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An Assessment of Taxation Strategies and Policy Interventions for Nigeria's Informal Economy

Adeola Temitope Aina

Faculty of Business Administration, UNICAF University, Malawi
Correspondence Email : topeaina@gmail.com

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Abstract
This study examined the challenges and opportunities of taxing Nigeria's informal sector, which contributes significantly to employment and GDP but remains largely untapped for tax revenue. Through qualitative interviews with 40 tax experts across Lagos, Abuja, and Port Harcourt, the research identified structural, administrative, and socio-cultural barriers to effective taxation, including weak enforcement, low tax morale, and poor record-keeping. The study highlighted the potential of technology-driven solutions, simplified tax regimes, and public awareness campaigns to improve compliance. It also explored the role of policies such as the proposed Nigerian tax bill, the integration of BVN (Bank Verification Number) and NIN (National Identification Number) and removing VAT (Value Added Tax) on essential items in formalizing the sector. Drawing on the best international practices, the study emphasized the need for balanced approaches that support informal businesses while enhancing revenue generation. Key recommendations included leveraging digital tools, fostering trust through transparency, and linking tax compliance to access to public services. The findings underscored the importance of addressing systemic challenges to unlock the informal sector's potential for Nigeria's economic growth.

Keywords: Informal Sector, Tax Compliance, Technology-Driven Solutions, Nigeria, Revenue Generation.

1. Introduction

The informal sector in Nigeria according to Igudia (2014) represents a significant portion of the economy, encompassing small-scale businesses, unregistered enterprises, and self-employed individuals who operate outside the formal regulatory and taxation frameworks Adekoya (2023) stated that with over 85% of employment in Africa being informal, Nigeria is no exception, and this sector contributes significantly to the country's GDP. Despite its substantial contribution to employment and GDP, this sector remains largely untapped in terms of tax revenue. This paper explored the challenges and opportunities associated with taxing Nigeria's informal sector, highlighting the structural, administrative, and socio-economic barriers that hinder effective tax collection. It also examined potential strategies for integrating informal businesses into the tax net, such as simplifying tax systems, leveraging technology, and fostering trust between the government and informal operators. By addressing these issues, the paper aimed to provide insights into how Nigeria can harness the untapped potential of the informal sector to enhance revenue generation and promote inclusive economic growth.

2. Literature Review and Hypotheses Development

Theoretical Framework

The study can be anchored on the following theoretical frameworks:

Tax Compliance Theory: rooted in the work of Allingham and Sandmo (1972), explains taxpayer behavior based on the perceived probability of detection and the severity of penalties. Obaid and Ibrahim (2022) as well as Efuntade and Efuntade (2023) opine that "it is relevant for understanding why informal sector operators evade taxes and how compliance can be improved through enforcement and incentives".

Informal Economy Theory: De Soto's (1989) theory of the informal economy highlights the structural barriers that push businesses into informality, such as excessive bureaucracy and lack of property rights. Yusuf (2011) states that "this framework helps explain the persistence of the informal sector and the need for policies that encourage formalization".

By integrating these theoretical perspectives, the study can provide a robust foundation for analyzing the challenges and opportunities associated with taxing Nigeria's informal sector, while offering actionable recommendations for policy reform.

The Informal Sector and Taxation in Nigeria

The informal sector is broadly defined as" economic activities that operate outside formal regulatory frameworks, including small-scale businesses, street vendors, artisans, and unregistered enterprises "(Benanav,2019, p2; Schneider & Enste, 2000, pii).In Nigeria, the informal sector accounts for a significant portion of employment and GDP but remains largely undocumented and untaxed (Adegboye, Uwuigbe, Ojeka et al, 2022; Nwaka & Onifade , 2015). The Informal Economy Report 2024 had stated that businesses in the informal market contributed over half of Nigeria's Gross Domestic Product (www.forbesafrica.com). Unregistered enterprise in Nigeria as well as professionals and industry technicians such as lawyers in private practice, doctors, accountants, business contractors, surveyors and administrators who are self-employed form a large part of the informal sector. Anosike and Ahmed (2014) stated that these set of professionals have businesses in private and public buildings, private estates which are inaccessible by tax authorities, malls and trade centres but because they usually run partnerships and private companies, they avoid the strict legal requirements of PAYE (Pay as You Earn) taxes. In 2024, the informal sector in Lagos, Nigeria was expected to contribute ₦460 billion to the state's revenue. The target was met according to the Lagos Economic Update Report (lagosmepb.org).

