- 77% Oyo bus drivers pay N210 - N350

**Consequences of Tax Default**

- 32% Fine
- 13% Violence
- 5% Arrest

**Seizure of wares/bike/bus**

- 50%
Methodology

The survey research method was used for this study and data collected were both qualitative and quantitative. Questionnaires, interviews and observation were employed in data collection. A total of 999 respondents were selected for the study from nine states: Anambra, Bauchi, Cross River, Delta, Kano, Kano, Lagos, Oyo and Rivers, and Nigeria’s Federal Capital Territory. Popular bus stops, parks and open air market areas were clusters for the survey.

<table>
<thead>
<tr>
<th>States</th>
<th>Area Surveyed</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCT</td>
<td>Maitama, Nyanya, Wuse 2 and others</td>
</tr>
<tr>
<td>Anambra</td>
<td>Awka, Nnewi, Onitsha and others</td>
</tr>
<tr>
<td>Bauchi</td>
<td>GRA, Yelwa and others</td>
</tr>
<tr>
<td>Cross River</td>
<td>8 miles, Akim, Atimbo, Calabar South, Ekorinim, Esuk-Otu, Federal State Housing, Jonathan bypass, Satellite town and others</td>
</tr>
<tr>
<td>Delta</td>
<td>Asaba, Warri</td>
</tr>
<tr>
<td>Kano</td>
<td>Bompi, Hotoro, Isiyaka Rabiu, Kofar Ruwa, Na’Ibawa Quarters, Nassarawa, Sharada, Tudun Wada, Tudun Yolo and Zoo road</td>
</tr>
<tr>
<td>Lagos</td>
<td>Ikeja, Island, Lekki, Oshodi, Surulere, VI, Others</td>
</tr>
<tr>
<td>Oyo</td>
<td>Agodi GRA, Aremo, Beere, Bodija, IITA, Labo, Mapo, Oja Igbo, Oje, Ring Road and others</td>
</tr>
<tr>
<td>Rivers</td>
<td>Choba, Diobu, GRA, Oyingbo, PAC, Others</td>
</tr>
</tbody>
</table>
Respondents were selected from Nine (9) states of Abuja, Anambra, Bauchi, Cross River, Delta, Oyo, Kano, Lagos and Rivers. In all the states, over 90 respondents were selected for the study and in Abuja, Delta and Lagos, a higher number of respondents participated in the study.
A majority (67%) of respondents who participated in the study were male. Both genders were represented across all the states. With regards to respondents' age, a majority (40%) were between the ages of 26-35 years. This age group according to the NBS had the second highest unemployment rate of 37.2% in the fourth quarter of 2020. The next largest group of respondents were between the ages of 35-45, 13% were between 18-25 and 12% of the respondents were 45 and above. All the age groups were represented in all locations except for Abuja where people older than 45 were not represented.
The main categories of informal business participants covered in the survey were open market traders (30%), bus drivers (18%), dressmakers (16%), okada (motorcycle-taxi) riders (15%), hairdressers (14%) and vulcanisers (tyre-patchers) (7%). They constitute the bulk of informal businesses that have daily interactions with consumers. All categories of these businesses were surveyed in all the states except for vulcanisers who were not represented in Anambra, Abuja and Cross River. Also, dressmakers were not surveyed in Anambra state.

A majority of participants in all the informal businesses surveyed are between ages 26-35, and 36-45. Those aged 40 and above are mostly in the bus driving and vulcanising business while those between ages 18-25 were more in the hairdressing and okada riding cluster. While the low percentage of young persons in the vulcanising profession implies a bleak future for the business, the low percentage of older persons in the okada business shows it’s unsustainable nature.
Most (38%) participants in the informal sector earn ₦5100 a day and above, followed by those whose earnings are between ₦2100-₦3000 and ₦3100-₦4000, an equal percentage of 17% for both income groups. 16% of the participants earn between ₦4100-₦5000, 8% percent earn between ₦1100-₦2000 and a small percentage earn less than ₦1000. This shows that most informal sector participants earn between ₦2100-₦5,000 and above. Segregating this by types of businesses shows that bus drivers (52%), open market traders (52%) and okada riders (48%) have more high earners (people who earn ₦5100 and above) than the other categories of informal businesses. Also, a slim majority in the hairdressing (33%) and dressmaking (30%) businesses also earn between ₦5100 and above. Vulcanisers have the highest percentage of people who earn less than ₦1000.
There are no significant differences in earnings between men and women as against popular perception that women earn less than men.
A large majority (98%) of respondents agreed that they pay taxes and only 2% of them said they had not paid any taxes. Segregating this by business type shows that those who had paid no taxes were vulcanisers.

