Exploring Alternative Approaches to Achieving Voluntary Tax Compliance in the Informal Economy of Nigeria

By

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Abstract
Facilitating voluntary tax compliance especially in the informal sector is the goal of most developing countries but, the challenges of tax administration as well as the nature of businesses in the informal economy has hampered the revenue drive of many countries. This study aimed to determine if new models for tax collection would be beneficial for improving voluntary tax compliance and consequently tax revenue generated from the informal economy. The study investigated the level of voluntary tax compliance among taxpayers in the informal sector as well as the factors that influence tax compliance. A sample of 100 business owners comprising traders, artisans, shop owners and 17 tax officials from Ifako-Ijaiye Local Government Area (LGA) of Lagos State, Nigeria were selected using convenience sampling. Primary data elicited through a structured questionnaire was used to test the hypothesis that the level of tax compliance among informal sector operators would be significantly improved if taxes were collected through trade unions and trade associations or if a presumptive tax system was introduced. Findings from a descriptive analysis showed that the level of voluntary tax compliance in the informal economy was low and tax payers were not willing to voluntarily comply with tax laws because of the perception of high tax rates and misuse of tax revenue by the government. Results from a regression analysis showed that the introduction of a presumptive tax system would not significantly improve the level of tax compliance. Furthermore, the study found that tax compliance would be negatively affected if tax was collected through trade unions and associations. It is therefore recommended that government should be more accountable to the citizenry as regards utilisation of revenues to foster trust and tax rate for businesses in the informal sector should be reasonable. Also, a partial or full formalisation of businesses in the informal sector is recommended to enhance tax administration as well as ensuring voluntary tax compliance.

Keywords: Taxation, Voluntary Tax Compliance, Informal Economy, Nigeria.

1.0 Introduction
Many developing countries including Nigeria are faced with the problem of raising adequate revenue to meet government expenditure. Revenue from oil has been the mainstay of the Nigerian economy for decades but, with the recent crash in the price of crude oil at the global market, the generation of adequate revenue to fund government spending has suffered a massive setback. Thus, there is a quest for alternative sources of revenue for government and the informal economy, made up of a lot of individuals and businesses who if properly taxed, can provide an important stream of income for government (Amanamah, 2016). Given its enormous size a major sector of every developing country’s economy that should contribute immensely to its revenue generation drive is the informal sector, rather on the contrary, incomes generated from this sector, in many cases, are not officially captured in the tax net of developing countries (Somuah, 2011; Udoh, 2015).
Over the years, efforts aimed at improving the tax collection among this sector has not yielded the expected outcome, because the informal sector consists of firms and individuals who are usually not fully registered and regulated, and therefore not easy to capture in the
standard tax net and often difficult to ensure voluntary tax compliance. Studies have shown that challenges of tax administration which include poor knowledge of tax matters, inadequate accounting record keeping, failure on the parts of governments to properly utilise tax revenue, perceived high tax rate, the informal nature of businesses as well as the large size of the informal sector account for this low level of compliance (Somuah, 2011; Nguyen, 2013). These challenges have therefore spurred a global awakening that seeks a new thinking of how the taxation of the informal economy can be strengthened. Guidance literature, based on econometric models and literature reviews suggest that the way to go about doing this is to tax the goods and services bought and sold in the economy (through sales or value-added taxes) or through ‘presumptive’ or withholding taxes (Joshi, Prichard, Heady, 2014). Another approach suggested the delegation of the responsibility of collecting tax to trade unions and business associations (Joshi & Ayee, 2008). Despite the increasing research in the area of alternative approaches to taxation in the developed world, there is a dearth of literature on these models for achieving maximum tax compliance in the informal sector of developing countries especially in a country like Nigeria. Studies in Nigeria focused mainly on the benefits and challenges of taxing the informal economy rather than on building models to enhance taxation of the sector (Okoye, Akenbor & Obara, 2012; Udoh, 2013; Ohaka & Zubkkee, 2015; Obara & Nangih, 2017; Henshaw, 2017). This study is therefore important because it investigates the possible consequences of adopting an alternative approach to taxing the informal economy and particularly because it is an experimental research of a local government in Lagos State, the commercial nerve centre of Nigeria. Lagos State has a chance of improving its tax revenue generation if alternative informal taxation systems are utilised successfully because it has the potential to generate vast amounts of revenue. This is due to the fact that Lagos State is the economic hub of West Africa with a growing population of more than 20 million people and a large variety of small scale businesses making up the informal economy. It is expected therefore, that this study which sought to examine the possibility of enhancing voluntary tax compliance among players in the informal business sector through a new model of taxation would be beneficial to a state like Lagos and any other developing economy.

