

TAXATION IN THE INFORMAL SECTOR IN DELTA STATE



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CISLAC AT A GLANCE

Civil Society Legislative Advocacy Centre (CISLAC) is non-governmental, non-profit legislative advocacy, information sharing and research organization, arising from the felt need to address defects in the legislative advocacy work of civil society and open the window through which legislators can also access civil society groups. It aims to strengthen the work of Civil Society on Legislative Advocacy and bridge the gap between legislators and the Civil Society.

The formation of CISLAC arose from the context of the fact that the return to civilian rule in Nigeria was achieved largely by the struggles of the organizations of Civil Society especially the Human Rights and pro-democracy groups. Many activists lost their lives in the demonstrations, and sometimes, violent eruptions which characterized agitation for democracy and the opening of the democratic space in the context of authoritarian military rule and dictatorship.

Civil Society Legislative Advocacy Centre (CISLAC) is currently one of the major civil society organizations in Nigeria with a primary focus on legislation and legislative processes. CISLAC is also engaged in policy/legislative advocacy, civil society capacity building and media engagement. CISLAC works to train and enlighten civil society on policymaking, the responsibilities of the legislature, and the existing policies and legislations affecting Nigerian citizens. It also aims to ensure that the legislature at local, state and federal levels are aware of their relationships with other government bodies and have a responsibility of acting as a voice for the people.

CISLAC was integrated as a corporate body (CAC/IT/NO22738) with the Nigeria's Corporate Affairs Commission (CAC) on the 28th December 2006. Prior to this incorporation, however, CISLAC had actively been engaged in legislative advocacy work since 2005. The organisation is also compliant with the Anti-Money Laundering Act 2007.

The Organisation reports to SCUML, any transaction that is above One thousand dollars, detailing the payee, purpose and the other KYC (Know Your Customer) requirements. This is done on a weekly or monthly basis depending on the volume of transactions and to ensure appropriate compliance with anti-money laundering laws.

CISLAC is also registered organisation under the National Planning Commission. In recognition of its broad perspective, CISLAC was granted an ECOSOC status by the United Nations in 2011 giving it the mandate and the instrumentality of the United Nations. CISLAC is duly registered in accordance with the provisions of Section 5(1) (a) of the Money Laundering (Prohibition) Act, 2011 of the Economic and Financial Crime Commission (EFCC). It is the national contact of Transparency International (TI).

CISLAC through its engagement of the governance processes in Nigeria has contributed towards the passage of several primary legislation such as the Fiscal Responsibility Act, Violence against Persons Prohibition Act, National Tobacco Control Act, National Health Act, Public Procurement Act, and Nigeria Extractive Industry Transparency Initiative Act which promotes transparency and accountability in governance as well as the domestication of international conventions at the Federal and state levels in Nigeria through advocacies, presentation of memoranda and public enlightenment programmes and media engagement.

CISLAC along with other civil society organizations campaigned and advocated for passage of the Freedom of Information Act. CISLAC is among the movement advocating for the passage of such pieces of legislation as Disability Bill, Gender and Equal Opportunity Bill, Whistleblower Protection Bill, Prison Reform Bill, etc.

CISLAC has created civil society awareness through publication and dissemination of monthly newsletter—Legislative Digest which have been in circulation for both public and legislative consumption since October 2006. It has been a central medium of accountability, as it provides citizens a platform to monitor the performance of their Legislators, and a channel for Civil Society Organizations advocacy on critical issues that require legislative intervention. Also, CISLAC has a wide range of publications such as Textbooks and Policy Briefs, which examines policies requiring amendment and providing recommendations.

As a renowned CSO in Legislative advocacy in the region, CISLAC has on several occasions shared its experience on best practices for legislative advocacy on invitation from its international partners such as the World Bank Parliamentary Forum and the United Nations Millennium Campaign/Sustainable Development Goals in African countries such as Kenya and Zimbabwe. Similarly, Ghana, Kenya, and Democratic Republic of Congo have also requested support from CISLAC for replication of its work in Legislative advocacy. In many West African countries such as Liberia, Sierra Leone, Ghana, Cameroon, Niger, Togo and Benin Republic, CISLAC has carried out experience sharing and advocacy exercises on the Extractive Industry Transparency Initiative processes through supporting the passage of extractive industry initiative laws in these countries. CISLAC also undertakes capacity building for legislators, CSOs and Media on policy engagements in the above countries.

CISLAC's sub-granting experience includes grants to national organisations. With skilled, committed, experienced and proactive leadership and employees, particularly in the areas of coalition building, tenacious advocacy, community mobilization and the clout needed to engage lawmakers at all levels, the organization has proven capacity to attract international solidarity, engage policy makers and mobilize local civil society groups and communities into action.

GOAL:

To make government accessible, responsive and accountable to citizens.

VISION:

A Nigeria where legislators and policy makers are safeguarding citizens' rights and welfare while citizens effectively demand accountability

MISSION:

To engage state and non-state actors for improved policy and legislative frameworks, transparency and accountability in governance for people oriented development.

ADVOCACY VISITS

CISLAC has successfully engaged key members of the National Assembly in order to wield their influence in ensuring that civil society positions are accommodated. In 2006, for instance, CISLAC targeted key players and created public awareness on draft legislation and questionable provisions incorporated by the National Assembly. Such efforts improved the levels of discipline, transparency, and accountability in the management and openness of fiscal responsibility, public procurement, and the nation's extractive Industry sector in Nigeria.

Through such efforts, CISLAC has empowered communities mostly affected by the extractive industry sector, improved the levels of information dissemination, and ensure due process and transparency in the payments made by extractive industry companies to the Federal Government and its agencies. It has also educated State and Federal legislators, their advisory staff, CSOs, the media, and key stakeholders on their oversight roles in legislation and has reviewed their commitment in implementation.

PUBLICATION OF MONTHLY NEWSLETTERS

CISLAC has strengthened civil society intervention by the publication of a monthly newsletter Legislative Digest which has been in circulation for both public and legislative consumption since October 2006. It has been a central medium of accountability, as it monitors the performance of Legislators, and a channel for advocacy on critical issues that need legislation. Also, CISLAC has a wide range of publications such as Textbooks and Policy Briefs.

BRIEF INTRODUCTION OF THE TAX JUSTICE AND GOVERNANCE PLATFORM, NIGERIA

The platform which is known as **Tax Justice and Governance Platform Nigeria** is a loose association of organizations, individuals and groups interested in engaging issues related to tax justice and promoting a fair, just, equitable and progressive tax regime in Nigeria.

We intend for all parties to work together in any way they can, involving all relevant stakeholders through information sharing and pulling available resources together to undertake or influence some reforms in the tax system in Nigeria, especially as it affects the informal sector, women and the low income earners.

Our Goal – Socio-economic justice through equitable and fair tax system in Nigeria.

Our Motto – Equity and inclusive prosperity.

Our Objectives include the following –

- To facilitate the development of effective legal and policy regimes that promote fair, progressive and transparent tax system and administration in Nigeria
- To undertake research and evidence based campaigns against all forms of harmful tax practices that undermine government ability to generate maximum tax revenues to fund development
- To undertake campaigns that promote efficient, accountable and transparent management of tax revenues for sustainable development at all levels) to sensitize citizens on tax justice issues and build a critical mass of informed citizens to engage the tax system.

THE STRUCTURE :- The platform is being coordinated by a steering committee which is made up of 5 organizations namely:

- Action Aid
- Christian Aid,
- Center for Democracy and Development,
- OXFAM and
- Civil Society Legislative Advocacy Centre (Secretariat)

These are organizations who are actively engaged in implementing activities around governance and tax justice issues both as a member of the platform and as an individual organizations.

The steering committee ensures compliance with all legal requirements and proper documentation of the affairs of the platform and serves as the approving authority of its programmes.

INTRODUCTION

This research project was undertaken between January and February, 2017 by International Centre for Women Empowerment and Child Development (ICWECD) in collaboration with Civil Society Legislative Advocacy Centre (CISLAC), an Abuja based non-governmental and non-profit organization founded on the vision of a Nigeria where citizens are participating in governance; the government is safeguarding the rights and welfare of the people; and non-State actors are providing space for citizens to demand accountability. Its mission -“to strengthen Civil Society and the legislature through advocacy and capacity building for Civil Society groups and policy makers on legislative processes and governance issues”.

The research project was undertaken under “The Financing for Development Project (F4D)”. The financing for Development Project has as its principal objective to empower Civil Society and non-state actors to undertake a campaign/research and advocacy to promote fair and progressive taxation, by engaging governments at all the levels to influence tax policies and practices to address unfair tax practices, inequality and protect the rights of citizens, especially impoverished informal sector players, including women.

The project also seeks to engender support for taxation from the general citizenry, facilitate service delivery by the government, as well as trust between the latter and citizens. It was sponsored by OXFAM NOVIB of the Netherlands, a consortium which seeks as an overall objective to end poverty as well as empower people to know their rights.

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ICWECD in its capacity as a member of “Delta State Tax Justice and Governance Platform” had participated in the implementation of a project for Tax Justice Advocacy and Awareness Creation in Delta State. In the implementation of the project titled, “Awareness Creation and Mobilization of Citizens in Delta State”, which was undertaken in 2015 and also sponsored by OXFAM, the State Tax Justice Platform carried out advocacy visits to key stakeholders, held consultative meetings with the Delta State Board of Internal Revenue (DSBIR) and notable operators of the informal sector, as well as organized town hall meetings, a colloquium and electronic and print media campaigns to promote for transparent and progressive taxation as it performs to the informal sector.

