

TAX & JUSTICE
Tackling Emerging Issues in
Nigeria's Informal Sector Taxation

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Outline

- **Introduction to Democracy and Taxation**
- **Introduction to Informal Taxation (Global Perspectives)**
- **Informal Taxation Evidentiality Versus Community Levies**
- **Democratic Equity- Versus- High Revenues Target: Implications for Democratic Governance**
- **How Informal Taxation Affects Women**
- **Strengthening Commitment with Responsive Tax Incentives**
- **IPSAS, Budget and Informal Taxation**
- **Conclusion and Recommendations**

Introduction to Democracy and Taxation

- Political economy accepts that taxation and democracy, often, interacts beneficially. Tax and governance are literally and structurally related. Dictatorship or popular democracies cannot flourish without taxation. Governance have effects on those, who votes and unto those, who do not. Individuals might regard democratic decision-making as a tool for the majority to exploit the minority. But the burden of democratic leadership switches this theory, where, minority taxpayers could reduce tax revenues collection targets, against service delivery for the benefits of majority that voted in an election.
- Internationally, the notion of “congruence” or “equivalence” comes under additional strain. Why do most countries allow citizens abroad to vote, without inference to tax, while resident aliens are subjected to tax, without the right to vote? In recent years, tax contests have wielded additional pressure within democratic discourse, far more than human rights or lopsided EPAs. Is the “exit” option for individuals a source of irritation for democratic tax legislations or is it rather, a useful device to protect individuals against being overtaxed? To what extent, shall outside investors consider redistributive policies of states? These issues do not only challenge the traditional balance of taxation and democracy. They also challenge our views, on how, we perceive the state and how society sees community of taxpayers as agents of social justice. In tax laws, the borderline, between “us” and “them” must be addressed, since unlimited tax liability, involves a notion of solidarity that is hard to capture in a globalized world.

Post-Electoral Governance

- For sustained attention to policy-making processes, scholars can turn to several models of post-electoral governance. The basic insight is that decision making in democracies, frequently involves several elected officials. Policy can be seen to emerge from strategic interactions. Like other micro-analytic, actor-centered approaches, such models, require making certain assumptions about who is involved, their preferences, available options, and the sequence, which these choices are made, as it translates to tax policies and taxation.

Introduction to Informal Taxation (Global Perspectives)

- In the last 50 years, unprecedented population growth, urbanization and economic development, particularly, in developing countries, failed to generate enough employment and expected incomes, compelling unaccounted labour force to supplement its own means of employment, which affects the survival of the informal sector. Key characteristics within the informal sector are open-ended entries of enterprises into the sector, dependence on local resources, family proprietorship, micro- scale operations, low productivity, and non-adaptation to technology by many of these enterprises. Unregulated competitive markets, lack of governmental support and multiplicity of levies also weighs down the growth of informal sector. Dynamic character, alongside, instrumentalistic role towards bettering employment dynamics and driving developing economies toward growth and prosperity are among rallying necessities of informal sector.

Informal Taxation Evidentiality Versus Community Levies

- Informal taxation is a system for financing for local public goods, characterized by social enforcement through the involvement of public officials. Qualitative evidence suggests that informal taxation is a common form of local finance for the construction and maintenance of social infrastructure, such as, roads, schools, and water systems throughout developing world.
- A range of studies have documented the presence of informal taxation in various countries across Latin America, Africa, and Asia. Several patterns are emerging from the range of anecdotes and studies of informal taxation or community levies.
- In Nigeria, these levies are imposed by several clusters of “community leadership”, such as, chiefs, women leaders, youth leaders, security committees, vigilante groups or neighborhood associations, et al. Quantitative work on the distribution of informal tax burdens that focused on two countries, being, Indonesia and Kenya. These integrated lessons and emerging issues about informal taxation from Nigeria and elsewhere are documented in the 310 paged (“TAX & JUSTICE) book, recently released by NDEBUMOG.
- There are surveys that sampled households from 10 countries: Albania, Ethiopia, Guatemala, Indonesia, Nigeria, Nicaragua, Panama, the Philippines, Vietnam, and Zambia. A potential concern with these sampling countries was that relevant survey questions are likely to be included in countries, where the phenomenon were prevalent. However, it was discovered that informal taxation is not geographically isolated to a region of the world. Other sampling contains countries from Europe, Latin America, Africa, and Asia. In addition, anecdotal evidence indicates that informal taxation is common in many countries...

