



Community Life Project (CLP)



Community Life Project's Research
on **Informal Sector**
TAXATION
in Lagos State **2017**.

**STRENGTHENING ADVOCACY
AND CIVIC ENGAGEMENT**



USAID
FROM THE AMERICAN PEOPLE



Na We Get Am!

*“This Research on Informal Sector Taxation in Lagos State is made possible by the generous support of the American people through the United States Agency for International Development (USAID).
The contents are the responsibility of SACE and do not necessarily reflect the views of USAID or the United States Government.”*

Introduction

This report presents substantive findings from a Baseline Study on Informal Sector Taxation Practices in Lagos State 2017 undertaken by Community Life Project (CLP). The purpose of the fieldwork was to gather data and analyse perspectives and worldviews of stakeholders - the demand side and supply side - on informal sector taxation for sustainable taxation, revenue optimization, fairness, justice and inclusiveness in Lagos state.

Methodology

The research design adopted for the study was cross-sectional survey. The approach adopted was exploratory, descriptive and analytical. While 2 local government areas were purposively selected for the pretest, 4 LGAs/LCDAs were systematically selected for the main survey. The selected LGAs for pretest were Mushin and Kosofe while the selected LGAs/LCDAs for the main survey were Ikeja, Oshodi, Isolo and Ikorodu. As can be seen above, the 2 selected LGAs for the pretest were not included in the main study to prevent data redundancy within international best practices in social research. The target populations of study were: informal sector traders/business owners/artisans with extensive experience of the issue (the supply side) and LGAs/LCDAs officials with relevant knowledge (the demand side). Sampling technique was multistage factoring in senatorial districts, LGAs, Enumeration Areas and business units. Purposive considerations were however also given to rural urban localities dichotomies for possible peculiarities capturing, informal business concentrations and viability. Both qualitative and quantitative methods of data collection were triangulated for comprehensive and reliable data gathering and findings. A total of 1,387 copies of questionnaires were administered on randomly selected respondents through researchers' facilitation. A total of 4 focus group discussions (FGDs), 3 key informant interviews and 8 in-depth interviews were conducted with purposively selected interviewees/discussants for the qualitative components. Quantitative data were analysed with the aid of SPSS software while qualitative data were analysed through content analysis after verbatim recordings and transcriptions. Ethical principles of non-inducement, non-coercion, non-maleficence, anonymity, informed consent and right of withdrawal were observed and respected throughout the research process.

Findings

This section of the report presents the results from the fieldwork.

As found and reported during the pretest, uncooperative attitude was found, again, on the part of LGA/LCD officials relative to responses to taxation questions. While most of the officials refused outrightly to be interviewed, very few who agreed to be interviewed refused their responses to be recorded citing Oath of Secrecy and fear of persecution/official backlash. The 3 KIIs conducted were therefore achieved through informal approaches and systematic persuasion by the research personnel after guaranteeing anonymity and assurances of discretionary use of data.

Socio-demographic Characteristics of respondents

Age: The average age of respondents is 36.86 (37) years. The youngest respondent is 20 years old while the oldest respondent is 65 years old with the age range of 45 years and standard deviation of 6.470. This implies that the population as sampled is relatively well dispersed, comprehensive, relevant and representative.

Table 1:
Socio-demographic
Characteristics of
Respondents.

Variable	Frequency	Percentage
Gender		
Male	782	56.4
Female	589	42.5
Indifferent	16	1.2
Total	1387	100.0
Marital Status		
Married/Cohabiting	1134	81.8
Separated/Divorced	27	1.9
Single	186	13.4
Widow/Widower	13	0.9
Indifferent	27	1.9
Total	1387	100.0
Higher Level of Education Attained		
No formal education	6	0.4
Primary not completed	2	0.1
Completed primary	111	8.0

Table 1:
Socio-demographic
Characteristics of
Respondents
cont'd.

Secondary not completed	302	21.8
Completed secondary	712	51.3
Tertiary not completed	67	4.8
Completed Tertiary	181	13.0
Indifferent	6	0.4
Total	1387	100.0
Profession/Occupation/Business		
Artisan (Craft worker)	41	3.0
Trader	549	39.6
Food Vendor	36	2.6
Mechanic	183	13.2
Hairdresser	192	13.8
Tailor	196	14.1
Electrician	50	3.6
Vulcaniser	47	3.4
Transportation	83	6.0
Others	8	0.6
Indifferent	2	0.1
Total	1387	100.0
Ethnic Group		
Yoruba	1029	74.2
Igbo	300	21.6
Hausa	12	0.9
Ijaw	9	0.6
Awori	4	0.3
Kanuri	1	0.1
Others	12	0.9
Indifferent	2	0.1
Total	1387	100.0

Respondents are almost evenly distributed on gender. However, over half of the people (56.4 percent) are males while majority of the respondents (81.8 percent) are married/cohabiting. The next single most common

category is the Single/never married. All the respondents are informal sector operatives but the single most represented category (39.6 percent) are those who self-classified, and are observed, as traders. Other common categories are mechanics, tailors and hairdressers. On ethnic group, majority of the respondents are Yoruba people (74.2 percent). This is sustainable because the research context is in southwestern Nigeria, an area historically occupied by the Yoruba people even though the context is the most cosmopolitan in the country. Due to the cosmopolitanism of the state, other appreciably represented ethnic groups are Igbo people (21.6 percent), Hausa, Ijaw, Awori and Kanuri.

Table 2:
Distribution of
respondents by
Income/Profit

Variable	No. of Respondents	Income/Profit Range	Minimum Income/Profit	Maximum Income/Profit	Average Income/Profit
Average Income per Month	1385	N795,000.00	N5,000.00	N800,000.00	N66,512.6354
Average Profit per Month	1384	N599,000.00	N1,000.00	N600,000.00	N33,815.1012

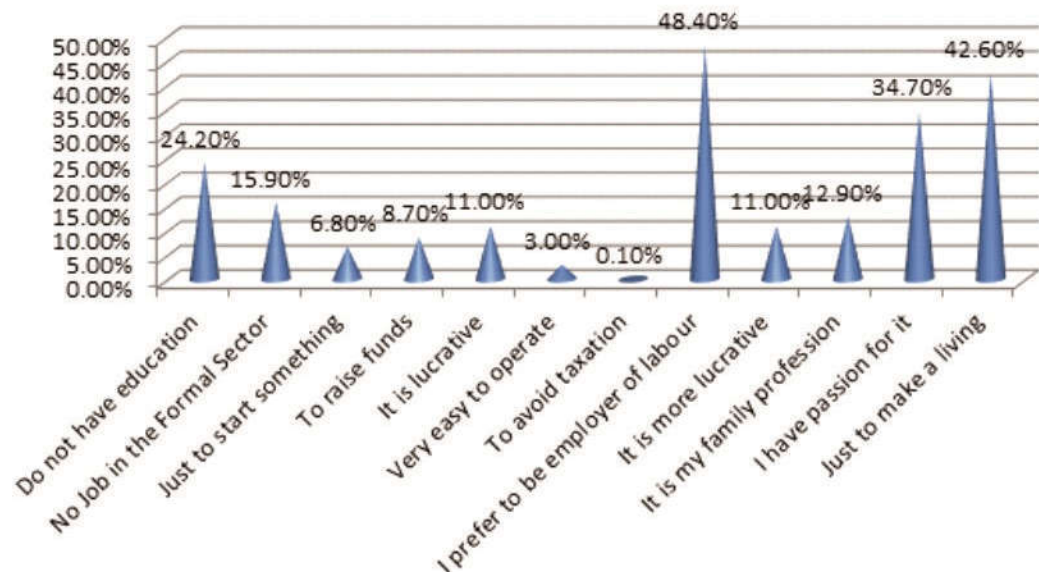
It can be observed from the table that the relative viability of informal sector taxation is appreciable. Particularly, the average income and profit in the sector in the state are N67,000.00 and N34,000.00 respectively.



FGD SESSION, IKEJA 1

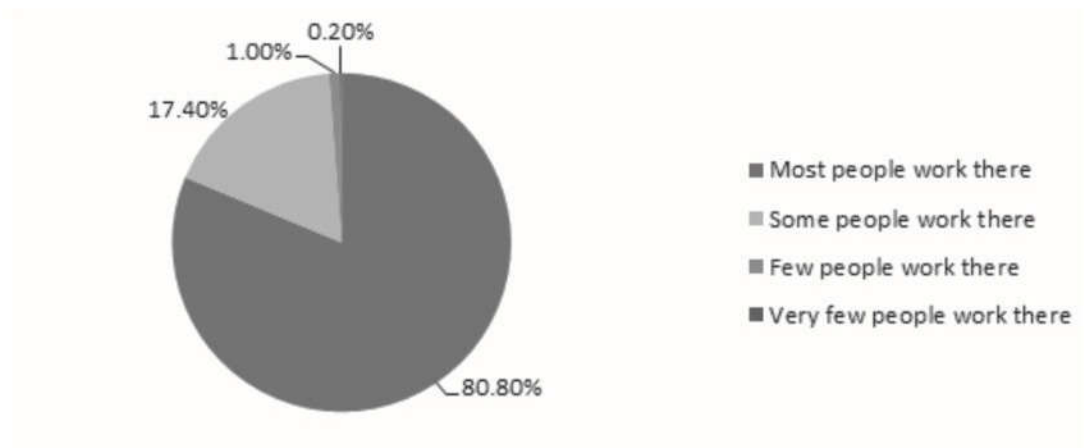
Existentialities and Viability of the Informal Sector Taxation

Figure 1:
Reasons for
Involvement in
Informal Sector



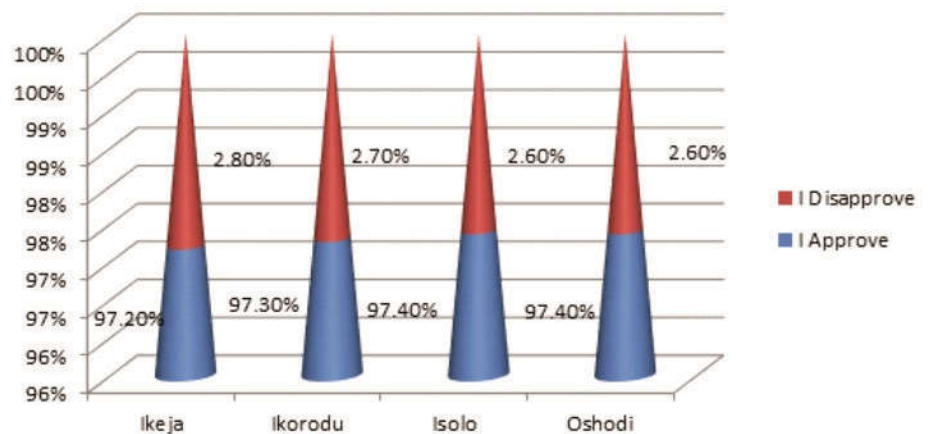
Majority of the respondents maintain they operate in the informal sector because they prefer to be employers of labour (48.40%), 42.60% are there to *just to make a living* while another 34.70% are there because of passion for the sector. 24.20% are in the informal sector because they do not have education. Other reasons include: because there is no job in the formal sector, just to start something, to raise funds, it is lucrative, very easy to operate, to avoid taxation and because it is family profession.

