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Pattern and Predictors of Tax Compliance in Informal Sector of Gombe Metropolis: Evidence from Slippery Slope Model

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Abstract

The study examined the application of slippery slope model in the informal sector of Gombe metropolis. The target population of the study were the informal businesses operating in Gombe metropolis. A sample of 300 of informal businesses was taken using cluster sampling technique followed by random sampling from each cluster. The study disaggregated tax compliance into voluntary and enforced compliance to observe the extent of their relationship with trust and power respectively. Descriptive and logistic regression analyses were conducted in the study. Empirical findings of the study reveal that trust has a direct relationship with voluntary compliance, so also power has positive but insignificant relationship with enforced compliance. This implies that the assertion of the slippery slope model is evidently supported in the study area. In view of this therefore, both deterrent and service-driven tax policies should be simultaneously employed to achieve an optimal level of tax compliance.

Keywords: Informal sector, power, tax compliance, trust
JEL Classification: E63, K34, H26, H53

1.0 Introduction

Tax compliance is one of the major challenges to public finance of developing economies and it is thus contributing to the huge perennial infrastructural deficit. The high incidence of noncompliance with tax payment is observed to be predominant among informal sector operators. Incidentally, such small businesses constitute the large proportion of economic activities prevailing in these economies. Corollary to this, central and sub-national governments over the years remain committed in their quest to incorporate such operators in their tax net with a minimal degree of success. More so, there is a number of benefits derivable from taxing informal sector including direct and indirect ones.

In particular, taxing informal sector may have strong implications on revenue generation, quality governance and economic growth in developing countries. Observably, there is burgeoning literature pointing to the intrinsic nexus between tax compliance and good governance (Alshira'h, *et al.*, 2020; Sabele-Mpofu, 2020; Ukamwa, 2018).

According to this view, taxation and governance are reinforcing each other. This perspective is related to an implicit "fiscal contract" between taxpayers and the state, built upon the principles of accountability, legitimacy and mutual trust, and it encompasses a social norm of paying taxes (Kundt, 2017). From the foregoing, it suffices to conclude that widening tax net, by way of including informal business operators, will trigger good governance as these businesses would continue to hold authority accountable. Thus, this view emphases the fact that all strategies for strengthening tax compliance should be framed as an ecosystem with tax authority, citizen participation and good governance, competing and cooperating with one another. Moreover, the exigency for tax reform that identifies priority spending needs will never be downplayed for it will consolidate a mutual relationship between otherwise opposing parties.

This study is motivated by the fact that, on one hand, many states in Nigeria including Gombe are short of meeting their operating expenses with a blend of their internally generated revenue (IGR) and Value Adde Tax (VAT), implying gross financial nonviability among them (BudgIT, 2021). And on the other hand, the economies of these states are full of informal businesses enjoying the relatively scarce public goods and services, without carrying out a civic duty of paying taxes. Consequent upon this, this study seeks to draw the attention of the state governments, particularly Gombe state government, to the potentials of informal sector to improve financial viability of the state. The findings of the study would provide insights on how to formulate micro-founded and pragmatic tax (compliance) policy.

Furthermore, recent studies reaffirm the prevailing nexus between tax revenue and higher economic growth in which a 15% tax-to-GDP ratio being prescribed as minimum required for economic growth. Low tax ratio has an adverse impact on fiscal space of government leading to an inadequate social spending. This in turn affects the productive capacity of an economy both human and material. Informal sector constitutes large proportion of economic activities in developing countries. Like other Sub-Saharan African countries, Nigeria has high level of informality, which hovers around 65% of its GDP, depicting huge revenue potential should appropriate mechanisms be put in place to tax the sector (Medina, Jonelis & Cangul, 2017).

