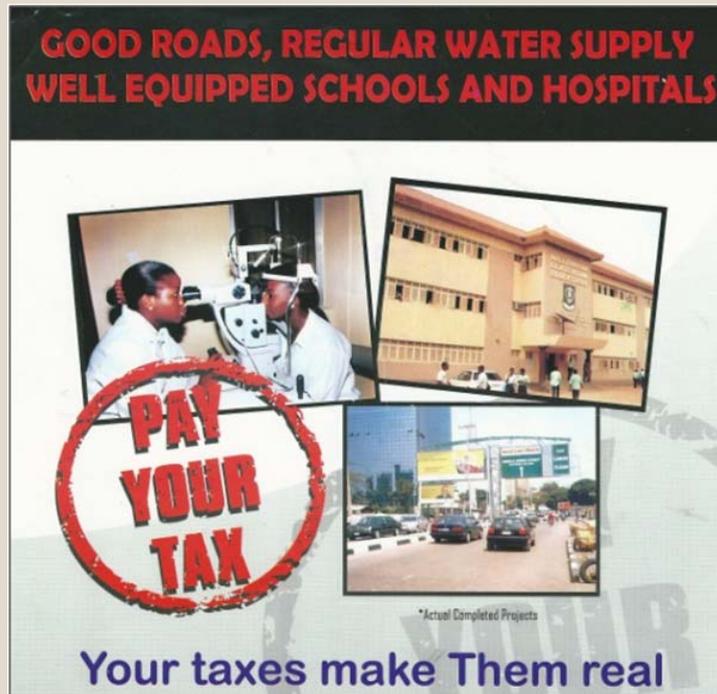


Encouraging tax compliance in the informal sector

Summary

Recent iiG research looks at the relationship between taxation and state-society relations in Lagos State, Nigeria. By focusing on non-PAYE informal sector market traders and professionals it examines how taxpayers think of Lagos State and what they expect from it. We conducted semi-structured interviews and focus groups with thirteen informal sector professionals and eleven market traders, to explore taxpayer perceptions as a key factor in building tax systems that are publicly supported and that can help to boost government revenue.



Key Findings

- An increase in the provision of public services encourages citizens to believe that their government is 'working' which helps to build trust in leaders and government and increases the likelihood of tax compliance;
- Informal sector market traders and professionals think differently about the state. Market traders show a more personalised bond focused mainly on the Governor, while informal sector professionals demonstrate a trend towards a more institutionalised relationship that goes beyond the current administration;
- The difference between groups has a strong impact on what they expect from the state in terms of the quality of service provision, the extent to which they seek to be involved in decision making and their expectations for state transparency.

Policy conclusions

The provision of public services has encouraged greater public awareness of tax payment and has contributed to boosting government legitimacy. However, if tax revenue is to be increased through informal sector non-PAYE compliance, government should prioritise not only visible public service provision but also the meaningful inclusion of taxpayers in the decision making process and focus on tackling the lingering perceptions of corruption that persist among citizens. This especially applies to informal sector professionals.

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Project findings in greater detail

Research was conducted in 2012 through semi-structured interviews and focus groups with non-PAYE informal sector professionals and market traders.

The majority of non-PAYE interviewees expressed that their willingness to pay tax increased as a result of more visible service provision under the Fashola administration. New roads, health care facilities and schools were commonly cited as examples of why tax payment was 'less painful' now. While government enforcement encourages compliance, many interviewees reported an underlying willingness to comply when they saw that the 'government was working'.

Governor Babatunde Fashola is very popular to both groups. However, his place in state-society relations differs. Market traders exhibit a strongly personalised relationship with the Governor, attributing service delivery to him and they show little sense of ownership towards state expenditure despite tax payments. This can be attributed to the novelty of taxation in this sector, as well as the less onerous tax burden but high use of public services. In direct contrast, informal sector professionals demonstrate a trend towards a more institutionalised contract with the state. Interviewees show a strong sense of ownership towards tax revenue and state expenditure. This can be attributed to the high awareness among professionals of the role of taxation and their rights as taxpayers, as well as the heavy tax burden many complain of, and their minimal use of public services. This difference has a significant impact on what members in both groups demand from the state in terms of service delivery and accountability, in exchange for their compliance.

Consequences: Market Traders

- Interviewees said that they were more amenable to paying tax when provided with services. However, none spoke of a state obligation to provide services in exchange for payment, nor of their 'moral right' to demand anything from the state as taxpayers.

- Only 2 out of 11 interviewees said that the state was not doing enough in terms of service delivery.
- While perceptions of state corruption persist among all interviewees, this was not damaging to their willingness to pay tax as long as services were being provided that benefitted them directly.
- Expectations and demands for greater involvement in state decision making and budgeting were rare.

Consequences: Informal Sector Professionals

- A strong sense of ownership of state expenditure expressed through 'moral right' to demand from state as taxpayers.
- All 13 interviewees said that current service delivery was not enough and that the state had to improve the quality and reliability of service provision. All said this would encourage tax compliance among peers.
- All 13 interviewees cited a lack of transparency and the persistence of perceptions of state corruption as major obstacle to their groups' compliance. Interviewees claimed that if the state worked more on improving transparency then people would be encouraged to pay.
- The majority expressed a strong desire to be more involved in government budget decisions which would in turn significantly increase their willingness to comply.

For more information

For more information and for questions regarding data, contact Leah Gatt at leah.gatt@oxon.org

Information about the Researcher

Leah Gatt is a graduate of the MSc in African Studies programme at the African Studies Centre, Oxford University, UK.

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