

## **Exploring Alternative Approaches to Achieving Voluntary Tax Compliance in the Informal Economy of Nigeria**

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### Abstract

Facilitating voluntary tax compliance especially in the informal sector is the goal of most developing countries but, the challenges of tax administration as well as the nature of businesses in the informal economy has hampered the revenue drive of many countries. This study aimed to determine if new models for tax collection would be beneficial for improving voluntary tax compliance and consequently tax revenue generated from the informal economy. The study investigated the level of voluntary tax compliance among taxpayers in the informal sector as well as the factors that influence tax compliance. A sample of 100 business owners comprising traders, artisans, shop owners and 17 tax officials from IfakoIjaiye Local Government Area (LGA) of Lagos State, Nigeria were selected using convenience sampling. Primary data elicited through a structured questionnaire was used to test the hypothesis that the level of tax compliance among informal sector operators would be significantly improved if taxes were collected through trade unions and trade associations or if a presumptive tax system was introduced. Findings from a descriptive analysis showed that the level of voluntary tax compliance in the informal economy was low and tax payers were not willing to voluntarily comply with tax laws because of the perception of high tax rates and misuse of tax revenue by the government. Results from a regression analysis showed that the introduction of a presumptive tax system would not significantly improve the level of tax compliance. Furthermore, the study found that tax compliance would be negatively affected if tax was collected through trade unions and associations. It is therefore recommended that government should be more accountable to the citizenry as regards utilisation of revenues to foster trust and tax rate for businesses in the informal sector should be reasonable. Also, a partial or full formalisation of businesses in the informal sector is recommended to enhance tax administration as well as ensuring voluntary tax compliance.

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