In July 2015, World Bank and IMF committed to a joint effort to assist countries strengthen their tax system. Raising additional revenue is critical to finance development in a more sustainable manner (World Bank, 2017). The sustainability framework perceived to align with twin goals (World Bank, 2013). In this sense, revenue mobilization has been identified to be part and parcel of the country's overall macro-fiscal policy framework which loosely forms part of creating conducive environment for businesses. Recent effort by the sister institutions to engage in the global effort to design the 2030 development agenda put premium on domestic revenue mobilization (DMO). They remain committed to new initiatives regarding revenue mobilization to assist partner countries in attaining their Sustainable Development Goal. In developing countries such as Nigeria, DMO can be augmented by co-opting informal businesses into tax net of the state.

It should be noted that there has been a very unique feature of informal sector for they possess different mental accounting system. Self-reporting, limited control over money flows, receiving gross sums that subsequently have to be partly passed on to tax authorities tend to always give an upper hand to the former over the tax authority. Finding the best strategy to effectively deal with such taxpayers remains a distant mirage. The traditional approach advanced by economic model is seriously debated in the literature (Kirchler, Kogler & Muehlbacher, 2014). However, more recently, studies tend to invoke behavioural economics to supplement the purported shortcomings of the classical model. Such dual approach has been effectively captured in the slippery slope model. Slippery slope model is designed to effectively incorporate both economic and noneconomic factors. The framework identifies power and trust as factors that may have influence on tax behaviour. Two types of compliance are observed (voluntary and enforced compliance) and linked to different motivators (trust and power of authority). Thus, this study set out to empirically answer the following questions: To determine the extent to which trust in authority influences voluntary compliance? To determine the extent to which power of authority influences enforced compliance?

Focusing on tax compliance in informal sector of subnational government in Nigeria is the major uniqueness of this study as the extant studies (Abdu, Jibir & Muhammed, 2020; Kastlunger, *et al*. 2013; Tanzi, 2017) are country-specific and cross-country in nature. Thus, findings from previous studies cannot be properly generalized in view of the obvious cross-country and sectoral heterogeneities. Thus, this study contributes to literature by providing empirical insights on tax compliance in a sector of a subnational government. The goal of this study remains to explore the extent of voluntary and enforced tax compliance among informal businesses in Gombe metropolis.

The remaining parts of the paper are organized as follows: section 2 briefly discusses theoretical framework and empirical literature while section 3 presents methodology of the study. Section 4 presents and discusses the result and section 5 concludes the paper with some recommendations.

2.0 Literature Review

2.1 Tax Compliance Defined

Tax compliance remains a topical issue especially when it relates to informal sector in developing countries. Tax compliance has been variously defined by accounting and business professionals, economists, and policy makers, yet there seems to a consensus among them as regards what tax compliance is all about. For instance, Defitri and Fauziati (2018) defines tax compliance as the the willingness and ability of the Taxpayer to accept taxation laws, report income, and pay taxes accuratetly and on time. This view emphases the voluntary adherence to the tax laws and regulation by the taxpayer devoid of prior inspection, warning, investigation, threats and the possible appllication of criminal or civil sanction. Likewise but broadly, Batranpcea, *et al.* (2012) highlight four basic rules a taxpayer has to follow in order to be fully compliant with the tax law: '(a) report the real tax base to the tax authorities; (b) compute correctly the tax liability; (c) file the tax return on time; and (d) pay the amounts due on time'. Impliedly, tax compliance encompases strict adherance to the series of tax laws. An alternative definition has been given by James and Alley (1999) that sees tax compliance in terms of gap. It is the difference between 'true' individual income tax liability and that which is actually collected on a voluntary basis or by enforcement measures. It is, however, viewed as a more or less simplistic definition.

