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The Challenges Affecting Tax Collection in Nigerian Informal Economy: Case Study of Anambra State.

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Abstract

Despite government efforts, tax compliance in Anambra State has remained low. Despite the introduction of Anambra Social Security ID (ANSSID) in Anambra State, taxpayers are not willing to pay tax. This study identified why employees and traders in the IE in Nigeria are not willing to pay tax. Semi-structured interviews were used and 35 business owners, managers, accountants, and employees from different industries were interviewed in Anambra State. The reason for using Anambra state is that in the past few years, the state government has been looking for strategic ways to increase revenue in the informal economy, including tax reforms with the introduction of Anambra State Social Service Identity (ANSSID) number which the state has adopted as part of his strategies to pull all taxable adult into the tax-net. This research contributes and offers guidance to policy makers on how to improve tax revenue in the state.

This study found that lack of provision of amenities and infrastructural development are among the reasons traders and employees do not pay taxes, as they have to bear the burden for the provision of such amenities themselves. Lack of accountability, embezzlement, poor accounting records, lack of empowerment programs and lack of awareness are the reasons why IE do not pay tax. Recommendations were made to help policy makers improve their tax revenue.

Key words

Informal economy (IE); informal sector, tax collection, Nigeria

Introduction

Nigeria is blessed with abundant natural resources but the over-dependence on crude oil, which was encouraged by the oil boom of 1973/74, has encouraged the Nigerian government to invest huge amounts of resources on the petroleum sector while other sectors that would have contributed positively to the economy were neglected (Ariyo 1997). Crude oil receipts account for 80 percent of total revenue generated by the federal government and this makes Nigeria to be portrayed as an oil dependent economy (Agbaeze et al 2015). The fall in global oil prices indicates that revenue generated from the petroleum sector is no longer sustainable (Udoh 2015) and less funds are available for distribution to the three tiers of government—federal, state, and local government (Ebifuro et al 2016). The fluctuation in foreign exchange rates and the weak value of the Nigerian currency (Naira) have raised critical questions on how the Nigerian government will get funds to finance the country's budget (Abiola and Asiwah 2012).

The need for state governments to think of ways of generating revenue through tax reforms by widening the tax bracket and taxing the informal economy are becoming an important agenda for state governors (James 2013). Efforts put in place to increase tax revenue across different states in Nigeria yielded low results. They are often marred by tax evasion, tax avoidance, bribery on the part of tax officers, and poor accountability.

In the past, taxing employees and traders in the informal economy (IE) was not given full attention in Nigeria (Gberegbe 2007). Tax authorities found it easier to collect

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taxes from the formal economy because the way they are structured enabled the collection of tax at source. The IE on the other hand, are not regulated making it difficult to be taxed at source. There are limited data that capture operations of businesses in the IE. The introduction of the new section 36, subsection 6, of the personal Income Tax Act 2011 made it clear that where the amount to be paid as tax by a taxpayer cannot be determined, personal judgement carried out by a tax officer based on estimate can be used. This approach is problematic where shops are located in different locations and vary in sizes. Effort made by government to regulate the IE have proved abortive, as stakeholders in the IE are resistant to change. One of the main challenges affecting every state in Nigeria is how to tax the IE (Ohaka and Zukbee 2015). Despite efforts made by the Nigerian government to promote awareness on why people should pay tax, small business owners and employees in the IE frown upon on the idea, stating that they have not seen the need to pay tax.

The inability to come up with a tax identification number (TIN) for each taxpayer has added to the difficulty in assessing and collecting tax in the IE. Section 8 (1) of Federal Board of Inland Revenue (FIRS) act 2007 states that the FIRS in conjunction with the State Board of Internal Revenue (SBIR) and Local Government Revenue Board should come up with a TIN which should be issued to businesses and individuals. TIN was made mandatory in 2008 but the process of registration and getting a digital TIN took 14 days (Ohaka and Zukbee 2015). After registration, the taxpayer will go to the bank to collect an electronic card, which is part of an online service that requires payment of tax to be made via online. The implementation of TIN has witnessed huge success in the formal economy, but the government is unable to do so in the IE (Ohaka and Zukbee 2015). One of the major problems that the government are unable to achieve massive success in the implementation of TIN in the IE is because most transactions in the IE are conducted with cash. In so doing, there is a lack of documentation and no evidence to show for cash transactions, giving the taxpayer room to manipulate accounting records and evade tax. Monitoring taxpayers through the TIN is effective with online transactions and tax authorities will be able to track tax evaders. As a result, the Anambra State Inland Revenue service came up with an electronic system called Anambra Social Security ID (ANSSID). Anambra State is located in the South-East region of Nigeria.

ANSSID is Anambra Social Service Identity number. It was introduced on the 8th of August 2018. The ANSSID number is used to identify every adult in the state and every organisation. It is required to have an ANSSID number before anyone (both individuals and organisations) can access any government services in the state.

