

*Expanding the Tax Base of
Nigeria's Informal Sector:
Role of the Accountant*

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Objectives of the course

At the end of this presentation, participants should be able to:

- Identify businesses in the informal sector of the economy.
- Analyse the historical trend for informal tax collections of states.
- Understand the role the informal sector plays in the development of the economy.
- The role of the Accountants in expanding the tax base of informal business sector.
- Recognize the factors inhibiting the growth of informal sector business in Nigeria.
- Identify relevant strategies for bringing the informal sector into the tax net.
- Identify key lessons on informal taxation from other countries.

1* PREAMBLE: Let me start this presentation by giving some insight into what I did which I wouldn't have done if I didn't have to present this paper.

I live in Badore, the Lekki-Ajah axis of Lagos. In this axis is a sprawling commercial activities, 80% of which could be Classified as informal sector. I did some sampling interactions with some micro, small and medium actors with a view to getting some insights into what and how they carry on their Business.

These are some relevant findings:

- i. The Micro just wants to make ends meet. No regular structure, just buy and sell and at times sell below cost price, just to take home something to feed their family.
- ii. The Small have some structure, employ one or two helps, keep some form of books, usually in an exercise book. Some of the Business owners are partially Educated. Basically, there is no difference between capital for business and personal money. All incomes are personal and could be dispensed as needs arise. No idea of whether profit is being made or not as long as sales are made.
- iii. The Medium is a different issue entirely. They are very well organized, have Bank account, keep some books, have ideas of what Business is. They could be deceived to be partial formal, but for some reasons which we all know, refuse to register to formalize their Business.

From my Brief interaction with them, they need a lot of convincing, enlightenment and education for them to be brought into the Tax Net.

I would like to express my appreciation to the Governing Council of my Great ANAN (I am a proudly a fellow) for this opportunity and by extension to the ATC Committee for demine it fit to call on me to do this.

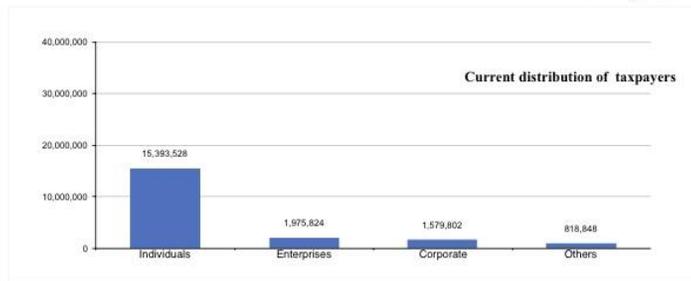
This opportunity couldn't have come at a better time than now when by providence, the Executive Chairman of the Federal Inland Revenue Service has just applied the wisdom of Solomon by Settling Once and for all the Professional areas of Juridictions of Accountants and Tax Professionals, Without undermining the symbiotic relationship among the three professional Bodies- (CITN/ ANAN/ ICAN). If this is allowed to work seamlessly, the quantity of Taxes to be generated will be huge as could be seen from this presentation.



INTRODUCTION

- Recently, empirical work confirmed that Nigeria has a significant higher revenue potential which according to Fenochietto (2013) and IMF (2017) estimated non-oil capacity of 16% to 18% would be optimal for a country's economic structure and per capital income level with additional tax revenue of 12% of GDP.
- As the tax authorities in Nigeria continually making efforts aimed at increasing the tax revenue vis-a vis compliance level, yet the general level remains quite low. In one of the IMF country report shows that out of 77million labour force, only 10million had registered for taxes in Nigeria. It was also reported that only about 214 people pay personal income tax above N20m annually.
- Though FIRS and JTB records Presently, shows that the national taxpayer database is made of about 20 million taxpayers; including individual and corporate taxpayers. (See chart 1 in the next page showing current distribution of tax payers in Nigeria)
- However, given the significant size of the informal sector in the economy, it is correct to say that tax to GDP ratio will not improve until the huge and untapped informal sector is effectively subjected to tax.

**CHART 1:
Talking Numbers**



2* OVERVIEW OF INFORMAL SECTOR

- Wikipedia definition

The informal sector of the economy, informal economy, or grey economy is the part of an economy that is neither taxed nor monitored by any form of government. Unlike the formal economy, activities of the informal economy are not included in a country's gross national product(GNP) or gross domestic product(GDP) .