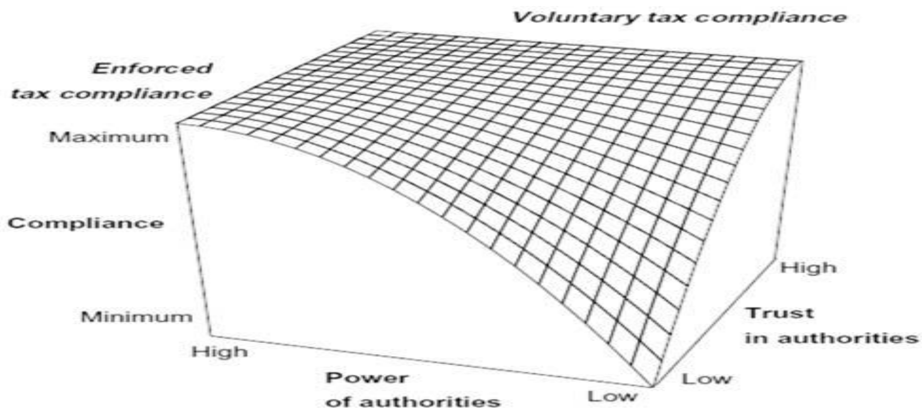
For the purpose of this study, the working definition of tax compliance is the extent to which a taxpayer abides by tax rules and regulations, as enshrined in the state constitution, by reporting fully his/her tax base (income) and paying the tax(es) accurately and as at when due. In so doing, the taxpayer is viewed as a patriotic citizen by fully carrying that particular civic responsibility.

2.2 Theoretical Framework: Slippery Slope Framework

The Slippery Slope Framework (SSF) is a model of tax compliance, propounded by Kirchler (2007); Kirchler, *et. al.,* (2008), that provides an avenue to integrate puzzling effects of economic and psychological factors. Basically, it is assumed largely that economic factors like audit probability and penalty determine the perceived power of authorities to enforce compliance, while the noneconomic factors such as perception of a fair tax system influence trust in authorities leading to voluntary cooperation (Kogler, *et. al.,* 2013). Therefore, SSF posits that tax compliance could better be explained by two dimensions: trust in authorities and power of authorities. Increase in tax compliance can be achieved either by taking measures that build more trust, or the strategies that amplify the power of the authorities. As Kogler, *et. al.* (2013) puts it, these fundamental assumptions of SSF were also formalized for an economic model (Prinz, Muehlbacher & Kirchler, 2013) and visibly supported by some recent empirical studies (Wahl, Kastlunger & Kirchler, 2010; Muehlbacher, Kirchler, & Schwarzenberger, 2011; Kogler, Batrancea, Nichita, Pantya, Belianin, Kirchler, 2013; and Faizal, Palil, Maelah & Ramli, 2017).

In Figure 1, it is shown that at the top right of the framework, high trust with low power enhances voluntary compliance. Conversely, on the top lefthand side, high power with low trust enhances enforced compliance. On the other hand, the front part of the framework depicts trust on tax authorities is at a low level and the power of tax authorities is weak. In these circumstances, taxpayer will strive to maximize his own utilities by evading tax resulting in low levels of compliance.

Figure 1: The Slippery Slope Framework



Source: Kirchler, *et. al.,* (2008:21) Adopted from Batrancea, *et. al.,* (2012).

Consistent with the implicit motivation for tax compliance, this study employs slippery slope framework as its theoretical framework. The model discarded the idea that noncompliance is exclusively contained by deterrence approach such as audit and penalty. It, however, takes dual approach by incorporating deterrence and deference measures in simultaneous passion. In view of the model, trust in authority and power of authority are the main predictors of tax behaviour (Kirchler, *et. al.,* 2008:21).

The level of corruption in Nigeria tends to validate the major hypothesis of the slippery slope framework. For instance, the corruption perception index (CPI) consistently ranked Nigeria high. The country ranked 148 out of 180 countries in the recent assessment of 2017 by Transparency International (TI). This is a slight deterioration compared to 2016 where 136 was scored. Such corruption perception in public administration largely explains the perpetual trust deficit in the eyes of citizens and by extension noncompliance of tax. Because tax cheating is rationalized on the bases of incompetent government.