**Democratic Equity-
Versus- High Revenues
Target: Implications for
Democratic Governance**

- Globally, the debate on the costs and benefits of taxing the informal sector has largely focused on direct revenues and equity implications. On the surface, taxing the informal economy appears to be potentially important on revenues mobilization, as the informal sector, holds a large, and in many countries, reasonable share of the GDP. Practically, revenues are likely to be comparatively uncertain, in view of wide gaps on tax-returns' against untaxed entities. Individual incomes within the sector may not be justifiably measured, as corresponding filing of PAYE taxes by micro-informal entities have several gaps, whilst undocumented collections in terms of levies are very high, owing to archaic and undemocratic nature of collections, either, through revenue-agents, tax consultants or firms mandated to collect on behalf of the government. In some cases, these collections revolve around political patronage (reward) system for a country, like Nigeria. Fair taxation within informal economy also raises equity concerns. Operators of informal sector's outfits are, mostly, low, or medium-income earners and taxation of such firms are regrettably regressive. Efforts to tax these informal sector's entities also increases the risk of bullying, intimidation, or corrupt behavior by tax officials. For these reasons, several tax experts are skeptical in evaluating their judgement for or against formal or informal sector.

How Informal Taxation Affects Women

- In Nakonde, Zambia, ActionAid conducted a focus group discussion with market traders, 90% of whom were women. There was no running water in the market. Women must pay US\$0.2 to use the toilet facility (prices for men are the same but men made less use of it), and US\$0.1 for a ten-liter container of water, as well as other market fees. This often means, women go home for water, which reduces their incomes, as they must close their stalls.
- In 2017, ActionAid Ghana carried out a study in Ga West Municipal Authority (GWMA), a rural area of Ghana, near Accra. Most women there were engaged in informal business activities, such as, market trading, hairdressing, soap-making, or dressmaking. The women paid a national ‘tax stamp’ (with evidence of payment displayed in their shops). It was a flat fee aimed at informal sector businesses, grouped according to business sizes and types. The tax stamp raised 1% of national-level revenues collected from the area. The local taxes included licensed fees and market tolls, which were levied on informal, as well as formal businesses. The threshold for paying personal income tax in Ghana was ₵2,592 (US\$541). Some of the informal traders made more than this and some less. For many, it was impossible to say, as they did not keep records. Nevertheless, they all had to pay the tax stamp and local market tolls.
- They said, some businesses that made little profit were taxed heavily. They raised objections to the perceived arbitrary nature of presumptive taxes. They lamented that they had paid too much, whereas they did not see development or service improvement.

Evolution of Tax to Service Agreement

- An important factor motivating recent interest in taxing the informal economy is the possibility that payment of taxes by entities in the informal economy, may promote good governance, tax for services reward and political accountability through related service delivery channels. In order to encourage quasi-voluntary tax compliance, a state, may be more responsive and accountable to groups that pay taxes, with effective service-delivery, which should be engineered through tax to service agreement.
- Negotiations between the government in power and informal sector associations can produce modest revenue gains, improved conditions for informal sector actors and creates strong alliances between political parties and informal sector associations. The benefit is an arrangement, though imperfect, is to generate a tax-paying culture that could contribute to state-building in the long run and factoring tax to service bargaining with political parties.
- Interestingly, in view of emerging models, particularly, on tax to service that is evolving with informal actors across Nigeria, it is encouraging to see tax justice platforms in Oyo, Ogun, Ondo, Imo, Anambra, Lagos, among others pushing this model, which is producing democratic gains in a few states.

