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REPORT OF RESEARCH ON  
**TAXATION IN THE  
INFORMAL SECTOR**

IN ABIA STATE



FOUNDATION FOR ENVIRONMENTAL RIGHTS,  
ADVOCACY AND DEVELOPMENT (FENRAD)

## INTRODUCTION

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- 1.0 Background to the study
  - 1.1 Statement of the problem
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  - 1.3 Research question
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  - 1.5 Scope of the study
  - 1.6 Organisation of the study

Several levels of governments, especially at sub-national and local government levels lacks a clear policy for the taxation of the informal sector,

## BACKGROUND TO THE STUDY

The background to this study was advanced by Civil Society Legislative Advocacy Centre (CISLAC) to Foundation for Environmental Rights, Advocacy and Development (FENRAD) through the term of reference for this research.

The term of reference averred that the 2012 baseline study of Taxation, Citizens' Perception and Tax Gap Analysis in Nigeria revealed the existence of a huge tax gap and low citizens' perception of the efficiency of the tax system in the country. It affirmed that a major contributory factor to the low Tax to GDP ratio was the large informal sector which is not effectively captured in the taxnet.

These informed several interventions by CISLAC with support from OXFAM under the CRAFT project from 2013-2015. The team undertook several capacity building for citizen groups, created awareness, built alliance and advocated to relevant government agencies at various levels. It also informed the emphasis on Informal Sector Taxation, especially in 16 states of Southern Nigeria which has the highest levels of informal activities in Nigeria.

It further stressed that the complexity of the informal sector triggered a number of challenges on revenue mobilization by the tax authorities. Some sections of the informal sector are successfully evading or avoiding taxes

while others in the sector are bearing a heavy burden of payments. These challenges were acknowledged in the National Tax Policy (NTP) as they posited that compliance has been a great problem in the Nigerian tax system as a result of the large scale informal sector.

It further indicated that the administrative burden of applying of tax laws to the sector may be cumbersome for some of these entities and therefore efforts should be made to deal effectively and efficiently with them to increase both compliance and revenue whilst keeping the cost of administration low as possible.

Several levels of governments, especially at sub-national and local government levels lacks a clear policy for the taxation of the informal sector, also referred to as a "hard to tax" sector, thus, leading to the introduction of multiple strategies to generate taxes from them. These contributed to the exacerbation of poverty and widening of inequality as informal sector players-artisans, subsistence workers and market women bear heavy burdens of arbitrarily imposed multiple levies, rates and charges, which are sometimes collected in a dehumanizing manner that causes bodily harm and in some cases death of taxpayers.

Some of the outcomes of the advocacy from the 2012 CRAFT research include the introduction of the Presumptive Tax Regime by the Federal Inland Revenue

Service (FIRS) and the Joint Tax Board in April 2013 with a view to improving access of the tax system by taxpayers in the informal sector. This was meant to be a consultative process but it is unclear whether it has become operational in 2015 or not. Other Outcomes include the establishment of State Tax Justice and Governance Platforms that would comprise Informal Sector, Artisans, Market Women, Labour Unions and Professional Bodies in 16 States of the Western Nigeria.

According to reports, this sector employs over 80% of the workforce in the country. It increased its contribution to the Nigerian GDP from 35% in 2012 to about 58% after the rebasing in 2014. In a bid to increase revenue, several initiatives aimed at bringing informal sector into the tax net were introduced.

While governments at sub-national and local government are introducing new and multiple levies and establishing task forces and special groups to collect them, institutions like the FIRS at the Federal level seem to be pursuing the registration of unregistered entities which could drive towards efforts to formalizing the informal sector. The report of successful registration of 362,000 new taxpayers across the country within the last few months and the aim of ensuring up to 90% compliance in tax payments and remittances are indicative of these.

A recent study on the sector highlighted

that lack of access to credit, poor technical know-how, inadequate training opportunities, infrastructural deficit and an incoherence of the formal and informal sectors amongst many others, inhibited the growth of the informal sector in the country, however, the study did not establish the role of the tax practices and policies in their development and sustenance. This is usually a strategy employed to encourage informal sector players to become formal and come into the tax net. It however ignores the social, cultural and historical attachments that have made some activities operate perpetually at the informal level and consequently a permanent feature of the economy of modern societies.

Some literature also reveal that effective stratification is a challenge as small and medium enterprises are also classified as informal sector while there are several professionals operating high worth but unregistered businesses.

With the need to increase government revenues at all levels of government, there has been increased pressure to maximize taxes from the informal sector. Studies show that unless this is done with caution, it could be counterproductive as it could stifle businesses, create unemployment, result in poverty and generate inequality. This will further erode the tax base and discourage voluntary tax compliance and culminate in reduced revenues and create citizens' discontent with attendant effect on

social services and development.

This is also contradictory to the proposed plan to diversify the sources of government revenue in the light of the dwindling revenues from the extractive sector.

The Taxes and Levies (Approved List of Collection) Act 1998 indicates that most of the taxes and levies paid by informal sector and subsistence business people are collected at the state and Local Government levels. This is in addition to those imposed by them by the powers conferred on them by the Constitution of the Federal Republic of Nigeria recognizing the Federal structure.

Presently, different tiers of government have been claiming and denying the existence of multiple taxations, and the application of unethical tax collection methods that sometimes leads to violence, extortion and collection of illegal monies by unauthorized persons; this research will affirm the positions of government or otherwise, assess if the current environment is harsh for small scale business owners, its impact on livelihoods, household income, poverty and inequality.

The outcome of the research will be used to advocate for fair tax policies and practices as it relates to this section of the population that are bestowed with unfair tax practices, thereby, protecting their rights within the tax system and ensuring that they pay only legally

approved only rates of taxes and levies to the approved collecting authority.

## **OBJECTIVE OF THE STUDY**

This study intend to achieve the following;

- a) To identify types taxes and scope of administration in the State.
- b) To identify the mode of tax administration in the State and challenges of current tax administration on the sector.
- c) To identify the impact of the current tax administration on the growth of the informal sector in the State.
- d) Make recommendations on how to improve compliance without impacting on the growth of the sector in Abia State.