- The informal sector refers to the economic activities that function with limited government regulations and usually unstructured. It is also known as part of the underground economy, black economy, shadow economy or grey economy.

- This sector includes enterprises that are not officially registered with public authorities and do not maintain a complete set of accounts.

- Example include: hawkers or street traders, subsistence farmers, small scale manufacturing, service providers (e.g. Hairdressers, private taxi drivers, carpenters, Bricklayers, Auto-mechanics,) etc

- The informal sector consists of micro, small and medium enterprises which include traders, and artisans that play key significant roles in the Nigerian economy. They are located in and out of every street in Nigeria.

- By employment range:

Micro -10 / Small -50 / Medium -250. To this group productivity is a key driver of the long term economic growth of this development group.

- The “informal sector is defined under the National Statistics Coordination Board (NSCB) Resolution No 15 series of 2002 as” Household unincorporated enterprise, which consist of both informal, Own- account enterprises and enterprises of informal employment.

Workers in the informal economy are not homogeneous group- 18/ March 2020.

INTERNATIONAL LABOUR ORGANIZATIONS (ILO)- The informal sector is broadly Characterized as consisting of units engaged in the production of goods & services with the primary Objective of generating employment and income to the persons Concerned.

These units typically Operate at a low level of organization with little or no division of labour and capital as factors of production and on a small scale. Labour relation where they exist are based mostly on casual employment, Kingship or personal and social relations rather than Contractual arrangements with formal guarantees.

INTERNATIONAL LABOUR ORGANIZATIONS defines informal sector as:

- an unincorporated enterprises and informal owned enterprises that are not constituted as a legal entity which is separate from its owners.
- They are owned and controlled by one or more members of one or more households
- Keep little information or documentation on the business and does not have a complete set of accounts
- They are often outside the regulatory monitoring and tax net of the Government

Players in informal sector



Farmers



Transporters



Traders



Artisans



Household
workers



Others

CHARACTERISTICS OF INFORMAL SECTOR :

- i. Absence of Official Protection and recognition
- ii. Non coverage by minimum wage legislation and social security system.
- iii. Predominance of own account and self- employment work.
- iv. Absence of Trade Union Organization.
- v. Low income and wages
- vi. Little job security.
- Vii. No fringe benefits from institutional sources.

OVERVIEW OF INFORMAL SECTORS

Being the largest in Africa, Nigeria economy is largely dominated by players in the informal sector which are not under the auspices of Government and are not subject to formal tax system

ILO stated that majority of populace works in the informal sector. However, this is not an exception to Nigeria as over 85% of employment in Africa are provided by the informal sector.

Additionally, in Nigeria, MSMEs economy activities constitutes more than 50% of the entire economy.

Taxing the Informal Sector and its taxpayers' compliance level has become a focus of attention in recent times by scholars and policy makers because of Informal Sector contribution to the country. Informal Sector seems difficult to tax because of administrative problems, human capital and personnel shortage, lack of record keeping, nature of its economic activities and cost implications. Therefore, there is need for better understanding of the concept, challenges, and methods of taxing, and of promoting tax compliance in the Informal Sector.

POPULATION



CONTRIBUTIONS OF INFORMAL SECTORS

Snapshot of Global Informal sector

1 Over 2 billion workers
Informal sector provides over 2 billions to the global workforce representing 62%

2 15% Contribution to Global GDP
According to IMF, In Organisation for Economic Cooperation and Development (OECD), informal sector contributes 15% to the Global Economy

Snapshot of Nigeria Informal sector

1 60% of the Nigeria employment
Informal sector provides the largest employment in Nigeria

2 48% Contribution to Nigeria GDP
According to National Bureau of Statistics (NBS), MSMEs contributes

EXPANDING THE TAX BASE OF INFORMAL SECTOR

In Nigeria, the informal sector is a key factor in economic growth and development and all occur for a great percentage of the welfare especially in sectors like agriculture and manufacturing. The introduction of the digital world has added the service sector, intellectual property, content production to this sector in no small measure.