The Delta State Tax Justice and Governance Platform is led by Barr. Bridget Anyafulu, the founder of ICWECD and comprises of Civil Society Organization including faith-based and community-based groups, professional groups, market women, trade unions and the media.

The platform is committed to carrying out research work, advocacy engagement, sensitization and awareness creation activities to achieve maximum impact on tax matters in the State. The creation of the platform was facilitated by CISLAC in 2015 with the support of OXFAM to serve as the vehicle to effectively drive awareness creation and mobilization of citizens in Delta State.

This research project by ICWECD can be therefore said to be a follow-up on the 2015 Advocacy and Sensitization Project. But while the Advocacy and Sensitization Project was undertaken in Oshimili South and Warri South Local Government Areas, the research Project is based on studies carried out in Oshimili South, (Delta North Zone) Warri South (Delta South Zone) and Uvwie (Delta South Zone) Local Government Areas.

The selection of the three local government areas was necessitated by the need to widen the scope of the coverage, and ensure that all the three geo-political zones in the Delta State are covered and represented in the research work. Let it be

emphasized that this research is mainly directed at studying taxation in the informal sector of Delta State with a view to making it fairer and more transparent; while at the same time using it to address poverty, inequality and the enhancement of disadvantaged groups. In a nutshell, the goal is to make taxation an instrument for the protection and empowerment of the poor and marginalized members of the society, and thereby a vehicle for sustainable development in the state. The focus and scope of the research work has already been defined for us. To restate for the avoidance of any doubt: To conduct a research on the current status of the tax system for the informal sector in Delta State with emphasis on existing policies and practices on on-going reforms and its impacts on poverty and inequality as well as sustainable livelihoods of small scale businesses (artisans, traders) etc, and improving the system in terms of drive for revenue, sustainable livelihoods for the tax payers and over all development of the state. The work comprises of two sections of three chapters each. The first chapter of the first section examines the concept of taxation, including historical features of taxation as it pertains to the formal and informal sectors. A history of taxation is also briefly discussed in this chapter. In addition, the role and importance of taxation are examined in the chapter. The definition of the informal sector viz-a-viz the formal sector is examined in the second chapter. The weight and importance of taxation in the informal sector viz-a-viz the formal sector is also highlighted. Furthermore, presented and discussed in this chapter are the following:-

- The legally approved taxes in the state.
- Existing tax types and rates.
- Recent reforms on taxation in Delta State especially as it pertains to the informal sector.

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In the last chapter of the first section, three local government areas, one selected from each of the three geopolitical zones of the state are used as case studies to examine our subject i.e. taxation in the informal sector in Delta State. The three local government areas used for case studies are Oshimili South (Delta North Zone),

Warri South (Delta South Zone), and Uvwie (Delta Central Zone). The treatment of the 'three case studies' was based on a survey of informal sector operators in the three local government areas. The first chapter of the second section discussed and analysed the impact of taxation in the informal sector based on the following parameters:

- Business enterprises
- Poverty and sustainable livelihood for tax payers
- Tax compliance and sustainability
- Overall development of the State.

The problems and challenges associated with taxation in the informal sector are examined in the second chapter of this section. The examination is undertaken from two major perspectives. In the first part of the chapter, the problems and challenges are discussed from the perspective of the government; while the second part discusses the problems and challenges from the perspective of the taxpayers i.e. the challenges faced by the tax payer in the payment of taxes.

This chapter also examines how recent and on-going reforms have attempted to address the challenges of taxation in the informal sector. The last chapter of this section makes recommendations based on findings from informal sector tax payers, government officials and experts on the way forward i.e. how to achieve effective, fair, and sustainable taxation system in the informal sector in Delta State. This chapter also examines the implementation of new reforms of the taxation system in Delta State, specifically as it pertains to the informal sector.

METHODOLOGY

The procedures or methods employed in undertaking this research work are essentially four-fold. These are as follows:

- Library research
- Engagement with Delta State Board of Internal Revenue (DSBIR)
- Survey
- Interview with an expert on taxation and several operators in the informal sector in Delta State.

Firstly, studies were undertaken in the library on the concept of taxation history and importance of taxation in Nigeria; the state of taxation in the formal and informal sectors as well as the impacts, the challenges and how to improve the administration and collection of taxes in the informal sector.

Secondly, we engaged some officials of the Delta State Board of Internal Revenue (DSBIR), Oshimili South, Warri South and Uvwie Local Government Areas to discuss taxation, obtain and examine relevant documents and materials on taxation and especially taxation in the informal sector as it pertains to their respective areas of jurisdiction.

Our interest in the engagement was focused on finding out the following:

- The legal and policy frame-works of taxation in the informal sector.
- The legally approved taxes (as applicable to their institutions) including enabling law establishing them either by the State government or bye-law in the local government areas.
- Tax types and rates as applicable to their institutions.
- Other levies, rates and charges paid by the informal sector
- The types of taxes, levies and rates collected illegally from informal sector players in Delta State.
- Recent reforms on taxation, especially taxation in the informal sector in Delta State.

Thirdly, we conducted a survey of informal sector operators in three local government areas of the state; one each from the three geo-political zones of the state. The selection of the three local government areas for the survey was made to enable us have a state-wide perspective of the problem. It should also be noted that Oshimili South

and Warri South (where Asaba the State Capital and Warri the economic power house of the state are located) are the highest in tax revenue among the twenty-five local government areas in the State. Some of the questions in the questionnaire for the survey include:

- Do you pay tax(es)
- Are you familiar with the System of taxation in Delta State.
- The types and rates of tax(es) you pay.
- The impact of taxes on the business operations and lives
- The challenges they face in meeting their tax obligations

The survey was directed at a wide range of operators in the informal sectors. These include:

- General traders
- Artisans
- Transporters and providers of other services such as food/canteen/bars, dry-cleaning, barbing, hair dressing etc. operators, twenty-five.

In all, a total of seventy-five in each of the three local government areas were surveyed.

Lastly, we interviewed a lecturer in the Department of Management Sciences at the Anwai Campus of the Delta State University, Abraka (DELSU), who is an expert on taxation on the theme of the research project. Some of the questions addressed by the expert were:

- The challenges of tax administration and collection in the informal sector in Delta State.
- The implication of the recession on taxation in the informal sector in the State.
- The impact of informal sector taxation in its prevailing system on entrepreneurship and overall development of the State.
- The measures that are needed to improve the administration of taxes and increase tax compliance in the informal sector.

It should be pointed out that the lecturer we interviewed at Anwai Campus requested that his name should not be disclosed.

TAXATION IN NIGERIA: AN OVERVIEW

At a time Nigeria is grappling with the vicissitudes of a mono-cultural economy, the harshness and unsavoury effects are blatantly evident. In the better part of the past two years, a sharp fall in the global oil price (the mainstay of the nation economy), the topicality of the subject (taxation) and the need to revisit, mobilize, harness and fashion it towards the sustenance and economic development of the country, can hardly be over-emphasized.

It is therefore not surprising that taxation has begun to acquire new relevance and importance in the priorities of Federal, State Governments and Local Councils in the recent past. As it is generally seen, tax justice campaign spearheaded by CISLAC and OXFAM in Nigeria is directed towards the improvement of tax policies and practices, so as to make them (the tax policies and practices) 'fair, just, transparent, facilitate service delivery, address poverty and inequality, as well as enhance the rights of disadvantaged groups. This is not only a step in the right direction, but will go a long way in helping to address the prevailing economic crisis in the country.

In Nigeria, taxation in its modern Form is a creation of British Colonial rule. As an important financial basis of the British System of indirect rule (Phillipson 1946), income tax, the imposition

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of which involved a direct form of taxation, was levied and collected at the local level through traditional rulers. Building on the Colonial legacy in the years following its independence, a veritable Nigerian tax system can be said to have evolved. The Nigerian tax system, according to experts consists of three basic elements, namely:

- Tax Policies
- Tax Statutes
- Tax Administration/ How functional, how efficient and how transparent, is all together a different matter.

Tax policies are overall plans or measures that the government wants to take over a defined period regarding taxation. It is formulated by the executive branch of government but has to be vetted and approved by the legislature to become law (statutes) and thereby binding on its citizens. The tax legislation which is derived from tax policies, is the instrument that enables the legal imposition of various types of taxes approved by them on the citizenry.

In effect, liability for tax in Nigeria arises from the taxing statutes or Acts according to their true meaning and not from any extraneous principles. As examples, some of the main tax statutes or Acts currently in force in Nigeria include:

- Personal Income Tax Act (PITA) No. 104, 1993.

It repeals the Income Tax Management Act 1961 and the Income Tax Armed Forces and other persons (Special Provisions) Act No. 51, 1972.

- Companies Income Tax Act (CITA) CAP 60 LFN 1990.
- Petroleum Profits Tax Act (PPTA) CAP 354 LFN 1990.
- Capital Gains Tax Act (CGTA) CAP 42 LFN 1990.

Industrial Development Income Tax Relief Act (IDA) CAP 179 LFN 1990.