Key Challenges and Barriers to Effective Informal Sector Taxation in Nigeria

Structural barriers such as lack of registration, poor record-keeping, and the transient nature of informal businesses make tax administration difficult (Okunnogbe & Santoro,2023;Bird & Zolt, 2008; Fjeldstad & Heggstad, 2012).Administrative challenges include weak tax institutions, corruption, and inadequate enforcement mechanisms (Bugaje, Okpe & Odunko,2023;Ariyo & Bekoe, 2012).Socio-cultural factors, such as low tax morale, distrust of government, and lack of awareness, further complicate tax compliance (Fjeldstad & Heggstad, 2012).

Studies emphasized the informal sector's contribution to employment, poverty alleviation, and economic resilience, particularly in developing countries (Chen, He, Liu et al, 2021; De Soto, 1989).Despite its economic importance, the sector's low performance in national indices represented a significant loss of potential revenue for governments (Ogidiaka, Agbi et al, 2023; Umar & Mohammed, 2021, Joshi, Prichard & Heady, 2014).

Role of Technology and Innovation in Enhancing Tax Administration and Compliance in the Informal Sector

A simple tax system, such as flat-rate taxes or presumptive taxation, had been proposed to encourage compliance (Bird & Zolt, 2008; Joshi et al., 2014).Technology-driven solutions, including mobile payment platforms and digital identification systems, have shown promise in improving tax collection (Joshi et al, 2014).Building trust through transparency, accountability, and the provision of public services is critical for enhancing tax morale (Fjeldstad & Heggstad, 2012).

Contributions of the Tax Authorities to Bring the Informal Sector into the Tax Net

The Nigerian Federal Inland Revenue Service (FIRS) has implemented several strategies to bring the informal sector into the tax net. These strategies aimed to improve tax compliance, broaden the tax base, and increase revenue generation (Thomas, 2020; Udoh, 2015; Adeyeye, 2019). The FIRS has made it mandatory for all businesses, including informal sector operators, to obtain a Tax Identification Number (TIN). This helps in tracking and identifying taxpayers more effectively. The FIRS collaborates with other government agencies, such as the Corporate Affairs Commission (CAC) and the National Identity Management Commission (NIMC), to gather data and identify potential taxpayers in the informal sector. (Ajongolo, 2024; Thomas, 2020; Udoh, 2015; Adeyeye, 2019).

The FIRS has adopted various technological solutions to streamline tax collection and improve compliance. This includes the use of electronic tax platforms and mobile applications for tax registration, filing, and payment. FIRS conducts extensive taxpayer education and awareness campaigns to inform informal sector operators about their tax obligations and the benefits of formalization. This includes workshops, seminars, and media campaigns (Ogunbela, Akinboboye & Ogunbiyi, 2021).

The FIRS has introduced tax regimes for small and medium-sized enterprises (SMEs) and informal sector operators. These regimes reduce the complexity of tax compliance and make it easier for small businesses to meet their tax obligations. The FIRS employs community-based tax collection methods to reach informal businesses in remote or underserved areas (Ogunbela, et al, 2021). This involves working with local authorities and community leaders to identify and register informal businesses. The FIRS uses data mining and analytics to identify potential taxpayers in the informal sector. This involves analyzing data from various sources, such as bank transactions, utility bills, and social media, to identify businesses that are not yet in the tax net (Oto & Wayas, 2024; Mohammed, Ma'sud, Karaye et al, 2023).

The FIRS offers incentives to encourage informal businesses to formalize. These incentives may include access to credit, business development services, and reduced tax rates for newly formalized businesses. Recognizing the growing use of mobile money and digital transactions in the informal sector, FIRS has introduced measures to tax these transactions. This helps capture revenue from businesses that operate primarily through digital channels (Ajongolo, 2024; Thomas, 2020). The FIRS has strengthened its enforcement and compliance measures to ensure that informal sector operators meet their tax obligations. This includes conducting audits, imposing penalties for non-compliance, and taking legal action against tax evaders (Mohammed, Ma'sud, Karaye et al, 2023). These strategies are part of the FIRS's broader efforts to enhance tax administration, improve compliance, and integrate the informal sector into the formal economy. By leveraging technology, collaboration, and targeted outreach, the FIRS aims to create a more inclusive and efficient tax system (Ogunbela et al, 2021)

The Lagos State Internal Revenue Service (LIRS) has implemented several strategies to bring informal professionals into the tax net, recognizing the significant role the informal sector plays in the state's economy. LIRS has conducted extensive public awareness campaigns to educate informal professionals about their tax obligations and the benefits of paying taxes. This includes workshops, seminars, and the use of media platforms to reach a wider audience (Oluyombo & Olayinka, 2018). To make it easier for informal professionals to comply, LIRS has simplified tax registration and payment processes. This includes the introduction of user-friendly online platforms and mobile applications for tax payments, reducing the need for physical visits to tax offices (Adekunle, 2022; Owenvbiugie & Owenvbiugie, 2020).