The objectives of this study are thus, to investigate the level of voluntary tax compliance among informal sector businesses; to identify the factors affecting the level of tax compliance and to determine if the level of compliance will have a positive effect through the introduction of presumptive tax and the utilisation of trade unions and business associations as government tax collectors. Ifako-Ijaiye Local Government Area of Lagos State is chosen as the study area for this research.

2.0 Literature Review

Preamble
Abdulahi (2012) defined tax as “a charge on the income of individuals and corporate bodies by the government”. Generally, tax is referred to as a compulsory levy that the government of a country or its appropriate agency imposes on persons, individuals, businesses and other bodies to allow the government provide money needed for the running of government and to achieve other macro-economic objectives and fiscal policies of the government. The process by which the administration and collection of tax is achieved is known as Taxation. Tax payers usually receive nothing personally identifiable in return for their contributions apart from the expected benefit of living in a relatively safe, healthy and solidified society with modern amenities. Nigeria is governed by a federal system; hence its fiscal operations also adhere to this system and this has serious implications on for the management of the tax system in the country (Ayodele, 2006). In Nigeria, the government’s fiscal power is based on a three-tier tax structure divided among the Federal, State, and Local governments, each of
which has different tax jurisdictions. As of 2002, about 40 (forty) different taxes and levies were shared by all three levels of government (Odusola, 2006).

Lagos is Nigeria’s commercial and industrial hub and a key driver of economic growth for the Nigerian economy generating over 90% of Nigeria’s foreign trade flows and more than 30% of GDP to the Nigeria economy as a whole. Lagos State generated Internal Revenue of 301.19 Billion for the year 2016 and had Federal Allocated Revenue of 109 Billion for the year. Over 50% of Nigeria’s industrial capacity is located in Lagos State and Lagos has been regarded as the 7th fastest growing city in the world (Weston, 2018). With its strategic location, Lagos offers access to local, regional and global markets and four of Nigeria’s eight major seaports (Apapa, Tin-can, Roro and Container Terminal) are located in Lagos. (www.lagosstate.gov.ng).

2.1 The Informal Economy
Taxation of the informal economy is not an area that has attracted a lot of attention in tax research (Ohaka & Zubkee, 2015). There is an existing view that the tax incidence of the informal sector will likely be regressive because the potential revenue yield from the informal economy is low and the administrative cost for tax collection is high (Keen, 2012). However, recently the issue of taxation of the informal economy has received increased attention and Joshi et al., (2014) noted that this stems from the reality that in many countries the informal economy forms a large and growing source of the Gross Domestic Product (GDP), and thus represents a potentially significant supply of revenue for the government. Several authors have used different criteria to define the characteristics of the players in the informal sector. According to the ILO (1972), it identified the sector as being characterised by ease of entry, small scale operation and an unregulated and competitive market. The consensus emanating from studies provides more criteria for identifying businesses in the informal economy, this includes high mobility of the business, small size, invisibility and irregularity, cash transactions, lack of business records and unstructured and self-employed persons (Ekpo & Umoh, 2014; Udoh, 2013). Gerxhani (2004) and Routh (2011) identified tax evasion as a key feature of the informal sector as well as a lack of social coverage for employees and illegality. Tax evasion covers any action that results in the concealment of all or part of a person’s legitimate or illegal economic activities from the tax authorities in order to escape or dodge the payment of tax. It takes the forms of non-declaration of income, under-declaration of income and inflation of deductions from income (Samuoh, 2011).

Previously, the taxation of the informal sector was not a priority because of certain perceived opinions which included that the potential revenue yields are low, administrative costs are high, tax incidence is likely to be regressive, and tax enforcement risks exposes vulnerable firms to harassment (Joshi, 2014). However, recent thinking about whether and how to strengthen the taxation of the informal economy has proposed new innovations to uncover the potential benefits of this sector in terms of revenue generation, growth, and governance. With respect to revenue, it is believed that the informal economy forms a large and growing share of a country’s GDP and therefore represents a potentially significant source of tax revenue for cash-strapped governments (Schneider, Buehn, & Montenegro, 2010). Also, taxing the informal economy may be essential to sustain tax morale and tax compliance among large firms (Terkper, 2003; Torgler, 2003). With respect to growth, there is evidence that formalisation may accelerate growth in some firms within the informal sector, which may be beneficial for existing formal sector firms (Schulze, & Voss, 2010). Also, with respect to governance, new arguments have been made that the payment of taxes by firms in the informal economy may be a way of engaging the firms with the state, and thus promoting legitimacy, good governance and accountability by the government (Prichard, 2009).