Figure 2:
Operatives'
descriptions of the
Informal Sector in
Lagos State



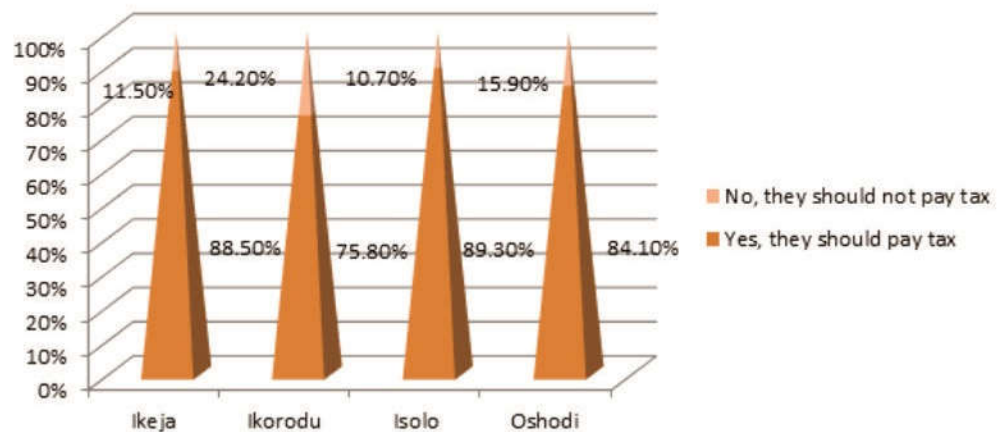
It is important and useful to document worldviews of operatives relative to informal sector participation. Findings reveal that quite a lot of people (over 80 percent) operate in the sector going by operatives' assessment and experience.

Figure 3:
Distribution of respondents by nature of approval of the informal sector in Lagos state



Across all local governments surveyed, overwhelming majority of the respondents (over 90 percent) maintain that they approve of informal sector. This finding is sustainable given earlier findings on participation and viability.

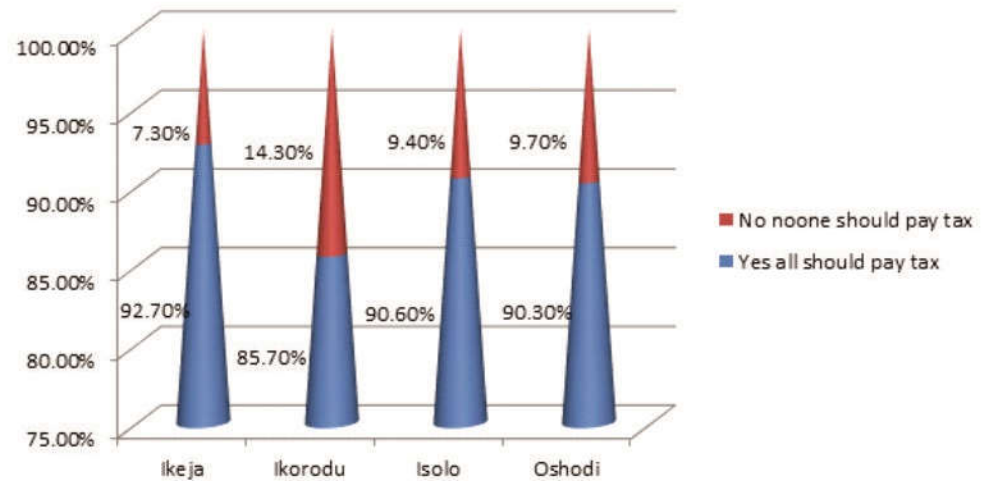
Figure 4:
Distribution of respondents by whether or not informal sector operatives should pay tax



As can be seen in the figure above, significant majority of the respondents are of the opinion that people operating in the informal sector of the state should pay taxes. The two most significant reasons given for this majority affirmative response are:

1. Informal sector actors also benefit from government/public facilities in the state
2. Informal sector operatives also make money in the state.

Figure 5:
Distribution of
respondents by
whether or not
every Lagosian
irrespective of
sector should pay
tax



In consistency with earlier findings above, overwhelming majority of respondents across the local governments insist that every Lagosian irrespective of sector of operation should pay tax to the government because the government is seen to be somewhat working for the people and everyone makes money in the state.



FGD SESSION, IKORODU 2

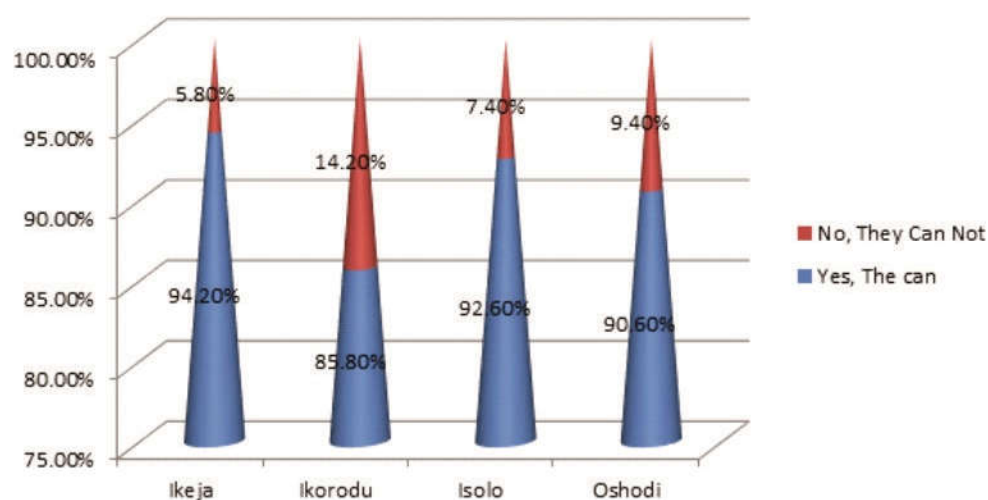
Features, Rates, Compliance and Collection Methods of Rates/Tariffs at the LGAs/LCDAs

Table 3:
Types of
rates/tariffs
collected by
LGAs from
informal
sector
operatives

LGAs/LCDAs	Trade Permit	Radio/TV License	Lock up Shop Permit	Canopy Extension Permit	Liquor License	Land Use/Parking	Others
Ikeja	97.5%	36.6%	10.5%	9.7%	3.9%	8.9%	6.6%
Ikorodu	88.0%	27.4%	29.6%	10.8%	0.3	7.1%	2.3%
Isolo	91.8%	27.8%	22.2%	3.7%	4.6%	1.4%	0.3%
Oshodi	95.9%	20.4%	27.6%	11.3%	1.3%	4.7%	1.3%

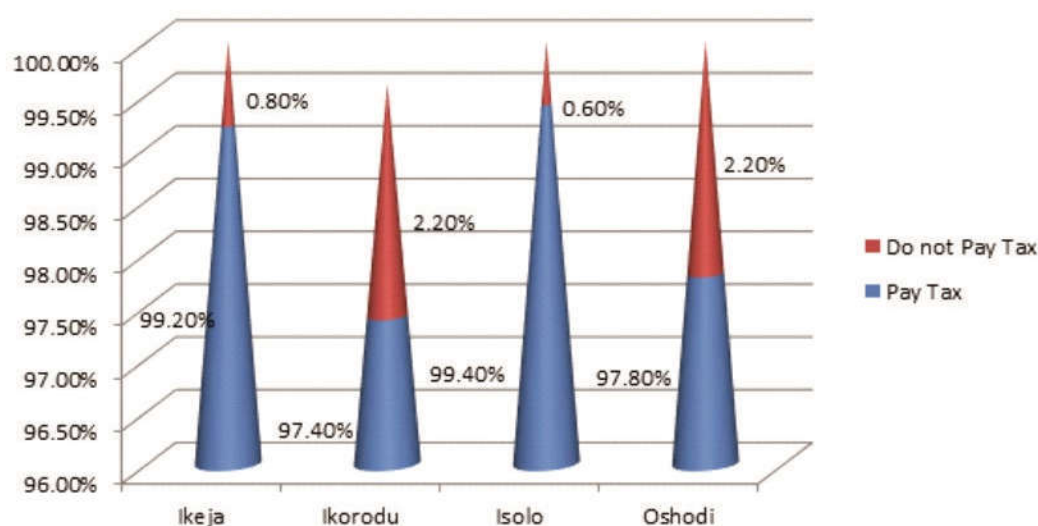
The most common rate/tariff collected/paid by LGAs officials/informal sector operatives in all LGAs is trade permit. The next most common ones are radio/TV license, lock up shop permit and canopy extension permit.

Figure 6:
Perceived
capacity of
Rates/Tariffs/Taxes
to Contribute
Substantially to
Government
Revenue



Perceived development and revenue capacities of rates/tariffs/taxes are strong indicators of willingness to pay. This was therefore captured during survey. Interestingly, significant majority of all respondents in all LGAs/LCDAs opine that taxes can contribute substantially to government revenue.

Figure 7:
Distribution of
respondents by
whether or not
they pay tax



Across all the local government overwhelming majority of the respondents claim they pay tax. These finding are particularly sustainable when considered in relation to earlier findings above on types of rates/tariffs paid and intensions to pay taxes orientations.