LIRS has partnered with various trade associations and unions representing informal professionals (e.g., artisans, market traders, and transporters) to facilitate tax collection. These associations help in mobilizing their members to register and pay taxes. LIRS has leveraged technology to identify and track informal businesses (Augustine& Oluwatosin, 2023). This includes the use of data analytics to map out informal economic activities and ensure they are captured in the tax net. The introduction of the Lagos State Residents Registration Agency (LASRRA) has also helped in identifying residents and their economic activities (Faboye, 2022).

To encourage compliance, LIRS has introduced incentives such as tax holidays, reduced penalties, and voluntary disclosure programs. These initiatives allow informal professionals to regularize their tax status without facing harsh penalties (Falayi, 2023). While emphasizing education and incentives, LIRS has also strengthened enforcement mechanisms. This includes deploying tax officials to monitor compliance in markets, motor parks, and other informal business hubs. Non-compliant individuals or businesses may face penalties or sanctions (Adekunle, 2022).

LIRS has linked tax compliance to access to government services and benefits. For example, informal professionals may need to show proof of tax payment to obtain business permits, licenses, or other government services, creating an incentive to comply. In some cases, LIRS has adopted community-based approaches, working with local leaders and community organizations to collect taxes from informal professionals (Ahannaya, Daniel-Adebayo, Iwala et al, 2021). This approach builds trust and ensures greater participation. LIRS maintains ongoing engagement with informal professionals to address their concerns and improve the tax system (Falayi, 2023, Adekunle, 2022). Feedback mechanisms are in place to ensure that the tax process is fair and transparent. These efforts have significantly increased tax compliance among informal professionals in Lagos State, contributing to the state's internally generated revenue (IGR) and fostering a more inclusive tax system. Lagos state leads the way as the centre for excellence and sets the example for other tax authorities in Nigeria to follow (Ahannaya, Daniel-Adebayo, Iwala et al, 2021).

The newly proposed tax bill in Nigeria aims to address several loopholes and challenges in the current tax system, particularly targeting high-net-worth individuals (HNWIs) and the informal sector. However, whether these individuals will be able to evade or avoid taxation depends on several factors, including the effectiveness of the bill's provisions, enforcement mechanisms, and the capacity of the tax authorities. The bill seeks to broaden the tax net by capturing more individuals and businesses in the informal sector, including HNWIs who may have previously evaded taxes. The bill includes provisions for stricter enforcement, such as increased penalties for tax evasion, improved audit capabilities, and the use of technology to track financial transactions (Odumu, 2025; Percy & Gloria, 2024; Mahmoud Hamman, & Adedeji, 2024).

The bill emphasizes the use of technology, including data mining and analytics, to identify potential taxpayers. It also promotes collaboration between the FIRS and other agencies (e.g., banks, NIMC, CAC) to access financial and identity data. Specific provisions are included to identify and tax high-net-worth individuals (HNWIs), such as mandatory disclosure of assets, income sources, and lifestyle audits. While targeting HNWIs, the bill also introduces simplified tax regimes for small businesses to encourage voluntary compliance (Aidonojie, Eregbuonye, Majekodunmi et al, 2024; Odumu, 2025; Percy & Gloria, 2024; Mahmoud Hamman, & Adedeji, 2024).

Socio-Economic Implications of Taxing the Informal Sector and Mitigation of Potential Negative Impacts

Despite the proposed measures, the FIRS may face challenges in enforcing the new provisions due to limited resources, corruption, or lack of technical expertise. The informal sector is highly fragmented and often operates in cash-based economies, making it difficult to track income and transactions (Odumu, 2025).

High-net-worth individuals (HNWIs) may use their influence, connections, or offshore accounts to evade taxes, especially if enforcement is not robust. While the bill emphasizes data sharing and technology, Nigeria's data infrastructure may still be insufficient to effectively track all financial transactions and assets of HNWIs. If the bill is not carefully drafted, it may contain loopholes that savvy taxpayers can exploit to avoid taxation (Aidonojie et al, 2024).