- Value Added Tax Act
- (VATA) No. 102, 1993.
- Education Tax Act (ETA) No. 7 1993.
- Stamp Duties Act (SDA) CAP 411 LFN 1990.

Tax Administration, the third component of the tax system, is undertaken by each of the three tiers of government – Federal, State and Local Governments respectively. Each of the tiers of government has its own tax authority that undertakes the function of managing tax matters (i.e., administration of taxes) on its behalf.

The tax authorities at all the three tiers of government, notably derive their existence from Federal Laws. Each of the three tax authorities in Nigeria has the following roles.

Many experts believe that this on and off, and haphazard interest of the government towards taxation largely explains the personnel weaknesses, disorder, and disorganization that characterizes the nation's tax system and in consequence the poor returns i.e. lean revenue realized from taxation.

TAX AUTHORITIES IN NIGERIA

- Federal Tax Authority known by the name, Federal Board of Inland Revenue is responsible for the administration and collection of all Federal Taxes in Nigeria. Among several others, these include Companies Income Tax, Petroleum Profits Tax and Capital Gains Tax.
- Each State has its own Tax Authority. The Board of Internal Revenue in each State is the Tax Authority of the State. It is responsible for the administration and collection of State taxes which include Personal Income Tax and Capital Gains Tax (for individuals) among many others.
- The local Government Revenue Committee is the Tax Authority in each Local Government Council. The Committee is responsible for the administration and collection of taxes or levies for shops and kiosks, tenement rates, slaughter slab fees, market/motor park fees e.t.c.

Over the years since independence, governments in Nigeria have formulated and adopted tax policies and legislations. The importance and level of priority attached to taxation by governments tended to depend on the economic health and viability of the nation at the given time. In general, during times of prosperity, governments have tended to neglect, ignore or overlook taxation. On the other hand, they have emphasized and attached more importance to taxation during lean periods (i.e. times of economic crisis).

Many experts believe that this on and off, and haphazard interest of the government towards taxation largely explains the personnel weaknesses, disorder, and disorganization that characterizes the nation's tax system and in consequence the poor returns i.e. lean revenue realized from taxation. All available studies and evidences, have in fact shown that Nigeria is not fully utilizing her taxable capacity.

At the present time, when there is a renewed effort to diversify the economy and broaden the resource base and the country's sources of revenue in order to be able to adequately address our growing challenges of development (which includes rising unemployment, endemic poverty and inequality, dearth of infrastructures, inflation etc), it has thus become imperative to take necessary steps to develop a functional system of taxation in the country. Before proceeding further, it is however pertinent to define and understand taxation.

THE CONCEPT AND PRINCIPLES OF TAXATION

Some informal sector operators in response to the questionnaire for the survey conducted for this work listed "Police", electricity and water among the types of taxes they pay. None of these can actually correctly be regarded as tax. But it goes to show the erroneous view that many people have of taxation which in the past explains the problem of tax collection compliance and enforcement in the country.

It is therefore important that we should define taxation properly in order to have a clean perspective and a good understanding of what tax means.

The fact is that it has not always been very easy to define taxation even by experts. It will help however to examine some of the notions of taxation as defined by some experts in the recent past.

Tax, according to Dandago and Alabede, is a compulsory contribution made by individuals and organizations towards defraying government expenditure (Dandago and Alabede 2000). Oweisana goes further to provide a little more comprehensive definition of the term. He defines tax as a levy imposed by the government on the incomes, profit and wealth of individuals, partnerships and business organizations to raise money to finance public expenditure (Oweisana 2009). The definition provided by Black's Law Dictionary goes even further. The dictionary defines tax as "a pecuniary burden laid upon individuals or property owners to support the government or a payment exacted by legislative authority.

Tax the dictionary further states, is "not a voluntary payment or donation, but an enforced contribution exacted pursuant to legislative authority" that includes "any tillage, gabelle, impost, duty, custom excise, subsidy and supply or other name" (Black's Law Dictionary, 1979).

The above definition however does not satisfy economists who have a different definition of taxation. Unlike the definition by Black's Law Dictionary, economists do not consider many transfers to governments, to be taxes.

They regard some transfers to the public sector (government) as the equivalent of prices and not as taxes. These for example include tuition at Public Universities and fees charged by utilities provided by governments. In the same vein, resources obtained by through voluntary gifts like

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contributions made to Public Universities and Museums; imposition of penalties (traffic fines) borrowing and confiscation of wealth are not considered by economists as tax. In a nutshell, tax according to economists, is a non-penal yet compulsory transfer of resources from private to the public sector on a basis of pre-determined criteria and without reference to specific benefits received (Wikipedia, 2011).

In effect, whereas the payment made for utilities such as electricity and water will not qualify for tax in the definition of the economists, they are well captured as tax in the definition provided by Black's Law Dictionary.

THE ROLE AND IMPORTANCE OF TAXATION

Unlike the definition of taxation, there is hardly any disagreement among scholars and experts about the role and importance of taxation. On the contrary, experts are unanimous that taxation is a vital tool for socio-economic development. Perhaps the most apparent and popularly acknowledged role is that taxation provides substantial revenue to the government. Among other purposes, tax revenue (i.e. revenue generated from taxation) are used by the government to provide essential economic and social amenities such as schools, roads, water medical services and other infrastructures as well as security services.

As one of its vital functions, taxation is also used as an agent of wealth distribution in the society.

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In this respect, one of the fundamental principles of taxation (i.e. equity) is that tax charged should as much as possible be proportionate to the tax payer's ability to pay. The result of this, is that the rich pay more and by so doing, contribute more towards the provision of socio-economic amenities funded by tax revenue. There is thus less inequality in the society because more money is taken from the rich and used to provide some vital socio-economic services, including education, health and security services, that the poor ordinarily would not have been able to afford.

In addition, taxation helps in the management of the economy. As we have just seen, taxation plays a strong role in the distribution of wealth. It is also a powerful tool for encouraging savings and investment, as well as curbing social ills. It is important to point out at this stage that in general, the economy of a Nation or State comprises the formal and the informal sectors. It should also be noted that the administration and collection of taxes in the two sub-economics (i.e. the formal and informal sectors) are varied and challenging in different ways. In the next chapter we shall be examining in detail, taxation as it pertains to the informal sector in Delta State, which is also the theme of this research project. This is to say that we have made an entrance into the heart of our subject-matter.

TAXATION IN THE INFORMAL SECTOR IN DELTA STATE

As one of its main functions, taxation as we have already seen, contributes substantial revenue to the government. This is however truer for the advanced nations of North America and Western Europe where tax compliance level by citizens is very high.

In general, taxation in Delta State and indeed Nigeria as whole is bedevilled with a lot of difficulties. These include: maladministration, corruption, weak enforcement, poor, cruel and inhuman methods employed against tax payers by collectors, high level of tax evasion and avoidance etc. The result is that revenue generated from taxes falls far short of the potentials. While this is so for taxation both in the formal and informal sectors of the economy, the situation with the informal Sector is far more problematic and disappointing and now the source of growing concern among policy-makers, scholars and observers.

For example, recent studies carried out across the country have shown that the amount of tax revenue generated from the informal sector of the economy is far less disproportionate to the weight of economic activities carried out in the sector.

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It is therefore not surprising that the Delta State Government like its counterparts across the country now place increased emphasis on the informal sector of the economy in its effort to reform the taxation system.

It is reported that the informal sector constitutes about 58% of the GDP in Nigeria after the rebasing in 2014, up from 35% as at 2012 but generates about 20% or less of the total amount of money realized from taxation. In Delta State, according to a recent official report, the informal Sector Constitutes about 40% of the State economy and contributes about 15% of the total tax revenue of the State; while the Formal Sector on the other hand, represents about 60% of the State economy and contributes over 80% of tax revenue generated in the State. It is therefore not surprising that the Delta State Government like its counterparts across the country now place increased emphasis on the informal sector of the economy in its effort to reform the taxation system.

Speaking recently at a colloquium held in Asaba to discuss the problems of taxation in Delta State, Sir Monday Onyeme, the current chairman Delta State Board of Internal Revenue (DBIR) stressed the need for Deltans, especially those in the informal sector to pay their taxes so that the State can have the required resources for accelerated development. The DBIR chairman said the payment of taxes has become even more crucial and pronounced in the face of the deteriorating

The widespread poverty and joblessness, the increasing rarity of Public Sector jobs; lack of formalities and ease of entry into the sector, de-industrialization, shrinking number of medium and large scale enterprises (both foreign and indigenous).

economic fortunes of the country created by the dwindling revenue from oil.

THE INFORMAL SECTOR OF THE ECONOMY

Before going further in this discussion, it is perhaps pertinent at this point to define what we mean by “Informal Sector of the Economy”. This is necessary for a good understanding of the subject-matter of this research work.

What do we mean by “Informal Sector? It will be difficult to understand the term – 'Informal Sector' without an understanding of its opposite i.e. the 'Formal Sector' since both of them represent different sides of a coin. In other words, they represent different sides of an economy.

With this in mind, the Formal Sector which is also known as the official or visible economy, is made up of a range of entities that include government, its departments and associated agencies as well as big private (foreign and indigenous) businesses. They are in effect, officially known and captured economic activities in the State.

On the other hand, the Informal Sector, known also as underground economy, refers to low level economic activities which are usually outside official purview. Informal Sector operators are generally not registered; usually without meaningful structures; without registration or even business names; and in many cases usually without records of transactions and regular pattern of operation in terms of working period

(hours of work) and regular business premises i.e. business address.