The aforementioned motivations are the basis for the taxation of the informal economy. However, because the informal economy consists of firms and individuals who are not fully
registered and regulated, they are not usually captured in the standard tax net. This is because this sector is characterised by high mobility of the business, small size, invisibility and irregularity, cash transaction and lack of business records, unstructured and self-employed persons among other things. Going by these characteristics, taxing the informal sector becomes a difficult task. Unlike the self-assessment system being used in the formal economy where tax payers are required to file their tax return as and when due; the characteristic nature of the informal sector has given rise to a number of challenges and consequently, businesses in the informal economy take advantage to evade tax. The administration of tax involves practical interpretation and application of the tax laws. Poor tax administration is one of the challenges hampering the taxation of the informal sector. The tax bodies are not well positioned to ensure coverage of the tax district. Also, there is problem with how the tax bodies enforce tax laws. Many tax authorities or governments lack the resources (in terms of men, materials, and technology) to initiate, implement, monitor, and enforce tax laws (Obara & Nangih, 2017). In fact, the large number of people engaged in the sector, coupled with its complex nature, creates additional logistical problems for the tax authorities for collection of taxes. Other challenges of tax compliance include psychosocial challenges where tax morale among the players in the informal sector is low because of the perceived notion that tax payers have with respect to the fairness of the tax authority and appropriate utilisation of tax revenue by the government. The noted endemic corruption of the Nigerian government which has crippled their ability to put tax payers’ money to judicious use has resulted in low tax compliance among the informal economy (Udoh, 2015). In response to these challenges the goal to increase government revenue will require finding appropriate methods for improving taxation in the sector given their huge revenue potential. It is therefore expected that government must develop smart solutions that will be unique to the sector.

2.2 Presumptive Tax
The presumptive tax system is a form of assessment of tax liability using indirect methods such as income reconstruction or base-line tax application across the entire tax base. It is considered to be the most effective tax system for the informal economy due to its potential to reduce tax avoidance as well as equalising the distribution of the tax burden (Udoh, 2015). According to Henshaw (2017), this method will require less documentation from the tax payer and also results in a quick and effective method of providing an assessment. It will be based on tax payer’s supposed income given the fact that most participants in the sector do not keep proper records of accounts. Unlike the self-assessment system of tax wherein a tax payer prepares and submits its audited account and tax computation which is subject to acceptance or rejection by the tax authority upon review, the presumptive tax regime assesses a tax payer on perceived income in view of an expectation of lack of documentation.

2.3 The Trade Union Approach
Another approach is to delegate the role of collecting tax to trade unions, and to business or other associations (Joshi & Ayee, 2008). These are the umbrella bodies to which the business operators within the informal economy belong. Existing literature review outlines the associational taxation approach – delegating tax collection to unions, business or other associations as identified ways to improve informal sector taxation. Using this approach depends on the type of tax, the extent of revenue pressure on the government, the degree and nature of associationalism within the informal economy, and the channels of interaction with state institutions. To improve compliance it may help to shift away from organising tax administrations by locality and type of tax (sales, property and income taxes), towards organisation by type of taxpayer (e.g. large, middle and small taxpayers). Compliance can
also be improved by reducing rates or offering rewards to firms that maintain effective records.

Premised on these discussions, the following hypotheses were formulated:

**H₀₁:** The collection of taxes through trade union will have no significant influence on the level of tax compliance among informal economy operators in Ifako-Ijaiye Local Government Area of Lagos state

**H₀₂:** The introduction of Presumptive tax will have no significant influence on the level of tax compliance among informal economy operators in Ifako-Ijaiye Local Government Area of Lagos state.

This study is hinged on the fiscal exchange theory that suggests that the presence of government expenditures may motivate tax compliance and that governments can increase tax compliance by providing goods that the citizens prefer in a more efficient and accessible manner (Levi, 1988; Moore, 2004). This implies that the individual’s willingness to pay tax is dependent on the perceived benefit received from the exercise. It therefore calls for caution on the part of the government in utilising tax revenue to enhance tax compliance. This relates tax compliance directly with the expectation from government. If the revenue from tax is utilized such that the informal sector operators can visibly see the result, it will largely enhance voluntary tax compliance in the sector.