Success Stories from Other Countries

Countries like Ghana and Rwanda have implemented successful strategies for taxing the informal sector, offering valuable lessons for other West African countries. (Joshi et al., 2014; Umar, 2021). Rwanda introduced a simplified tax system for small businesses, such as the Presumptive Tax Regime, which uses turnover-based criteria to determine tax liabilities, making it easier for informal businesses to comply (Hakorimana & Twesige, 2024; Roger, 2021).

The Rwanda Revenue Authority (RRA) has leveraged technology to streamline tax collection, including the use of electronic billing machines (EBMs) to track sales and ensure transparency. The government has conducted extensive awareness campaigns to educate informal sector operators about their tax obligations and the benefits of formalization. Rwanda has engaged local governments to help identify and register informal businesses, ensuring broader coverage and compliance. The government offers incentives, such as access to credit and business development services, to encourage informal businesses to join the formal sector (Hakorimana & Twesige, 2024; Roger, 2021).

Ghana introduced a Flat Rate VAT Scheme for small businesses, simplifying tax calculations and reducing compliance costs for informal sector operators. The Ghana Revenue Authority (GRA) has made it mandatory for all businesses, including informal ones, to obtain a TIN, which helps in tracking and broadening the tax base. Ghana has employed community tax collectors to reach informal businesses in remote or underserved areas, ensuring wider participation (Kuhn, Opoku, Diaba, et al, 2024).

Recognizing the prevalence of mobile money transactions in the informal sector, Ghana has introduced taxes on mobile money transactions to capture revenue from this growing sector. The GRA has conducted workshops and outreach programs to educate informal sector operators about their tax responsibilities and the importance of formalization (Apau & Ampong, 2024). Ghana has adopted a phased approach to formalization, starting with simpler tax requirements and gradually increasing compliance standards as businesses grow (Awineyesema, Marfo-Yiadom et al,2024). These strategies have helped both countries improve tax compliance, broaden their tax base, and integrate informal businesses into the formal economy.

The use of digital tools, such as electronic invoicing, mobile money tracking, and AI-driven analytics, can significantly reduce the ability of informal sector operators to hide income. Nigeria's participation in global tax initiatives, such as the Common Reporting Standard (CRS), can help track offshore assets and income of huge earners in the informal sector (Igbinenikaro & Adewusi, 2024).

Increased public awareness of tax obligations and the introduction of whistleblower programs can encourage voluntary compliance and expose tax evaders. The bill's focus on lifestyle audits can help identify discrepancies between declared income and actual spending, making it harder for high income earners in the informal sector to evade taxes. Strong political will and commitment to implementing the bill's provisions are critical to ensuring its success (Prastiwi & Abdiyah, 2024).

While the proposed tax bill introduces several measures to curb tax evasion and avoidance, its success will depend on effective implementation, enforcement, and the ability of the FIRS to leverage technology and data, informal sector operators may still attempt to evade or avoid taxes, but the bill's provisions, if properly executed, can significantly reduce these practices. However, addressing systemic issues such as corruption, weak infrastructure, and resistance from powerful individuals will be crucial to achieving the desired outcomes (Aidonojie et al., 2024; Percy & Gloria, 2024; Mahmoud Hamman, & Adedeji, 2024).

Research Questions

The research questions based on the above-mentioned theories focused on the largely untapped informal sector in Nigerian taxation are stated below:

i. What is the current contribution of the informal sector to Nigeria's economy, and why has it remained largely untapped in terms of taxation?
ii. What are the key challenges and barriers to effectively taxing the informal sector in Nigeria?
iii. What are the existing policies and frameworks for taxing the informal sector, and how effective have they been?
iv. What strategies can be implemented to improve tax compliance and revenue collection from the informal sector?
v. What role can technology and innovation play in enhancing tax administration and compliance in the informal sector?
vi. How can the government balance taxation with the need to support the growth and formalization of informal businesses?
vii. What are the socio-economic implications of taxing the informal sector, and how can potential negative impacts be mitigated?
viii. What lessons can Nigeria learn from tax authorities and other countries that have successfully integrated their informal sectors into the tax system?

These research questions aimed to provide a comprehensive understanding of the issues surrounding the taxation of Nigeria's informal sector and to identify actionable solutions for improving revenue generation while supporting economic development.