## **RESEARCH QUESTION**

To achieve the objective of the study, the following questions will be answered following;

- a) How regular do you pay specific taxes and levies in your business?
- b) How are these taxes and levies collected in Abia State?
- c) What are the possible solutions to tax avoidance and evasion in Abia State?

## SIGNIFICANCE OF THE STUDY

The research findings will:

- a) Provide Civil Society Organisations and Government with the evidence of the effect of current tax administration on the informal sector in Abia State with a view to escalating advocacy for reforms.
- b) Empower workers in the informal sector to know their tax liabilities and mobilize active citizenship for right based approach to tax administration
- c) Increase awareness about tax issues in the informal sector in Abia State to encourage voluntary tax compliance and demand for accountability in revenue management.
- d) Provide direction for further researches on the subject.

## SCOPE OF THE STUDY

The study covered different kinds of business in the informal sector such as okada riders, petty traders, mechanics, hairdressers, fashion designers (tailors), spare parts dealers and others in Osisioma, Aba North and Isiala Ngwa South Local Government Areas of Abia State. These local government areas were chosen for this study because of high presence of small business operators that may be paying taxes and levies to different levels of government. The researcher is also very familiar with these local government areas, so, they

## ORGANISATION OF THE STUDY

were also strategic in avoiding communication barriers.

The study is made up of five chapters.

Chapter one focused on background of the study, the statement of the problem, the objective of the study, research questions, the significance of the study, the scope of the study, and the organisation of the study.


Chapter two dwelled on literature review. This covered the definition of taxation, theoretical framework of taxation in Abia State, tax evasion and tax avoidance. It also defined informal sector, its characteristics and factors that motivate tax compliance. Consequently, gazettes, journals, articles and other published works that relates to this study were reviewed in this chapter.

Chapter three described the method that was adopted in the research, describing the research design, the population, the sample and sampling techniques that was used in the study, method of data analysis, and the limitations to data collection.

Chapter four dwelt on the results and discussion of the findings.

While chapter five summarized the findings, drew conclusions on the study and made some recommendations.

## **THE STATUS OF LEGAL AND POLICY FRAMEWORKS OF TAXATION IN THE INFORMAL SECTOR IN ABIA STATE**

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1. Definition of tax and taxation
  2. Theoretical Framework of taxation in Abia State.
  3. Tax evasion and tax avoidance.
  4. Meaning of Informal Sector.

## DEFINITION OF TAX AND TAXATION

A tax “is not a voluntary payment or donation, but an enforced and compulsory contribution, exacted pursuant to legislative authority” and is “any contribution imposed by government”, whether under the name of duty, custom excise, levy or other name.

Bird, R.M in his publication, Tax Policy and Economic Development, defined taxation as a sovereign right that the State uses to transfer resources from private to public use in order to achieve the economic and political goals of society.

While Tax Attorney defined it as a compulsory levy that the government of a country or its appropriate agency imposes on taxable persons, individuals, businesses and other bodies to allow the government provide money needed for the running of government and achieve other macroeconomic objectives and fiscal policies of the government. On the other hand, he simply defined tax as words used to represent the money that is collected by the government in order to have enough fund to smoothly run the affairs of the state.

Wikipedia definition concur with this position as it defined tax as a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state to fund various public expenditure. Section 1.1 of the National Tax Policy defined Taxation as basically the process of collecting goods and services in Nigeria; taxes within a particular location.

In this regard, tax has been defined as “a monetary charge gains derived from sale or disposal of imposed by the Government on persons, entities, and transactions or properties to yield

revenue”. It has also been defined as ‘the enforced proportional contributions from persons and property, levied by the State by virtue of its sovereignty for the support of Government and for all public needs’. It further explained that taxes may also be seen as “pecuniary burden laid upon individuals or property to support government expenditure.

A tax “is not a voluntary payment or donation, but an enforced and compulsory contribution, exacted pursuant to legislative authority” and is “any contribution imposed by government”, whether under the name of duty, custom excise, levy or other name.

Tax Attorney averred that traditionally, the essence of imposing tax and taxation is to raise money to run the affairs of government but the scope has now increased to stimulating investment, reducing inflation, encouraging the purchase of local goods and discouraging the consumption of certain goods. Taxes differ from other sources of revenue in that they are compulsory levies and are generally not paid in exchange for some specific thing, such as a particular public service, the sale of public property, or the issuance of public debt. Section 1.2 of the National Tax Policy distinctively defined Revenue as income received from all activities engaged in by the receiving entity. It posited that in Governmental terms, revenue is the entire imposed on the amount received by the Government from sources within and outside the Government entity.



However, there are basically two types of tax, the direct tax and the indirect tax. The direct taxes are taxes that are directly charged on taxable income of taxable person while the indirect taxes are those that are eventually borne by the buyers of a taxable product. Value Added Tax (VAT) is a good example of indirect tax. These taxes are guided by policy which dictates where tax burden shall lie without losing sight of how the policies and law as will affect individuals and businesses. Tax policy reveals government choice on the types of taxes to levy, in what amounts, and on whom. It has both microeconomic and macroeconomic considerations. The microeconomic considerations dwell on issues of fairness on who to tax and which taxes will distort economic activities in a diverse manner.

Section 1.3 further clarified the distinction between taxes and other internally generated revenue items such as charges, levies and penalties. It stated that these other revenue items are not usually income or transaction based, but may be imposed for the use of utilities or infrastructure, or the right of way or simply imposed on certain category of persons, activities or persons within a particular area.

Section 1.3 (a) defined Charge as an amount paid for use of goods, services or infrastructure provided by Government.

Section 1.3 (a) (ii) defined Fee as a payment for the labour or services provided by a public body such as payments made to a Government entity or agency to obtain passport or visa.

Section 1.3 (a) (iii) defined Fines as the sum of money imposed by Government as penalties for an offence or indiscretion by a person within the jurisdiction of the Government. These include Court fines, fines imposed for traffic violations, unauthorised usage of Government property etc

Section 1.3 (a) (iv) defined Penalty as being similar to a fine but it is usually an amount paid or forfeited for not meeting a particular condition or fulfilling an undertaking. These include payments for late filling of returns, or the late or non-provision of information at the time required to Government agencies.

Section 1.3 (a) (v) defined Rates as amounts imposed on property or other assets. These are usually determined with reference to the value of the property or in relation to some other thing. Rates include tenement rates and rates on shops and kiosks.