Of the 53 unique locations that were covered in the research, vulcanisers in Bauchi GRA and a pocket of vulcanisers in Delta (Asaba), Kano (Bompai, Hotoro, Isiyaka Rabi’u, Na’ibawa Quarters) a pocket of others in Surulere and Choba.
The most prevalent payment time-frame is daily payment, accounting for 45% of all the payments made. This lends credence to the short tax memory and the inconsiderate ways that defaulters are treated. For most of this sector's participants, each day is a clean slate and the previous record of tax payments does not prevent any rainy day. This also accounts for the inability of the various tax collectors to properly account for the taxes and its uses. 33% of the respondents pay on a daily basis, 17% pay on a monthly basis while 5% paid on a weekly basis.
The payment time frame differs by business type. Businesses that are mobile, with no specific office or address pay more daily tax than businesses that are stationary. For instance, bus drivers and okada riders said they paid most of their taxes on a daily basis while most dressmakers, hairdressers and vulcanisers made their payments on a yearly basis because of the stationary nature of their businesses. The differences are not very distinct in the open markets and this is as a result of its composition. Openware sellers who do not have stalls or shops inside the market are billed on a daily basis including hawkers, while those with shops are billed on a yearly basis. Pockets of monthly billings are found in the dressmakers, hairdressers, open market and vulcanisers’ clusters.
In Anambra, Cross River, Delta, Kano, Lagos and Oyo, the prevalent payment modes are daily and yearly. While the transport sectors account for the daily payments, the large markets and informal businesses in these locations account for the yearly payments. A significant number of respondents in Abuja, Bauchi, Kano and Rivers pay monthly taxes.

If daily, how often do you pay taxes

- 63% pay daily taxes once a day
- 19% pay daily taxes twice a day
- 10% pay daily taxes more than three times a day
- 8% pay daily taxes twice

A majority of the people who pay daily taxes do so once a day (63%), while the second largest group do so twice (19%). 10% of the respondents pay more than three times a day while 8% pay the taxes twice.

If daily how many times by Location

- Abuja: Twice a day, Thrice a day, Once a day, More than 3 times a day
- Anambra: Twice a day, Thrice a day, Once a day, More than 3 times a day
- Bauchi: Twice a day, Thrice a day, Once a day, More than 3 times a day
- Calabar: Twice a day, Thrice a day, Once a day, More than 3 times a day
- Delta: Twice a day, Thrice a day, Once a day, More than 3 times a day
- Ibadan: Twice a day, Thrice a day, Once a day, More than 3 times a day
- Kano: Twice a day, Thrice a day, Once a day, More than 3 times a day
- Lagos: Twice a day, Thrice a day, Once a day, More than 3 times a day
- Port Harcourt: Twice a day, Thrice a day, Once a day, More than 3 times a day
Those who pay daily taxes once a day are more in Abuja, Bauchi, Cross River, Delta, Kano and Oyo. A significant number of respondents in Anambra, Oyo and Rivers paid taxes twice a day and a pocket in Cross River and Lagos. Only in Cross River, Lagos and Rivers do participants pay taxes thrice a day and a pocket in Delta, Kano, Lagos and Rivers pay taxes more than three times a day.