They include cottage industries, petty trade and services as well as handicraft. The Informal Sector in Delta State has been growing at a rapid rate in the recent past. And it is projected that the sector will grow even faster in the State in the near future.

The widespread poverty and joblessness, the increasing rarity of Public Sector jobs; lack of formalities and ease of entry into the sector, de-industrialization, shrinking number of medium and large scale enterprises (both foreign and indigenous). In consequence of its general features and modus Operandi (i.e. often no business name, no fixed address, no regular pattern of work, no records of transaction), the collection and administration of taxation in the Informal Sector is in the main disorderly, dysfunctional and characterized by poor returns (i.e. revenue), arbitrary cruel and inhuman collection method.

For instance, while some operators in the sector are subjected to multiple taxation, many of the operators are not captured in the tax act; furthermore tax avoidance and evasion are high among operators the sector.

The massive arbitrariness, impurity, abuses and general disorder which is usually the hallmark of the administration and collection of taxes in the Informal Sector, have thrived most likely because of the high level of ignorance and lack of awareness among the operators in the sector regarding the tax obligations (i.e. the tax types and rates to which they are eligible to pay), their unfamiliarity with State tax procedure, including how and where to pay tax(es).

It is rather perplexing, that such a high level of ignorance and unfamiliarity with the State tax procedures exist whereas there are appropriate statutes and bye laws on taxation for the State

and some of the local government areas respectively. Types and rates of the existing taxes in Delta State applicable to the formal and informal sectors are contained in Act, CAP, 12 LFN, 2004. They are listed (without any classification to indicate the taxes that apply exclusively to the formal sector; those that apply exclusively to the informal sector, and those that apply conjointly to the formal and informal sectors.

The taxes as contained in the Act are as follows:

1. Personal Income Tax: This is a tax on income i.e. personal income of the individual and it applies to people who are on payroll, notably public servants and other big establishments including companies. The tax paid is determined on the basis of the principle of Pay As You Earn (PAYE).

In the case of the private sector, people who fall under this category, undergo self – assessment. Usually at the beginning of every year they are required to declare their assets and indicate their income. The income is derived from sales or the sum total of their earnings as the case maybe minus all expenses (.i.e. costs) incurred Personal Income Tax using the following is determined using the formula:

- Those who earn incomes of N200,000 and above but less than N300,000 are exempted from tax
- 7 per cent of income is paid as tax for the first N300,000 earned.

Types and rates of the existing taxes in Delta State applicable to the formal and informal sectors are contained in Act, CAP, 12 LFN, 2004.

- 11 per cent of income is paid as tax for the second N300,000 earned.
- 15 per cent of income is paid as tax for the first N500,000 earned.
- 19 per cent of income is paid as tax for the next N500,000 earned .
- 21 per cent of income is paid as tax for the first N1.6m income earned.
- 24 per cent of income is paid as tax on all income above N3.2million.

2. Withholding Tax: This applies to individual professionals. They include audit fees (auditors) legal fees (lawyers), consultancy fees (consultants) etc. 10 per cent of the fee is paid as tax after deducting all expenses.

3. Stamp Duties: This applies to properties of individuals. 5 per cent of the transaction is paid as tax after deducting all expenses.

4. Road Taxes: This applies to motor licenses, drivers' license, road worthiness for vehicles etc. The rates are usually fixed by the government.

5. Capital Gains Tax: This applies to disposed fixed assets such as land and vehicles. 10 per cent is paid as tax after deducting allowable expenses.

6. Pool Betting and Lotteries, Gaming Machine: This applies to the activities mentioned above. The rates are usually fixed by the government.

7. Registration of Business Premises: This applies to fees in respect of business premises

Usually at the beginning of every year, they are required to declare their assets and indicate their income.

registration. In the case of urban areas (as defined by each State) a maximum of N10,000 is paid for registration and N5,000 per annum for renewal of registration. In the case of rural areas the sum of N2,000 is paid for registration and N1,000 per annum for renewal of registration.

8. Development Levy: This applies to all taxable individuals. The sum of not more than N1,000 per annum is paid as tax.

9. Registration Fees for Naming Streets: This applies only to the State Capital. The amount paid is usually fixed by each individual State government.

10. Right of Occupancy Fees on State Government Owned Land: This applies mainly in the urban areas of the State. The amount paid is usually fixed by individual State government.

11. Market Taxes and Levies: The amount paid in respect of the above is usually also fixed by the government. Of the eleven types of taxes listed, about five are applicable to the informal sector operators. They include road taxes, tax for registration of business premises, development levy, right of occupancy fees of State Government owned land, as well as market taxes and levies.

We have used Warri South as an example for LGAs. Among the types of taxes administered by local government council where a large majority of the economic activities are carried out informally, are shop and kiosk fees, motor park charges, building permit, right of occupancy advertisement and boarding, dry cleaning and laundry fees, commercial vehicle

It is difficult to verify the legality of the taxes, paid by informal sector operators because in the large majority of the case, the operators could not exactly name the types of taxes they pay.

Indeed early in the life of this administration, the Governor Senator Dr. Ifeanyi Arthur Okowa has indicated that tax reform will feature as one of his governments top policy priorities.

operational/sticker fee, market stallage fee, liquor license fees, and butcher's fee/animal rate etc.

The types administered by Warri South LGA as contained in Warri South Local Government Council Miscellaneous revenue bye-law 2016, is appointing the picture for LGAs. It is difficult to verify the legality of the taxes, paid by informal sector operators because in the large majority of the case, the operators could not exactly name the types of taxes they pay. Many of the operators described the taxes they pay so vaguely in a way that made it difficult to recognise the tax(es); while many others described the taxes by reference to the name of the offices or the officials they paid to. In both cases the response of the operators did not correspond to the official names of the taxes as contained in the appropriate statutes and bye laws.

A close look at the tax types contained in the relevant State law and the bye law of Warri South LGA government area which largely reflects the situation of the rest of the LGAs, bears the complaints of majority of the informal sector operators that they are subjected to multiple taxation.

For example: both the State law and Warri South, bye law have provisions for road taxes, market taxes and levies, right of occupancy and several taxes/levies related to business ownership, government owned land and registration of business premises. In the circumstances, many experts strongly believe that the government must brace up and take urgent steps to put in place appropriate machineries and systems for

tax collection and administration in the informal sector that all be fair, transparent, humane and efficient.

Indeed early in the life of this administration, the Governor Senator Dr. Ifeanyi Arthur Okowa has indicated that tax reform will feature as one of his governments top policy priorities. The process of reforming the taxation system of the State has since commenced. It is currently one of the objectives of the exercise in the harmonization of taxes to lighten the burden for those subjected to multiple taxations. A hopeful sign that the on-going reform will produce a meaningful result is that the local government councils are involved in the process. The informal sector in Delta State has been growing at a rapid rate in the recent past. And it is projected that the sector will grow even faster in the state in the near future.

The widespread poverty and joblessness, the increasing rarity of public sector jobs, lack of formalities and ease of entry into the sector, de-industrialization and shrinking number of medium and large scale enterprises (both foreign and indigenous) occasioned by insecurity and inhospitable business environment, deter investment and development. The new emphasis by recent governments in the State for private sector driven development expressed variously in the form of growing investment towards the development of micro enterprises, skill acquisition, entrepreneurship and vocational education are all pointers to the anticipated growth of the informal sector.

In the aftermath of the reform, the tax revenue generated from Delta State increased astronomically from less than N1billion to about N4.5billion monthly, during Hon. Joel Onowakpo's tenure in office which ended in 2015.

Dr. Emmanuel Eweta Uduaghan had also carried out reform of the State taxation system during his tenure with some impressive results, although it is apparent that much more still needs to be done. The reform which commenced with the appointment of Hon. Joel Onowakpo Thomas Ewomazino as the Executive Chairman, Delta State Board of Internal Revenue in 2009, was largely focused on the issue of infrastructure and institutional development.

Specifically the reforms ranged from training and retraining of work force, improvement of staff welfare and extensive infrastructural development. Among the infrastructures provided are 6-storey Ultra-modern office for DBIR, Headquarters in Warri and the Headquarters annex in Asaba; five regional offices in Asaba, Warri, Agbor, Oleh and Ughelli and ten zonal offices in Sapele, Effurun, Burutu Ozoro, Ogwashi-Uku, Issele-Uku, Patani, Ogbe-Ijoh, Ovwian and Ashaka, as well as data recovering centre in Koko and the installation of up to date ICT equipment in the offices.

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The current effort by Dr. Okowa's administration to reform the tax system is still on-going and we have scanty information about the exercise. However, the expectation of Deltans is that it will be a far – reaching and comprehensive exercise that addresses all aspects of the deficiencies of the State tax system.

In the next chapter “Taxation in the informal sector in Delta State” shall be examined in the light of the experience of the operators (i.e. informal sector operators) in Oshimili South, Warri Soul and Uvwie local government council.

TAXATION IN THE INFORMAL SECTOR IN DELTA STATE: IMPACT

It is projected, as we have already seen in a previous chapter, that the informal sector in Delta State will grow faster in the years ahead. It is however unlikely that the potential of the sector, vigour and capacity to impact meaningfully and positively on the socio-economic life of the State can be attained if the taxation system in the sector remains as it is now (unorganized arbitrary and taxes collected with reckless impunity and high-handed methods without regard to system). The administration and collection of taxes in the informal sector according to experts will virtually make or mar the sector. Indeed, it is already doing great harm to the sector as we shall see shortly.