3. Methodology

The study employed a qualitative research design, utilizing in-depth interviews with 40 tax specialists and experts in Lagos, Abuja and Port-Harcourt which are the primary economic business hubs of Nigeria to explore the challenges and opportunities of taxing Nigeria's informal sector. Participants were selected through purposive sampling to ensure representation of key stakeholders, including tax administrators, policymakers, academics, and private sector consultants. Interviews were conducted in the three cities via social media to capture diverse perspectives. Ethical considerations, such as informed consent, confidentiality, and voluntary participation, were strictly adhered to. To ensure the trustworthiness of our thematic analysis findings, researcher conducted member checking sessions with participants to validate our themes and ensure that they accurately reflected their experiences. Through this process, the researcher refined the themes and gained a deeper understanding of the participants' perspectives. Finally, the researcher maintained a reflexive stance throughout the analysis process, using Taguette software and acknowledging and documenting own biases and assumptions to minimize their influence on the findings.

4. Results and Discussion

Thematic Analysis

Below is the thematic analysis presented in a table format for clarity and ease of reference.

Table 1

Basic Codes

Code Category	Basic Codes
Theoretical Frameworks.	Tax Compliance Theory, Informal Economy Theory.
Informal Sector Definition.	Unregistered Enterprises, Self-employed Professionals.
Economic Contribution.	Employment, GDP Contribution.
Challenges in Taxation.	Lack of Registration, Weak Tax Institutions.
Tax Administration.	Tax Identification Number (TIN), Mobile Payment Platforms.
Policy Strategies.	Simplified Tax Systems, Incentives for Formalization.
Technology and Innovation.	Electronic Tax Platforms, Data Analytics.
Enforcement Mechanisms.	Audits, Lifestyle Audits.
Socio-economic Implications.	Trust Building, Mitigating Negative Impacts.

Source: Researcher’s field survey, 2024.

Table 2

Axial Codes

Axial Code Category	Axial Codes
Tax Compliance Drivers.	Perceived Probability of Detection, Severity of Penalties.
Structural Barriers.	Excessive Bureaucracy, Lack of Property Rights.
Economic Impact.	Contribution to Employment, Contribution to GDP.
Administrative Challenges.	Corruption, Inadequate Enforcement Mechanisms.
Technological Solutions.	Mobile Payment Platforms, Digital Identification Systems.
Policy Interventions.	Simplified Tax Systems, Community-based Tax Collection.
Behavioural Factors.	Low Tax Morale, Distrust of Government.
Enforcement Strategies.	Audits, Lifestyle Audits.
Socio-economic Balance.	Trust Building, Mitigating Negative Impacts.
Lessons from Other Countries.	Rwanda’s Presumptive Tax Regime, Ghana’s Mobile Money Taxation.

Source: Researcher’s field survey, 2024.

Table 3 organized the thematic analysis and its linkage to theoretical frameworks in a structured and accessible manner:

Table 3
Thematic Codes

Thematic Code Category	Thematic Codes
Tax Compliance and Enforcement.	Role of Deterrence in Compliance, Balancing Enforcement with Incentives.
Informal Sector Dynamics.	Structural Barriers to Formalization, Economic Resilience of Informal Sector.
Policy Effectiveness.	Success of Simplified Tax Systems, Challenges in Policy Implementation.
Technological Integration.	Digital Tools for Tax Administration, Role of Innovation in Compliance.
Socio-economic Implications.	Equity in Taxation, Mitigating Adverse Effects on Informal Businesses.
Trust and Governance.	Building Trust in Government, Transparency and Accountability in Tax Systems.
Cross-country Learning.	Lessons from Rwanda's Tax Model, Adapting Ghana's Mobile Money Taxation.
Revenue Generation.	Expanding the Tax Base, Maximizing Revenue from Informal Sector.
Behavioural Influences.	Tax Morale and Compliance, Cultural Resistance to Taxation.
Formalization Strategies.	Incentives for Formalization, Gradual Integration into the Formal Economy.

Source: Researcher's field survey, 2024.

Thematic codes are high-level categories that capture the overarching themes and patterns in a study. They emerge from the analysis of axial codes and provide a deeper understanding of the research context. In this study, thematic codes include Tax Compliance and Enforcement, which explores the role of deterrence and incentives in improving compliance, and Informal Sector Dynamics, which examines structural barriers and the economic resilience of informal businesses. Policy Effectiveness evaluates the success of simplified tax systems and challenges in implementation, while Technological Integration highlights the role of digital tools and innovation in enhancing tax administration. Socio-economic Implications focuses on equity in taxation and mitigating adverse effects on informal businesses, while Trust and Governance emphasizes building trust through transparency and accountability. Cross-country Learning uses the examples from successful models in Rwanda and Ghana, and Revenue Generation explores strategies for expanding the tax base and maximizing revenue. Behavioural Influences addresses tax payment attitude and cultural resistance, and Formalization Strategies examine incentives and gradual integration into the formal economy. These thematic codes provide a comprehensive framework for understanding the challenges and opportunities in taxing Nigeria's informal sector, offering actionable insights for policy reform and improved revenue generation.