Dressmakers, hairdressers and open market traders have a significant number of persons who pay their taxes thrice a day. Bus drivers and vulcanisers also have a number of people who pay more taxes more than three times a day. A pocket of participants across all the business types also pay their taxes twice.
Most (58%) of the informal sector participants pay taxes to one group, followed by those who pay taxes to two groups (29%), 9% pay taxes to three groups while 4% pay taxes to more than three groups. This points to the multiple taxes that informal sector participants pay. The location of the informal sector participants is also a determining factor with regards to the number of groups they pay taxes to. For instance, while the responses show that all participants in Bauchi paid taxes to only one group, there is a significant number of respondents in Delta and Lagos who pay taxes to more than three groups. Also, the type of business that a respondent is involved in also determines the number of tax collectors they may encounter. Bus drivers are more likely to pay taxes to more than three groups than those in the other forms of business and on the whole, multiple taxation is recorded across all the business types. There was no business group that had not experienced multiple tax collection by different groups.
Participants said there were four prevalent tax groups: state governments, local governments, market organisations and unions. 39% of the respondents were taxed by the local government, 30% said they were taxed by their unions. 16% of the taxes accrued to market organisations while 15% of the taxes went to the state government. Our qualitative interviews revealed that some of the participants were not able to tell which group collected taxes from them, but simply had to oblige because of the violent nature of the enforcement. We gathered that almost all these tax groups had used the services of agberos (thugs) to collect the taxes which came with a lot of intimidation.
Among the states surveyed, only Bauchi had a single tax collector which is the local government and all the respondents from Bauchi agreed that their taxes are collected once a day rather than multiple times in one day. This is not so in other states where taxes are paid to at least three groups. In Anambra, Bauchi and Delta, the majority of respondents pay taxes to local governments while in Abuja, Kano, Oyo and Rivers, most participants paid to the unions. Trade unions are largely informal with no legal backing or framework, yet they are able to command compliance from their members. These self regulatory unions pride themselves in their ability to resolve disputes among their members, regulate entrance into their trade and protect the interests of their members. State government taxes are more prevalent in Cross River, Kano and Oyo, while market organisation taxes were prominent in Abuja, Lagos and Rivers. Further questions to understand if market organisations operated independently of the local government or performed the same duties showed that market organisations were borne out of the negligence of the local government authorities in these places and their failure to organise the day to day activities of the market. Paraphrasing a statement made by one of our interviewees on the indispensability of the market organisations, she said “we do not really see what the local government is doing here although they collect taxes from us, but the market organisation are doing a lot, that is why the market is clean, that is why you cannot fight here in this market, whether with customer or fellow trader, there are specific times that you can offload, there are many rules here and that is there is order because of the role that the market organisation plays. The market organisations have people who are in charge of different market segments, there is an overseer for corn sellers, meat sellers etc and they charge the taxes relative to the cost of your goods or wares if you are a daily seller.
By business type, the data shows that the tax collectors differ, for instance, for bus drivers, okada riders and vulcanisers, their major tax collector is their unions. Similarly, the majority of open market traders are taxed by the market organisations and most hairdressers and dressmakers pay their taxes to the local government. However, the data reveals that each business category pays taxes to at least three groups.

For those who pay taxes on a daily basis, the majority (42%) pay between ₦50-₦200, followed by those (18%) who pay between ₦210-₦500. The next tax bracket (₦510-₦1000) is shared by 16% of the informal participants, 13% pay up between ₦1010-₦2000, 6% pay between ₦2000-₦3000 and 5% pay above ₦3010 as taxes for a day. This means that the fewest tax payers (42%) spend between
₦2400-₦12,000 a year on taxes if they work for five days a week while the highest payers (5%) spend about ₦180,000 yearly on taxes.

So who pays the lowest and the highest tax? Majority of people in the dress-making (57%), hairdressing (61%), okada riding (66%) and vulcanising professions (62%) pay the least taxes, that is between ₦2400-₦12,000 a year.

14% of Bus drivers account for the majority of those who pay the highest, about ₦36,000 and above yearly, and 18% also pay between ₦24,000-₦36,000. Other than this, people in these businesses pay different amounts of taxes depending on location and specific circumstances. One of the respondents, an okada rider in Surulere, Lagos, explained why he pays more
taxes than some of his colleagues. According to him, different areas have different “lords” and tax collectors and your tax covers only a part of the town, if a trip took a rider away from the area his tax covered, he’d have to pay another tax and so to avoid harassment and being limited to a particular area, he pays multiple area taxes. Apart from the location, the size of one’s wares or stores also determines the taxes that they pay.