It is pertinent to restate that this chapter shall be examining the impact of taxation in the informal sector from four perspectives as listed below:

- Business enterprises
- Poverty and sustainable livelihood for informal sector operators
- Tax compliance and sustainability
- Overall compliance and sustainability
- Overall development of the State Let us consider then on after the other

BUSINESS ENTERPRISES:

It is somehow paradoxical that while experts are predicting a bumper future (rapid growth) for the informal sector, the sector is reaching and gasping for breath, struggling under the crushing weight of over-taxation that comes in the form of multiple taxes and sundry levies, the legality of which cannot be ascertained in some of the cases.

They complain that the burden of tax is heavy and detrimental to the survival, development and sustainability of their business enterprises.

Our survey of the informal sector operators shows this position is most prominent among the operators in Oshimili South. According to the survey, sixteen out of the twenty five respondents in Oshimili South said the impact of taxation on their business activities is negative and destructive.

Some of the respondents in this category said the impact is such that sometimes after paying tax which they must do whenever the collector calls, for fear of being beaten or losing their goods, they start looking for money to borrow and go back to the market. On the other hand, three of

It is however unlikely that the potential of the sector, vigour and capacity to impact meaningfully and positively on the socio-economic life of the State can be attained if the taxation system in the sector remains as it is now (unorganized arbitrary and taxes collected with reckless impunity and high-handed method without regard to system). The administration and collection of taxes in the informal sector according to experts will virtually make or mar the sector.

the respondents said taxation has not affected their business enterprises negatively. They believe that the taxes they pay is alright and is not detrimental to their businesses. It is worth noting that six of the twenty five respondents in Oshimili South who by their own admission do not pay tax understandably did not consider taxation to be detrimental to their business organizations.

In Warri South, the gap between the informal sector operators who believe that taxation has a negative impact on their enterprises and those who believe otherwise is much closer. It is infact a difference of one only person.

According to the survey, thirteen of the twenty five respondents in Warri South said taxation undermines the growth of their enterprises' money, that should have been used to develop the enterprises, while the remaining twelve respondents said it (taxation) does not have adverse effect on their businesses.

The survey in Uvwie, presents a different picture on the impact of taxation on business enterprises in the informal sector sixteen of the twenty five operators surveyed, said taxation has no impact on the enterprises; five did not answer the question, and one said 'Don't know'. Only three of the operators surveyed described the impact of taxation on the business enterprises as negative.

At a closer look, however, the difference may not be as significant as it seems. This is because only five among the sixteen respondents who said taxation has no impact on their businesses pay tax. The remaining eleven of them by their own admission in the survey do not pay tax. In the same vein, one of the five respondents who did not answer the question is a non-taxpaying informal sector operator. The differences over the impact of taxation on businesses between these three local government areas notwithstanding, the survey considered together clearly shows that taxation negatively affects informal sector

operators and represents a serious threat to the survival, liability and growth of then businesses. The current economic recession will not make the situation better. As many of the respondents indicated, it is worsening.

POVERTY AND SUSTAINABLE LIVELIHOOD

In what is perhaps the most succinct expression of the impact of taxation on the operators of the informal sector one the operators in Oshimili South said because the income realized from his business fees do not justify the amount of tax demanded from him, he sometimes has to go without food and pay the tax in order to save himself from the harassment of the collectors and the disruption of his business.

In another case, a woman who refused to participate in the survey claiming that she had been involved in several similar exercises to no avail, said she sometimes bought garri for sale, with the prospect of making some profit, but ended up incurring heavy losses because of the taxes and levies she was compelled to pay within a few days.

Furthermore, two of the operators surveyed, confessed that in past three years, they have been eagerly looking for paid employment in order to jettison their business enterprises. According to them, they pay a lot of taxes for a business that is bringing little income. It is clear from the above narrative that the present tax system is further impoverishing many of the operators of the informal sector. The Informal

According to the survey, thirteen of the twenty five respondents in Warri South said taxation undermines the growth of their enterprises' money, that should have been used to develop the enterprises, while the remaining twelve respondents said it (taxation) does not have adverse effect on their businesses.

sector operators, in a large number of cases are poor.

Their economic enterprises usually involve low capital, with low out-put and profit. They are mainly survival driven. In effect, unbridled and excessive taxation can easily push them out of the market and aggravate the poverty of the operators.

In addition, the present system of taxation in the informal sector which is characterized by multiple taxation, disorderliness, high handedness in general, discourages entrepreneurship as many potential entrepreneurs who want to operate their own enterprises in the informal sector can be discouraged by what they see happening to operators in the system.

This will only go further to undermine the economy and exacerbates poverty in the system. The money that should have been ploughed back to develop and expand their business enterprises, thereby re-invigorating the economy by creating more job opportunities, and wealth in the society, serves to aggravate poverty and penury in the society.

TAX COMPLIANCE AND SUSTAINABILITY

Several recent studies have shown that the present system of taxation as it applies to the informal sector encourages tax evasion and tax avoidance. Tax evasion (the dishonest declarations to tax authorities to reduce the amount of tax one should pay) and tax avoidance

Taxation in the informal sector in Delta State to some extent, it is however failing in its present form in helping to combat poverty and inequality as well as serving as an incentive for savings, investment and job creation.

(the refusal to pay tax) aggravates low tax availability in a society where there is low tax normality i.e., unwillingness to pay tax where a large number of operators are not captured in the tax net. This is because many operators tend to imitate the evaders and avoiders, taking their immoral behaviours as the norm rather than a vice.

The excessive weight of tax, arbitrariness, unfairness and lack of transparency of the present system of taxation are also known to discourage the operators who do not feel any need to for compliance. In revolt against the injustice of the system many operators do not feel any need to comply and fulfil their tax obligations.

OVERALL DEVELOPMENT OF THE STATE

Well employed and administered taxation as we have seen in Chapter 1 can be a powerful tool of development. In this vein, taxation can provide revenue for the development of the State in terms of socio-economic amenities and infrastructures. It can be used to combat poverty and inequality in the society. It can also serve as an incentive for savings, investment and job creation.

Taxation in the informal sector in Delta State to some extent, is however failing in its present form in helping to combat poverty and inequality as well as serving as an incentive for savings, investment and job creation. Excessive tax burden arising from multiple taxation as testified by some of the operators, undermine the viability of their business enterprises and aggravate poverty of the operators. It is of course virtually impossible to save under this situation.

On the other hand, by denying the informal sector operators the funds they need to invest for the growth of their enterprises, taxation becomes a disincentive to investment wealth and job creation in the society.

TAXATION IN THE INFORMAL SECTOR IN DELTA STATE: CHALLENGES

In general, taxation has never been popular in Nigeria. It is a civic obligation that many Nigerians (the high and the low alike) over the years have found and continue to find difficult to willingly fulfil. Many have traced this general hostility and disregard, if not disdain shown by Nigerians towards taxation, to colonialism.

Taxation in some forms was part of pre-colonial life in Nigeria. But in its modern sense and nature, it came with British Colonial rule. While it played its customary role as a source of revenue for the maintenance of government and the provision of socio-economic services to the local population, it was seen by the generality of the people as a symbol of their subjugation, domination, oppression and exploitation by the colonial master. In other words, it was regarded as a tribute to a foreign power imposed to humiliate, denigrate and degrade the Colonial subjects.

There were indeed several recorded cases of violent resistance and uprisings against taxation in the colonial era. These include notably the roots in Aba (South West of Nigeria) in the South East of Nigeria as well as Iseigin and Abeokuta in the South West of Nigeria. The large scale evasion

Taxation in some forms was part of pre-colonial life in Nigeria. But in its modern sense and nature, it came with British Colonial rule. While it played its customary role as a source of revenue for the maintenance of government and the provision of socio-economic services to the local population

and avoidance of taxes in post-independent Nigeria is believed by many observers to be a by-product of the anti-tax attitude of the Colonial era.

This is especially so among Nigerians who see post-independent Nigeria as a neo-colonial set up, with Nigerian leaders as front men. The immediate post-independent era did not in any significant way charge this negative disposition of the average Nigerian towards taxation. In the first place, all over Africa, the ex-nationalists that came to power at independence had campaigned on the premises that black power will bring not just dignity and honour but also good life to the people.

That period was a time when like most other African countries, Nigerian leaders and the generality of its people, to paraphrase the famous words of President John F. Kennedy, were asking what the country will do for them and not what they will do for the country.

It was only in the wake of the acute economic crisis that hit the country in the 1980s that taxation began to assume an important position in government policy. Even so it tended to fluctuate, surging up or down according to the scale of printing to the prevailing economic fortune of the country which was largely a function of whether petroleum was selling well or not in International Market.

The disappointments and frustrations arising from the failures of the nation's post-independent era in terms of service delivery of public utilities and socio-economic amenities like water and sanitation, power and energy, roads, health, education and security services. The

It was only in the wake of the acute economic crisis that hit the country in the 1980s that taxation began to assume an important position in government policy.

ethnicity driven politics that has been in vogue since independence has not made matters easier as it continues to stifle all national consciousness and engender the rejection and contempt of the modern state.