## THEORETICAL FRAMEWORK OF TAXATION IN ABIA STATE

Taxation in Nigeria is in the concurrent list of the constitution. Section 7 of Part II of the Second Schedule of the 1999 constitution, states that in the exercise of its powers to impose any tax or duty on-

- (a) Capital gains, incomes or profits or persons other than companies; and
- (b) Documents or transactions by way of stamp duties.

The National Assembly may, subject to such conditions as it may prescribe, provide that the collection of any such tax or duty or the administration of the law imposing it shall be carried out by the Government of a State or other authority of a State.

The power of State on tax matters is drawn from Section 9 of same Part II of the Second Schedule which stipulates that a House of Assembly may, subject to such conditions as it may prescribe, make provisions for the collection of any tax, fee or rate or for the administration of the Law providing for such collection by a local government council.

While Section 1 (b), (c), (d), (e), (f), (g), (h), (i), (j), and (k) of the Fourth Schedule of the 1999 Constitution gave the Local Government the authority to collect some taxes within their jurisdiction.

It is based on the above premise that the Abia State House of Assembly made some tax laws for the State. The number of the tax laws, revenue

heads/collectible items and scope of applicable are shown in the table below:

NUMBER (as it appears in the reference law where this item was extracted from)	Revenue heads/collectible items	Mode of collection	Classification of the town/city/sub-urban/community.			
			A for Town	B for City	C for sub-urban	D for Community
A.S.N. Law No. 2 of 2016	Abia State Board of Internal Revenue	Demand Notice	Yes	Yes	Yes	Yes
A.S.N. Law No. 3 of 2013	The Registration of Business Premises	Demand Notice	5000	5000	5000	5000
A.S.N. Law No. 4 of 2014	The Abia State Property and Land Use Charge Law	Demand Notice	20,000	Yes	Yes	10,000
A.S.N. Law No. 8 of 2010	The Abia State of Nigeria Physical Planning and Infrastructural Development Fund Law	Demand Notice	50,000	20,000	10,000	10,000
Law No. 10 of 2015	The Abia State Hotel Occupancy and Restaurant Consumption law	Demand Notice to the Owner of business	20,000	20,000	Yes	Yes

## A.S.N. LAW NO. 2 OF 2016 - ABIA STATE BOARD OF INTERNAL REVENUE

This law may be cited as "Abia State Board of Internal Revenue (Amendment No. 2) Law. It came into force on the 19th day of January, 2015. "The Principal Law" is interpreted as the Abia State Board of Internal Revenue Law No. 7 of 2008.

Section 46 subsections 1, 2, and 3, and section 47 subsections 1, 2, and 4 of Part VI (Harmonization of taxes and levies in Abia State) of Abia State Board of Internal Revenue stipulates that there are two schedules of taxes and levies that guides revenue collection in the state. The first schedule comprise list of taxes and levies that are entirely administered by the State Internal Revenue Service through the issuance of demand notice while the second schedule contain list of taxes and levies that are solely collected by the Local Government Revenue Committee through the issuance of demand notice.

The first schedule of section 8 outlines the twenty (20) taxes and levies to be collected by the State Government in this order:

1. Personal Income Tax in respect of:
  - (a) Pay-As-You-Earn (PAYE) and
  - (b) Direct Taxation (Self Assessment)
2. Withholding Tax (individuals only)
3. Capital Gains Tax (individuals

only)

4. Stamp Duties on instruments executed by individuals
5. Pools betting and lotteries, gaming and casino taxes
6. Road Taxes
7. Business Premises Registration fees in respect to urban and rural areas which includes registration fee and per annum renewals as fixed by the State.
8. Land Use Charge
9. Consumption Tax (Hotel, Restaurant and Event Centres)
10. Mining, Milling, Quarrying and Sand Excavation Fees (if applicable)
11. Animal Trade Tax
12. Slaughter or Abattoir fees, where State finances
13. Development Levy (individuals)
14. Naming of Street Registration fee in the State Capital
15. Right of Occupancy fee on lands owned by State Government
16. Market Taxes and Levies where State finance is involved

17. Infrastructural Development Fund levies

18. Signages and Mobile Advertisement, jointly collected by State and Local Government (to be administered by the State)

19. Sanitation/Environmental fees

20. Mast, Towers, Cables, and Pipe fees.

The second schedule of section listed nineteen (19) taxes and levies to be collected by the Local Government in this order:

1. Shops and Kioks rates
2. Approved Open Market Levy
3. Licensing fee for sale of liquor
4. Slaughter slab licence fee in abattoirs under Local Government Council
5. Marriage, Birth and Death registration fees
6. Street naming registration fee
7. Motor Part Levy (including motorcycles and tricycles)
8. Parking fees on Local Government Street or roads as may be approved by the State Government
9. Domestic animals licence fee (excluding poultry farmers)
10. Licences fees for bicycles, truck, canoes, wheel barrows and carts (other than a mechanically propelled truck)
11. Radio and TV license fee (excluding radio and television in motor vehicles, transmitters and other

communication equipment)

12. Public convenience, sewage and refuse disposal fees

13. Cemetery and burial ground permit fee

14. Permit fee for private entertainment and merriment in public places (excluding roads and streets)

15. Wharf landing fees (where applicable)

16. Market Taxes and Levies excluding any market where State finance is involved

17. Religious Places establishment Permit Fees

18. Wrong Parking Charges

19. Right of Occupancy fees on land in rural areas, excluding those collectible by Federal and State Government

## A.S.N. LAW NO. 3 OF 2013 – THE REGISTRATION OF BUSINESS PREMISES

This law may be cited as “The Registration of Business Premises (Amendment No. 1) Law, 2013, and came into force on the 26th day of March, 2013. “The Principal Law” is interpreted as the Registration of Business Premises Law Cap 144 Volume 6, 2005 Laws of Abia State of Nigeria.