Table 4:
Observed extent to
which informal
sector operatives
pay rates/tariffs in
LGAs

LGAs/LCDAs	Very few people pay	Few people pay	Some people pay	Most people pay	Everybody pays	Total
Ikeja	4.7%	7.5%	11.1%	28.4%	48.2%	100.0%
Ikorodu	6.1%	15.7%	13.1%	31.4%	33.7%	100.0%
Isolo	0.0%	0.9%	1.7%	70.5%	27.0%	100.0%
Oshodi	0.0%	1.3%	2.2%	54.5%	42.0%	100.0%

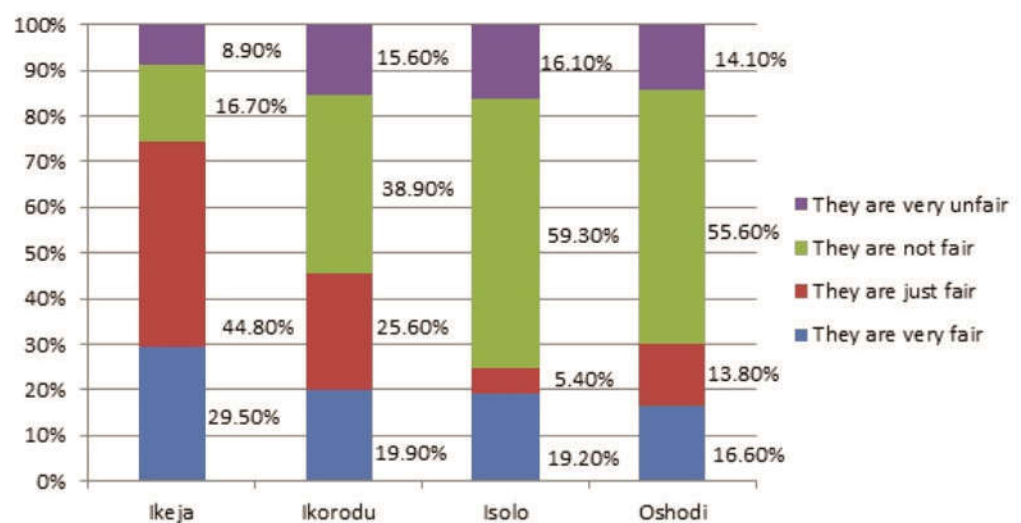
Aside individual's taxation compliance, it is important to understand and document sectoral level of tax compliance in the contexts. Thus, informal sector operatives were made to assess their observed level of tax compliance in the LGAs against the background of their experiences. Across all local government areas/LCDAs, reported level of tax compliance is high as most/everybody comply with paying rates/tariffs. Reasons why people comply with paying taxes in the areas include:

1. The fear of their shops been locked as penalties
2. They are encouraged to pay by their associations
3. It is a basic requirement to establish businesses in the places
4. Their recognition of taxation as basic responsibilities
5. They know the value and importance of paying taxes
6. The fear of their goods been seized if they default in paying taxes
7. Observed utilization of taxes for community development.

These findings are however different from the very uncomplimentary views expressed by government officials during KII. According to tax official who captured the modal views of his colleagues:

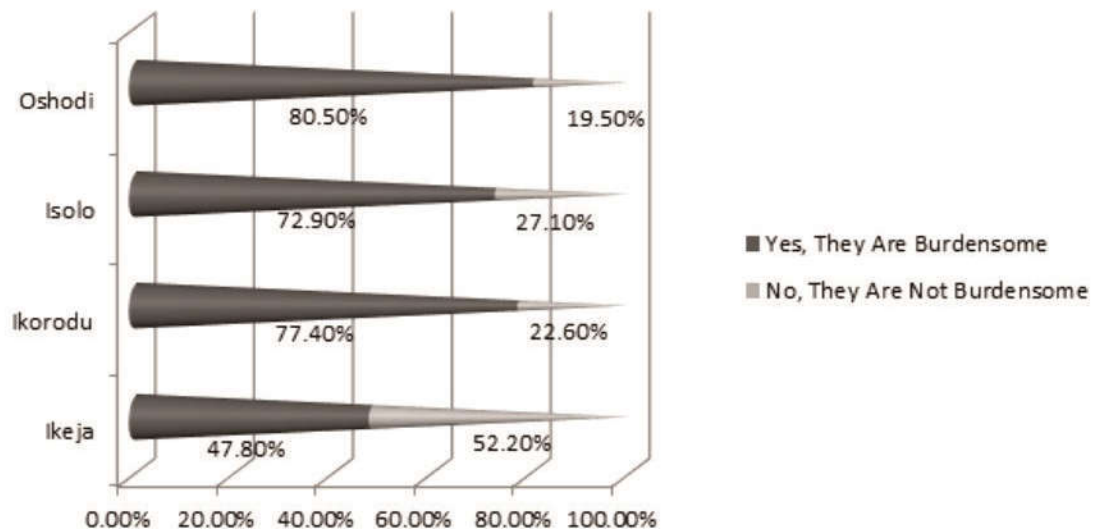
Those in the informal sector are always very dubious. They avoid and evade tax. It is Cristal clear that the informal people find it very difficult to pay the least tariff of any such. The level of compliance is very low.

Figure 8:
Extent of Tax
Fairness in the
informal sector
relative to
sectoral income
generally



For taxation to be sustainable and inclusive, the degree of perceived fairness is very key. That is, the payers and the state must reach a point where the demand side and the supply side see taxes/rates/tariffs as fair and justified. It is against this background that informal sector operatives' worldviews are captured during survey. Few respondents perceive tariffs/rates/taxes in their LGAS/LCDAs as very fair. It is only in Ikeja that about 30% of the respondents perceive the tariffs/rates/taxes as very fair. In Ikorodu, Oshodi and Isolo, consistently less than 20% of the people see them- taxes/rates/tariffs as very fair. In Isolo and Oshodi, over 50% of the people perceive the taxes/rates/tariffs as not fair while consistently over 70% across all the contexts consider the taxes/rates/tariffs as not fair/very unfair/just fair.

Figure 9:
Extent of Tax
Burdensomeness
in the informal
sector relative to
payability

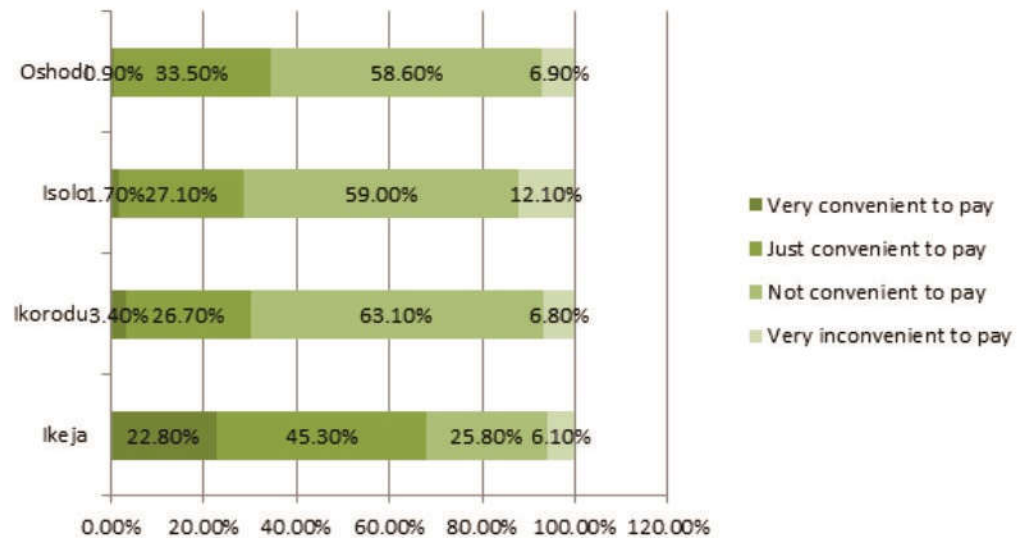


Except in Ikeja (47.8%), overwhelming majority of the respondents (>70%) claim rates/tariffs/taxes in their LGAs/LCDAs are burdensome when compared with their income/profits. Aside the amount paid, causes of burdensomeness include ease of payment and approaches to enforcement by tax officials. A strong disjuncture is however found in the opinions of government tax officials and those of informal sector tax payers. That is while most of the respondents believe tax is burdensome, government officials hold contrary views. According to a Key Informant in Isolo for instance:

Tax/ rates/ tariffs are not a burden to the tax payer because it is paid once in a year and it is a token that is collected or charged by the tax law. I believe it is very easy to pay because it is once a year, also it can be paid anywhere; bank, tax offices etc. Tax/rates/tariffs are charged according to a system i.e. there are rates for every business. The average rate for the people in the informal sector of this LGA is ₦2,500. These people in the informal sector really don't always want to pay even if it is ₦100. They always feel reluctant to pay.

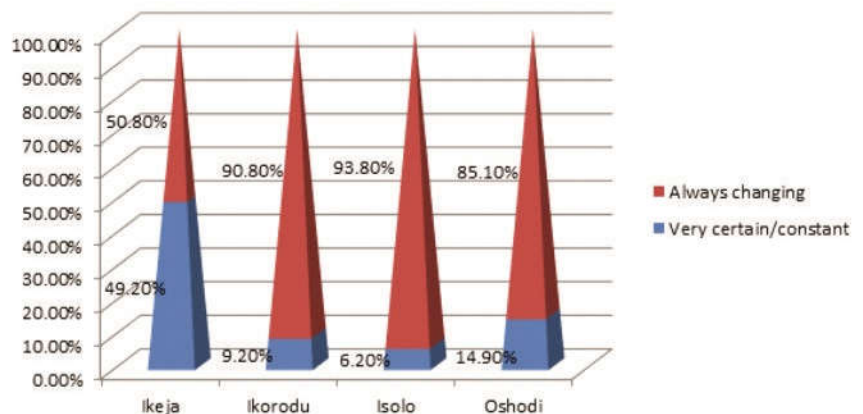
From the above primary/qualitative excerpts, it can be seen that the views of the two critical actors in the tax space are totally contradictory in terms of burdensomeness of tax payment and these views need to be harmonised.