2.3 Empirical Review

Faizal, *et. al.,* (2017) examined the effect of slippery slope factors on tax compliance. The sample was drawn from academicians teaching in public and private higher institutions using cluster sampling method. The study found that only trust has significant effect on tax compliance. However, the findings contradicted Kastlunger, *et. al.* (2013), who established that power did influence the voluntary and enforced tax compliance. Tanzi (2017) discussed how global and domestic factors contributed in making tax system more complex consequently creating fertile ground for tax evasion and tax related corruption. Using extensive literature review, the author demonstrated that complexity contributed to creating more uncertainty and more randomness in policy outcome. Kogler, *et. al.* (2015) test the application of slippery slope model among the self-employed taxpayers in Austria. The result reveals that perceptions of procedural and distributive justice predict voluntary compliance. This corroborates other past studies on the framework. In their study, Munjeyi, *et. al.* (2017) assessed the performance of informal sector tax revenue in Zimbabwe. The study dwelled on the presumptive tax introduced by Zimbabwe government in her attempt to widen tax base in 2005. They found that informal sector played a pivotal role in the Zimbabwean economy.

Nevertheless, presumptive tax revenue head employed performed far below expectation. In their work, Fagbohun and Obiyemi (2018) developed an electronic based system of taxation that will guarantee close monitoring and enforcement. The result demonstrated that the critical problems tax could be resolved with the use of an intelligent based electronic policing of citizens tax wizard platform. Mas'ud, Manaf and Saad (2014) examine the assumption of slippery slope framework using cross country data of sub-Saharan Africa. Regression model is employed to examine the relationship. The findings of the study revealed that there is positive but insignificant relationship between trust and tax compliance, and power and tax compliance. However, the combined effect between trust, power and tax compliance is significant and positive.

Aliyu and Sambo (2016) studied the determinants of informal sector tax evasion in Sokoto metropolis. OLS regression analysis and ANOVA regression were used to analyse the result. The result revealed that taxation and fiscal factors, economic and administrative factors among others are statistically significant for taxpayer's tax evasion behaviour. John and John (2015) carried out a relevant study in River state. Their study confined itself on five major challenges (capacity constraint, large size of informal sector, large size of tax district, notion of equity, political interference) with view to arrange them in order of their importance as critical factors. The result identified capacity constraint as a major challenge inhibiting tax collection from informal sector.

Some recent empirical studies found that the link between trust and tax compliance is mediated by certain institutional factors. For example, Abdu, Jibir and Mohammed (2020), firm-level study in Sub-Saharan Africa, discover that bribery and corruption moderate the relationship between trust in tax authorities and subsequent tax compliance. In same token, Gangl et al. (2020) prove that the connection between trust and tax compliance is mediated by a confidence climate and committed cooperation. In another firm-level study, Adhikari, Alm and Harris (2021) find that third-party income reporting legislation via card payment records significantly enhances tax compliance among small businesses in the US. Focusing on small- and medium-sized enterprises in Vietnam, Le, Bui and Nguyen (2021) establish that taxpayer awareness, perceived ease of use, Vietnamese tax administration and efficiency of Vietnamese tax policy are the important drivers of electronic tax compliance.

It is clear from the preceding review that extant studies find several factors to be predicting tax compliance using different units (individuals, firms and countries). A consensus seems to appear in the findings that both trust and perceived power of the tax authorities are strong forces to reckon with in the process of promoting tax compliance among taxpayers. What is clearly missing in the literature review is the availability of studies that explore trend or trajectories and predictors of tax compliance in informal sector of subnational government, especially in federal fiscal system like Nigeria. This study is designed to fill this research lacuna as the outcomes of the study would be eye opener for state governments in Nigeria to tap from the potentials of informal sector in order to improve their respective financial viability.