It is contained in the Fourth Schedule Section 24 (1) – Registration and Renewal of Business Premises in Abia State. The rates payable to Abia State Government is stated in the tables below:

S/NO	FIRST COLUMN TYPE OF BUSINESS	SECOND COLUMN REGISTRATION FEE (N)	THIRD COLUMN REGISTRATION FEE (N)
1	Estate Surveyors	10,000	3,000
2	Land Surveyors	10,000	3,000
3	Security Organizations	10,000	5,000
4	Architects	10,000	3,000
5	Accounting Firms	10,000	3,000
6	Management Firms	10,000	3,000
7	Law Firms	10,000	3,000

## GENERAL SERVICES ESTABLISHMENTS

S/NO	TYPE OF BUSINESS	REGISTRATION FEE (N)	RENEWAL FEE (N)
1	Auto Mechanical Corporate A	10,000.00	5,000.00
2	Auto Mechanical Workshop B	5,000.00	2,000.00
3	Vulcanizing Workshop	2,000.00	1,000.00
4	Watch-repairing workshop	2,000.00	1,000.00
5	Rice milling	2,000.00	1,000.00
6	Laundry/Dry Cleaning Corporate A	10,000.00	5,000.00
7	Laundry	2,000.00	1,000.00
8	Car Washing	6,000.00	3,000.00
9	Welding Workshop Corporate	10,000.00	5,000.00
10	Welding Workshop	6,000.00	3,000.00
11	<b>HOTELS</b>		
1	Above 50 rooms	50,000.00	20,000.00
2	Below 50 rooms and above 20 rooms	40,000.00	15,000.00
3	Below 20 rooms	20,000.00	10,000.00
4	Restaurants	6,000.00	3,000.00
5	Fast Food Centers	20,000.00	10,000.00
6	Super Market A	10,000.00	5,000.00
7	Provision Stores B	2,000.00	1,000.00

S/NO	TYPE OF BUSINESS	REGISTRATION FEE (N)	RENEWAL FEE (N)
8	Electrical Workshop	4,000.00	5,000.00
9	Water Supply Tankers	5,000.00	2,000.00
10	Pool Agents	2,000.00	1,000.00
11	Pool Promoters, Casinos and Gaming Companies	40,000.00	1,000.00
12	Bicycle Repairing	500	1,000.00
13	Tricycle and Motorcycle	1,000.00	5,000.00
14	Major Construction Companies	50,000.00	1,000.00
15	Other Construction Companies	30,000.00	3,000.00
<b>CONSULTANTS</b>			
1	Drafts men	2,000.00	1,000.00
2	Hospitals	6,000.00	3,000.00
3	Maternities	4,000.00	2,000.00
4	Pharmacists/Chemists	4,000.00	2,000.00
5	Patent Medicine Store	4,000.00	2,000.00
6	Photographers	2,000.00	1,000.00
7	Barbers	2,000.00	1,000.00
8	Artists	2,000.00	1,000.00
9	Salons	4,000.00	2,000.00
10	Black smiths	2,000.00	1,000.00



S/NO	TYPE OF BUSINESS	REGISTRATION FEE (N)	RENEWAL FEE (N)
11	Gold smiths	2,000.00	1,000.00
12	Horticultural Business etc	2,000.00	1,000.00
13	Printers	6,000.00	3,000.00
14	Mechanical Manuals	2,000.00	1,000.00
15	Dentists	4,000.00	2,000.00
16	Herbalists/Native Doctors	2,000.00	1,000.00
17	Opticians	4,000.00	2,000.00
18	Medical Clinics OPD only	4,000.00	2,000.00
19	X-ray/Radiological Services	6,000.00	3,000.00
20	Medical Laboratory Services	6000.00	3,000.00
21	Embalmmment Centers (Mortuaries)	10,000.00	5,000.00
22	Publishing Firms	6000.00	3,000.00
<b>MILL ESTABLISHMENT</b>			
1	Commercial boreholes	5,000.00	2,000.00
2	Grinding Mills	2,000.00	1,000.00
3	Wood Sawing Mills	5,000.00	2,000.00
4	Palm Oil Press (Manual)	1,000.00	500
5	Cassava/Garri Mills	1,000.00	500
6	Beans and Maize Mills	1,000.00	500
7	Palm Kernel Cracking	1,000.00	500

## INDUSTRIAL ESTABLISHMENTS

S/NO	TYPE OF BUSINESS	REGISTRATION FEE (N)	RENEWAL FEE (N)
1	Soap	2,000.00	1,000.00
2	Furniture	4,000.00	2,000.00
3	Quarrying	200,000.00	100,000.00
4	Sand Digging	10,000.00	5,000.00
5	Shoe Making (Manual)	2,000.00	1,000.00
6	Shoe Making (Mechanical)	4,000.00	2,000.00
7	Leather Bag Products	2,000.00	1,000.00
8	Bakery & Confectionery	10,000.00	5,000.00
9	Fishery, poultry, piggery	5,000.00	1,000.00
10	Local Textile Mill	2,000.00	1,000.00
11	Fashion Designers/Tailors	3,000.00	1,000.00
12	Other Manufacturing Companies (Large)	100,000.00	50,000.00
13	Other Manufacturing Companies (Medium)	40,000.00	20,000.00
14	Other Manufacturing Companies (Small)	10,000.00	5,000.00
<b>DISTRIBUTIONS SERVICES ESTABLISHMENTS.</b>			
1	Fuel Supply (Petrol) Stations	20,000.00	10,000.00
2	Gas supplies	10,000.00	5,000.00
3	Beer Parlour	5,000.00	2,000.00
4	Vehicle Distributions/Car Dealers	10,000.00	5,000.00

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3	Quarrying	200,000.00	100,000.00
4	Sand Digging	10,000.00	5,000.00
5	Shoe Making (Manual)	2,000.00	1,000.00
6	Shoe Making (Mechanical)	4,000.00	2,000.00
7	Leather Bag Products	2,000.00	1,000.00
8	Bakery & Confectionery	10,000.00	5,000.00
9	Fishery, poultry, piggery	5,000.00	1,000.00
10	Local Textile Mill	2,000.00	1,000.00
11	Fashion Designers/Tailors	3,000.00	1,000.00
12	Other Manufacturing Companies (Large)	100,000.00	50,000.00
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## **A.S.N. LAW NO. 4 OF 2014 – THE ABIA STATE PROPERTY AND LAND USE CHARGE LAW**

This law may be cited as “The Abia State property and land use charge law, 2014, and came into force on the 31st day of March, 2014.