Figure 10:
Time, Manners
and Convenience
of Paying
Taxes/Rates/
Tariffs



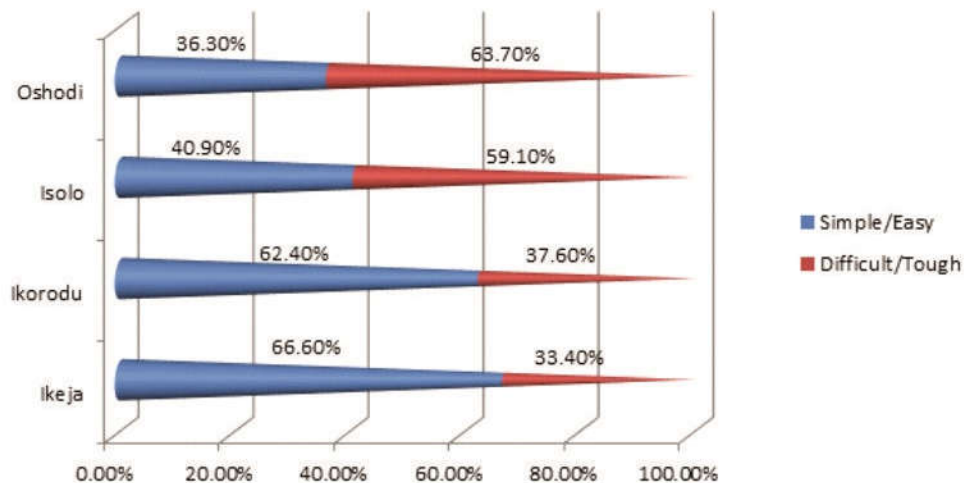
A major consideration in state revenue drives and tax architecture is convenience of payment particularly relative to time and manners of levying and enforcement. That is, the more convenient it is to pay taxes, the more likely people will comply. Unfortunately, significant majority of respondents maintain that it is not convenient to pay taxes/rates/tariffs in their LGAs/LCDs.

Figure 11:
Certainty of
amount to pay as
rates/tariffs/
Taxes



Taxes' amount and processes stability/certainty are the hallmarks of tax fairness, justice and sustainability. Thus, tax predictability and certainty were explored. Majority of the respondents are of the opinion that taxes and rates/tariffs are constantly changing and unpredictable making it difficult for payers to make payment plans. The only slight exception to majority's views is Ikeja but even in Ikeja, over 50% of the respondents opine that taxes are constantly changing and uncertain as government officials change rates/tariffs/taxes unilaterally without sufficient recourse to informal sector actors.

Figure 12:
Simplicity and
Ease of Paying
Taxes/Rates/
Tariffs by Where
and When to pay



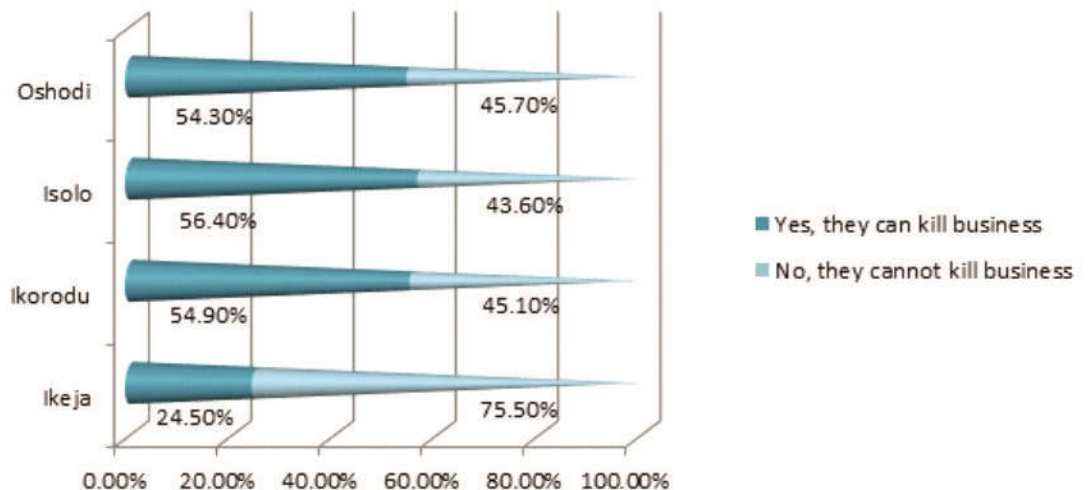
Ease and simplicity of paying taxes were further explored for sufficient understanding of tax processes and architecture of the LGAs/LCDAs because these are very important. There is significant measure of disparity in the relative ease and simplicity of paying taxes across LGAs.

Majority of the respondents in Ikeja and Ikorodu maintain it is simple and easy for them to pay their taxes by when and place of payment. The cases are however different in Isolo and Oshodi where the majority of the respondents claim it is difficult for them to pay taxes relative to where and when.



FGD SESSION, ISOLO 1

Figure 13:
If the
Taxes/Rates/
Tariffs can kill
informal sector
businesses



To further document perceived fairness of taxation in the LGAs/LCDAs, respondents' opinions were captured relative to perceived threats to business survival in informal sector. Over 70 percent of respondents in Ikeja opine that the taxes/rates/tariffs are not dangerous to business survival. Distributions are however less complementary in Oshodi, Isolo and Ikorodu where consistently over 50 percent of respondents claim the taxes/rates/tariffs can kill their businesses and therefore not business friendly.

Narrative 1: Ramifications of Taxes/Rates/Tariffs in LGAs: Amount, Negotiations and Dynamics

Findings suggest taxes/rates/tariffs for the informal sector are paid annually. Amount paid however varies by sizes of shops, nature of businesses and items of sale. Members of associations pay uniform amounts and the amounts are paid in bulk. Associations bargain with council officials on amount to pay by members under the association. People who are not members of association however do not have bargaining opportunities and tend to pay more. Associational bargaining arrangements are however now being rejected by government officials who claim association executives are engaging in sharp practices and reducing revenues in the process. Individual payments are now being encouraged by government. To drive revenue, local government areas have been categorized as A, B, C and D by the state government depending on financial viability of the LGAs/LCDAs. This means amount paid as taxes vary by LGAs and nature of businesses. By implication, there are no rigid standard of taxation in the informal sector taxation space which may give room for exploitation and corruption. According to a government tax official for instance:

Concerning this issue, no amount is fixed for all local governments in the state. Revenue issues are still elastic. Things are different in every area so there are no fixed or uniform rates across the state.

Average aggregate range of taxes paid by informal sector operatives is ₦4,000 and ₦5,100 but there are complaints that the taxes/rates/tariffs are increased indiscriminately. For example, according to some operatives in the informal sector during FGD in Ikeja:

Discussant T: The issue of rates and tax is on the high side, we are told to pay ₦5, 100 and that is too much, we are paying trade permit to the LG and we also pay for lock up permit, I think that is too much, they should stop it. Since we are already paying for trade permit that should be enough as an artisan group that should cover us, we are not comfortable paying taxes at all, it is too much.

Discussant X: Just as my colleague have said the tax is too much for us, we would pay tax, pay lock up- ₦3,500; then we would pay extension ranging from ₦1,500 – ₦2,000. With these payments, we don't need to pay tax again.

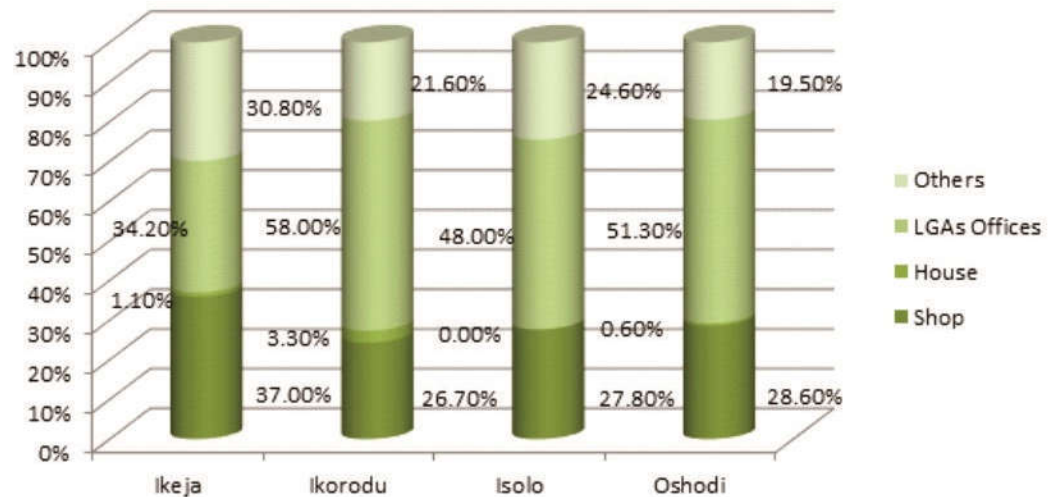
Discussant U: To me as fashion designer we pay lock up shop ₦5,100, and for permit we pay ₦3,500 and extension, let them put the tax as out of bound for artisan.

The case is not different in other LGAs. For example, in Ikorodu during FGD session:

Mr. A: For state we pay tax to the state government individually and we have a certain amount which they ask us to pay. Last, we were asked to pay ₦2, 500 after so much negotiation with them. Like when they came last year we ask so many questions and they explain and we asked that sometimes when we are driving and stopped by the road safety, when we show them the paper, they normally claimed that, what we have is not normal and that ₦2,500 tax is not worth it which cannot be used for land allocation. So, this year they have increase the tax to ₦5, 100, so that it will be useful for us in whatever we want to use it for

Mrs. H: They normally come to us as association and last year we paid ₦2, 700 each to the LG. But this year we let them know that ... we are yet to pay this year's trade permit, we normally pay as a group / association, this year they don't want to collect it as association but rather individually. We then make them realize that what is the benefit of us joining association and what are those things we will benefit if you start collecting it as individual. So, they asked us to wait but we told them that we are going to pay ₦2, 700 as against the ₦3,500 they claimed they were asked to collect from us. They then ask us to hold on that they report back to the office get back to us. As par tax, we were also asked to ₦5,100 each for this year. As an individual, I have not started to pay tax.