It is a common place occurrence for Nigerians to state that they are not ready to pay tax. A statement emboldened by their conviction, that the government has done nothing to convince them that public revenue is being utilized for the good of all in the society.

In the circumstances, it is no surprise that the administration and collection of taxes in Nigeria continues to be a major challenge for government.

In entry of this assertion of the formal sector; much of the challenges as we have seen of taxation in the informal sector, stem from the nature and characteristic feature of the sector. (unregistered, without permit and without business address, etc). The informal sector players usually operate outside official purview.

They are generally not registered, usually without structures permanent address, and business names; and without records of transaction. As a result, administration and collection of taxes in the sector are very difficult and tasking. What are the challenges of taxation in the informal sector in Delta State? The subject shall be examined from two perspectives namely:

- The perspective of the State Government.
- The perspective of the players (i.e. informal sector operators)

THE PERSPECTIVE OF THE GOVERNMENT

On the side of the government the challenges are manifold. Among several other, there is a dearth of skilled power at the State Board of Internal Revenue, corruption, inadequacy of relevant equipment, lack of well-defined policy and strategy for administration and collection of tax in the informal sector, weak enforcement mechanism, lack of political will etc. Let us discuss the challenges one after the other.

Dearth of skilled manpower across the board and especially in the critical areas of tax administration and policy management, research and data analysis is considered to be among the major problems of the Delta State Board of Internal Revenue. Some efforts were made during the tenure of ex-Chairman, Sir Joel Onawakpo in training and retraining of staff members of the Board. But this effort obviously did not go far enough. The effort in tandem with some other reforms carried out at the time produced some results (see chapter). But it is obvious that the effort did not go far enough because our studies have shown that the system is still crying for greater attention, riddled with many respects. It is apparent from all available indications that the training effort has not been sustained since the departure of the former chairman. There is a strong need to reactivate, restore or reintroduce the capacity building program for staff. The availability of skilled manpower is one of the

It is apparent from all available indications that the training effort has not been sustained since the departure of the former chairman. There is a strong need to reactivate, restore or reintroduce the capacity building program for staff.

most decisive means of transforming the Board and setting it on the path of maximum result.

1. INADEQUATE ADMINISTRATIVE MACHINERY

This is surely lacking in the State Board of Internal Revenue. It is a major requirement for an effective and good tax administration. It was unfortunately not one of the issues addressed in the reforms carried out by Sir Onowakpo. A functional and effective machinery, given the nature and mode of operation of the informal sector players (usually without business name, permanent address, without registration and without record of transactions) will be needed to track and carry out preferred assessment of the business activities of the operators in the sector. The machinery will also be needed to organise and collate data, as well as monitor tax compliance in the sector. It is necessary to take urgent steps to set up such machinery.

2. CORRUPTION

The Board of inter economy officials and the corruption agents represents another major threat to the system of taxation in the informal sector. Allegations of bribery and corruption by tax- prayer in the informal sector are rife across the State. Corruption is a major institutional sickness in Delta State and Nigeria as a whole and unless it is properly addressed, no effort undertaken to reform the tax system will yield significant result.

How well the fight against corruption succeeds in the large society, depends on leadership to employ transparent and open system of tax collect administration, a well-paid and motivated workforce, a strict and functional internal control system, and a credible system of enforcement with well-defined rules and procedure for punishment of offenders, will go a long way in helping to address the problem of corruption as it applies to taxation in the informal sector.

3. LACK OF WELL DEFINED POLICY AND STRATEGY FOR ADMINISTRATION AND COLLECTION OF TAXES IN THE INFORMAL SECTOR

This is also clearly missing in the reforms carried out by the ex-chairman of her Board. From all indications so far, it appears that the authorities have not given meaningful attention to the problem of administration and collection of taxes in the informal sector. Necessary efforts should be undertaken to redress this situation. There is need to formulate a clear cut policy and strategy for collection and management of taxation in the informal sector.

Until now the efforts and energy of the government was seen to be mainly directed towards the formal sector. The informal sector, as we have already seen, has special features that requires unique approach and measures to address.

4. INADEQUATE FUNDING OF THE STATE BOARD OF INTERNAL REVENUE

This is not an insignificant challenge. It requires a good amount of money to implement an effective staff development programme; establish enough offices to cover all parts of the State; equip the offices adequately; as well as pay staff well enough to motivate them for maximum productivity and commitment to the board. Presently, this is far from being the case at the Delta State Board of Internal Revenue.

Some efforts have been made in this regard. In the reform carried out by ex-chairman Sir

Some efforts have been made in this regard. In the reform carried out by ex-chairman Sir Onowapo, measures were limited and did not go far enough. The staff development programme should be continued.

Onowapo, measures were limited and did not go far enough. The staff development programme should be continued. All the existing offices of the Board should be well equipped with the requisite telecommunications and information, communication and technology (ICT) facilities. In addition, more offices should be established to ensure that the Board is in the position to carry out its task effectively in all parts of the State.

It is not a mere coincidence that Warri South Local Government Area and Oshimili South Local Council, where the headquarters of the State Board of Internal Revenue and the headquarter annex are located respectively, according to our survey, have high levels of tax compliance compared to Uvwie. The strong presence of the Board in Warri South and Oshimili South is a major factor in this.

5. LACK OF POLITICAL WILL

This is a major challenge of the system of taxation in Nigeria. Governments in Nigeria tend to take tax matters seriously only during times of financial meltdown and quickly forget about tax once the economy improves. This staccato attitude to tax by the governments is believed to be one of the reasons that explain the lack of awareness of a great many citizens for tax and the latter's weak commitment to fulfil their tax obligations.

This is very true of Delta State. The State Government has never had the political will to

This staccato attitude to tax by the governments is believed to be one of the reasons that explain the lack of awareness of a great many citizens for tax and the latter's weak commitment to fulfil their tax obligations.

maintain a sustained interest on tax matters. The interest it showed on tax matters had depended on the economic fortune of the State. It is hoped that this interest will not decline once the economic situation of the state brightens.

6. CONFLICT OVER TAXING POWERS AND JURISDICTIONS BETWEEN STATE AND LOCAL GOVERNMENT COUNCILS

This is a big part of the problems of the taxation system in the informal sector in Delta State. There is a lot of confusion on the taxing powers and jurisdiction of the State and local government authorities, resulting in a great deal of abuses of the system of taxation including illegal and multiple taxations.

In Delta State this is the case with respect to tenement rate, road charges, market charges and levies. Some operators in the informal sector said officials of the State and Local Government come to demand for these taxes/charges, thereby making them to pay the same taxes/charges twice.

7. WEAK ENFORCEMENT

According to experts, this is one of the major challenges of the system of taxation in the informal sector. Corruption is believed to be a major obstacle in applying enforcement measures. Many viable informal sector operators are not captured in the tax act and therefore do not pay tax. It is believed that officials prefer to take bribe than to sanction violators. And for many of the enterprises that pay tax(es), collection and enforcement are weakly carried out because of corruption.

There is also the opinion by experts that there is need to create an enforcement mechanism that is specifically tailored to the informal sector operators. A functional system of punishment and other enforcement measures that are well attuned to the informal sector should be developed.

8. USE OF CONSULTANTS FOR COLLECTION OF TAXES

Several studies have shown that the use of consultants or agents for collection of taxes in the informal sector is a major challenge. While the consultants have in most cases made good financial returns in meeting or exceeding targets set for them their methods are deemed questionable. The draconian methods they use in collecting the taxes do not take into consideration the human rights of the tax payers.

In the process the tax payers are beaten and brutalized; and sometimes their goods are confiscated or destroyed, where they cannot make payment immediately. Some tax payers are even known to have lost their lives in the process. This is counter-productive because it makes tax unpopular, encouraging evasion and avoidance of people from undertaking business activities at that level.

9. THE PERSPECTIVE OF THE TAX PAYER

As identified by informal sector operators in Delta State, the challenges faced by them in fulfilling their tax obligation (i.e. in the payment of taxes) are as follows:

- Lack of money
- How to be sure that they are making payment to genuine officials
- Irregularity in the period of payment and lack of notice for payment.

Here again one shall examine these challenges one after the other.

10. LACK OF MONEY

This perhaps is the biggest challenge of the tax payers towards meeting the tax obligations in Delta State. Majority of the informal sector operators surveyed in Warri South, Oshimili South Local Government Areas, named lack of money as their major challenge. According to these

operators they do not make enough income from their business enterprises to be able to meet up with the bills of the tax officials.

Among these, are seventeen of the twenty five operators surveyed in Warri South; nineteen of the twenty five surveyed in Oshimili South; and ten of the thirteen Operators who answered the question in Uvwie local council. On the other hand, only seven of the respondents in Warri South; and one respondent in Uvwie said they have no challenges in paying the taxes.

There is no respondent in Oshimili South in this latter category. All the nineteen respondents in Oshimili South who said they do not make enough money to meet with the payment of taxes are the only surveyed operators in the local government area who pay tax. The remaining six operators surveyed in the Oshimili South Local Government do not pay taxes, for the businesses by their own admission.

11. HOW TO BE SURE THAT THEY ARE MAKING PAYMENT TO THE GENUINE OFFICIALS

This is also another major challenge faced by informal sector players towards the payment of their taxes. A good number of the operators said they are visited by many tax collectors who do not carry any identification documents. As a result, the operators claim they are always in difficulty trying to figure out whether the officials are genuine or impostors who just want to extort money from them.