According to Section 7 of Property and Land Use charge, the rate payable under this law on properties in the State is:

- (a) Commercial property used for residential purpose is 0.5% per annum of the assessed property value.
- (b) Commercial property used for business purposes is 0.5% per annum of the assessed property value.
- (c) Industrial premises used for business purposes are 0.5% per annum of the assessed property value.
- (d) Owner – occupier residential property is 0.15% per annum of the assessed property value.
- (e) Owner – occupier pensioner's property – exempted from Land use charge assessments but liable to whichever is applicable between Tenement Rate, Ground Rate or Neighbourhood Improvement Charge.
- (f) Family compounds are exempted from this law but liable to Tenement Rate.

Section 9 of the law exempted the following properties from the payment of Property and Land Use Charge:

- (a) A property owned and occupied by a religious body and used exclusively for public worship.
- (b) Cemeteries and burial grounds,

excluding privately owned, profit-making cemeteries and burial grounds.

- (c) A recognised and registered health or other institution or educational institution certified by the Chairman to be non profit making.
- (d) Property used as public library
- (e) Any property specially exempted by the Governor by notice published in the State Government Official Gazette.
- (f) All places of recognised traditional rulers in the State.

Section 10 gave conditions that can lead to loss of exemption from the payment of Property and Land Use Charge. It read as thus:

- (1) An exempt property or part of the exempt property shall become liable to Property and Land Use Charge if:
  - (a) The use of the property changes to one who does not qualify for exemption or,
  - (b) The occupier of the property changes to one who does not qualify for exemption.
- (2) If the Property and Land Use Charge status of the property changes, Property and Land Use Charge imposed in respect of that property shall be prorated so that the Property and Land Use Charge is payable only for the part of the year in which the property or part of it, is not exempt.

## **A.S.N. LAW NO. 8 OF 2010 – THE ABIA STATE OF NIGERIA PHYSICAL PLANNING AND INFRA- STRUCTURAL DEVELOPMENT FUND LAW**

This law may be cited as The Abia State of Nigeria Physical Planning and Infrastructural Development Fund Law, 2010. It came into force on the 15th day of December, 2010.

Section 4 outlined those that can pay the fee and also those that are exempted from the payment of the fee. It clearly stated that:

(1) The fee shall be paid by every property owner/occupier or operator of any business provided in the schedule of the law.

(2) The fee shall be payable annually in respect of every property and services covered by the schedule, but if the property is held by churches and mosques, non-profit making organisations, charitable institutions and public schools, they shall be exempted from paying this fee, provided that such property is not used for commercial purposes and the other facilities are not run for profit purposes.

The rates payable to Abia State Government is stated in the tables below:

## **LAW NO. 10 OF 2015 – THE ABIA STATE HOTEL OCCUPANCY AND RESTAURANT CONSUMPTION LAW**

This law may be cited as The Abia State Hotel Occupancy and Restaurant Consumption law. It came into force on the 4th day of June, 2015

Section 3 outlined that those that will pay this tax are:

(1) A tax shall be paid by any person (referred to in this Law as “the consumer”) who:

a) Pays for the use or possession of any hotel, hotel facility or event centre or  
b) Purchases consumable goods or services in any restaurant or hotel located within Abia State.

(2) The amount to which this tax applies shall be total cost of the facilities, consumable or personal

services supplied to a consumer in, by or on behalf of the hotel, restaurant or events centre.

Section 4 of the law states that the rate of the tax provided by this Law shall be five percent (5%) of the total bill issued to the consumer, excluding Value Added Tax.

The sample of Government of Abia State Board of Internal Revenue consolidated demand notice is shown below:



**Government of Abia State**  
**Board of Internal Revenue**  
 Finbarrs Road, Behind Aguiyi Ironsi Layout, Umuahia

**Notice Num:**  
 170105111131

**CONSOLIDATED DEMAND NOTICE**

Jan 05 2017

**Name (ATIN)** Omenka Nursery and Primary School  
**Phone Number** 08067748444  
**Address** 10 Aba Road, Umuahia, Abia State

- In accordance with the provisions of the relevant laws:
- Section 5 of Abia State Infrastructure Development fund, Law No. 1 of 1999 as variously amended for IDF
  - Section 16 of the Abia State Lands Law, (Cap. 122) and Section 5(i)(c) of the Land Use Decree No. 6 of 1978: Arrears of Rent on Plot Regulations
  - Section 27, 28, 29, 34 of the Abia State Environmental Protection Agency Law Part 4 (Cap. 11) of 1994 as amended for ASEPA and other Abia State Regulations
  - Personal Income Tax Act(PITA) as Amended 2011
  - Other Amendments and Abia State Government Regulations
  - Abia State Structures for Signage and Advertisement Agency No 9 of 2012
  - And any other revenue law

Item	Year	Amount	APRR
Ministry of Education(Renewal of Registration of Private Primary Schools)	2017	N10,000	64100000000036073
Abia State Environmental Protection Agency (ASEPA)(Educational Institution Sanitation Fees)	2017	N5,000	64100000000036074
Abia State Physical Planning and Infrastructural Dev Fund(Infrastructural Dev Levy - Private Education/Institution)	2017	N5,000	64100000000036075
Board of Internal Revenue(Pay As You Earn (PAYE) - Companies)	2017	Assessment	-
Board of Internal Revenue(Development Levy)	2017	Assessment	-

- Unless the debt mentioned above is paid within one month from the date hereof, or proof of earlier payment of the said amount or part payment is produced as requested; an action will be commenced against you in a Court of competent jurisdiction
- You are required to present this Notice at any IGR collecting bank for payment into Abia State IGR Account
- You are to request for AUTOMATED REVENUE RECEIPT AT THE BANK IMMEDIATELY PAYMENT IS MADE
- Any replacement of this Notice due to loss will cost Ten Thousand Naira (10,000) Only

All payments should be made in favour of Abia State Government Internally Generated Revenue (IGR) Account in any of the collecting Banks as per attached.