Figure 14:
Where Taxes are
Paid



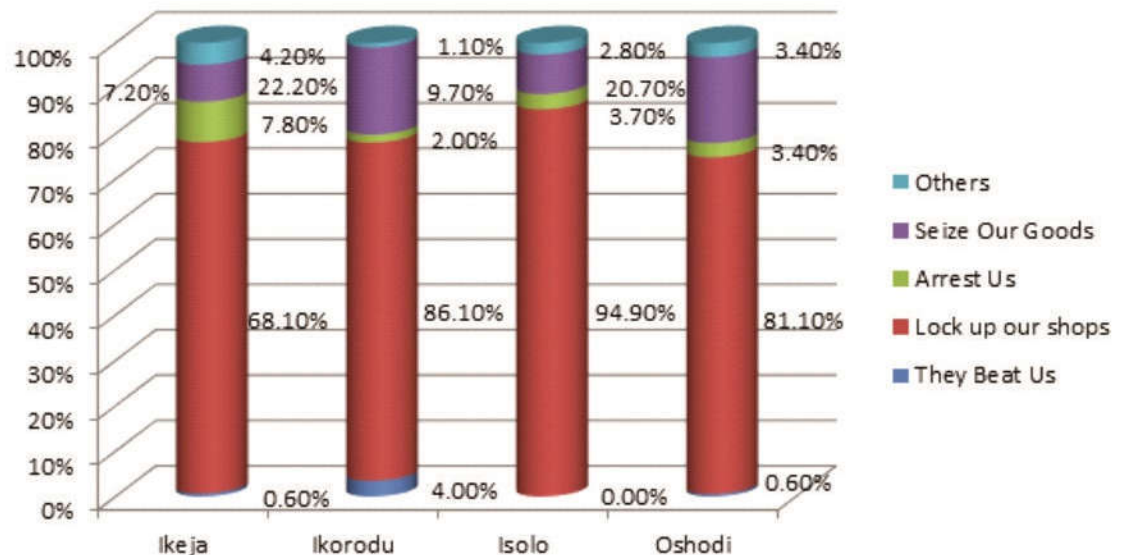
As single category, many of the people pay their taxes at the LGAs/LCDAs offices. Qualitative sessions in Isolo, for instance, reveal more complex situations garnished with corruption through patterns of payment. According to discussant that captured group orientations:

We are not allowed to pay into bank account; we will take cash as association to them at the council and will be asked to come back another day for the receipt. And by the time you go back the receipt given will not reflect the actual amount paid, they will say it has been distributed to the different places that it supposed to go. The last time I made personal payment of ₦3,500 and the issued receipt given to me after did not reflect the same amount and on my protest, they said this and that, I just left them with their problem and lack of transparency in everything. They will always take the money by themselves to the bank for payment rather than allow the association to do so.

Another major channel of paying taxes is the bank as associations and people pay into LGAs/LCDAs accounts in banks. This was captured during interviews (KIIs/IDIs) and discussions (FGDs). For example, a discussant who captured group consensus maintained:

Last year we took the money to their office for payment but this year they are not collecting cash rather we are mandated to go and pay into the LGs account at Zenith Bank and we were then asked to bring the teller to the LG for the receipt.

Figure 15:
Taxes Collection
Strategies



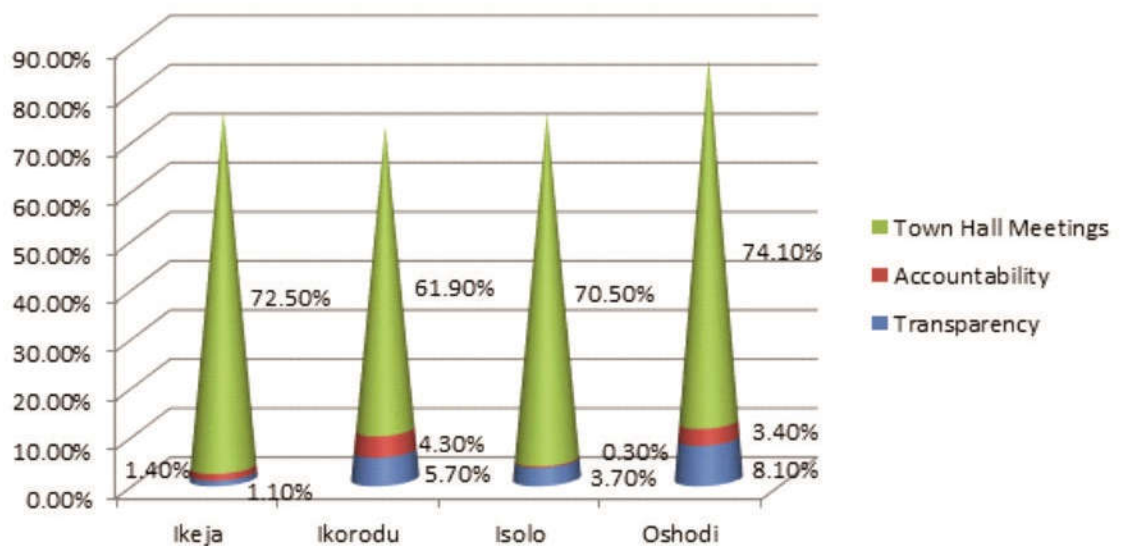
The single most common strategy for enforcing tax compliance in the LGAs is to lock up shops of tax defaulters. Physical assaults, arrest and seizures are very rarely used. These findings are also very consistent with those found during qualitative sessions in the areas. According to discussants/interviewees in Isolo, for example:

Mr. T: Some of them are very rude they will just say go and collect this and that permit and if you don't they will come and lock your shop. While others will expect you to bribe them or offer them drinks anytime they are in your shop.

Mr. O: A lot is happening and if you refuse to pay and is getting to the end of the year they will be coming out with full force to raid people who have not paid and they will also be using that time to extort money from them, when you are raided, you will use money to bail your goods and at the same time still pay the money.

Against the above background, it was found that the principal tax collectors in the LGAs/LCDAs are government officials. Touts and consultants are not engaged in the tax collection process. The approaches often adopted in tax enforcement are however found to be violent and abusive as already shown above.

Figure 16:
Taxes,
Transparency,
Accountability and
Town Hall
Meetings



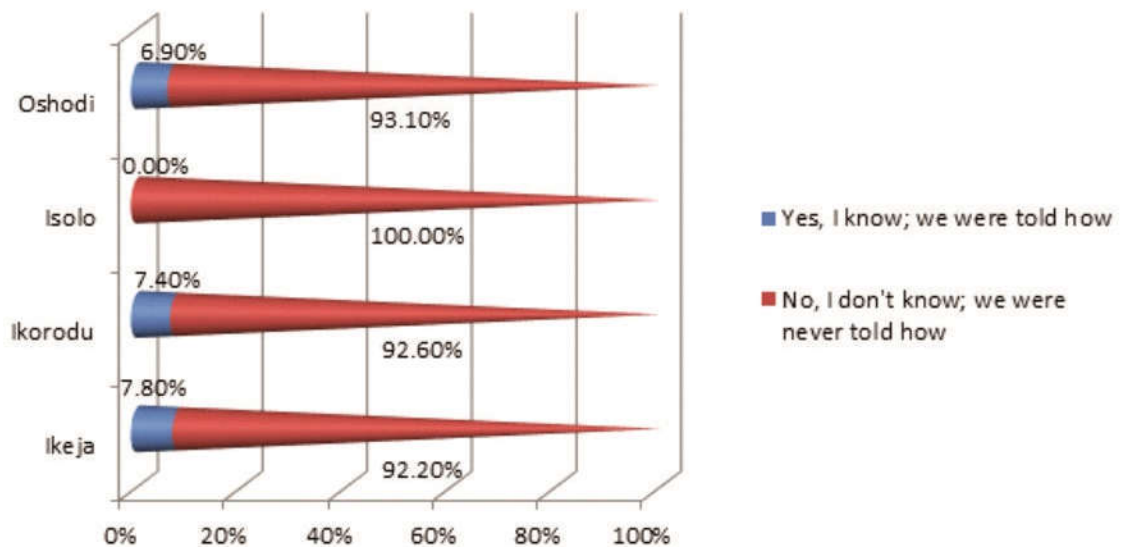
As presented in the figure above, overwhelming majority of the respondents in the entire LGAs/LCDAs claim there are usually no Town Hall Meetings in the areas to discuss informal sector tax issues even though tax drives are very aggressive in the areas. Hence, very negligible proportions of the respondents opine there are transparency and accountability in running the affairs of their LGAs. Most of the people are not aware of anything the councils are doing even though they are made to pay taxes/rates/tariffs. Respondents claim they do not know how much in total is collected as tax and they do not know how council resources are spent. Operations of councils are therefore secret. Unfortunately, transparency, accountability and inclusiveness/Town Hall Strategies are hallmarks of sustainable taxation.

There is, however, a major contradiction found on transparency and accountability between the worldviews of informal sector actors and government tax officials. While informal sector actors claim there is poor level of transparency and accountability, government officials claim these are intact. For instance, a tax official claim:

In local government, there is what we call Public Account Committee (PAC). They prepare and publish the local government statement of affairs audited by the auditor of the state government and also there is always a published income and expenditure statement for the public use.

The level of accessibility of the PAC report to the public and the content of the report relative to taxes are however different issues. The importance of transparency and accountability will be further explored/demonstrated in the later part of this report.

Figure 17:
Knowledge of how
the rates/tariffs
you/people pay are
calculated



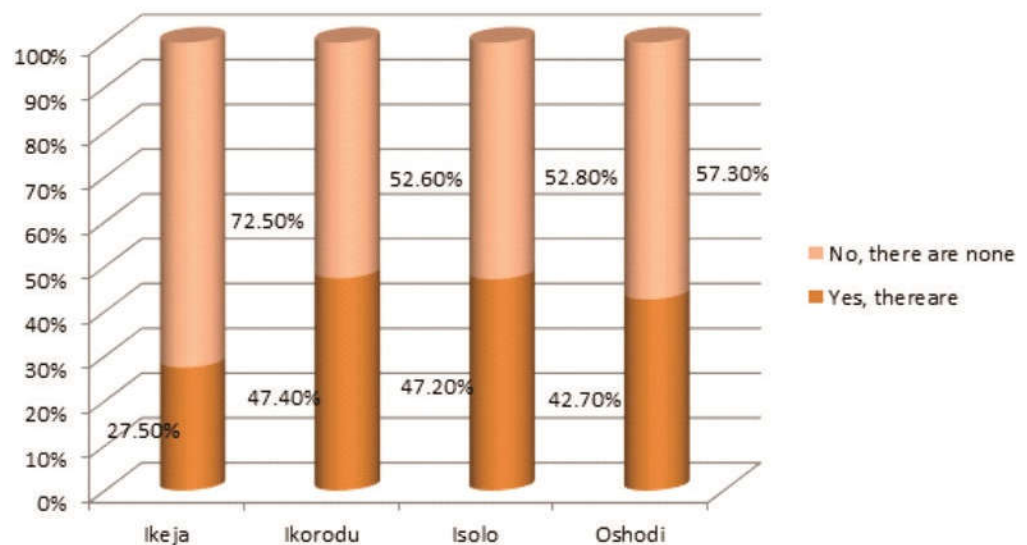
Nearly absolute majority of the respondents claim they do not know how taxes they pay are calculated/determined. The distributions of responses are profound as consistently over 90% of the respondents demonstrated ignorance of processes of determination of tax exposures in their informal sector. The situation is worse in Isolo where 100% (all) respondents claim ignorance of the process. Qualitative data confirmed quantitative findings in all the LGAs/LCDAs surveyed. For example, in Ikorodu, discussants, during FGD, who captured group consensus observed:

Mr. Z: We are not involved at all. They just determine it by themselves and then send to us the money to be paid in a year.