A joint survey by the Nigerian Bureau of statistics and small and medium Enterprise, Development Agency of Nigeria revealed that there are 41.543 million MSME's in Nigeria. The survey also revealed that small and medium scale enterprise (SME's) accounted for about 50% of factory jobs and close to 90% of all the activities in the manufacturing sector.

In a 2021 report by the World Bank, it was reported that Nigeria's Informal sector contributed 49.7% to Nigeria's GDP and is responsible for 80.4% of the country's workforce. With Nigeria's current inflation rate and lack of foreign exchange for manufacturers to sustain production and employment, more people are being thrown out of job and they are moving into the informal sector. With over 40 million individuals in the MSME's space not remitting direct taxes, it is evident that tax collection is a a pain point for the Revenue Authorities. However, this sector is too vital and critical to be ignored.

This is usually over the years, the Nigerian Tax System has introduced various reforms aimed at enhancing tax collection specifically targeted at this sector in the Personal Income Tax Act Cap P8 Laws of the Federation of Nigeria 2004 (PITA) amendment Act (No. 115) 2011.

THE MAIN HIGHLIGHTS OF THE AMENDMENT INCLUDE:

- i. Introduction of consolidated Relief Allowance
- ii. Widening of the tax band and adjustments to the rates.
- iii. Increase in minimum tax rate from 0.5% to 1%.
- iv. Computation of PAYE for temporary and casual workers.
- v. Removal of tax immunity enjoyed by the president, Vice President, Governors and their Deputies.
- vi. Disputes under the act are to be referred to the Tax Appeal Tribunal.
- vii. Increase in fines for offences committed under the Act.

~Do they intentionally evade Tax Payment?

In 2020 PWC conducted a survey of SME's, after interviewing over 1500 MSME's owners, paying multiple Taxes and Levies emerged as the top challenge faced with the Tax Remittances Of MSME's. The multiple demands by the different Tax Authorities, including the Local Government is one of the key factors that puts them of paying taxes.

Ironically, they easily pay and are comfortable paying the levies by touts, Iya/ Baba Oloja asked why this position, it is because they are covered for security by the touts and socially by the Iya/ Baba oloja.

This, I think is an indictment on the government and points out the issue of lack of accountability and corruption.

POST COVID: This has thrown up a whole new ways of doing business especially in the IT world. It is to its credit that Technology has been deployed to improve Revenue Collection. Some of the Technology being used are:

REMITA: helps over 12 state Government across Nigeria to digitize the Tax Collection Process.

Various Innovation deployed by Firs include:

- ~ Tax Promask
- ~ Vat Automation
- ~ Contact Center
- ~ Electronic Document and Management System
- ~ Synchronization of FIRS/ CAC on issuance of TINS.

On the part of state Government, the informal sector forms a bulk of its commercial players and as a result the Tax payers. A lot of them have embraced technology to drive their IGR. In this Era of New Normal, Lagos State Internal Revenue Service is the Trailblazer.

LIRS was the first to begin the issuance of electronic TCC in 2004. Other Tech Innovation deployed by the state includes the following:

- ~ e- filling of employer and individual Tax returns.
- ~ auto- generation of individual Tax Payer identification via LIRS e-Tax platform etc.

This explains why Lagos State is generating so with IGR. It is however being encouraged by the JTB for all State Internal Revenue Services.

The technical collaboration by some financial institutions like Fidelity Bank have assisted on the deployment of Point Of Service (POS) Terminal Tax collection in Abia, Imo and Sokoto state. Across the states, Automated Electronic Motor Vehicle License has been deployed just like some states like Ondo, Anambra and Abia have also deployed Land Registry Automation Process.

OTHER NOTABLE STEPS FOR INCLUSIVENESS:

~ LAGOS STATE:

- Taxation of IS via trade groups.
- presumptive Tax Revenue Act of 2014 being deployed.

~ RIVERS STATE:

- Presumptive tax using trade blocks to categorize for rates.
- Official demand notice and all payments through the Bank.

~ KWARA STATE:

- Established an informal Tax Directorate
- Split the Directorate into 3 units to ease administration. Micro Business taxed annually via prescriptive Tax Regulation.
- Markets and Artisans Taxed via Unions/ Association and Group Executives.

~ OGUN STATE: Set minimum taxable rate at #3,100 = per Annum and followed up with heavy sensation program.