**HOW TO PAY BY CASH OR CHEQUE**

- Visit any bank branch and ask to Abia IGR Bill via PayDirect using AbiaPay Retrieval Reference(APRR)
- Provide AbiaPay Retrieval Reference(APRR) on Your Bill
- Teller enters the AbiaPay Retrieval Reference(APRR) to load Payment details
- Make Cash or Cheque Payment

**HOW TO PAY ONLINE**

- Visit [www.abiairs.com](http://www.abiairs.com)
- Click on **Pay Online** on the Top Menu or Image Advert
- Enter AbiaPay Retrieval Reference(APRR) to Validate
- Click Continue to preview and confirm details
- Click Pay Now to pay online
- Print Automated Revenue Receipt

**IT IS AN OFFENCE TO PAY CASH TO ANYBODY. For difficulties in payment call 08184222428 or email [info@abiairs.gov.ng](mailto:info@abiairs.gov.ng)**

Signed

Executive Chairman  
 for Board of Internal Revenue

**Contact Info**

Off Finbarrs Roads,  
 Behind Aguiyi Ironsi Conference  
 P: 08184222428  
 E:[info@abiairs.gov.ng](mailto:info@abiairs.gov.ng)

## TAX EVASION AND TAX AVOIDANCE

Falling to pay tax is regarded as tax evasion, and it is a criminal offence. Section 5 (a) of the National Tax Policy defined evasion to include deliberate refusal to pay taxes or make tax returns with the intension of fraudulently retaining tax revenue or concealing the actual tax status of a taxpayer.

In Section 5(b) of the National Tax Policy, tax avoidance was said to include any means by which tax liability is minimised or avoided by exploiting the loopholes in the law.

While Section 5 (b) of the National Tax Policy recognised tax evasion as a crime and posited that appropriate sanctions should be given to offenders while tax avoidance should be discouraged.

The Tax Attorney avowed that despite that tax monies are meant to be used to conduct government responsibilities such as providing social welfare, protecting life and property, provision of roads, quality health care, quality education etc government prioritize and uses the money at its discretion, positing that citizens have no right to refuse to pay tax for any reason.

Therefore, instead of evading tax, taxable person should engage in tax planning in order to benefit from loopholes in the tax laws. Tax planning is the analysis of one's financial situation to make the best use of the various tax exemptions, deductions and benefits in order to minimize their tax liability over a

financial year. It is a legal way of reducing income tax liabilities.

### MEANING OF INFORMAL SECTOR.

The informal sector is the opposite of formal sector. The business dictionary stated that it is a sector that includes all jobs that are not recognised as normal income sources and on which taxes are not paid.

The Wikipedia stated that the informal sector is also known informal economy, or grey economy. It is the part of an economy that is neither taxed, nor monitored by any form of government. There activities are not included in the gross national product (GNP) and gross domestic product (GDP) of a country unlike the formal sector.

Other refers to the informal sector shadow economy, or underground economy. Like many developing nations, the informal sector in Nigeria occupies a significant portion of the nation's economies. They are largely not registered but provide a huge employment and economic potentials for the poor.

The 15th International Conference of Labour Statisticians (ICLS) that held informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to




the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations-where they exist-are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

The regime of President Goodluck Jonathan showed great interest in the development and integration of the informal sector into the economy of the nation, hence, Ambassador Yuguda posited that "government acknowledges the great potential of the informal sector as a key contributor to Nigeria's economic growth and also a powerful tool in the fight against poverty which is consistent with the aspirations of the Transformation Agenda and the Nigeria's Vision 20:2020".

This position was glaringly supported the UN Resident Coordinator/UNDP Resident Representative, Mr Daouda Toure, Ambassador Yuguda. In his appraisal, he statistically avowed that the Informal Sector has grown in size and value across the globe. He estimated the average size of the informal economy could be as much as 41% for developing countries and 38% for transition countries in the year 2000. He concluded that "For many people in the developing world, the informal economy is an important source of livelihoods for individuals, families, and communities. In

many developing countries informality is associated with a way of life, moulded by custom and tradition, than with a conscious decision to remain outside the formal sector"

## METHODOLOGY

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- 3.0 Research design
  - 3.1 Population of study
  - 3.2 Sample and Sampling technique
  - 3.3 Instrument for Data collection
  - 3.4 Validity of the instrument
  - 3.5 Reliability of the instrument
  - 3.6 Administration of the instrument
  - 3.7 Data Analysis
  - 3.8 Limitation of data collection

## RESEARCH DESIGN

The researcher adopted a case study and survey research design for this study. We used both quantitative and qualitative research and a combination of both approaches. Both primary and secondary data sources were considered before we carefully analyze and interpret the gathered data to skillfully arrive at the findings.

## POPULATION OF STUDY

The target population of this study was the informal sector as well as the staff Abia State Board of Internal Revenue, Abia State Ministry of Commerce and Industries, Abia State Ministry of Finance, the Office of the Deputy Governor of Abia State, Chairman of Abia State Revenue Council, members of Abia State House of Assembly, and the Chairman of Abia State Local Government Revenue Committee.

The informal sector operators that participated in the study are Association of Table Water Producers, National Auto Tech Association, Shoe Bag Association, Garment, SEADAN, NASSI, Alian (shoes), LEPMASS (Shoe/Bags), ATFAD (Garment), NSE, IOAA, ASII, ABSCOBA (Shoes), ATAPMAN, NMA, MATA, AIT, welders, hotel proprietors, thread and Yarn, NASME, food vendors, butchers, hairdressers and beauticians, fashion designers, artisans, and petty traders.

The target population of the study is 3358 operators and 734 associations in

the informal sector.

3.2 Sample and Sampling technique  
A sample size of 185 respondents was used for this study. The respondents consist of 76 male and 94 female operators who have been operating in the informal sector for more than 5 year, 10 government revenue officials and 3 tax consultants that deal directly with taxpayers. The respondents in the informal sector were drawn from both urban and rural areas through stratified random sampling technique because of the heterogeneous nature of the informal sector while government revenue officials and tax consultants Purposive sampling technique was used to select.

The researcher selected samples based on targeted units of interest through random sampling, used to guarantee that the representative samples of all the known elements of the population were covered.

## INSTRUMENT FOR DATA COLLECTION

The instrument used for the study was "Tax Justice Platform", tagged "Research/Survey Tool". The questionnaire has two sections, A and B. Section-A contains demographic information of participants while section-B contains items that are designed to cover all data required for the study. The questionnaire was structured with closed-ended questions

while Focus Group Discussion and Key Informant interviews were used to authenticate the data collected from the structured interviews.