12. IRREGULARITY IN THE PERIOD OF PAYMENT AND LACK OF NOTICE FOR PAYMENT

The informal sector players also named as a major challenge, the absence of a planned schedule for the collection of taxes. As a result, according to the operators, the tax collectors appear without notice and they are often not yet in the position to be able to pay.

TOWARDS A FAIR, TRANSPARENT, SUSTAINABLE AND EFFECTIVE TAXATION SYSTEM IN THE INFORMAL SECTOR IN DELTA

Estimated at about 40 per cent of the economy of Delta State, the informal sector, as we have already seen represents a significant proportion of the economic activities in the state. Moreover, according to several recent studies, it is growing at a very fast rate and is projected to grow at an even faster rate in the near future.

It is therefore imperative in the light of the growing importance of the informal sector that the relevant authorities should begin to record far greater interests and attention to the taxation system in the sector than ever before. Actually importance of taxation in the informal sector cannot be over emphasized as we have seen already in respect of taxation in general (see chapter). Taxation in the informal system can help to boost revenue and strengthen the capacity of the State government to provide its citizens with vital socio-economic utilities like hospitals, schools, electricity, roads, security services etc. It can also serve as a tool for economic development, serving to encourage savings and investment.

It can equally help to create an egalitarian society. Furthermore, many experts believe that the passive interest and lack of political will by the government towards administration and collection of taxes (taxation) in the informal sector is evident, in lack of a well-defined policy and strategy for tax administration and collection in the sector; arbitrariness and high handed methods of tax collection resulting from massive abuse of the rights of the tax payers, large member of operators who are not captured in the tax net, poor enforcement systems etc is fraught with danger. According to experts, it undermines tax morality and can further engender tax evasion and avoidance even among the operators in the formal sector.

Many experts further believe that taxation in the informal sector can be a useful tool for responsibility of operators in the sector. According

to the proponents of this view point, those who pay their taxes are likelier to take interest and participate willingly in the governance of the State; and thereby become better citizens who are able to discharge their rights and duties to the state.

Taking necessary steps to accord greater importance to taxation in the informal sector with a view to addressing the problems of the taxation system in the sector, therefore believed to be a major challenge facing tax authorities in the State.

To State the challenge differently, “HOW CAN TAXATION IN THE INFORMAL SECTOR IN DELTA STATE BE FAIR, TRANSPARENT, SUSTAINABLE AND EFFICIENT?”

STATE: THE WAY FORWARD

In his seminal work 'the wealth of nations' published in 1776, the classical economist, Adam Smith, identified the principles of a good taxation system as equity, certainty, convenience and economy. Over the years, other economists have added principles which are simplicity and productivity.

As propounded by Adam Smith, equity demands that the proportion of the tax charged should be as proportionate as possible, to the tax payers ability to pay; while certainty requires that the amount of tax payable by the tax payer should be exact i.e. certain in terms of the amount, time, place and manner of payment.

The principles of economy or productivity, requires that the revenue realized from taxation should be more than the cost of administration and collection. The amount paid, should be subjected to periodic reviews to reflect the situation of the tax payer. The tax code should be simple, to encourage tax compliance, prevent misinterpretation and discourage double or multiple taxation and other.

How can we change the system for the better?

The measures required to address the problem are manifold. They draw from research as well as several other studies carried out on the subject matter in the recent past. Among these are the necessity to develop and strengthen the institutional machinery for tax collection and administration; formulate appropriate policy and strategy that is specifically tailored for the administration and collection of taxes in the State informal sector; take steps to end double and multiple taxation, promote tax education; strengthen seven better suited for the formal sector.

It appears to have hence been formulated mainly for the formal sector and does not sufficiently take into consideration the peculiarities of the informal sector. This will include defining and developing appropriate policy and strategy for administration and collection of taxes in the informal sector.

The policy and strategy will entail among other elements, registration and data base of informal sector operators as well as stipulating how to assess the operators appropriately for payment of taxes. This is important in order to begin to accord adequate effort and resources to the matters of taxation in the informal sector.

DEVELOPING AND STRENGTHENING INSTITUTIONAL MACHINERY FOR TAX ADMINISTRATION AND COLLECTION IN THE INFORMAL SECTOR

Together with the formulation of informal sector specific policy and strategy, developing and

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strengthening the machinery for tax administration and collection in the formal sector, according to many experts should be the centre piece of the effort to achieve just, transparent and efficient system of taxation in the informal sector in Delta State.

It is pertinent to point out that strengthening the machinery for administration of taxation in the informal sector will necessarily involve acting in different directions. These will include the registration of informal sector operators and setting up a data bank establishing as many offices as to be able to effectively cover every part of the state; adequate equipment of the offices; availability of competent staff and well-motivated personnel, and strengthening tax collection enforcement mechanism. Let us briefly look at each of these elements.

REGISTRATION OF INFORMAL SECTOR OPERATORS

The fact that informal sector operators comprise mainly unregistered businesses that very often operate without a business name, permanent structures or address and record of transactions is generally believed to be the major challenge faced by the authorities in the administration and collection of taxes in the sector. No meaningful result can be achieved in respect of taxation in the sector without credible official record of some fundamental data about the informal sector operators such as:

- Business address
- Business activity
- Scale of business
- Business performance (determined in terms of business volume, turn over, sales revenue, profits etc). It must therefore be of utmost importance that necessary mechanism should be put in place for the registration of operators in the informal sector with a view to capturing the afore mentioned data.

Many experts have suggested that a data bank should be created to store the data obtained and that the data should be updated periodically so as to align available information with the current

(actual) situation of informal sector enterprises. Some have suggested that as a starting point the State should conduct a census of the businesses in the informal sector.

ESTABLISH MORE OFFICES

This is considered to be a very important step. The need to establish as many offices as necessary to be able to cover all parts of the state effectively is considered to be a very important step. Some increase in success has been attained recently in the expansion of office network across the state as part of the reforms carried out by Sir Joel Onowapo. But much more still needs to be done in this direction. It is not a mere coincidence that Warri South and Oshimili South local government areas where the headquarters of the State Board of Internal Revenue and the headquarter annex are located respectively, according to our survey, have high levels of tax compliance compared to Uvwie. The strong presence of the Board in Warri South and Oshimili South is certainly a determining factor in this.

ADEQUATE EQUIPMENT OF THE OFFICES

Presently, many of the offices of the State Board of Internal Revenue lack vital equipments that are necessary for efficient and effective performance such as telecommunications and information, communication and technology (ICT) facilities. This needs to be addressed urgently. For instance, many experts believe that the application of information Technology will help in large measure to facilitate compilation of a data base for tax payers and thereby enhance the effective assessment of

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payable taxes as well as monitoring and enforcement of payment by the authorities.

In the reforms carried out under his tenure the ex-chairman made some efforts in this regard which did not go far enough. Necessary efforts should be taken to ensure that all the offices of the Board in the State are well equipped.

AVAILABILITY OF COMPETENT AND WELL MOTIVATED STAFF

It is apparent from all indications that the training effort has not been sustained since the departure of the former chairman who reportedly carried some considerable manpower development programme as part of his reform initiatives. There is therefore a strong need to re-activate, restore, or re-introduce the capacity building programme for staff. The availability of skilled manpower is believed by experts to be one of the most decisive means of transforming the Board and setting it on the parts of maximum result.

Many also believe that it is important that the staff of the Board should be well motivated with the right incentives and general conditions of work.

FUNCTIONAL COLLECTION AND ENFORCEMENT MECHANISM

Lack of vital data arising from the fact that many of the operators are not formally registered with the authorities, high level of corruption among officials of the Board and lack of will on the part of the Board are among the main reasons for weak enforcement for tax evaders and avoiders.

However some of the measures suggested above such as formal registration of informal sector operators, formulation of policy and strategy specifically tailored to the needs of the informal sector, competent and well-motivated personnel etc, if implemented will go a long way in addressing the problem. Many experts also believe that there is need to create an enforcement mechanism that is specifically tailored to suit the informal sector. This they believe will include developing a functional system of punishment and other enforcement measures that are well attuned to the informal sector. Of course, for there to be a functional enforcement mechanism, it will be necessary to

address the problem if rampant corruption among officials in the Board as well as inadequacy of funds.

CORRUPTION

Corruption is a major institutional sickness generally, and unless it is properly addressed no other effort undertaken to reform the tax system will yield significant result. A great many of informal sector operators are reluctant and willing to pay tax. Their reason: because they cannot see what the government is doing with the tax revenue in terms of the performance of public utilities and death of socio-economic amenities provided by the government to citizens. Good governance that delivers efficient services and vital amenities to citizens free of all forms of corruption, will also help in addressing the problem.

How will the fight against corruption succeed in the larger society? An exemplary Board leadership, a transparent and open system of tax collection and administration, a well remunerated and motivated workforce, a strict and functional internal control system, and a credible system of enforcement with well-defined rules and procedures for punishment of offenders will go a long way in helping to address the problem of corruption as it applies to taxation in the informal sector.

IN ADEQUATE FUNDING OF THE BOARD

All over the country, poor funding is believed generally to be a major constraint tax offices across the country shortage of office accommodation and inadequate equipment of the offices; death of well qualified manpower and in terms of tax collection, it is believed that a system with clearly defined procedure are done for tax collection as well as the authorized body to do the collection. The system is also believed, should be well publicized for the awareness of the tax payer.