The ANSSID was introduced in Anambra state to enable the state government keep record of individuals and track how they access public services. Before ANSSID was introduced, there were only 2176 active taxpayers that were coming up for direct assessment. In 2019, the number of active taxpayers is over 100,000. As at August 2018, only 278 organisations were registered for taxation in the state. The tables below show the number of active taxpayers that registered with ANSSID as at October 11, 2019.

No. of registered taxpayers		
Individuals	Companies	Total
167,272	4,501	171,773

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Source: Anambra State Board of Internal Revenue (Accessed 11/06/2019)

Male	Female	Total
82,642	76,873	167,272
49.41%	45.96%	100%

Source: Anambra State Board of Internal Revenue (Accessed 11/06/2019)

So far 171,773 users comprising 167,272 individuals and 4,501 organisations have registered. The number of male and female active taxpayers that registered with ANSSID are 82,642 and 76,873 respectively. These represent a percentage of 49.41 for male and 45.96 for female.

The ANSSID platform, which can be accessed via selfportal.anssid.com, is quite robust and uses facial biometrics which any individual can use easily from any part of the world using any mobile device, laptop, mobile phones or tablets. The system enables the government to easily obtain records of people through self-enrolment. This has also helped in building data for taxation in the state. Publicity programmes have helped in driving the numbers up from zero in August 2018 to the current levels. Adverts are via billboards in all major cities in the state, on radio, TV and various other below-the-line platforms.

Despite the introduction of ANSSID leading to an increase in registered active taxpayers, and taking into consideration the fact that Anambra State has one of the biggest markets in Nigeria (called Onitsha Main Market), most of the citizens of Anambra state are not willing to pay tax, thereby raising a serious concern for the state government and tax authorities in Anambra state. Thus, this research seeks to study the challenges affecting tax collection in Anambra state. Answering this research question will meet the aim of the study, which is to identify why employees in the IE including traders in Anambra state are not willing to pay tax. Therefore, the research objectives are: (1) to identify why individuals and owners of businesses in the informal sector are not willing to pay tax in Anambra state. 2) to identify the challenges affecting tax collection within the informal economy in Anambra state. 3) to proffer solutions to problems facing tax collection in Anambra state.

The reason for using the state is because in the past few years, the state government has been looking for strategic ways to increase revenue generation in the IE. Despite the introduction of ANSSID, taxpayers are still evading tax. This research contributes and offers guidance to policy makers on how to improve tax revenue in the state.

Literature review

The informal sector is referred to as the informal economy (IE). For the purpose of this study, it will also be referred to as the informal economy (IE). IE is a key component of the Nigerian economy and makes up a huge proportion of the economy because it provides occupation for millions of people (Chidoko et al 2011; Abiola and Asiwe 2012). The IE is the last hope for people that were not able to get jobs in the formal economy (Chambwera et al 2011). It is a way by which people with lower qualification, less resources, little experience, and minimal skills gain employment. Therefore, the IE provides a platform for people with little or no experience to get the necessary skills required to work in the formal sector (FS) and

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enables these individuals or entrepreneurs to study the business environment and learn valuable lessons before expanding their enterprise by making it formal (Chambwera et al 2011; Kofar- Wambai and Hanga 2013).

The IE created 1.41 million jobs out of 2.48 million jobs between 2012 to 2014 (Adesanya 2014). Despite the contribution of the IE to the Nigerian economy, tax authorities are finding it difficult to collect tax from this sector (Alabede et al 2011; Aliyu and Sambo 2016).

Definition of Informal Economy

Getting an appropriate definition for IE is a major challenge especially in Nigeria where majority of people conduct businesses that are unregulated, unprotected, untraceable and difficult to track by government officials and tax authorities (Adesanya 2014; Ikeije et al 2016). Some of these businesses operate in small scale, with no address because they move from one location to another. Some examples are hawkers and street traders. Those that operate from home such as freelance photographers and tailoring fall in the category of people or entrepreneurs that disclose no business address. This makes their business operations unregulated, unprotected, untraceable and difficult for government officials and tax authorities to monitor or track their performance (Adesanya 2014; Akenbor and Arugu 2014; Akintoye and Tashie 2013).

Tax authorities and researchers have used different criteria to define the IE. For example, the number of employees, location, size of the shop, number of transactions, low barrier to entry, ownership structure and legal status have been used to define the IE (Cole and Fayissa, 1991; Ebifuro et al 2016). In Nigeria, any business operating outside the control of government regulation is referred to as informal economy (Magbagbeola 1996; Fagbemi et al 2010). The operations of these IE are largely unregulated, hidden, unstructured, irregular, invisible, underground, backyard, parallel and unobserved (Magbagbeola 1996; Adesanya 2014). Fajana (2000) argued that in Nigeria, most businesses operating within the IE are self-employed, labour intensive, and partly reliant on the existence of the formal sector.