The questions in the questionnaire were closed-ended questions. This helped the researcher to get the exact information that is required for this study while the few unstructured interviews were used to get information from respondents. These were open-ended questions used to deliberately create room for discussions to enable the researcher get the opinions, attitudes and beliefs of the respondents towards taxation in and the impact of the system of collection in the informal sector.

### **VALIDITY OF THE INSTRUMENT**

The study used broadly both primary and secondary sources of information from the selected taxpayers from the informal sector, the government revenue officials and tax consultants. The primary sources of data include information that was gathered from the questionnaires that were administered to the respondents. Reliance on primary data was high because of their reliability. The secondary sources of data were gazetted laws, reports, others researched materials including journals.

The questionnaire items were designed with the assistance of a sociologist and tax experts who established the face and construct validity of the instrument before it was produced and

administered.

### **RELIABILITY OF THE INSTRUMENT**

The Internal Consistency Reliability method was used to establish that all items on the test are focusing on a single latent interrelated trait to measure the same construct or idea. Cronbach's Alpha technique was used to determine the reliability of the 4-point rating scale that was applied.

Upon computation, a co-efficient of 0.80 was obtained which indicated that the items were internally stable and supports the use of the instrument.

### **ADMINISTRATION OF THE INSTRUMENT**

The instrument was directly administered to the respondents by the researcher who guided them on how to complete the questionnaire. 185 questionnaires were distributed and retrieved the same day they were administered. Out of the retrieved questionnaires, 7 of them were rejected due to varied errors from respondents while 178 were used for the analysis.

Valuable information was also collected from those that could not read nor write, they were assisted to complete the questionnaire.

## DATA ANALYSIS

In this study, descriptive statistics of percentage and mean scores analysis was used to answer the research questions. The data analysis involved reducing the raw data into a manageable size, developing summaries and applying statistical inferences. They were coded and grouped into 4 categories. The mean scores of responses to the research questions were used to determine the impact of tax on the growth of the informal sector. Any item that has a mean score of 2.5 and above was accepted.

Mean score is denoted as  $\Sigma fx$


$\Sigma f$

## LIMITATION OF DATA COLLECTION

Some of the respondents considered the exercise a waste of time, so, they were uncooperative. The research was also limited by financial constraints based on the scope of the study. Some respondent lack confidence in relaying and reaffirming their positions

Some questionnaire were incomplete despite guidance that was given by the researchers, thus, their opinion was not captured and analyzed.

## DATA PRESENTATION, DISCUSSION AND ANALYSIS

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- 3.0 Research design
  - 3.1 Population of study
  - 3.2 Sample and Sampling technique
  - 3.3 Instrument for Data collection
  - 3.4 Validity of the instrument
  - 3.5 Reliability of the instrument
  - 3.6 Administration of the instrument
  - 3.7 Data Analysis
  - 3.8 Limitation of data collection

## INTRODUCTION

This chapter dealt with the analysis of data obtained from respondents from three Local Government Areas of Abia State. The population was specifically drawn from Osisioma, Aba North and Isiala Ngwa South Local Government Areas of Abia State.

Data were also presented in relation to the literature review and compared to the data collected from the field. Key research questions were analyzed based on mean scores.

## PRESENTATION AND ANALYSIS OF DATA

This chapter focused on the presentation and analysis of data obtained for the purpose of this study. The results of the study are presented in accordance with the research questions as stated below:

### Research question 1: How regular do you pay specific taxes and levies in your business?

Table 1.

Respondents' feedbacks to the regularity of taxes/levies they pay in the informal sector in Abia state and expressed their opinion.

S/N	Description	No. of respondents	Mean	Decision
1	Income tax (PAYE)	185	2.72	Accepted
2	Income tax based on Self Assessment	185	2.79	Accepted
3	Pools betting and lotteries, gaming and casino taxes	185	1.90	Rejected
4	Road Taxes	185	2.31	Rejected
5	Business Premises Registration fees	185	1.43	Rejected
6	Land Use Charge	185	2.87	Accepted
7	Consumption Tax (Hotel, Restaurant and Event Centres)	185	1.35	Accepted

S/N	Description	No. of respondents	Mean	Decision
8	Animal Trade Tax	185	1.82	Rejected
9	Slaughter or Abattoir fees	185	1.87	Rejected
10	Development Levy	185	3.95	Accepted
11	Market Taxes and Levies	185	3.96	Accepted
12	Infrastructural Development Fund levies	185	3.65	Accepted
13	Sanitation/Environmental fees	185	3.37	Accepted
14	Shops and Kioks rates	185	3.94	Accepted
15	Licensing fee for sale of liquor	185	1.71	Rejected
16	Slaughter slab licence fee in abattoirs under Local Government Council	185	2.87	Accepted
17	Motor Part Levy	185	3.82	Accepted
18	Parking fees on Local Government Street or roads as may be approved by the State Government	185	1.24	Rejected
19	Domestic animals licence fee (excluding poultry farmers)	185	1.10	Rejected
20.	Public convenience, sewage and refuse disposal fees	185	3.37	
	Total	3,700	52.04	



From table 1 above, 68% indicated that income tax is irregular and abnormal in the informal sector in Abia State, 70% indicated Market Taxes and Levies is irregular and abnormal, 58% affirmed road taxes is irregular and abnormal, 72% said Land Use Charge is prevalent is irregular and abnormal, 99% said development levy and Market Taxes/Levies is irregular and abnormal, and Shops/Kioks rates is irregular and abnormal, 91% hinged on Infrastructural Development Fund levies as being irregular and abnormal while 84% of the respondents said that Sanitation/Environmental fees followed by Shops and Kioks rates are irregular and abnormal, 96% of the respondent said that and Motor Part Levy is irregular and abnormal.

### DECISION RULE

From the calculations, the mean score of the 20 items data in table 1 is 2.60. This result is greater than the cut-off point of 2.5 fixed for this study, thereby; confirming that the current tax administration is impacting negatively on informal sector growth in Abia State.

### Research question 2: How are these taxes and levies collected in Abia State?

Table 2. Respondents' responses on how taxes and levies are currently being collected from them.

S/N	Description	No. of respondents	Mean	Decision
1	Issuance of demand notice	185	1.55	Rejected
2	Group of persons with security personnel	185	3.95	Accepted
3	Voluntary payment to bank	185	2.61	Accepted
4	Payment in tax office	185	2.14	Rejected
Total Registration fees		740	14.22	

Source: Computed from field survey, 2017.