Mrs. R: They don't carry us along at all, like when the bills were shared to us this year and we went to meet them and was told that they have done what they want to do and that there is nothing to be done on it again. We told them that there should be difference between association members and non-members, and we have refused to pay the rates given to us unless our grievances are addressed.

Collective Bargaining, Informal Sector and Taxation

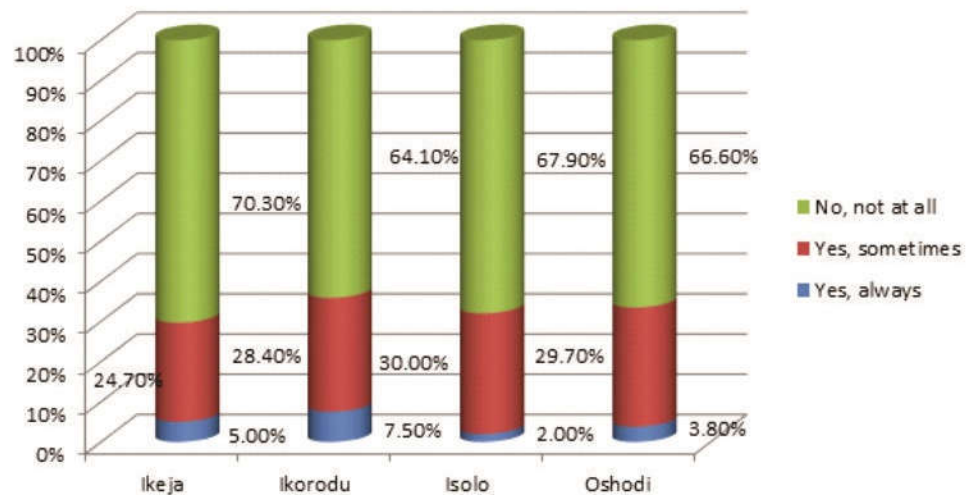
Figure 18:
Government
officials'
negotiation of
rates/tariffs with
people/groups in
the LGA/LCDA



In consonance with the above findings, majority of the respondents observe that governments' negotiations with informal sector actors on taxation in the LGAs/LCDAs are poor. Such negotiations hardly exist and when they do, they are not participatory at all. As already captured in the ethnographic summaries above, even when government officials meet with informal sector tax stakeholders, it is to give directives on how much is to be paid as taxes and the modalities of payment rather than inclusive negotiations and collaborations. When this very important issue of collective bargaining was posed to government tax officials across the LGAs/LCDAs, contradictory views were expressed. While the informal sector operatives express uncomplimentary/critical views of government tax officials relative to collective bargaining and voice aggregation, government tax officials give complimentary views of themselves, understandably. According to a tax official who gave modal/representative views of the demand side:

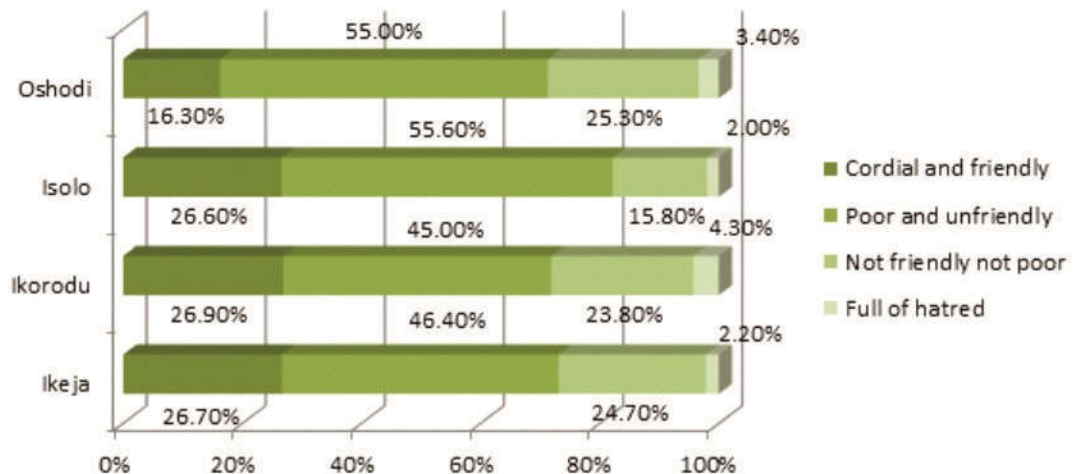
Actually, there is always a collective bargaining in taxation/rates/tariffs at grassroots level because we always put the interest of the people in the informal sector at heart and also, we bargain due to the fact that things change and we all need to move with the change. Actually, we bargain every time or say every year when it is due for tax to be paid and which is yearly, but now since there is no collective association in some part of informal sector we collect tax and rates individually.

Figure 19:
If people in the LGAs/LCDAs feel their voices are heard on taxes/rates/tariffs



Consistently across all LGAs/LCDAs, majority of the respondents are of the opinion that their voices are not heard in tax issues at all.

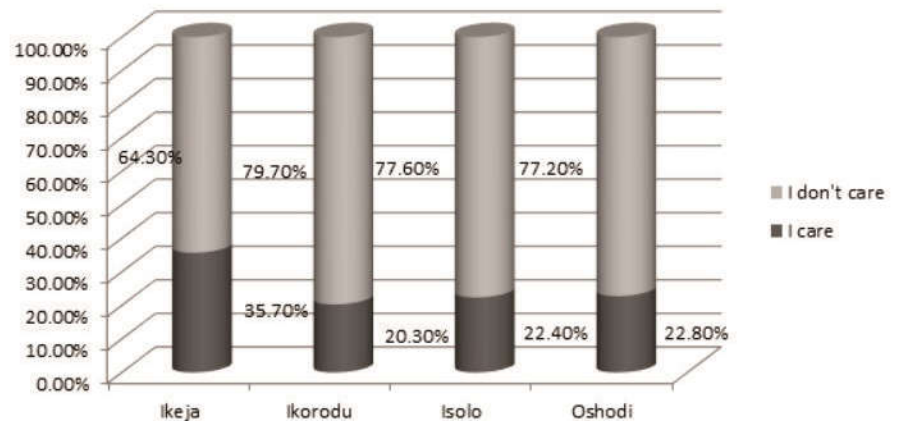
Figure 20:
Nature of relationships between government/tax officials and informal sector rates/tariffs payers in the LGA/LCDA.



Against previous findings on collective bargaining and informal sector participation in taxation, the findings on the current variable is understandable as consistently over 70% of respondents maintain that relationships between government tax officials and informal sector operatives relative to taxation are poor, unfriendly, ambivalent and outrightly full of hatred.

Attitudes, Beliefs and Practices, Informal Sector and Taxation

Figure 21:
If respondents
care/are concerned
whether
LGAs/LCDAs
generate enough
income through
rates/tariffs or not.

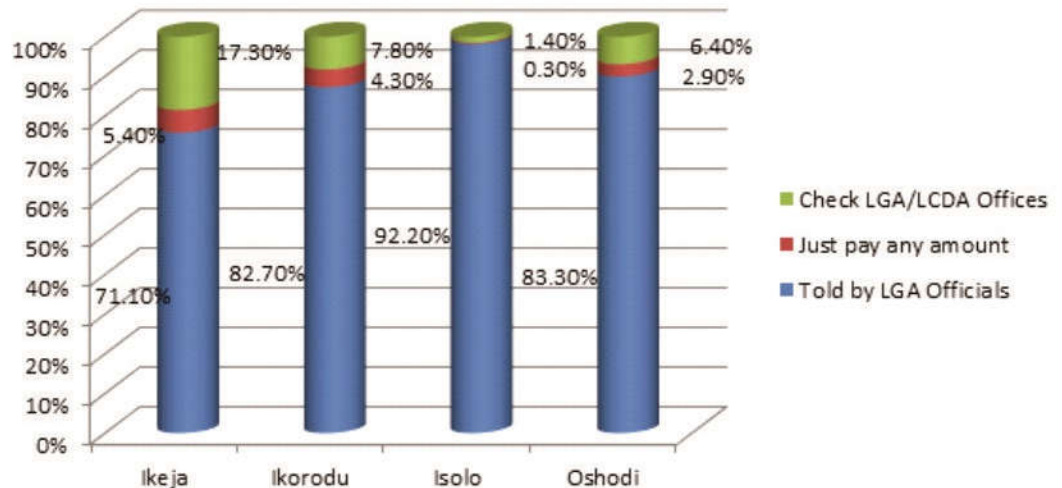


Attitudes/orientations of respondents to LGAs/LCDAs revenue from taxation are largely negative as majority of them claim they do not care whether government generate enough income through tax or not. This implies that whether they pay tax or not largely depends on compulsion and enforcement rather than payment because of the need to be partners in progress. Taken in relation to earlier findings, this finding becomes understandable as they are not carried along in the tax architecture of the councils.