International Labour Organization (ILO) divided IE into two different groups: Group 1, is the coping strategy while Group 2, is the unofficial earning strategy. Coping strategy refers to those kinds of jobs that people involve themselves in, in order to survive. Examples include multiple jobs, temporary jobs, casual jobs, unpaid jobs, small scale farming etc. The unofficial earning strategy is used to describe those business activities that are unofficial and operate underground with the aim of avoiding established rules, government regulations and tax; hence, failure to register their businesses with official authorities such as the Corporate Affairs Commission. While there may be an overlap between the two groups, majority of criminal and unregistered business activities belong to the unofficial earning strategy or category. Many of the IE business activities around the world are legal and governments recognise them as legitimate.

The definition given by the International Labour Organization (ILO, 2002) includes all business activities not binding by law and not covered by formal arrangements. When the activities of the IE are not binding by law, it means that their operations are not within the reach of the law. Even though these activities or operations are formalised within the glaze of the law as well as society, the law cannot be enforced because it is believed to be burdensome, inappropriate, bureaucratic, costly, and often discourages compliance.

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There is a general perception that most businesses that start under the IE will be absorbed into the mainstream or formal economy as they grow, expand, and begin to contribute to the economy through payment of taxes (Schneider 2010). This has not been the case for some countries where the IE has flourished and grown at a faster pace than the formal economy. The reasons for accelerated growth rates in the IE are its flexibility, structure, low entry level and ease of operation which make it easier and quicker for people to gain employment and get easy money through the IE platform (Ibadin and Eiya 2013; Ilaboya 2012).

Since there is an inevitable relationship between the informal economy (IE) and the formal economy (FS), then the existence of IE depends on the survival and functionality of businesses in the formal sector (Fapohunda 2012). With a high unemployment rate and poor performance of the formal sector in Nigeria (Olatunji 2009; Ohaka 2015), the IE becomes a way of survival as people are engaged in small-scale business activities (Adamu 2006; Oko 2014). A large number of people employed in the formal sector also have small-scale (IE) businesses, which they operate alongside the formal sector to generate additional income (Igbeng 2012; Umoru and Anyiwe 2013). Example of activities in the IE includes small-scale farmers, thrift cooperative societies, roadside hawkers/street traders, caterers, home tutors, event planners, motorcycle and tricycle operators, taxi/car-hire drivers, event planners, make-up artists, electricians, mechanics, fashion designers etc.

Chambwera et al (2011) categorised employment in the IE into two groups. The first group are self-employed workers who either work on their own or are employers of informal businesses. The second group are those in wage employment such as employees of the IE working without benefits in the formal sector, temporary and unregistered workers. According to the United Nations Development Programme (UNDP), the IE has made a huge contribution to the Nigerian economy by accounting for 57.9% of its GDP (Adesanya 2014). The National Bureau of Statistics (NBS) states that the IE has boosted the economy and reduced unemployment by creating 17 million businesses. Out of the 2.48 million jobs created in Nigeria from July 2012 to June 2014, the IE has the highest contribution of about 1.41 million, which is equivalent to 57%, followed by the formal economy (FE) and the public sector with a contribution of 40% and 3% respectively (Adesanya 2014). A study conducted by Small and Medium Scale Enterprises Development Agency (SMEDAN) found that 80% of total number of businesses are attributable to Micro, Small, and Medium-sized Enterprises (MSMEs). This represents 75% of the total work force which is equivalent to 32.4 million Nigerians in active employment. Furthermore, 98% of the MSMEs are attributable to Micro Enterprises while 1% each is attributable to Small and Medium Enterprises (Adesanya 2014). It would have been reasonable to categorise some of these businesses into the formal sector, but considering that they operate in unfashionable, crude, and unregulated environments, these factors contribute to make them part of the IE.

The IE has a global net-worth of about \$10 trillion with an estimated 80% of the world total workforce (Claro 2012). Schneider et al (2010) conducted a study on the analysis of the IE within 162 countries over a period of 18 years from 1999 to 2007. They found that the overall contribution of IE to the economy in terms of GNP were by far greater than the contribution from the formal sector (FS). They noted that the IE contributed around 30% of Gross National Product in 107 countries and a contribution of above 50% in 18 countries. While countries like Bolivia and Zimbabwe have high GNP of over 60%, representing 66% and 62% respectively, others like Tanzania, Nigeria and Thailand fall within the range of 50-60%, thus having 57%, 56% and 51% respectively.