Strengthening Commitment with Responsive Tax Incentives

- While the preceding discussion highlights factors that may shape incentives for firms to formalize, it is equally important to consider incentives for governments and the state, which will make taxing the informal sector a priority. Constructive negotiation between the state and informal operators, depends, not only on collective action, among firms, but also on the willingness and ability within the state to bargain with multiple micro actors through diverse interests. More broadly, without reform champions, who wields sufficient political influence to overcome entrenched resistance, successful reforms are unlikely...
- Of course, while getting a buy-in from informal sector is critical, it is also possible that other reform constituencies may emerge or may be fostered by reform leaders. There are some evidence that formal sector firms facing competition from the informal sector, could mobilize support for reforms. For example, in Kenya, formal sector businesses, became a key interest group that supports government efforts to expand taxation and formalisation, which goes, as far as, to support strengthening of informal sector associations directly in order to facilitate bargaining (Prichard, [2010b](#)). This suggests the possibility that sources of shifting political incentives, may be diverse, even as alternative sources of reform pressure may yield different types of outcomes, either, coercive, divisive, collaborative, and constructive.

IPSAS, Budget and Informal Taxation

- With the evolution of information and communications technology (ICT), governments around the world are integrating ICT into operational mechanism of government, either, through wholly e-governance or with segmented technological tool, such as, IPSAS that budgets are link for effective monitoring and evaluation. As budgets are tailored to IPSAS chart of accounts, revenue collections, through e-tax, should also be linked, alongside, audits. All these combined, shall promote fiscal discipline and reduction of corruption. The Federal Government and several states in Nigeria have developed revenue collection portals. However, much are still needed at consolidating this technological bridge with ICT, even as, mobilization of informal businesses into this technological reality may take ages, especially, in Africa.
- IPSAS aims to improve the quality of general-purpose financial reporting by public sector entities, leading to better informed assessments for resource allocation decisions that are to be made by governments, thereby, increasing transparency and accountability. The International Public Sector Accounting Standards Board (IPSASB) issues accounting standards and recommended practice guides for financial reporting needs of national, regional, and local governments, alongside, constituencies they serve. The International Public Sector Accounting Standards (IPSAS) issued by the IPSASB represents a comprehensive set of authoritative international financial reporting standards for governments and other public sector entities. This in effects, should capture, inflows and outflows, hence, it should be of interest to informal sector players that may want to formalize their business. As these charts of accounts, are invariably, link to collectible revenues, budgets, audits, monitoring and evaluation. The political will of a government to implement the above is the challenge. Invariably, budget, tax and audit will the interlock technologically as time goes by and capacity of non-state actors in this direction is essential. NDEBUMOG is willing to collaborate towards sharing our institutional capacity on IPSAS with (development) stakeholders, etc.

Conclusion and Recommendations

- Government, must stop, the use of consultants to collect taxes. Stoppage will block leakages associated with the use of consultants for tax collection and shall boost revenue accruable to states and local governments for effective service delivery. Government should make taxes that are payable known to every citizen. Tax rates should be published and be disseminated widely. Payment of taxes should be eased through virtual means to encourage citizens to pay taxes through payment cards or at online payment platforms.
- Tax policies should be shaped, in a way that encourages and support growth of the informal sector of the economy. Multiple taxation affects micro and small enterprises negatively. Efforts should be made to eradicate it. Principles of fair tax should be employed in taxation from the bottom of the pyramid to the vulnerable poor. Every business cannot be taxed the same.
- Different groups parading markets and harassing traders, should be banned from the markets with their criminalized activities. Point of sales payment system should be introduced in the markets, where traders, would easily pay their taxes, tolls, and levies, without molestation. Treasury Single Account (TSA) should be set up for tax collection at the local government level to block leakages. A redress mechanism should be established to handle issues of abuse and wrongful acts of state agents, involved with tax collections at markets. Equitable approaches must be adopted in taxation. High net-worth individuals should pay commensurate taxes.
- There is need to carry out impact assessments, with a focus on women and poor people to ensure those groups are not disproportionately affected in taxation. Ensure that any reform in informal sector taxation aims to improve compliance. There are several dimensions to this, all of which needs attention, capacity, and investment. Budget transparency and actual spending of tax revenues on community development, should be made public. Improve transparency, with public postings of rates payable and immutable standardized receipts. Those paying taxes, should always demand and save receipts, which can be useful in holding local officials accountable for uses of revenues paid. Ensure that there are sufficient skilled revenue authority officials with capacity to implement tax administration unbiased, alongside with respect for human rights. These, among others, shall promote tax and justice.



**Thank You
So Much!**



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