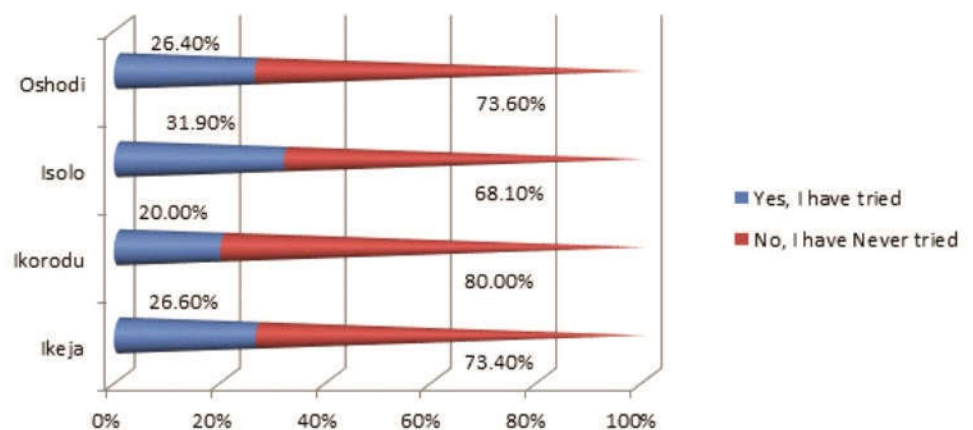
FGD SESSION, IKEJA 2

Figure 22:
How people know approved rates



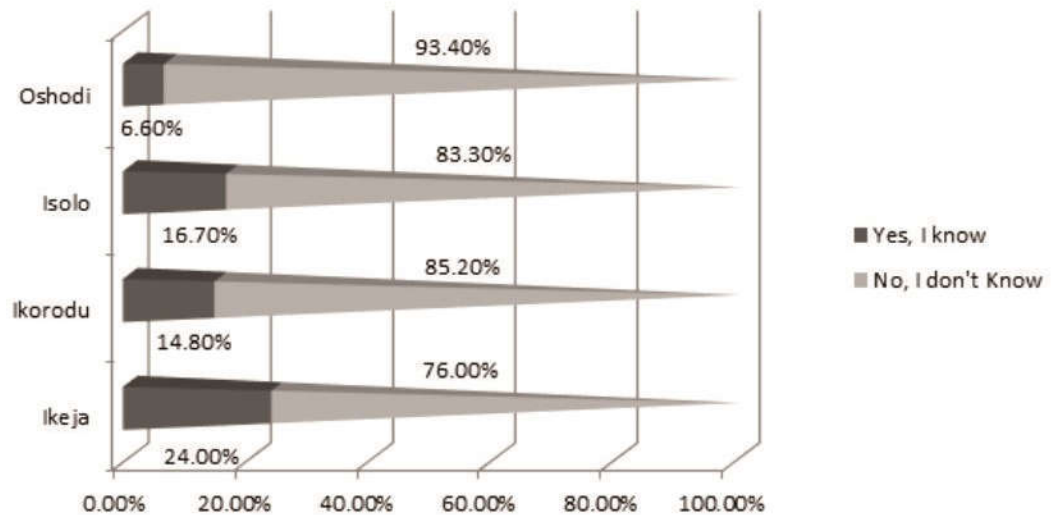
Overwhelming majority of the respondents claim they only know approved rates and how much they are to pay through government officials. This is a recipe for corruption and in breach of the law which expects rates and tariffs/taxes to be displayed in conspicuous places stakeholders including informal sector actors.

Figure 23:
If respondents have ever tried to find out on their own how much you are supposed to pay as taxes



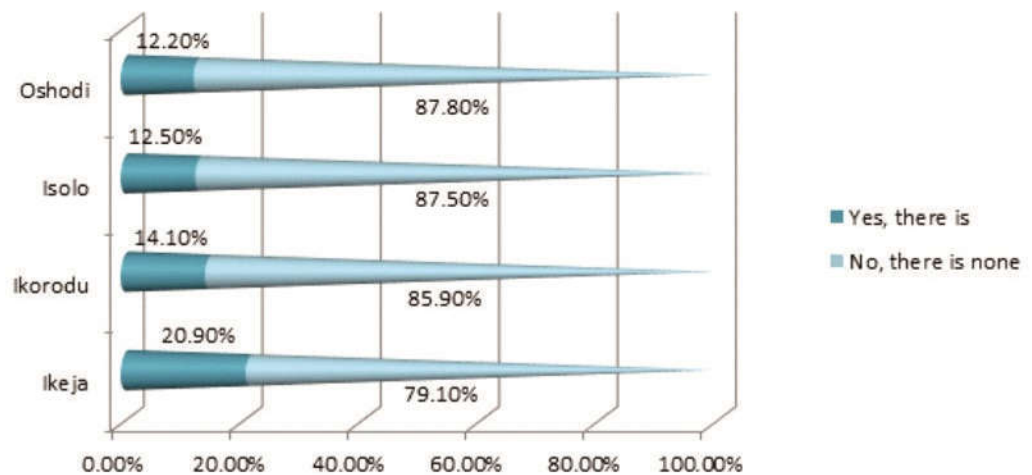
Relative to earlier findings, even though most (68%-80%) of the informal sector operatives do not know how their tax exposures are calculated and are only told by LGAs officials, most of them have never tried to find out on their own how much they are supposed to pay as taxes. This may be indicative of tax apathy, governance helplessness and resignation to fate due to experienced and perceived administrative voicelessness and powerlessness on the part of the informal sector operatives.

Figure 24:
If respondents know how they can find out on your own how much you are supposed to pay as tax



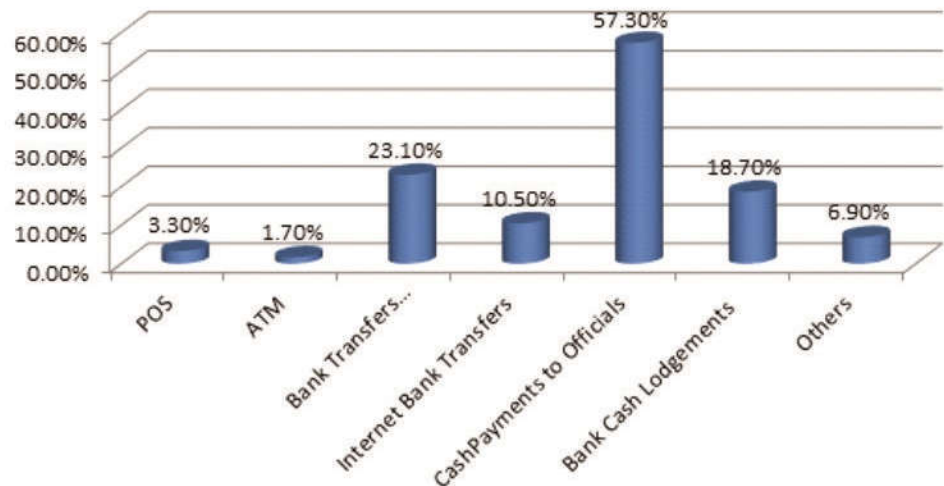
Across all the LGAs/LCDAs, most of the informal sector actors do not know how they can find out how much they are supposed to pay as taxes on their own. This finding ranges from 76% in Ikeja to 93.4% in Oshodi. This *ignorance proportion* is significantly very high.

Figure 25:
If there is a place where taxes/rates/tariffs are displayed/published for people to see



According to the findings above, most of the respondents claim taxes/rates/tariffs are not publicly displayed in LGAs/LCDAs for payers/people to see so they can be properly guided.

Figure 26:
Mode(s)
through which
people pay
taxes/rates/
tariffs/levies in
LCDAs/LGAs

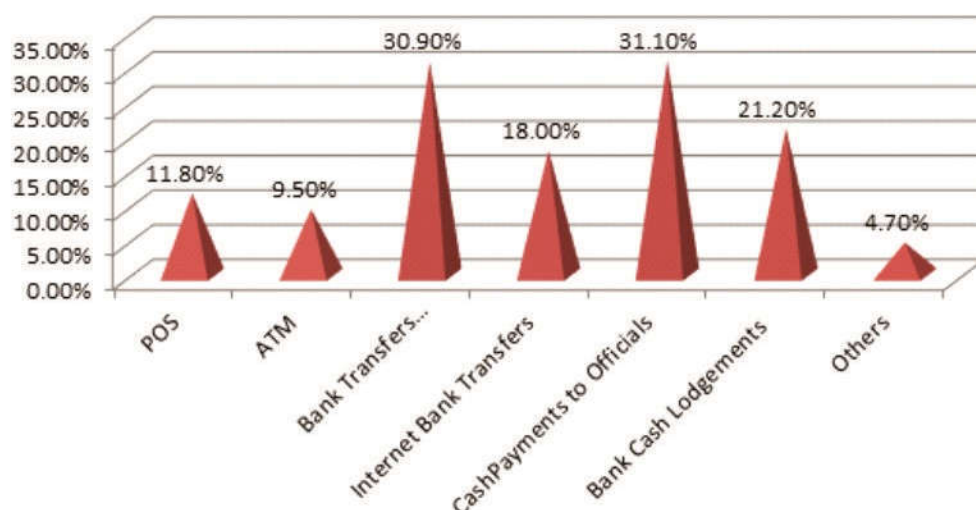


A major finding to note in the above figure is that e-channels/platforms are not popular among the people relative to tax payments. In consistency with earlier findings, majority of the respondents adopt cash payments to officials and bank accounts. Taken with findings below, instructive point is made.