Challenges Affecting the Informal Economy in Nigeria

In 2018, the Nigerian Labour Congress (NLC)—a body that comprises all Trade Unions in Nigeria—agreed that the minimum wage should be increased from N18,000 to N30,000. The minimum wage was agreed in a meeting organised by the tripartite committee including representatives of labour unions, federal and state authorities. The Nigerian president expressed confidence over the agreement reached by the tripartite committee on the new minimum wage. However, most of the state governors kicked against the idea of salary increment and stated that with the current low oil price and lack of funds, it will be difficult for them to meet the needs of the NLC. They noted that increasing salaries to N30,000 from N18,000 would attract staff redundancy, which is not a good option. Traders within the IE on the other hand, found the law for increment in minimum wage cumbersome stating that most of the traders in the IE are currently not paying up to N18,000, not to talk of paying N30,000 which they considered ridiculous. The law cannot compel the IE to pay N30,000 because they are unregulated and often there is no exchange of contracts for service between employers and employees. Therefore, within the ambience of the law, there is nothing any one can do to compel the informal economy (IE) to do things in a formalised way.

Lack of formality makes assessment, estimation, and collection of tax in the IE difficult for tax authorities (Abiola and Asiwah 2012; Modugu and Omoye 2014; Sikka 2014; Soyade 2006). Traders do not keep records and there are no proper books of accounts (Udoh 2015; Igbeng et al 2012). Tax authorities are of the opinion that in situations where there is no record of transactions, a flat rate should be levied. This levy varies from industry to industry (Adediran et al 2013). With this approach, a business that is not making profit will be compelled to pay tax, which might not go down well with the operators. Business owners in the IE include people that graduated from Nigerian universities with good grades. There is a general belief in Nigeria that once you go to university and get good grades, the chance of getting a job is high. People spend huge amount of resources for a degree in the university with the hope that on graduation, there will be jobs waiting for them in the formal sector. This has brought huge concern to many graduates and their families, as they feel betrayed by the system and the government's inability to assist in providing the enabling environment for businesses to thrive and create jobs. The budgetary allocation for provision of basic infrastructures is sometimes squandered by top management (Adediran et al 2013; Adereti et al 2011). Often, these stolen funds are channelled to a safe haven, abroad. As a result, most people provide the basic infrastructures in their communities not only through funding the projects themselves, but also by creating jobs as well without necessarily waiting for the government.

The cost of operating a business in Nigeria is high due to lack of infrastructure (Akintoye 2013). Traders operate their businesses with their own power generating sets. The cost of fuel is extremely high, and in some cases, it wipes off their operating profit. Most public primary and secondary schools are in shambles and as a result, most people prefer to take their children to private schools where they end up paying exorbitant fees to acquire basic education. This causes pain and brings hardship on the people (Uadiale et al 2010; Obafemi 2014). Traders would prefer to use money from their businesses to take care of their families rather than pay tax. While this makes it extremely difficult for tax authorities to collect revenue in Nigeria, it is necessary to identify the problems affecting tax collection in the informal economy (IE) as well as how this problem can be addressed.

Methodology

To meet the aim of the study which is to identify why traders and employees in the IE are not willing to pay tax in Anambra State, semi-structured interviews were used. This helped to probe respondents and to provide deeper insights on the reason why taxpayers do not want to pay tax. The use of semi structured interviews enabled the researchers to know the behaviour of taxpayers, how they interact with tax officers and the way they perceive payment of tax. Having one to one interaction with respondents in the form of interviews helped in understanding the challenges of tax collection in Anambra State.

The interview questions were first drafted from the literature review. Thereafter, in September 2018, the researchers made a WhatsApp phone call to a tax officer in Anambra state to ask for their willingness to review the interview questions and to comment on if they are relevant to the individuals and business owners in the IE. The tax officer insisted on having a face-to-face meeting. So, in October 2018, one of the researchers visited Anambra State revenue board and had a focus group meeting with three tax officers where they reviewed the research questions. This led to a total of 12 interview questions as shown below.

Interview questions

1. Is your business registered for tax? Why?
2. What do you benefit from registering your business?
3. From your experience, can you tell me why businesses in the informal sector are not registered in Nigeria?
4. What are the problems businesses in the informal sector face when they register their business in Nigeria?
5. Does your business pay tax? How often? Why?
6. As a business owner, do you pay tax? Why?
7. Do you have employees? How many?
8. How do you pay your employees? Cash, cheque, bank etc.
9. Do your employees pay tax? How often? Why? How did you arrive at the amount of percentage of tax paid?
10. Are your employees aware that they are supposed to pay tax? Any solution?
11. What will make you pay tax? Why?
12. What books of accounts do you keep?

A total of 35 respondents were interviewed in Anambra State:

- 4 Supermarkets
- 4 Hotels
- 3 Petrol station
- 5 Fashion/tailoring
- 2 Secondary schools (Education)
- 14 Petty traders
- 2 Electricians
- 1 Car wash

Of all the respondents interviewed, two tailoring shop owners cannot read but they have good command of English Language. One of the petrol stations has a car wash. They were very keen to take part in the interview; hence, they were included in the list of respondents. Efforts were made to interview owners of businesses. Where this was not possible, the shop owner asked the accountant or an employee that is knowledgeable on tax matters to take part in the interview. Where owners of the

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businesses do not take part in the management of the business, the managers were interviewed instead. In total, there were 5 accountants, 19 shop owners, 6 managers, and 5 employees.