3.0 Methodology

3.1 Theoretical and Empirical Model Specifications

This study is situated in the Slippery Slope Framework because the framework incorporates economic and social factors as the fundamental predictors of tax compliance in an informal sector. Put differently, SSF postulates that tax compliance is a function of trust in the constitutive authorities and perceived power of the authority to detect and subsequently sanction tax defaulters. Several studies (Abdu, *et. al.,* 2020; Gangl *et. al.,* 2020; Kogler, *et. al.,* 2015; Mas'ud, *et. al.,* 2014) adopted or adapted in their respective empirical analyses due to flexibility, peculiarity and adaptability in or to many contexts. Equation (1) specifies the theoretical connections between trust and power, and tax compliance.

$$taxcm_i = f\left(trust_i, power_i\right) \tag{1}$$

Where $taxcm_i$ stands for (enforced or voluntary) tax compliance; $trust_i$ represents trust in tax authorities; and $power_i$ is the power of tax authorities, all for informal operator ***i***.

Given that some empirical studies established that other factors matter for tax compliance, we extended SSF by controlling for the experience, level of awareness of the informal operators and tax rate. The extended model is specified in econometric form in equation (2).

$$taxcm_i = \beta_0 + \beta_1 trust_i + \beta_2 power_i + \beta_3 expri_i + \beta_4 taxrat_i + \beta_1 aware_i + \varepsilon_i \tag{2}$$

Where $expri_i$ is the experience of the operator i in the informal sector, proxied by his/her age; $aware_i$ stands for level of awareness of the operator i in the informal sector, proxied by his/her level of formal education. $taxrat_i$ represents tax rate; β_{0-1} refer to parameters of each explanatory variable; and ε_i is the stochastic term across the units of analysis. Theoretically, it is expected that trust and power would have positive effects on tax compliances (β_{1-2}>0).

3.2 Measurements of Variables and Estimation Techniques

Voluntary tax compliance is a dummy variable coded 1 if an informal operator is willing to pay tax completely even no tax audit exists or as a civic duty, otherwise it is coded 0. *Enforced tax compliance* is measured as a dummy variable by coding 1 if an informal operator pays tax(es) out of fear of punishment or s/he is forced to pay, otherwise it is coded 0. Perceived trust of authority is measured as a binary dummy, which is coded 1 if a tax payer agrees that the composition of public expenditures effectively provide public goods and services, and at same time believes that the existing institutions in the state are relatively efficient. An index of perception of power of the authority is constructed based on the responses of the respondents on level of probability of detection and severity of punishment associated with defaulting. Tax rate is measured by asking whether not a respondent evades paying taxes because of too high tax rate. Experience is proxies by the respondent's age in years while awareness is represented by education level of the respondents.

Given that the assumptions of ordinary least squared technique do not fit discrete choice variables, we naturally resort to estimating equation (2) using binary logistic regression model, which is a member of family of discrete choice models. Econometric principles recommend that logistic (logit) model can be used to estimate the probability of a given event occurring when certain conditions appear (Wooldridge, 2009). Contextually, we applied logit model here to estimate the influences of power and trusts on the probability of tax compliance occurring or not. This is specified in equation (3):

$$log_b\left[\frac{taxcm_i}{1 - taxcm_i}\right] = \beta_0 + \beta_1 trust_i + \beta_2 power_i + \beta_3 contr_i \tag{3}$$

Where $contr_i$ is a vector of control variables (awareness, experience and tax rate). Equation (4) shows how odds can be estimated by exponentiating the log-odds:

$$\frac{taxcm_i}{1-taxcm_i}=b^{\beta_0+\beta_1 trust_i+\beta_2 power_i+\beta_3 contr_i}\rightarrow taxcm_i=\frac{b^{\beta_0+\beta_1 trust_i+\beta_2 power_i+\beta_3 contr_i}}{1+b^{\beta_0+\beta_1 trust_i+\beta_2 power_i+\beta_3 contr_i}} \quad (4)$$

The technique is chosen because it is one of simplest machine learning algorithms that is efficient, automatically and easily updates itself when faced with new data, and produces well-calibrated probabilities (Cameron & Trivedi, 2005).