### 2.4 Empirical Studies on Tax Compliance among the Informal Economy

Braithwaite and Braithwaite (2000) in their research on evolving a compliance model for tax enforcement concluded that the relevance of responsive regulation should correlate with the taxation setting. This means that tax authorities need to adopt the role of ‘educator’ and ‘politician’ before they adopt the role of ‘policeman’. In other words, tax administrators should be taking a far more dialogic approach to non-compliance, aiming to create a genuine change of beliefs in small business taxpayers about the tax system, what it represents and what it provides to the community. Samuoh (2011) in a study on taxation of the informal economy aimed at analysing the challenges of tax compliance in the informal sector in Ghana obtained data from 70 tax payers and 5 tax officials and found that high tax rate, the large size of the informal sector and improper bookkeeping were among the challenges confronting the sector.

Okoye, Akenbor & Obara (2012), in their study which sought to determine the level of voluntary tax compliance among informal sector businesses in South-East Nigeria, examined 200 business owners and 115 tax officials and found that a high tax rate, inadequate provision of public goods and services, lack of transparency and accountability, out-dated tax laws, ineffective deterrent measures and poor funding of tax boards were among the factors that account for the low level of tax compliance in the sector.

In a study by Joshi, Prichard & Heady (2014) which reviewed literature on the taxation of the informal economy, taking stock of key debates and drawing attention to recent innovations, highlighted in their study, the conventional emphasis on the limited revenue potential and high cost of taxing the informal sector as well as the argument for economic growth, broader tax compliance and governance as the benefit of taxing the informal economy. Ohaka & Zubkee (2015) in a study using 75 small scale business owners and 5 tax officials in Rivers State, concluded that the large size of tax district and the inadequate capacity of the tax officials to cover the district is the major challenges to tax compliance in the sector. The study therefore recommended that special trainings should be conducted for tax officials. Udoh (2015) who examined the issues, challenges and opportunities of taxing the informal economy in Nigeria obtained data from 300 business owners and 18 tax officials in Akwa-Ibom State. It identified poor tax education, inadequate qualified staffing, poor funding as the main challenges of tax compliance despite the rationale for taxing the informal sector which
is to increase revenue base and promote development. Amanamah (2016) also conducted a study on tax compliance among small and medium scale enterprises in Kumasi metropolis, Ghana and identified the prime factors that improved SME’s tax compliance as a reduction in tax levied on the SMEs, proper utilisation of tax revenue, level of education of tax payers and enforcement of punishment for non-compliance. 

Ubesie, Edeh, & Anthony (2016) examined the effect of tax morale and tax compliance on revenue generation in Nigeria and concluded that cultural norms will positively and significantly affect tax compliance because laws may not cope with every eventuality but will have to be supplemented with administrative procedures and decisions. In order to work, these procedures and decisions must have a reasonable degree of cultural acceptance and willing compliance on the part of the taxpayer’s themselves. Hence, the conceptual framework for the study proposes that, presumptive tax and trade union tax can be used as a tool to achieve voluntary tax compliance among players in the informal sector in Nigeria.

3.0 Methodology
The study adopts a survey method that utilized primary data obtained through the aid of a structured questionnaire. The population for this study is the entire informal sector operators within Ifako-Ijaiye local council development area of Lagos State. The population figure could not be ascertained for the purpose of this study therefore a sample of 100 informal sector operators was selected through convenience sampling technique, as well as 17 tax officials. Data obtained were analysed using descriptive statistics as well as inferential statistics through regression analysis.

3.1 Model Specification
Multiple linear regression model is used to describe the effect of the dependent variable (tax compliance) and several independent variables.

\[
Tax\ Comp = \beta_0 + \beta_1 Uni + \beta_2 Pre + u
\]

Where;
Tax Comp = Tax compliance 
Uni = Trade Union 
Pre = Presumptive Tax 
U = Error Term

3.2 Measurement of variables
This study utilised the existing variables as used in previous studies in the measurement of voluntary tax compliance (OECD, 2004, 2012; Anyaduba, 2012) while measurement of variables for the challenges of tax compliance among informal sector operators were derived by adopting the information as listed in (IMF, 2012 and OECD, 2004). A checklist was used in the questionnaire to gather data on these parameters measuring them on a scale of 1 (Strongly Disagree) to 5 (Strongly Agree).