The interview took place in October 2018. The interview process stopped when data saturation was reached. Business owners from different sectors were interviewed including hotels, fuel station owners, supermarkets, fashion/tailoring, electricians, and education etc. Respondents were selected based on the recommendation of the state tax officer. At first, respondents were not willing to participate in the study. Once they heard the word 'tax', they declined. However, with the help of the tax officer, it became easier for respondents to participate in the interviews on realization that it would be for academic purposes only. This helped to bring integrity and validity to the data gathered. The tax officer phoned the participants and explained to them the purpose of the interview and how long the interview would last. With the tax officer doing the calling, it made access easier; hence, we were able to approach participants and conduct the interviews while they were relaxed. Only one researcher conducted the interviews. The questions were read out to respondents while they provided answers. While respondents were told they had the right not to answer any question they felt uncomfortable with, the interviews were tape recorded with the consent of respondents. The interviews were typed into a word document and then broken down into themes for easier coding.

After the end of interview, the researcher went back to the Anambra State Board of Internal Revenue to thank the tax officer that was very helpful in contacting respondents and also had an informal meeting with the tax officer with regards to what some of the respondents said. The tax officer was not added to the list of respondents.

Findings

Tax Officers

All the respondents interviewed noted that they accept cash as a mode of payment, indicating that most business transactions within the IE are on cash basis. Other modes of payment like electronic payment, bank transfer and cheques are uncommon because of the high risk of default. Traders/business owners prefer to see the physical cash and hold it in their hands before allowing customers to take possession of the goods they buy. They dislike being told that it will take two to three days for the payment to appear in their bank account. The problem with this is that they would have to contact the bank to confirm the payment at their own expense. Another problem affecting online transactions is lack of power supply. Without power supply, it is difficult to generate light (electricity) which makes it difficult for SMEs to access the internet and IT system. This is one of the major challenges affecting registration of ANSSID in Anambra State. The use of cash as a medium of payment encourages most SMEs not to keep proper books of account. Electronic payment should have been the main source of audit evidence that could enable tax authorities to know the number of transactions and access the size of the business. Poor accounting records and lack of online payment make it difficult to keep an audit trail of business transactions.

Traders have certain needs they must meet on a daily basis. The cash received from sales are often used to take care of these needs. In some cases, traders and employees in the IE pay their taxes after taking care of their needs. Their argument is based on the fact that they own the shop, take care of their family, and provide basic

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amenities like protecting lives and properties through the vigilante solidarity. Respondents noted that since the government is not meeting up to expectation by not providing basic amenities, it is inappropriate for them to pay tax. Comments from respondents to buttress this statement are:

"Why should I pay tax when the government cannot provide power supply?" (Manager, Hotel 1, Male)

"My business is highly dependent on power. As you can see, we do not have light for the past three days. The light you are seeing is because of the use of power generating set." (Manager, Hotel 2, Male).

"Though we have light, but not on a regular basis. To an extent, we cannot complain because some people living in some areas have not had light for the past three months." (Accountant, Education, Male).

"Because the light is shared in this area, I do not have light in my shop. They bring the light by midnight and take it by 6am in the morning. Tell me, who in their right senses will provide light in the night being fully aware that this is an industrial area and we need light during the day so that we can operate our business?" (Store Owner, Fashion/Tailoring 1, Female)

"As you can see there is no light and sometimes it is difficult to do internet banking." (Store Owner, Fashion/Tailoring 2, Female)

One of the respondents was angry when the researcher tried to explain to her that tax is paid from the profit and not cash that is left-over after taking care of living expenses. The researcher told her that taxable profit figure is arrived at after removing allowable expenses not personal or family expenses. She noted that how can she pay tax when what she gets from the shop is not enough to take care of her, let alone her family? She took the effort to list some of the expenses she incurs on a daily basis. The researcher extrapolated the figures for a month and a year. After listing her expenses, she came to conclusion that she has been making losses in her business and the government is supposed to give her money rather than her paying tax to the government. She noted that:

"Let us look at few of my expenses so that you can see what I spend on a daily or monthly basis. Transportation cost is N350 one-way that is N700 with return per day, rent is N5000 monthly, refuge N250. There are many other taxes the government said we should pay like banner tax, sticker tax, building permission tax...I can go on and on. At the end of the day, there is no profit, then somebody from the government will come and say pay your tax. Tell me how I am going to get the money to pay tax?" (Store owner, Fashion/Tailoring 1, Female).

Another respondent who owned a petrol station noted that for the past three years he was unable to open his petrol station due to inability to get money to buy petroleum products. He noted that he was surprised when tax officers asked him to come and pay tax. The owner of the petrol station noted that he has been to office of Anambra State Inland Revenue board to explain to them that it is not fair for him to pay when he has not opened his shop for the three years. *"I keep records and have all evidence that shows that I incurred losses during that period."* On probing further to find out if he paid the tax, he said:

"Yes, I paid the tax because it was levied on every business in this area." (Petrol Station owner, Male).