The prevailing system where collectors can call for tax at any time without any notice and without, in most cases, an official identification card is seen to be inconvenient to the tax payers, and contradicts the principle of certainty for a good system of taxation which requires that the amount of tax payable by the tax payer should be exactly certain amount, time, place and manner of payment. Inability of the Board to embark on an aggressive

and sustained staff development programme, as well as provide adequate incentives to motivate the personnel are some of the by-products of inadequate funding of Delta State Board of Internal Revenue. In fact no meaningful result can be achieved without adequate funding. It is therefore critically important that the Board should be adequately funded.

ABOLISH USE OF CONSULTANTS FOR COLLECTION OF TAXES

We have seen that while consultants or lured agents (i.e. who are not staff of the Board or government officials authorized to collect taxes) appear to have been successful in terms of meeting and even sometimes exceeding the revenue target set for them, the methods are questionably undermining the human rights of tax payers, who are usually beaten and the goods ceased and confiscated if they are unable to pay; as well as encouraging tax evasion and avoidance and discouraging people from undertaking business activities in the informal sector.

Because of this, there are now many experts who feel that there is a need to reconsider the use of consultants or external agents for the purpose of tax collection the experts believe that the excessive pre-occupation of the consultants with how much they can raise without any regard for civilized conduct and the human rights of the tax payers has further darkened taxation (made it more important) and if left unchecked can irreparably damage the system of taxation.

It is therefore their opinion that government should restrict the role of consultants in the system of

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taxation to research, training and ICT development, leaving assessment and actual collection to the Board of Internal Revenue. They believe that the board can train. In this regard it has been suggested in recent past that there is an urgent need for tax authorities to prepare and present annual tax reports for the general public and other stakeholders. This international best practice is not upheld presently in Delta State. Many believe that if it is upheld, it will serve in no small measure to enhance the openness and transparency of the Board.

It is the opinion of experts that the State Board of Internal Revenue, will be better able to handle its challenges and discharge its responsibilities effectively if it is allowed to operate autonomously. The experts fear that excessive political interference will undermine the capacity of the Board to achieve its function. Several recent studies have indeed shown that members of honest, tax paying community often increase where tax authorities are seen to be fair and just in carrying out their statutory functions.

CONFLICT OVER TAXING POWERS AND JURISDICTIONS BETWEEN STATE AND LOCAL GOVERNMENT COUNCILS

Not a few experts on taxation believe that there is need for clear cut demarcation of the powers and jurisdiction of the state government and the local government councils over taxes. The lack of well delineated boundary separating the tax powers and jurisdictions of the state and local governments is known to be largely responsible for several abuses in the system of taxation in the informal sector in Delta State. Notable among these are the inglorious

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A great many of the informal sector operators consider the two unholy practices together as the most burdensome and troubling problems faced by them in respect of the taxation system.

Multiple taxation can be defined in two different dimensions. It can be defined in terms of double taxation where the same activity is taxed many times in different taxing jurisdictions. It can on the other hand, be viewed in terms of what is generally referred to as 'nuisance taxes' which connotes the prevalence of multiplicity of small taxes within and between taxing jurisdictions. Multiple, taxation, according to experts has the effect of burdening economic and business performance by reducing the competitiveness of business enterprises.

Many informal sector operators in Delta State complain that multiple taxation is threatening the survival of their enterprises and impoverishing them. On its part illegal taxation virtually amounts to extortion. It refers to collection of taxes by impostors in the name of an authorised tax collecting body. It has the same effect on business and operators as multiple taxation. Experts believe that harmonization of taxes is a necessary antidote to multiple taxation.

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Many have also suggested as a way of eliminating illegal taxation, that it should be made mandatory for all tax collectors to carry an identity card or any other genuine document of identification. Such a policy should enable tax payers to refuse to pay tax to officials who cannot produce identity card or justify their claim to be tax collectors.

POOR PUBLIC AWARENESS ABOUT TAXATION

It was clear from the survey carried out for this project that virtually all the operators in the

informal sector knew practically nothing about taxation in Delta State and especially as it applies to their sector. They knew practically nothing about the types of taxes, the rates, the authorized bodies for collection of taxes and the procedures.

In the circumstances it was easy for multiple taxation to thrive and for imposter to take advantage of their ignorance to intimidate and extort money from them in the name of one tax or other. This lack of awareness about tax matters also partly accounts for high level of tax evasion and avoidance in the informal sector. It was not easy to quantify the number of people who do not in this category because as I said pointed out earlier a great way of the refused to take the questionnaire from us saying they do not pay tax and do not know anything about taxation. Experts believe that a well-planned programme of public relations campaign, tax education areas for members of the public and tax counseling services will help significantly in addressing the problem. Let us examine them briefly.

PUBLIC RELATIONS CAMPAIGN

The public relations campaign, according to experts, should be undertaken in order to build a tax conscious environment, not only among tax payers but also among the general public, with a view to achieving the following objectives:

- To diffuse and enhance public knowledge on taxation.
- To improve mutual understanding and trust between tax payers and tax authorities and obtain the understanding and trust between tax payers and tax authorities.
- To obtain the understanding and co-operation from the mass media for tax administration. The campaign according to experts should be implemented by the state board of internal revenue in collaboration with the local government councils, using television, radio and the print media.

TAX EDUCATION

The authorities, experts believe, should also embark on a massive tax education and enlightenment programme on the significance and role of taxes.

Part of the public tax education and enlightenment campaign, according to some experts, will be to share and advertise what they are doing with tax revenue. Many believe that the tax education and enlightenment campaign should be extended to students of primary, secondary and tertiary institutions who are the future generations of tax payers as a medium and long term strategy of promoting tax consciousness.

TAX COUNSELLING SERVICES

This, according to experts should be provided by the State Board of Internal Revenue in collaboration with non-governmental organizations and tax experts in tertiary institutions of learning with the aim of promoting tax consciousness among the general public and enhancing tax payer compliance. The counselling service, experts believe, should serve as a platform to assist tax payers on procedures for filling tax returns and applications; provide the counselling services on interpretation and application of tax laws; as well as all other matters related to the payment of tax(es)

LACK OF MONEY

A large majority of the operators in the informal sector would be contented if the amount they pay as tax is considerably reduced to a level they can afford to pay considering the revenue or income they make from their business enterprises. Not surprisingly however, the level of education recommended differed from one operator to the other.

In the opinion of a good number of the operators the government can also assist in strengthening their enterprises, thereby enhancing the viability of their enterprises and income, by supporting them with soft loans or providing business or market opportunities for their services or goods.

Some recommended a reduction of about 80 per cent, some 50 per cent, some 50 per cent, some, 20 per cent. There were a few who argued that they should not be taxed at all because they were running little enterprises. Many experts believe that the problem stems basically from the fact that the operators are taxed without assessment based on data. The taxes are fixed arbitrarily without recourse to or reference to a pre-determined objective criteria. It is believed that the suggestion made earlier on the necessity to register all operators and set up a data bank that will contain vital information about the operators based on which they can be properly assessed and taxed, will help significantly in addressing the problem. Many of the operators find the burden of tax too much to bear, according to experts, because the taxes are arbitrarily imposed without taking into consideration the ability of the operators to pay.

Of course some of the recommendations made earlier especially with regards to illegal and multiple taxation will also help in resolving the problem. The concerns of the operators that the tax demanded is more than what they can afford to pay given the amount of money realized from their enterprises is legitimate if we bear in mind the principle of equity (which holds that the tax charged should be as proportionate as possible to the tax payers' ability to pay) one of the three principles of Adam Smith's good system of taxation.

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opportunities for their services or goods. They said they will only be too happy to pay tax if they are supported by the government to increase the income realized from their enterprises. Fundamentally, (it appears that) taxation in the informal sector in Delta State (appears to be) trapped in a conundrum.

On the one hand, some operators in the sector are known to be over-burdened, subjected to multiple taxation enforced (collected) more often with reckless and brutal force and in a dehumanizing manner which sometimes results in loss of goods, bodily harm or even death of the tax payer.

On the other hand, a great many informal sector operators are not captured in the tax system and thereby operate without paying taxes. If the tax burden is too heavy for an operator the operator may be forced to close shop with unsavoury consequences that will include discouraging entrepreneurship, rise of unemployment, poverty and inequality. In addition, it will discourage voluntary tax compliance, erosion of the tax base, reduction in the amount of revenue realized from taxation and its attendant effects on social services, overall development of the society and among the citizens.

In effect, achieving a fair, transparent sustainable and efficient system of taxation in the informal sector will entail not just enlarging the tax net to capture more operators. It will also include devising measures that will make it possible for operators to be assessed at their true value and thereby eliminate the problem of under taxation and over taxation with illegal and multiple taxation; and adopting methods of tax administration and collection system that is open, transparent, fair and accountable. One which is devoid of arbitrariness and brutal force, respects the humanity and dignity of the tax payer. The elimination of over taxation, multiple and illegal taxation will not lead to a reduction in the amount of tax revenue derived from the large pool of taxable operators in the sector who are currently not being taxed.

On the contrary the revenue generated from taxation in the sector will increase. It is our earnest hope that our findings in this research project has helped to elucidate, if not provide the answer to the problem.