Bus drivers have multiple responses on their ticket prices and to understand the geographic differences in these tax prices, we further segregated the data.

The data shows that bus drivers in Lagos (67%) and a pocket in Rivers (7%) pay the highest taxes, that is ₦3,000 and above daily, followed by drivers in Delta State where a majority (89%) pay between ₦2010-₦3000. Bus

![Bar chart showing tax distribution by location](chart.png)
drivers in Kano have a majority (92%) who pay the lowest tax rates between ₦50-₦200, followed by those in Oyo where 77% pay between ₦210-₦500.

To understand what percentage of income they pay on taxes, we divided their daily earnings by their daily taxes. We found that taxation in the informal sector is characterised by arbitrariness and is largely not determined by income.

A majority (52%) of those earning less than ₦1000 spend between ₦50-₦200 on taxes, that is about 5.0%-20% of their income. Also, a significant percentage of people (although not a majority), about 29% spent ₦510-₦1000 amounting to about 51%-100% of their earnings on taxes.
In the second group; those who earn ₦1100-₦2000, the majority (82%) spent ₦50-₦200 on taxes, that is about 4.5%-10% of their income on taxes. Similarly, those who earn between ₦3100-₦4000 have a majority (51%) who spend between ₦50-₦200, about 1.6%-5% of their earnings on taxes. Also, a significant percentage of participants (26%) in this bracket spend between ₦210-₦510 on taxes which is about 6.7% -12.5% of their daily earnings. Those who earn between ₦3100-₦4000 have a small majority (33%) spend ₦50-₦200 on taxes, that is, 1.2%-4% of their earnings on taxes, an almost equal proportion of respondents in this bracket spend between ₦510-₦1000 each and ₦1010-₦2000, which equals 12%-20% of their earnings and 24.6-40% on taxes. A similar pattern was noticed for the last bracket, speaking of its arbitrary nature.

Defaulters are dealt with mercilessly especially those whose taxes are on a day to day basis. There are no considerations or records to refer to for past compliance, so there is no basis for pardon. 50% of those who are unable to pay their taxes for whatever reason stand a risk of having their wares, bikes,
buses or valuable property confiscated. The next largest group will have to pay a fine. This second alternative is more available for those whose businesses are stationary, rather than those whose businesses or wares are mobile. 13% of the respondents said it resulted in violence while 5% said it will lead to arrest. Either way, there is no soft landing.

On how these taxes affect their businesses, the informal sector participants said it reduced their earnings and increased the prices of their wares and services. One of the respondents puts it more succinctly: “after work I end up going home with nothing much because of the taxes that I pay.”

This is the sentiment shared by more than 70% of the respondents. Others complained that increasing the cost of their goods which they have to pass to the final consumers, affects their sales volume as customers quickly find alternatives to highly priced products or services. Others are indifferent on the effect of the taxes on their business. They do not see it as a big deal but are more concerned with the Organisation, multiple taxing systems and the harassment that accompanies it.

Practices become entrenched when they endure for a long period of time, and in that way, gain legitimacy. That is the case of the multiple taxes in the informal economy. While a majority (55%) feel bad about the taxes, they do not think that there is something they can do about
it. A feeling of helplessness and uncertainty is what they expressed. The tax collecting institutions are stronger than them and there is no place to seek redress. A more painful thing for some of the participants is that they do not see the benefits from these taxes. The second largest group of respondents (23%) are indifferent about the taxes because they do not bear the financial burden and have psychologically adjusted to the taxes. However, 23% of the respondents think that these taxes help. This opinion is held more by those who pay their taxes to self regulatory unions. They see it as a social security system and a means of preserving their trade relevance by checkmating the entrance and exit of competitors.
Growing Nigeria’s Tax Base: Integrating the Informal Sector for Tax Purposes

There are a number of reasons why compliance with tax payment is poor in Nigeria and this affects any meaningful attempt to expand the country’s tax base. For one, there is a lack of transparency and accountability on the part of the government as taxes are rarely seen to be put to work. When people have to pay taxes and also provide their own security and infrastructure, this effectively translates to an increased tax rate as well as costs to taxpayers.