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On trying to find out if he benefited from the tax paid, the owner of the petrol shop noted he does not benefit from paying tax, after all he uses a private hospital and his children attend school in another state.

Taking this matter to the Anambra State Inland Revenue Service and speaking to one of the tax officers, the researcher explained that taxpayers are finding it difficult to survive and make ends meet. The tax officer noted that most of these people like to send their children to private schools and pay exorbitant school fees. He is of the opinion that for business owners to be sending their children to private schools, as against public, and also driving expensive cars, it shows that they are making profit. He noted that this is one of the reason tax authorities came to the agreement that every business operating in the state must pay tax, in some cases at a flat rate. As a researcher who had interviewed these respondents, this was not a satisfactory answer given by the tax officer. Therefore, a further question was posed to him (the tax officer) about the likelihood for business owners to pay tax when there is evidence, including accounting records, that they are making losses. The tax officer declined to comment.

Traders are not happy when they are levied multiple times. Government and tax authorities should come up with a plan on how to harmonise the tax system and avoid the issue of multiple taxation. It is better to have a combined tax that will enable traders know that they are making one tax payment. This brings confidence in the tax system, as traders will not be seeing tax collectors too often. The sight of tax collectors brings fear on taxpayers. This can be well handled when there is one tax payment where traders will have to see taxpayers once, as against the current multiple system.

Respondents have noted that the only time they see tax officers is when they want to collect taxes. They come with fierce looking police officers that carry guns. If you do not pay tax, they can enter your shop and take the most valuable equipment they could lay their hands on. Tax officers should be friendly, open minded, easy to talk to and be willing to give tax advice. Most respondents noted that they are yet to see tax officers coming to advise them on tax matters. One of the female traders said that if the tax authorities decide to do a research on why traders do not pay tax, that they will discover the reason. She wants the tax authorities to come and talk to them about tax matters. She asked why the government could not advise them on tax issues. *“What will it cost the government to provide tax advice for this community?”* Comments from two respondents are as follows:

“The only time we see tax officers is when they want to collect taxes (Accountant, Education, Male).”

“They come along with thugs and fierce-looking police officers with guns and machete. Are we criminals?” (Store owner, Tailoring 3, Female)

“Once they come, they access your shop and if you have not paid, they look for something valuable. The sight of military personnel will deter traders and employees from challenging or fighting them.” (Manager, Hotel 2, Male).

Coming along with police officers is a sign that tax authorities are not creating awareness on the need for people to pay tax. The state government should look into the welfare of the people, identify their challenges, and look for a way to alleviate some of these problems. The issue is that the government cannot provide infrastructural facilities if the people do not pay tax. The revenue generated from tax should be used to develop the society. Respondents believed that the government is

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not doing anything by saying, *“after what have they done with the tax revenue generated in the past? They channelled the money into personal accounts, and you expect us to pay tax to the government so that they can see more money to steal?”* They will not do that.

Most of the Inland Revenue staff are coming to work doing nothing. The government can assign one or two staff to visit some shops within the localities and provide tax advice. This will improve the perception of traders and employees in the IE and improve tax revenue generation. Some of the tax payment should be done online without the presence of tax officers coming to collect tax from traders. Paying online has to do with traders having confidence in the government. This confidence will improve when government empowers traders and provides infrastructural amenities.

Empowerment

Tax revenue would improve when employees and traders in the informal sector are empowered. Different methods can be used to empower traders. However, one of the most useful methods the government can use is increasing the number of people going into apprenticeship. There are many graduates without jobs. Some of them roam about the streets doing nothing, while some of them join gangs and cause trouble in the community. The only way to get these graduates out of the street is to empower them. They should be taught business skills that involve creativity and handwork. Respondents noted that in the past, the government introduced an apprenticeship scheme which received a lot of interest from applicants. The apprenticeship scheme was created for people to become business owners or work within the IE. The government was able to partner with some business owners to come up with a scheme that would provide practical experience so that at the end of the programme, beneficiaries would become self-employed and self-reliant. When the program was first introduced, the government received a lot of interest from people that came up to learn useful trades such as tailoring, wiring/electrification, retailing, craft and weaving etc. The cost of apprenticeship was paid by the government at an agreed date usually when the apprentice completes the program, depending on the agreement. The duration varies from one sector to another and at the end of the day everyone would be happy because the government is not only empowering people through job creation, but also business owners make profit from the proceeds which in turn encouraged them to pay tax. To buttress the point, the following comments were made by one of the respondents during the interview:

“Then, I was paying my tax when I used to receive the money for apprenticeship... I felt empowered” (Manager, Tailoring 1, Female)