3.3 Source and Method of Data Collection

Given the primary nature of this study, a questionnaire is designed and administered to the selected sampled units among informal businesses. Due to lack of reliable information on the population of informal businesses in Gombe metropolis, we employed Z score to determine the sample size of informal sector operators to be studied. Equation (5) presents the formula of Z score:

$$n=\frac{Z^2 p(1-p)}{e^2}=\frac{1.64^2(0.5)(0.5)}{0.05^2}=268.96\approx 269 \quad (5)$$

Where n = sample size; Z= confidence level 90% (1.64); p = proportion of informal businesses that is paying tax; (1 – p) = proportion of informal businesses that is not paying tax; e = is the level of precision (5%). A total of 300 respondents are surveyed so as to take care of nonresponses and not returning of copies of questionnaire.

To draw the sampled units from the target population, multistage and cluster sampling techniques are utilized. Gombe metropolis is purposively selected based on the level of economic activities and exposure of its inhabitant to tax particularly the newly introduced tax policy. Further, cluster sampling will be used to select the respondents based on their trade association. The cluster and stratified sampling technique are continuously being used in surveying informal sector as employed by Buba, Adamu, Bello and Samaila (2018) and Ahmed (2013).

The proportional cluster sampling helps the sample size determination to be more representative. The selection of the trade associations involved is based on their contribution, intensity of transaction and organization. The pre-study survey informed the selection of 10 prominent trade associations in the informal sector in the state. The selection of 10 prominent trade associations is attributable to brevity and feasibility on one hand and time, resource and operational capacity of the study on the other. Having attention focused on some selected trade associations enhances precision thus reduce potential for bias due to vagueness of the sector.

4.0 Results and Discussions

Table 1 shows the pattern of voluntary tax compliance along the line of level o trust in authority as being efficient or otherwise. Many respondents voluntarily comply with tax payment based on their perception of level of the institutions' efficiency. For example, 65.6% and 47.1% of the respondents that perceived the institutions to be efficient rarely and always abide by tax law respectively as opposed to only 39% with same perception that do not at all abide by the tax law.

Table 1: Trust in authority and Voluntary Compliance Situation

Are state Institutions (un)efficient?	*I pay my tax as stipulated by law, not out of fear for tax audit*						
	Not at all		Rarely		Always		Total
	Frequency	*Percentage*	*Frequency*	*Percentage*	*Frequency*	*Percentage*	
Efficient	9	39%	99	65.6%	43	47.1%	151
Not efficient	29	21%	70	50.7%	39	28.3%	138
Total	38		169		82		**289**

Source: Fieldwork (2018)

Table 2 depicts that majority of the respondents that perceived the rate of detection to be high pay their taxes as at when due and reverse is the case for those that rate the degree of detection low.

Table 3: Power of authority and enforced compliance situation

Is degree of detection high?	*I pay my tax as stipulated by law, not out of fear for tax audit*						
	Indeed		Sometimes		Not at all		Total
	Frequency	*Percentage*	*Frequency*	*Percentage*	*Frequency*	*Percentage*	
Of course	74	42%	31	17.6%	71	40.3%	176
Somewhat	35	42.6%	19	23.1%	28	34.1%	82
Not at all	9	27.2%	7	21.2%	17	51.5%	33
Total	118		57		116		**291**

Source: Fieldwork (2018)

Table 3 presents the logit model's results on predictors of voluntary tax compliance, where model 1 (without control variables) reveals that, all insignificant, power negatively affects probability of voluntary tax compliance whereas trust positively predict the probability. When tax rate, level of awareness and experience of the operators are controlled for in model 2, it is found that trust in authority is positively significant at 10 percent. The odd ratio of 1.569 for trust implies that respondents that trust authority are approximately 1.6 times more likely to voluntarily comply with tax payment than those who never trust the authority.