FGD SESSION, ISOLO 2

Figure 27:
Peoples'
preferred
mode(s) of
paying taxes/rates/
tariffs/levies in
LCDAs/LGAs

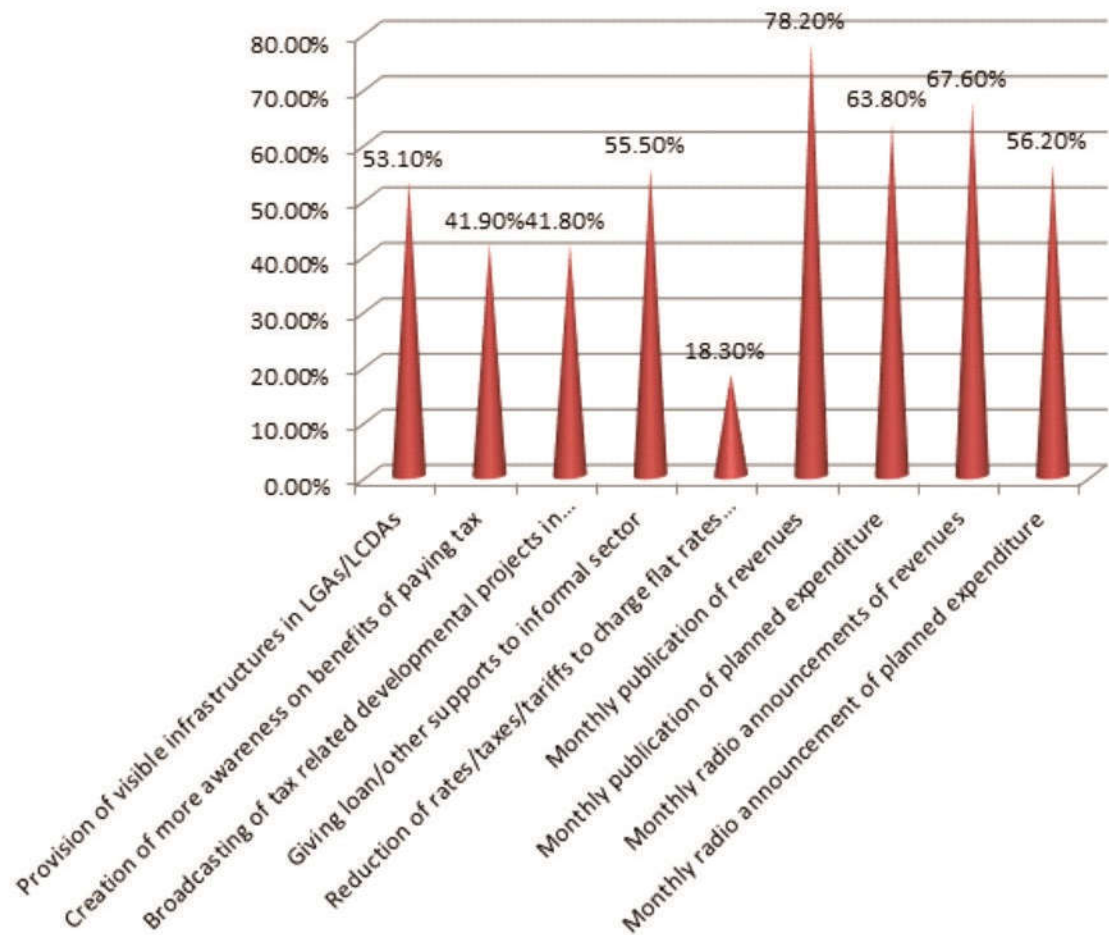


Even though preference for e-channels/platforms is still low, there is increase in preference for the channels compared to findings in figure 26. In fact, there is as much as about 26% decrease in preference for cash payments to tax officials at the LGAs/LCDAs headquarters while there is increase in preference for e-channels. The main reasons for the increased preference for e-channels are: 1. They will prevent corruption which is currently rampant in the taxation architecture 2. It will be more convenient to pay taxes through the channels. There is however disjuncture in the opinions of tax payers and tax officials. While there is an increase in preference for e-platforms among tax payers, tax officials are more skeptical about likelihood of adoption of e-channels among tax payers in the informal sector. According to a tax official who captured common views of the officials (tax) in the LGAs/LCDAs:

Our people will not be comfortable with the e-channels because many of them are illiterates and just cannot be bothered. Even many of them cannot use simple bank services like ATM for normal transactions on their own. Many rely of their children for bank transactions because of illiteracy. So how can those kinds of people adopt e-channels for paying taxes? I doubt it.

Regardless of the skepticisms expressed by tax officials, e-channels may be very important to tax reforms in the LGAs/LCDAs due to their strong advantages of capacity to reduce corruption and potential for ease of paying taxes.

Figure 28:
What government
should do to
improve public
confidence to
pay taxes



Findings on informal sectors' suggestions on how government can better drive revenues through taxation in the LGAs/LCDAs are very instructive. As presented in the figure above, most of the respondents gave transparency and accountability related suggestions. For instance, as much as 78.20% suggested government should publish accounts of revenues on monthly basis. Another significant majority 67.60% suggested monthly radio announcements of revenues while another 63.80% suggested monthly publication of planned expenditure. 56.20% also recommended monthly radio announcement of planned expenditure.

This by implication means there is need for government to be more open to people on revenues and expenditures architecture to make people more committed to paying taxes in the state. Other major suggestions are; provision of visible infrastructures in LGAs/LCDAs, giving support to informal sector, in forms of loans for example, and creation of more awareness relative to benefits of paying taxes. The views of government tax officials are however suggestive of *government is nearly already doing much/enough* even when the supply side- informal

sector- thinks otherwise. According to a tax official who captured modal views during KIIs for example:

Government is already doing many things to ensure that the tax payers continue to pay tax e.g. operation repairs and build of two to three roads in the community. Local government runs developmental project with other PSP for the community development. Local governments repair and build market for the community. And of course, local government always work on community needs before embarking on any project. So, government is working seriously for the community development.



FGD SESSION, OSHODI 1

Summary of Major Findings and Recommendations

Below are summaries of major findings from the data analysis above. Recommendations are given with the findings for strategic flow system of the issues.

1. Informal sector is viable for taxation in the state given the volume of people and businesses/income in the sector. Quite a lot of people and businesses operate in the sector and generate substantial income which can better help the government generate tax revenue/resources. The government should therefore pay more serious and strategic attention to the sector and innovate more cutting-edge and serious approaches for the sector for sustainable revenue and development drive.
2. Informal sector is a very organized sector and the people still will be more organized and they are ready to partner with government even in taxation. Government and stakeholders should therefore understand the organizational structures and networks in the sector and appropriate them for inclusive tax governance. The government should therefore appropriate this sector as partners in progress rather than as recalcitrant group of tax defaulters.
3. Most people are not in the informal sector because they are too illiterate or lazy. Most people are in the informal sector because they want to be their own boss, they love to be employers of labour, they want to gather money, it is easy to enter, it is more flexible and dynamic, it is lucrative and because there are no jobs in the formal sector. Government and other stakeholders should understand this and formulate appropriate strategies that capture these orientations for taxation and development driving.
4. People in the informal sector are not against taxation of the sector. In fact, they do not only believe that informal sector operatives should pay tax, they believe everybody, irrespective of sector, should pay tax. Hence, majority of the informal sector operatives are of the view that government can generate substantial income from the sector to drive development in the LGAs/LCDAs. This is a positive attitude and orientation and stakeholders and government should leverage on this to innovate relevant approaches.
5. Common rates/tariffs/taxes people pay are; Lock Up Shop Permit, Canopy Extension Permit, Radio/TV License, Liquor License and Land Use/Parking Permit.
6. A lot of the informal sector operatives claim they pay taxes even though few do not pay because of corruption and disdain for tax collection system. Many also do not pay because of lack of accountability and transparency in governance. Government and stakeholders should therefore improve transparency and accountability in the tax systems of the state.
7. Most of the informal sector people believe the tax system is unfair and the government and stakeholders

need to work more with the sector to increase fairness

8. Most of the informal sector actors are also of the view that the tax system is burdensome and inimical to business survival. Government and other stakeholders should take another look at the tax processes to simplify the process so as to protect informal sector especially as most of them also claim the process is cumbersome in levying, paying, enforcement and compliance
9. Most of the people perceive taxes as very uncertain and constantly changing therefore leading to discomfort and distrust. It is important for government to introduce stability into the system and better receive inputs from the supply side. There should be a standard increase approaches to taxation in

the sector. This can be known increase of 5% annually depending on agreed terms by all stakeholders.

10. People in Isolo and Oshodi particularly believe it is difficult for them to pay taxes relative to amount, where and when. The tax officials in these areas should be better responsive to enhance ease of paying tax in the areas.
11. Ikeja has more responsive and responsible tax architecture compared to other survey LGAs/LCDAs on many of the strategic indicators. This council is commendable but far more needed to be done for tax justice and fairness in all the areas
12. Most of the people still pay cash to LGA/LCDA officials and this can



FGD SESSION, IKORODU 1

continually drive corruption and extortion. Stakeholders should partner government toward more innovative and easier payment strategies

13. Strategies of tax enforcement are aggressive, abusive and violent. State tax officials should be trained and better educated on more humane and responsible approaches to tax enforcement

14. The relationships between the informal sector actors and tax officials are largely poor, unfriendly, ambivalent and full of hatred and this is largely due to exploitation, corruption, aggression and arbitrariness in the system. Stakeholders should better work with the sides so that they see each other as partners in progress rather than enemies

15. Transparency and accountability are poor in the tax system. The voices of informal sector actors are also not heard and appropriated even though they are the ones that pay taxes. More demands should be placed on government to improve transparency and accountability for tax collection enhancement. Town hall meetings should be instituted and should more frequent as feedback and inclusiveness strategies.

Periodic radio broadcast announcements and newspaper publications on tax incomes and expenditures should be instituted to aid transparency and accountability.

16. There is need for more awareness raising among the people to educate them on the need to pay taxes and where and how to pay.



FGD SESSION, OSHODI 2

17. Most of the people do not know how their tax exposures are calculated. Stakeholders should arrange for briefing sessions between the state officials and the informal sector to demonstrate how tax exposures are arrived at to prevent exploitation and arbitrariness.
18. Informal sector actors do not know how and where to find out about their tax exposures. And the approved rates and levies are not conspicuously displayed. Stakeholders should therefore enforce conspicuous display of approved rates and other tax information not only in the councils but in other public areas for accessibility
19. Even though cash to officials is still the most used option in paying taxes, stakeholders need to work with government and informal sector actors to introduce easier and more innovative e-channels to reduce abuses and corruption in the system. Examples of the e-channels are POS, ATMs, Bank and internet transfers. Even though adoption of these e-platforms may be slow in the short term, they can make the needed difference in the long term.

Conclusion

LGAs/LCDAs have the huge opportunity to drive revenue substantially through informal sector taxation in Lagos state. The sector is massive and viable as engine of growth. Contrary to government officials' uncomplimentary judgement of operatives in the informal sector, the people are ready to be partners in progress and contribute substantially to revenue drive of the state through taxation.

The major challenges however are; perceived/experienced corruption in the tax systems and architecture, cumbersomeness of the process, lack of transparency and accountability, exclusiveness, poor collective bargaining and insufficient development of the areas in terms of infrastructure.

If state actors can address these challenges through the findings and recommendations given above, tax revenues in the state will experience appreciable growth and development financing will be more inclusive, fair and sustainable in the short and long term.

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