The literature both verifies and disputes the findings related to taxing the informal sector, depending on the context, methodologies, and geographical focus of the studies. For instance, the literature supports the idea that perceived probability of detection and severity of penalties influence tax compliance, as highlighted by Allingham and Sandmo (1972) and recent works by Obaid and Ibrahim (2022). However, some studies argue that excessive reliance on enforcement can backfire, particularly in contexts with low trust in government, as Fjeldstad and Heggstad (2012) note that punitive measures alone may increase resentment and evasion. Similarly, De Soto's (1989) theory of the informal economy is widely cited to explain how excessive bureaucracy and lack of property rights push businesses into informality, a view supported by Yusuf (2011) and Schneider & Enste (2000). Despite these points, some scholars argue that informal businesses may choose to remain unregistered not only due to structural barriers but also because of the benefits of informality, such as avoiding taxes and regulations, as Chen et al. (2021) suggest. The role of technology in tax administration is strongly supported by studies like Joshi et al. (2014) and Rwanda's use of electronic billing machines (EBMs), which demonstrate how digital tools enhance transparency and revenue collection. However, some researchers argue that technology adoption in low-income countries faces challenges such as low digital literacy, infrastructure gaps, and resistance from informal operators, as noted by Bird & Zolt (2008).

The socio-economic implications of taxation are also debated. While studies by Umar and Mohammed (2021) and Ogidiaka et al. (2023) confirm that taxing the informal sector can generate significant revenue, they caution that it must be balanced with measures to avoid stifling economic growth or increasing poverty. Conversely, some literature warns that poorly designed tax policies could disproportionately burden low-income informal operators, exacerbating inequality, as Fjeldstad & Heggstad (2012) argue. Success stories from countries like Rwanda and Ghana are often cited as models for integrating the informal sector into the tax net, but critics caution that these models may not be directly transferable to Nigeria due to differences in institutional capacity, cultural attitudes, and economic structures, as Joshi et al. (2014) highlight. Trust and governance are also critical, with literature emphasizing the importance of transparency and accountability in improving tax compliance, as Fjeldstad and Heggstad (2012) argue. However, corruption and weak institutions in countries like Nigeria undermine trust-building efforts, making compliance difficult, as Ariyo & Bekoe (2012) note.

Finally, while simplified tax systems like flat-rate taxes have been shown to improve compliance, critics argue that they may not capture the full revenue potential of the informal sector and could be exploited by larger businesses to avoid higher taxes, as Okunnogbe & Santoro (2023) suggest. From this analysis, the literature largely verifies the challenges and opportunities of taxing the informal sector but also disputes aspects such as over-reliance on enforcement, the transferability of success stories, and potential negative impacts, highlighting the need for country-specific policies that balance revenue generation with the growth and formalization of the informal sector.

5. Conclusion and Recommendations

The study highlighted the informal sector's significant economic contributions, such as employment generation and GDP growth, while identifying barriers like poor record-keeping, weak tax administration, and low trust in government as reasons for its untapped potential. To address these challenges, it recommends simplifying tax systems, leveraging technology-driven solutions, and fostering trust through public awareness campaigns to improve compliance. Additionally, a gradual formalization approach, supported by capacity-building programs and access to public services, is proposed to ease the transition of informal businesses into the formal economy without overburdening them. Future research should explore the effectiveness of digital tools, such as blockchain and data analytics, in enhancing tax compliance and the long-term socio-economic impacts of formalization on low-income earners and small businesses. By adopting these strategies and addressing knowledge gaps, policymakers can create a more inclusive and equitable tax system that benefits both the government and the informal sector.

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Appendix A

Basic codes and examples of responses

Code Category	**Basic Codes**	**Responses to Research Questions**
Theoretical Frameworks	Tax Compliance Theory	"Taxpayers are more likely to comply if they believe they will be caught."
		"Severe penalties deter tax evasion."
	Informal Economy Theory	"Excessive bureaucracy forces businesses to operate informally."
		"Lack of property rights discourages formalization."
Informal Sector Definition	Unregistered Enterprises	"Small businesses like street vendors often operate without registration."
		"Unregistered enterprises avoid strict legal requirements."