Now, with the change in government, the apprenticeship programme has been politicised. If you are not a member of the political class or have no relatives in government, you do not get apprenticeship. One respondent noted that there was a state governor that told his daughter to learn fashion designing and since his daughter opened her fashion boutique shop, she became the only person that was getting the apprenticeship allocation for people who came to learn tailoring. *“Is that fair? And you want me to pay tax so that the governor will enrich his family. I will not do that.”* Another respondent who was frustrated noted that:

“If they want to kill me for not paying tax, they should come. I am ready to die. Did they empower me? I am the one empowering myself and you want me to pay tax?” (Store owner, Supermarket, Female)

The empowerment program is far from transparent. They only give the contracts to people related to government officials. If you are not a member of the cabal, do not

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expect to be empowered. Those people that are related to top government officials have established businesses to the extent that they have sole right of empowerment. Traders are complaining and are not happy with the approach the government is using to empower a particular set of people. Respondents noted that they have brought this complaint to the authorities, but they did nothing about it.

Infrastructure

Some traders have gone to the extent of repairing roads by themselves which is a responsibility of the government. The costs of providing infrastructure is a cause of concern to business owners. They believed that it is the responsibility of the government to provide these services through the taxes generated. The provision of amenities such as roads, wipe away the profit made by SMEs including the self-employed. This makes them very angry, to the extent that they put the blame on tax officers. Some IE have resisted paying tax and tax officials had to use force and intimidation to collect money through police officers, soldiers and area boys with guns and armoured tanks.

Successive government officials have not taken huge steps to improve the level of infrastructure in the country, and state governors are not helping matters (Udoh 2015). Eight respondents noted that the federal and state governments make provision in the budget for capital expenditure on a yearly basis, but as you can see, the roads are not road worthy. Respondents noted that they have made efforts to contact the state and local government officials in person and in writing several times to solicit for rebuilding the roads, but they got no assistance. One of the respondents who was a school accountant noted that many parents were complaining that they were finding it difficult to bring their children to school due to bad roads. The accountant noted that complaints and bad publicity were not good for their school business. Some parents went to the extent of threatening the school authority that if they can't repair the roads, that they would have no option than to move their children to a different school. *"The competition within the school industry is very high and we do not want to be losing students."* The school was left with no choice than to repair the road at a cost of N150,000. The accountant commented that:

"Without good roads, we cannot run the school. So how do you expect me to pay tax after spending N150,000 on road repairs. I do not want to talk about power supply that is another matter on its own" (Manager/Accountant, Education, Male)

Another respondent who operates a hotel business noted that stable power is needed for their business to operate efficiently. Spending huge amounts of money on power affects tax payment. *"It is not that we do not want to pay tax, but the issue is that the tax we have paid, what have they used the money for? I expected the government to tell us on a regular basis what they are doing with the tax money they have collected. That is the best way to go about it."* The government might be thinking that the money is small but if they can do little things with the money collected and let people know that it is tax money, it is expected that people would want to pay their tax.

Accounting Records

Most traders interviewed noted that they do not keep proper books of account. With poor accounting records, they may not know how much income they have made at the end of a given period. This makes the preparation of income statements harder leading to difficulty in determining the amount of tax payable. As a result, salaries of most IE employees and the profit generated by traders in the IE, are not reported for tax purposes.

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With the nature of the IE, because it is unregulated, it is difficult for tax authorities to come up with a realistic taxable amount for workers and business owners. So, workers can increase their earnings by reporting lower profits with no evidence to show for it, thereby underpaying or not paying taxes and levies. The problem with not paying tax is that the government will not be able to fulfil its responsibilities such as providing basic amenities or improving existing infrastructures. There is a relationship between paying taxes and economic development. With the unregulated nature of business activities in the IE, most business owners exploit the system by paying workers a wage rate below minimum wage in order to increase their personal earning. Some of these workers work in an uncondusive environment with minimal or no health and safety standards in place while others work without benefit, health insurance, pension, sick leave, or holiday pay. With minimal access to state health care services, employees prefer not to pay tax but to use the money to look after their health.

Discussion

The way Nigeria is structured as a federal system has implications on the tax system (Oduola 2006). The tax structure is based on the three-tier tax system of the Federal, State and Local governments. Each of these tiers of government have their own tax system leading to a complexity and multiplicity of tax rules that have hindered the collection of tax in the IE. Abubaka (2008) argued that there have been significant improvements in the Nigerian tax system. Significant changes have been made to the rules, regulations, and administration of the tax system to ensure smooth collection and payment of tax (Adesola 2004; Agbetunde 2010). Despite the significant improvements made on the tax system such as the removal of cattle tax, poll tax and introduction of small business rate of 20% in 1992, Oduola (2006) argued that the Nigerian tax system focuses more on the oil sector and are not evenly distributed. Taxing all businesses without focusing on a particular industrial sector is one of the ways of increasing internal generated revenue (IGR) and it is necessary for increasing the provision of infrastructural development. However, use of ANSSID will capture all businesses and individuals in Anambra State but the lack of provision of social amenities such as power supply and security are hindering tax registration in the state. Instead of registering for ANSSID, taxpayers prefer to use the money to seek protection from private security guards (Vigilante groups) and source for alternative source of electricity.