Following decades of corruption, government oppression during the military era and mismanagement of public funds, many Nigerians have grown suspicious of the government, its aims, intentions and ability to deliver on its promises. Many authors have opined that ineffective tax administration is the main factor responsible for large scale tax evasion in Nigeria.

Another very visible challenge with growing the country’s tax base is with the multiple taxation faced by businesses in the informal sector. From our survey, and in some cities, more than three groups are responsible for collecting

---

taxes, permits or levies. This could increase the fatigue of paying taxes on the part of the taxpayers.

Thirdly, coupled with the lack of transparency and proper identification of the groups responsible for tax collection, multiple taxation often borders on extortion as these task forces are very willing to deploy violence in carrying out their duties.

To successfully incorporate the informal sector into the tax base of the country, we believe that incidents of multiple taxation need to be addressed urgently. The process of administering Tax Identification Numbers needs to be streamlined and tied to something that every Nigerian needs, such as a mobile phone number or National Identification Number and a Bank Verification Number. We believe that the tax administration regime should be simplified and unions and non-state actors that place a tax burden on citizens should
Conclusion

be checked. The government needs to do a lot to surmount the distrust that citizens have for it. A lot of awareness programmes have to be organised.

The findings of this study clearly show that the tax base of Nigeria is much larger than thought, but much of it is in the informal sector. These taxes, to a great extent, are not captured in any official records at state or federal level. It reflects the inability of the state to properly project itself, leaving the door open for other actors to come in and secure relevance.

When Nigerians are asked why they do not pay tax, they say it is because they get no services from the government. However, the entities that collect various levies from bus drivers, okada riders, hairdressers and vulcanisers, do not deliver much in terms of benefits either. It should, therefore, prompt a rethink of what really ensures higher tax compliance in a state, namely the credible threat of sanctions, up to and including violence.

This means that the capacity of state and federal governments to enforce tax collection, is directly proportional to their ability to enforce penalties for tax default. We are also already seeing this emerge in some parts of the North-West and North-East, where armed groups can enforce tax compliance. Our findings also bring into sharp relief the unease of doing business in Nigeria’s major cities. The arbitrary and multiple nature of taxes and levies affect all classes of economic actors, including those at the bottom of the pyramid. In their case, it only serves to impoverish these people who do not have the means to secure a better deal from those who collect these taxes.
These multiple and arbitrary taxes also have the effect of slowing down their financial gains and reducing their disposable income, which might have benefited other sectors of the economy.

To successfully incorporate the informal sector into the tax base of the country, it is our view that incidents of multiple taxation need to be addressed urgently. The process of administering tax Identification Numbers needs to be streamlined and tied to something that every Nigerian needs, such as a mobile phone number or National Identification Number and a Bank Verification Number. To this end, the concerted efforts around NIN registration will go a long way to achieve the objective of giving a foundational ID to Nigerians, upon which other services can be built.

We believe that the tax administration regime should be simplified and unions and non-state actors that place a tax burden on citizens should be checked. Also, the government needs to do a lot to surmount the distrust that citizens have for it, by showing people the benefits of tax compliance, which include better infrastructure and service delivery.
About SBM

SB Morgen Intelligence is an Africa-focused geopolitical research and strategic communications consulting firm focused on addressing the critical need for political, social, economic and market data, and big data analytics. We employ various methods of data collection. Our Data Collection Methodology team advises on data collection methods for all ONS social and business surveys. With clients both within the business and the wider government community, we aim to provide expert advice on data collection procedures and carry out research leading to improvements in survey quality.

Since 2013, we have provided data analytics and strategic communication solutions to clients across various sectors in Nigeria, Ghana, the Ivory Coast, Kenya, South Africa, the UK, France and the United States.