Table 3: Logistic Regression Model of Voluntary Tax Compliance

	Model 1			**Model 2**		
	Coefficient	P-value	Odd Ratio	Coefficient	P-value	Odd Ratio
Power	-0.274	0.352	0.760	-0.187	0.535	0.830
Trust	0.414	0.121	1.512	0.450	0.098*	1.569
Tax Rate				-0.276	0.269	0.912
Awareness				-0.092	0.410	0.759
Experience				0.105	0.358	1.110
Constant	0.233	0.433	1.262	0.285	0.624	1.329

, ** and * indicate 10%, 5% and 1% level of significance*

Table 4 reports the logit model's results on predictors of enforced tax compliance, where model 1 (without control variables) reveals that, all insignificant, both power and trust positively influence the probability of enforced tax compliance among the respondents.

Table 4: Logistic Regression Model of Enforced Tax Compliance

	Model 1			Model 2		
	Coefficient	P-value	Odd Ratio	Coefficient	P-value	Odd Ratio
Power	0.297	0.453	1.250	0.129	0.678	1.137
Trust	0.276	0.258	1.267	0.172	0.548	1.187
Tax Rate				0.884	0.001***	2.420
Awareness				0.052	0.648	1.053
Experience				0.147	0.210	1.159
Constant	-0.310**	0.011	0.455	-1.671	0.006***	0.188

, ** and * indicate 10%, 5% and 1% level of significance*

In model 2 of Table 4, when tax rate, level of awareness and experience of the operators are controlled for, it is found that power and trust are still positive but insignificant. Among the controlled variables, tax rate is positively significant at 1%, which implies that the respondents find the tax rate too low for them to evade tax. The odd ratio of 2.420 suggests that informal operators that believe the tax rate is low, are 2.4 times more probable to comply with enforced tax payments than those who believe that the rate is high.

In the preceding, the study discovers that trust in authority positively and significantly predicts the tendency for voluntary tax compliance among informal business owners in Gombe metropolis, which supports Abdu, *et. al.* (2020), Gangl, *et. al.* (2020) and Mas'ud, *et. al.* (2014). Of course, this is not surprising as efficient government, featured by delivery of quality and enough public goods and services, can easily gain the confidence of the public including informal businesses. In so doing, owners and managers of such businesses voluntarily comply with tax payments. Like Kastlunger, *et. al.* (2013), we observe that power and trust do not matter for enforced tax compliance as only perceived magnitude of the tax rate matters in the model. Given the rationality of tax payers including informal sector operators, it is likely that they imaginarily compare and contrast the costs and benefits of tax compliance using tax rate. They may not fully comply with tax payments if they perceive the rate to be very high implying that the costs of the compliance outweigh the benefits, otherwise they comply.

5.0 Conclusion and Policy Implications

The currency in Nigerian political discourse is the need for states to be financially viable so as to be autonomous federating units. This is imperative to achieving true fiscal federalism. Informal sector, predominating the economies of many states, presents potentials and opportunities to improve financial viability of the states. The study explores the extent to which trust and power of authority predict voluntary and enforced compliance in the informal sector of Gombe metropolis. Findings of the study reaffirm the key assumptions of "slippery slope framework" of tax compliance. Trust in authority was found to be positively and significantly related with voluntary compliance, whereas power of authority was found to be negatively but insignificantly related with voluntary tax compliance. Also, both trust and power of authority are found to be positively but insignificantly related with enforced tax compliance. In fact, it is perceived tax rate that positively and significantly predicts enforced tax compliance.

One of the major policy implications of these findings is that states should devote efforts towards gaining the confidence and trust of informal sector operators by engaging in projects that have direct bearings on the sector. In doing that, the states should try to be as highly efficient as possible. Again, tax authorities must at same reorient the informal sector operators to have in mind that the benefits of tax compliance far outweigh the costs as sanctions associated with defaulting should be kept much higher than the actual tax payments. By doing that, informal sector operators would believe the tax rate is low, thereby comply. Therefore, in the event of synergistic atmosphere tax authority should create service-oriented environment for honest taxpayers. Whilst those who are reluctant to contribute should be sanctioned.

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