Introduction of reforms that encourage voluntary compliance brings confidence to the tax system and it will increase the tax base of the IE (Di John 2008). Taxpayers should not be forced with guns to pay tax. To ensure a reasonable level of compliance, tax laws have to be supported with good administration procedures and decisions (Murphy and Reinhart 2005). Taxpayers will willingly pay tax when the perception of people in a particular society believe that payment of tax will improve their lives; therefore, people will see payment of tax as a social norm which forms part of good behaviour (Alm et al 1999). Rather than advertise payment of tax on billboards without any social development, the government should link advertisement on payment of tax to development of social amenities. When government build roads, they should put a sign that says 'this road was constructed from revenue generated from taxes'. This will increase the tax base and encourage payment tax. The use of thugs and military personnel during tax collection is affecting the attitude and mind-set of taxpayers and negatively impacting social norms of the society as taxpayers feel they are being portrayed as criminals. Tax authorities should know that the use of thugs could affect the number of people willing to be registered for ANSSID.

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Poor tax compliance affects IGR of the state government as they are unable to provide basic amenities (Torgler 2003). Therefore, the higher the IGR the higher the amount of resources the government will use for infrastructural development (Igbeng et al 2012). Making access to registration easier and having tax registration centres closer to where people live will increase voluntary compliance (Oviedo 2009). For example, the number of businesses registered for tax increased from 6001 to 21,724 from 1991 to 2003 in Montenegro after its process of tax registration was reformed (USAID 2005). Another example is the way Columbia simplified its tax system. It made it easy for business registration to done in a day, at one place, through the creation business service centres within the local office of the chamber of commerce (Oviedo 2009). Anambra tax authorities can utilise this method by bringing ANSSID closer to the people. This could be done through using social and religious gatherings such as going to churches, mosques, and village square meetings to advise people on the benefits of registering for ANSSID. Using a flat rate tax payment may not be suitable to all business owners because small businesses vary in sizes. The fall in oil prices have affected the Nigerian economy negatively. This has made companies to incur losses. Using uniform flat tax rate means that unprofitable businesses will have to pay tax. They will not be happy with the tax system creating a negative impression about tax structure and increasing the likelihood of tax evasion.

Conclusion

There is a relationship between tax revenue and economic development (Adeye 2004; Akintoye and Tashie 2013). Employees and traders in the IE want to see improvement in infrastructures before paying taxes. On the other hand, the government wants people to pay their taxes before providing basic amenities. This study found that traders dislike the latter as they see the government as not accounting for the tax revenue they have collected. The decay of amenities is a huge concern for traders and employees, as they have to bear the burden for the provision of such amenities by themselves. The government are only empowering their family members, ignoring complaints raised by the wider society. Lack of empowerment and provision of amenities are some of the major reasons employees and traders in the IE do not want to pay tax.

Tax officers should be friendly and ready to answer questions raised by traders and employees on tax matters. The government can design a program that is tailored towards tax matters. The program could include educating people on the need to pay tax, what the tax revenue collected is used for, the need to keep business records, how to prepare an income statement and how to arrive at a taxable profit. Instead of blaming uneducated traders for not keeping records of business transactions and books of accounts, the government should step in by providing free or affordable accounting services. The provision of these accounting services will help tax officers know how much tax traders are going to pay as against using a uniform amount of tax for the whole industry.

This study noted that the provision of such programs will over time bring confidence and awareness of the tax system. Rather than use police officers with guns and machete to collect tax, the government should make sure that employees and traders are aware of the benefits of paying taxes. What the government need to do is create awareness in the mind of taxpayers so that confidence can be restored within the tax

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system. The use of fierce looking police officers in tax collection create fear, which traders frown upon because they not criminals.

In conclusion, this study found that employees and traders in the IE are willing to pay their taxes, so long as the government are accountable, transparent, ready to put the money into judicious use, and there are no reports of embezzlement and fraudulent activities.

Recommendations

This study will be particularly useful to policy makers not only in Anambra State but also in Nigeria as a whole. As a result, we have come up with two recommendations:

Apart from linking advertisement on payment of taxes to development of social amenities, the government should also link the payment of taxes to the use of public amenities. So that those that are up to date with their taxes will benefit more from the use of such amenities. This will increase revenue generation from the IE. Again, the process has to be fair and transparent, because not everyone resident in the state uses public amenities. The ability to segregate those people that use public amenities from those that do not will boost public confidence and increase the perception of people that are willing to pay tax.

The government should produce an empowering plan that is beneficial to everyone. By having a fair and transparent empowering program, the government can regain its integrity and confidence within the IE. This will increase revenue generation from IE.

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