	Self-employed Professionals	"Self-employed professionals like lawyers and doctors often avoid PAYE taxes."
		"Private practitioners operate in inaccessible locations to evade taxes."
Economic Contribution	Employment	"The informal sector employs a lot of Nigeria's workforces."
		It provides livelihoods for low-income households."
	GDP Contribution	"The informal sector contributes largely of Nigeria's GDP."
		"It drives economic resilience in rural and urban areas."
Challenges in Taxation	Lack of Registration	"Many informal businesses are not registered, making tax collection difficult."
		"Small scale businesses are hard to track."
	Weak Tax Institutions	"Corruption in tax authorities undermines enforcement."
		"Inadequate resources limit tax administration."
Tax Administration	Tax Identification Number (TIN)	"The FIRS mandates TINs to track informal businesses."
		"TINs help identify potential taxpayers in the informal sector."
	Mobile Payment Platforms	"Mobile money platforms are used to collect taxes."
		"Digital payments reduce cash-based transactions."
Policy Strategies	Simplified Tax Systems	"Flat-rate taxes encourage compliance among small businesses."
		"Presumptive taxation reduces complexity for informal operators."
	Incentives for Formalization	"Access to credit motivates informal operators to formalize."
		"Business development services encourage compliance."
Technology and Innovation	Electronic Tax Platforms	"FIRS uses e-tax platforms to streamline tax filing."
		"Online platforms reduce the need for physical visits to tax offices."
	Data Analytics	"Data collected by tax offices helps identify unregistered businesses through bank transactions."
		"Analytics track income discrepancies for audits."
Enforcement Mechanisms	Audits	"Regular audits ensure compliance among informal businesses."
		"Audits uncover hidden income sources."
	Lifestyle Audits	"Lifestyle audits target high-net-worth individuals to uncover tax evasion."
		"Discrepancies between income and spending are identified."
Socio-economic Implications	Trust Building	"Transparency in tax collection builds trust between the government and taxpayers."

		"Public awareness campaigns improve tax morale."
	Mitigating Negative Impacts	"Removing VAT on essential items reduces the burden on low-income operators."
		"Incentives like tax holidays ease the transition to formalization."

Source: Researcher's field survey, 2024.

Appendix B

Collation of Basic Codes into Axial Codes and Examples of Responses

Axial Code Category	**Axial Codes**	**Examples of Responses**
Tax Compliance Drivers	Perceived Probability of Detection	"Taxpayers comply when they believe they will be caught."
		"Low detection rates encourage evasion."
	Severity of Penalties	"Harsh penalties deter tax evasion."
		"Weak enforcement reduces the effectiveness of penalties."
Structural Barriers	Excessive Bureaucracy	"Complex registration processes discourage formalization."
		"Bureaucratic corruption pushes businesses into informality."
	Lack of Property Rights	"Unclear property rights hinder business formalization."
		"Lack of ownership documents limits access to credit."
Economic Impact	Contribution to Employment	"The informal sector provides jobs for millions of Nigerians."
		"It reduces unemployment in rural areas."
	Contribution to GDP	"The informal sector contributes significantly to Nigeria's GDP."
		"It drives economic activity in underserved regions."
Administrative Challenges	Corruption	"Corruption in tax authorities undermines trust."
		"Bribes enable tax evasion."
	Inadequate Enforcement Mechanisms	"Weak enforcement allows informal businesses to evade taxes."
		"Limited resources hinder tax collection efforts."
Technological Solutions	Mobile Payment Platforms	"Mobile money platforms simplify tax payments for informal operators."
		"Digital transactions improve transparency."
	Digital Identification Systems	"BVN and NIN integration helps track informal businesses."
		"Digital IDs reduce anonymity in the informal sector."
Policy Interventions	Simplified Tax Systems	"Flat-rate taxes reduce compliance costs for small businesses."

		"Presumptive taxation simplifies tax calculations."
	Community-based Tax Collection	"Local leaders help identify and register informal businesses."
		"Community engagement builds trust in tax systems."
Behavioural Factors	Low Tax Morale	"Distrust of government reduces willingness to pay taxes."
		"Lack of awareness about tax benefits discourages compliance."
	Distrust of Government	"Perceived misuse of tax revenue reduces compliance."
		"Corruption erodes trust in tax authorities."
Enforcement Strategies	Audits	"Regular audits ensure compliance among informal businesses."
		"Audits uncover hidden income sources."
	Lifestyle Audits	"Lifestyle audits target high-net-worth individuals to uncover tax evasion."
		"Discrepancies between income and spending are identified."
Socio-economic Balance	Trust Building	"Transparency in tax collection builds trust between the government and taxpayers."
		"Public awareness campaigns improve tax morale."
	Mitigating Negative Impacts	"Removing VAT on essential items reduces the burden on low-income operators."
		"Incentives like tax holidays ease the transition to formalization."
Lessons from Other Countries	Rwanda's Presumptive Tax Regime	"Rwanda's presumptive tax system simplifies compliance for small businesses."
		"Turnover-based criteria make taxation easier for informal operators."
	Ghana's Mobile Money Taxation	"Ghana taxes mobile money transactions to capture revenue from the informal sector."
		"Digital taxation improves compliance and transparency."