From the analysis of data in table 2 above, 4 prominent tax collection methods were assessed. From the analysis, 39% of the 185 respondents agreed that demand notice are given, 99% said that group of persons with security personnel collect tax in the informal sector of Abia State, 65% said Voluntary payment to bank are practised by operators in the informal sector, while 54% said payments are made to tax office directly.

Consequently, this result affirmed that the current tax administration is impacting negatively on informal sector growth in Abia State.

**Research question 3: What are the possible solutions to tax avoidance and evasion in Abia State?**

Table 3. Respondents' feedback on possible solution to tax avoidance and evasion in Abia State.

**DECISION RULE**

The calculation of mean score on Table 2 showed a value of 2.56 which is greater than the cut-off point of 2.5 for this study.

S/N	Description	No. of respondents	Mean	Decision
1	Issuing of demand notice to tax payers	185	3.06	Accepted
2	Application of sanctions for not honouring tax obligation by tax payers	185	2.31	Rejected
3	Regular tax education	185	3.98	Accepted
4	Use of thugs and security	185	0.00	Rejected
5	Assessment of existing tax rates	185	3.23	Accepted
	Total	925	37.30	

*Source: Computed from field survey, 2017.*

From table 3 above, 5 possible tax collection options were identified as solutions to tax evasion and avoidance in the informal sector in Abia State.

However, the positions of the respondents varied from one prescribed antidote to another but all operators in the informal sector, tax officials, and tax consultants rejected the use of thug and security for the collection of taxes and levies in Abia State.

From the analysis of their views, 77% of the respondents opined that demand notice should be issued to collect tax, 58% agreed that application of sanctions for honouring tax obligation should be used, however, all tax official including consultants agreed that sanctions should be applied to ensure timely compliance. All the respondents agreed that there should be regular tax education, thus, this ranked 100% while 81% of the respondents positioned that

the existing tax assessment should be reviewed.

### **DECISION RULE**

From the collectively data analyzed, a mean score of 3.14 was obtained which is greater than the set cut-off point of 2.5 for this study. Thus, confirming that the above solutions except the use of thugs and security personnel can significantly reduce or eradicate tax evasion and avoidance, and improve the compliance level of operators in the informal sector of Abia State.

## **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

## INTRODUCTION

This chapter presents the summary of the research findings, conclusions from the study and proffer recommendations for necessary action.

## SUMMARY OF FINDINGS

The study disclosed the current tax administration on the informal sector of Abia State is inimical informal sector growth as envisioned by Federal Government of Nigeria. The use of thugs and security personnel as vehemently rejected by all the respondents to this study should be echoed in all media platforms and completely discouraged to improve care for operators in the sector, trust, confidence, and right relationship between tax officials and the operators in the informal sector.

To check these anomalies, the respondents amongst other suggestions vouched for regular tax education which can be made through the various associates that exist in the informal sector. It was opined that appropriate tax authorities should issue demand notices to improve compliance and relationships. They emphasized the need to reduce the current tax rate in order to grow the industry and improve employment and social distance between the operators in the informal sector and tax authorities.

There is also need to involve the sector during tax reforms to encourage ownership and avid support of government income generation strategy

in a right-based manner and timely compliance to the payment of taxes and levies.

It is also important to involve the leaderships of the various associations to encourage their members to pay their tax appropriately. The use of bank should be encouraged particularly in this era of online banking where taxpayers can remit their taxes and levies without necessarily going to tax office that might be quite distant from their place of operation.

## CONCLUSION

The research revealed that there is low tax education in Abia State, majority of the tax payers have very limited information on how to pay their tax and engage with relevant tax authorities. The leaders of divers associations in the formal sector were not involved by government on tax reforms; this has been contributing to the information and knowledge gap, thus, breeding extortions and threat to the informal growth particularly on female small scale business operators who may not have the energy to struggle with thugs.

So, majority of the operators in the informal sector are not satisfied with the current tax administration, a sizeable number of them abhor sanctions but agreed that it is necessary to ensure timely compliance to improve the Internally Generated Revenue of the State and Local Government.

In conclusion, taxing the informal sector will depend on a number of approaches and systems.

Tax collection is an important governance challenge that depends on a compliance culture, the values and norms of a society, its history and above all the capacity of the government to deliver. The potential for taxing the informal sector are huge and should be explored.

- a) Adequate information should be relayed through multi-media channels that are cheap and accessible to government.
- b) Stakeholder mapping should be conducted to ensure that all relevant actors are not left out in governance.
- c) Governments should employ a right-based approach to avoid resentment and increase revenues for Abia State
- d) The informal sector should collectively develop institutionalized channels for negotiation with the state.
- e) Government should create opportunities to maximize voluntary compliance.

## RECOMMENDATIONS

Based on the findings of this study, the following recommended are made for necessary action:

### Capacity Building

Tax officials should be trained on Human Rights, strategic communication and media to ensure that they adopt a right-based approach in their duties, and also improve their capacity to engage in tax education programmes in Abia State.

### Alliance Building

Tax authorities should collaborate with leaders of the respective associations to educate their members, establish understanding and improve compliance.

### Logistical Support

Tax officials should be given adequate logistics support to enable them discharge their duties in an effective and efficient manner.

### Establishment of online platform

Abia state Board of Internal Revenue should launch a portal for tax matters and to receive complaints from the public.

### Intensive and regular Monitoring

Apart from monitoring taxable persons to ensure that they are captured in Abia State tax net, a secret surveillance group should be instituted to monitor the activities of thugs and security agents that may be engaged to illegally extort the public.

Regular performance assessment

meeting

Tax authorities should convene quarterly meetings with leaders of the various associations in the informal sector to assess progress and also address concerns.

Tax collection procedure

Tax authorities should publish tax payment procedures in clear local and popular languages to minimize exploitation and confusion amongst the public.

Demand notice should be relayed appropriately and given public announcement via cheap media channels like bulk messaging or WhatsApp or other social media platform to encourage compliance.

Short smart messages should be relayed at regular intervals to educate the public on the provisions of the tax laws. These same platforms should also be used for accountability to the public.