| Table 1: Reliability Test of Measures of Tax Compliance |
|-----------------|-----------------|------------------|
| Variable         | Number of item  | Cronbach’s Alpha |
| Voluntary Tax Compliance | 5               | 0.944            |

Source: Field Survey (2017)

To ensure the relevance of the research instrument in measuring tax compliance internal validity was ensured through the use of widely accepted variables for measurement while the Cronbach’s Alpha estimates was computed to ensure reliability as indicated in Table 1

4.0 Analysis and Results
Demographic information
The result in Table 2 presents the analysis of respondents from the tax payers’ group. As regards the age of the business of the tax payers, majority of them (91%) have been in
business from 1 to 10 years while others have spent over 10 years in the business. A major characteristic of businesses in the informal sector is the small level of income as well as the level of staff strength. This is confirmed as (76%) of the sampled businesses claim to have a sales revenue of N250, 000 and below per month and (61%) of them are one man businesses.

**Table 2: Demographic Summary of Tax Payers Respondents**

<table>
<thead>
<tr>
<th>Category</th>
<th>Freq.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age of Business</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>1-5 years</td>
<td>59</td>
<td>59</td>
</tr>
<tr>
<td>6- 10 years</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Turnover monthly</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than N100,000</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>N100,000- N250,000</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>Above N250,000</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Invalid</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Staff Strength</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>61</td>
<td>61</td>
</tr>
<tr>
<td>2-5</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>6-10</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Above 10</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Field Survey (2017))

**4.1 Level of voluntary Tax compliance**

Voluntary tax compliance is measured through the assessment of tax payers for registration of their business for tax purposes, filing of tax returns on time, making full disclosure of income for tax purpose and correctly reporting their tax liability as well as maintenance of all relevant records for tax purpose. The result indicates that the level of voluntary tax compliance among this informal economy is low (mean = 1.6880) which is in line the characteristic nature of businesses in the informal sector. The result in Table 3 shows the level of voluntary tax compliance among the selected respondents.

**Table 3: Descriptive Statistics of level of Voluntary Tax Compliance**

<table>
<thead>
<tr>
<th>Category</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Tax Compliance</td>
<td>100</td>
<td>1.00</td>
<td>5.00</td>
<td>1.6880</td>
<td>1.35983</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Field Survey (2017))

**Challenges of voluntary tax compliance among informal sector operators**

From the responses of the respondents presented in Table 4, a high tax rate (5.00), the perception that government does not utilise tax for the purposes for which they are meant (5.00), the nature of their business (4.98) and poor knowledge of tax matters (4.96) are the major challenges inhibiting voluntary tax compliance.

**Table 4: Descriptive Statistics of level of Voluntary Tax Compliance (Tax payers)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Administration- Poor knowledge</td>
<td>4.96</td>
<td>.400</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>
The tax officials are of the opinion that the nature of business of the informal sector economy (5.00) is the major challenge hindering voluntary tax compliance. This is in line with the notion that there is great difficulty associated with taxing unstructured business characterised by high level of invisibility and irregularity. They also attested to the fact that the nature of these businesses do not enhance proper record keeping, thereby posing an additional challenge to the taxation of the sector.

Table 5: Descriptive Statistics of level of Tax Compliance (Tax Authority)

| Economic challenges- High Tax rate | 5.00 | .000 | 5 | 5 |
| Accounting challenges- No proper record | 4.76 | .818 | 1 | 5 |
| Industry challenges- Nature of business | 4.98 | .200 | 3 | 5 |
| Psychosocial challenges- Tax not utilised | 5.00 | .000 | 5 | 5 |

Source: Field Survey (2017)

Contrary to the opinion of the tax payers, tax officials do not support the views that a high tax rate and non-utilisation of tax revenue by the government constitute a challenge to voluntary tax compliance. In the opinion of the tax officials, the tax rates in the informal sector are not too high (2.47) and, they do not agree that government does not utilise the tax for the purposes it is meant (1.59).