Source: Researcher's field survey, 2024.

Appendix. C

The theme column represents the overarching thematic code, while the axial code connects the basic code to the broader theme. For the coded responses, the researcher provided two specific examples of responses or findings that align with the axial code.

Thematic Codes

Theme	**Axial Code**	**Coded Response Examples**
Tax Compliance	Perceived Probability of Detection	"Many informal operators evade taxes because they believe they won't be caught."

and Enforcement		
		"The lack of visible enforcement encourages non-compliance among small businesses."
	Severity of Penalties	"Harsh penalties deter tax evasion but may increase resentment among small businesses."
		"Small fines are often ignored, while large fines can bankrupt informal operators, the penalties should be higher."
Informal Sector Dynamics	Structural Barriers	Excessive bureaucracy makes it difficult for informal businesses to register.
		High registration costs for business discourage formalisation process."
	Economic Resilience	"The informal sector provides jobs and income, especially during economic downturns."
		"Informal businesses adapt quickly to changing market conditions."
Policy Effectiveness	Simplified Tax Systems	"Flat-rate taxes have made it easier for small businesses to comply with tax laws."
		"Presumptive taxation reduces the complexity of tax calculations for informal operators."
	Implementation Challenges	"Corruption and weak institutions hinder the effectiveness of tax policies."
		"Lack of coordination between agencies delays policy implementation."
Technological Integration	Digital Tools	"Mobile payment platforms have improved tax collection efficiency in the informal sector."
		"Digital identification systems help track unregistered businesses."
	Innovation in Compliance	"Electronic billing machines (EBMs) have reduced tax evasion in Rwanda."
		"AI-driven analytics identify potential tax evaders in the informal sector."
Socio-economic Implications	Equity in Taxation	"Tax policies must avoid placing undue burdens on low-income informal operators."
		"Progressive tax systems can ensure fairness for small businesses."
	Mitigating Adverse Effects	"Providing public services can offset the negative impacts of taxation on the poor."
		"Tax incentives for compliant businesses encourage voluntary participation."
Trust and Governance	Building Trust	"Transparency in tax collection increases trust in government."
		"Regular communication with taxpayers improves compliance rates."
	Accountability	"Corruption in tax administration undermines public confidence in the system."

		"Independent audits ensure accountability in revenue collection."
Cross-country Learning	Rwanda's Presumptive Tax	"Rwanda's presumptive tax regime has successfully integrated informal businesses."
		"The use of electronic billing machines (EBMs) in Rwanda has improved transparency."
	Ghana's Mobile Money Tax	"Ghana's tax on mobile money transactions has captured revenue from the informal sector. Nigeria has stamp duties on mobile transfers"
		"The flat-rate VAT scheme in Ghana simplifies tax compliance for small businesses."
Revenue Generation	Expanding the Tax Base	"Broadening the tax net to include informal operators can significantly increase revenue."
		"Data on taxpayers helps identify untapped sources of revenue in the informal sector."
	Maximizing Revenue	"Targeting high-net-worth individuals (HNWIs) in the informal sector boosts revenue."
		"Collaboration with banks and telecom companies improves revenue tracking through BVN."
Behavioural Influences	Tax Morale	"Low tax morale is a major barrier to compliance in Nigeria."
		"Many taxpayers feel they receive little in return for their taxes."
	Cultural Resistance	"Many informal operators view taxation as unfair due to poor public services."
		"Cultural norms that prioritize cash transactions hinder tax compliance."
Formalization Strategies	Incentives for Formalization	"Tax credit and access to credit encourage informal businesses to formalise."
		2. "Reduced tax rates for newly formalized businesses increase participation."
	Gradual Integration	1. "A phased approach to formalization helps small businesses adapt to tax requirements."
		2. "Simplified registration processes encourage gradual integration into the formal economy."

Source: Researcher's field survey, 2024.