INFORMAL SECTOR AT A GLANCE



INFORMAL SECTOR AT A GLANCE

THE ROLE OF THE ACCOUNTANTS IN EXPANDING THE TAX BASED INFORMAL BUSINESS SECTOR.

It is obvious from the Standard and Practice of Accounting that their core competences lie in the keeping and interpreting of financial records. This they do especially for Conglomerates, Corporate entities, businesses in the Formal sector organisations and notable groups of individuals.

As we increasingly move to focus on the informal sector for improved tax base and enhanced tax revenue, it is important that the Accountant reposition itself to have some better slice of the cake easily available in this sector.

To access the tax terrain of the informal sector, it is expedient that some of prepared formal records must be handy. This is where the Accountants are called to duty.

Apart from the normal informal sector of Traders, Artisans, Micro, Small and Medium Enterprises as commonly identified in general, there are some professionals that fall into the definition of SMEs that could be focused on by the Training Professions like the Accountants and Tax Practitioners.

Accountants and the general MSMEs:

- > Already, the creation of ATS for middle class professionals is a step in the right direction. This set of Accounting Technician Graduates can be encouraged to adopt some MSMEs by assisting them in keeping their books and records in such a way that the correct position of the business is easily ascertainable. This in fact could create large employment opportunities for this class of professionals. A story was told of a lady who resigned her employment to take up the job of keeping books of some MSMEs in a catchment area. She started by charging N20k for a start. When the clients developed confidence in her, they introduced her to other shopping malls and now these areas are her domain. So this area should be exploited for maximum result.
- > Development of simple apps for small companies Professionals are encouraged to mentor their young professionals especially in the area of Technology, especially Fintech.
- > Accountants / Government can partner with platform providers to provide subsidised or free tools: eg bookkeeping, payroll.
 - to provide visibility for all transactions of players on the platform
 - encourage audit trainees to assist in monitoring of the business, may be weekly.

Basically, the Accountant should also be in the position to educate and enlighten players in the informal sector on the essence of separating capital from revenue and personal finance.

AMERICAN ASSOCIATION FOR TRAINING AND DEVELOPMENT. :

I would like to at this point bring in a very important discovery i made while searching for information. It is about MSMEs In A Training World. ASTD ,came up with 5types of MSMEs in a training environment.

While MSMEs hold countless different responsibilities in the world in general, in a training world they play specific roles that merit our attention and focus.

They are divided into five(5):

- > Technical
- > Hybrid
- > Instructional
- > Functional
- > Sentinel.

Each of these classification has specific characteristics and contributes to our work in unique ways. Not all are created equally and this is a real advantage for trainers.

TECHNICAL:

This group is primarily focused on technical content and is not overly involved or concerned about other aspects of the Instructional design process such as implementation. They are brought into the process to provide content knowledge and to make sure that every details related to content is correct. They often work in groups and larger than the scale of a project, the more of these experts you can expect to be involved. Egs, Original equipment manufacturer (OEM) representatives, engineers, scientists Lawyers, medical professionals, skilled trade workers and many others. This group is expected to have documented proficiency in the content area and usually have certifications, degrees, or other professional standing.

Dear Professional Colleagues, I want to limit our discussion here to this Technical Category. We are all trainers and I am sure, some of us belong to this category of MSMEs. How many of us are keeping our books the Professional way. How many of the people in this category are paying taxes. As Accountants, how many of our friends in this category have we educated on the issues of bookkeeping and accounting. As Tax Practitioners, in this category, how much tax have we paid from all sources of our income.

I guess, the cock is coming home to roost very fast and we should not be caught napping. Let us wake up. Technology is the key to this advancement. Let us encourage our GEN Z's to develop softwares for our MSMEs and help in improving tax compliance and improve revenues for our country and States.

CONCLUSION

With significant drop in oil revenue and the fact that income from taxes in Nigeria is one of the lowest in the World, Nigeria Government needs to find solutions to bring in more businesses into the tax net. Tax to GDP ratio constitutes less than 8% compared to the OECD of 33.3%.

Possible solution includes:

- Taxing informal sector through market associations, business groups and unions.
- Deploying technology to help track and collect information on informal sector businesses.
- Taxing digital businesses through collaboration with banks and fintech.



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