Table 6: Descriptive Statistics of Preferred Approach to Enhance Voluntary Tax Compliance

<table>
<thead>
<tr>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Union</td>
<td>100</td>
<td>1.00</td>
<td>5.00</td>
<td>2.9067</td>
</tr>
<tr>
<td>Presumptive Tax</td>
<td>100</td>
<td>2.00</td>
<td>5.00</td>
<td>4.6900</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey (2017)

The result in Table 6 is a descriptive analysis of the potential effect of the use of trade union and presumptive tax approaches in enhancing tax compliance among the informal sector operators. It shows that respondents agree that the use of presumptive tax (4.6900) will be the most effective approach towards enhancing tax compliance among informal sector compared to trade union activities (2.9067). Further analysis using inferential statistics is presented in Tables 7 and 8.

Table 7: ANOVA"a""b"

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>56.298</td>
<td>2</td>
<td>28.149</td>
<td>21.539</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>126.768</td>
<td>97</td>
<td>1.307</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>183.066</td>
<td>99</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: TaxComp
b. Predictors: (Constant), Pre, Uni

Table 8 Regression Output for Approaches for enhancing Tax Compliance
The result in Tables 7 and 8 shows the regression results of the approaches for enhancing voluntary compliance among businesses in the informal sector. The result shows that 30.8% of the level of tax compliance can be influenced by trade union activities and presumptive tax system. The individual coefficients of the models reveal that presumptive tax ($\beta = 0.209$), ($t = 1.362$) and ($p = 0.176$) approach may have a positive non-significant effect on the level of tax compliance. On the other hand, trade union activities showed a negative significant effect on the level of tax compliance ($\beta = -0.470$), ($t = -6.455$) and ($p = 0.000$).

The hypotheses of the study were tested using regression analysis (see Table 8) and the result showed that presumptive tax ($p = 0.176$) will have a non-significant effect on the level of tax compliance which leads to the acceptance of the null hypothesis. On the other hand, trade union activities ($p = 0.000$) has a significant effect on the level of tax compliance albeit a negative effect. Thus we reject the null hypothesis and accept the alternate hypothesis for $H_{01b}$

### 5.0 Conclusion and Recommendations

The result of this study indicates that voluntary tax compliance in the informal economy is low. This may be because of the characteristic nature of the sector which makes them to be excluded from the tax net and as such they will not voluntarily pay tax. However, with the increasing need by government to meet its financial obligations and the potentials of this sector to contribute to the revenue generation drive of the government, new approaches to the taxation of the informal economy needs to be looked into.

In addition to the features of the informal economy which pose barriers to the taxation of the sector, informal economy businesses are of the opinion that challenges of tax compliance are mainly in areas of perceived non-utilisation of tax revenue by the government, excessively high tax rate and poor knowledge of tax matters due to the failure of tax officials to provide the requisite enlightenment. Therefore, if these perceived challenges are addressed by the government, informal sector business owners may be more willing to fulfil their tax obligation. Other barriers as listed by the tax officials are that the nature of the business engaged in by players in this sector makes it difficult to assess them for tax, particularly when they do not keep proper records of their activities. Notwithstanding these barriers, it is the responsibility of any government experiencing paucity of fund to seek ways in which the much needed revenue can be raised through the opportunities created by the informal economy.

Irrespective of the fact that studies have shown that taxation of the informal sector can be improved by taxing the goods and services bought and sold or through ‘presumptive’ or withholding taxes (Joshi, Prichard, Heady, 2014), this study has shown that presumptive tax will have no significant effect on the level of tax compliance among informal sector businesses in Lagos State. This could be due to the ignorance of the tax payers as to the process of implementing presumptive taxes. Collecting taxes through the trade union also showed a significant negative effect perhaps because of distrust between the association and the tax payers who assume that the association will be working in favour of the tax authority.

This study recommends that accountability and good governance should be the prime concern of the government in order to build trust in the tax payers. Skilled tax officials should be enlisted to re-orientate tax payers as to the benefits of paying appropriate taxes. Tax rates and
laws should be favourably to the informal economy to enhance voluntary tax compliance. Furthermore, based on the findings of this study that shows that voluntary tax compliance among the informal sector may not be improved through presumptive tax or tax collection through trade unions, this study recommends the formalisation of the informal sector as a way to guarantee effective tax compliance. This can be achieved through registration of businesses to push the firms and individuals into the tax net. These businesses can be educated on the benefits of formalisation which include access to credit, opportunities to engage with larger firms and the government, reduction in the rate of harassment by police and government officials and improved access to training and support program. It is suggested that future research be focused on the means to achieve formalisation among businesses in the informal sector in Nigeria.

6.0 References
International Monetary Fund (2012). Regional workshop on tax compliance management. IMF METAC tax compliance management workshop Jordan.


