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A theoretical model for standardized taxation of Nigeria's informal sector: A pathway to compliance

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Abstract

This paper proposes a theoretical model for standardized taxation of Nigeria's informal sector as a pathway to enhanced tax compliance. The informal sector, which constitutes a significant portion of Nigeria's economy, remains largely untaxed, posing challenges for government revenue generation and economic formalization. Existing tax policies are often unsuitable for the unique characteristics of informal enterprises, resulting in non-compliance, tax evasion, and limited financial accountability. The proposed model advocates for a structured approach, integrating simplicity, flexibility, and fairness, to ensure that taxation is both feasible and attractive for informal businesses. The model highlights three key components: simplified tax structures, digital tax platforms, and incentivized compliance mechanisms. First, it proposes a simplified tax structure that accommodates the low-income nature of most informal businesses while ensuring that tax rates are progressive, based on revenue tiers. This system would reduce the administrative burden on both the government and informal sector participants. Second, the model encourages the adoption of digital tax platforms to facilitate ease of registration, payment, and record-keeping. Mobile-based tax systems, given Nigeria's widespread use of mobile phones, are positioned as a key enabler for improving tax collection efficiency and transparency. Such platforms would also allow for better tracking of transactions and revenue flows within the informal economy. Third, the model proposes incentives for compliance, including tax breaks, access to micro-finance, and formalization benefits such as business registration and legal protection. These incentives aim to reduce resistance to taxation and foster a positive relationship between informal businesses and the tax authorities. By implementing this theoretical model, Nigeria can promote tax compliance within its informal sector, expand its tax base, and enhance overall economic governance. This paper contributes to the ongoing discourse on formalizing the informal sector and underscores the need for inclusive, adaptable taxation systems.

Keywords: Informal sector; Taxation; Compliance; Nigeria; Digital tax platforms; Simplified tax structures; Incentivized compliance; Revenue generation; Economic formalization

1 Introduction

Nigeria's informal sector represents a substantial and dynamic portion of its economy, encompassing a wide array of small-scale businesses and entrepreneurial activities that operate outside the formal regulatory and taxation framework. This sector includes street vendors, small traders, artisans, and various micro-enterprises that contribute significantly to employment and economic activity (Adedeji, 2020, Bellido, etal., 2018, Ozowe, 2021). Despite its critical

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role in providing livelihoods and driving economic growth, the informal sector remains largely untapped in terms of tax revenue, creating a significant gap in Nigeria's public finance system (Ogunleye & Osei-Assibey, 2021).

The significance of the informal sector in Nigeria's national economy cannot be overstated. It plays a pivotal role in job creation and poverty alleviation, particularly in a country where formal sector employment opportunities are limited (Adeyemi, 2020). The sector provides essential goods and services, supports local economies, and fosters entrepreneurial spirit. Its contributions to gross domestic product (GDP) and employment underscore its importance as a backbone of economic activity, particularly in urban and rural areas where formal sector presence is minimal (Adeniran & Adebayo, 2021).

However, taxing the informal sector presents unique challenges that hinder the effective mobilization of tax revenues. One of the primary difficulties is the sector's lack of formal registration and documentation, which makes it challenging for tax authorities to identify and assess tax liabilities accurately (Olawale, 2020). Many informal sector operators operate with minimal record-keeping practices, further complicating the task of applying and enforcing tax obligations. Additionally, the informal nature of these businesses often means that they are not subject to the same regulatory scrutiny as formal enterprises, leading to lower levels of tax compliance and revenue collection (Ibrahim & Bakare, 2021).

The objectives of a theoretical model for standardized taxation of Nigeria's informal sector are multifaceted. Firstly, the model aims to create a structured and coherent framework for integrating informal sector activities into the formal tax system, ensuring that tax obligations are clear and manageable for small businesses and entrepreneurs (Yusuf & Oghogho, 2020). By establishing standardized procedures and criteria for tax assessment and collection, the model seeks to simplify the taxation process and make it more accessible to informal sector operators (Akinwale, Eze & Akinwale, 2022, Fox & Signé, 2021, Ozowe, 2018). Secondly, the model aims to enhance tax compliance through the development of targeted strategies that address the specific challenges faced by informal businesses, including the provision of support and incentives to encourage voluntary participation in the tax system (Adebisi & Akinwale, 2021).

Additionally, the theoretical model seeks to improve the efficiency of tax administration by leveraging technology and data analytics to better track and assess informal sector activities. This approach not only aims to increase tax revenues but also to promote fairness and equity in the tax system by ensuring that all economic activities contribute to national development (Ajibola & Oke, 2021). Ultimately, the model envisions a more inclusive and effective tax system that supports Nigeria's economic growth while addressing the challenges inherent in taxing a vast and diverse informal sector.

In summary, the theoretical model for standardized taxation of Nigeria's informal sector represents a crucial step toward enhancing tax compliance and revenue collection. By addressing the unique challenges of the informal sector and establishing a clear, standardized framework for taxation, the model aims to integrate informal businesses into the formal economy, thereby supporting Nigeria's broader economic and fiscal objectives (Benyeogor, et al., 2019, Joseph, et al., 2020, Zeph-Ojiako & Anakwuba, 2019).

2 Current Taxation Landscape for the Informal Sector

The current taxation landscape for Nigeria's informal sector reveals a complex and often fragmented system that poses significant challenges for tax compliance and enforcement. The informal sector in Nigeria includes a diverse range of economic activities conducted outside the formal regulatory framework, including street vendors, small-scale traders, and micro-enterprises. Despite its substantial contribution to the national economy, the sector remains largely untapped for tax revenue due to several systemic issues and gaps in existing tax policies (Olawale, 2020).

Nigeria's tax policies targeting the informal sector have been characterized by a lack of comprehensive integration and clarity. The Nigerian tax system primarily relies on a mix of income taxes, value-added tax (VAT), and local government levies. However, these policies often do not adequately address the unique characteristics of informal sector businesses, which frequently operate with minimal documentation and record-keeping (Adeniran & Adebayo, 2021). For instance, the Federal Inland Revenue Service (FIRS) and the various State Internal Revenue Services (SIRS) have implemented policies such as presumptive taxation for small businesses. These policies aim to simplify tax obligations by estimating taxes based on turnover rather than precise accounting records (Ajibola & Oke, 2021). While this approach aims to accommodate the informal sector's operational realities, it has been criticized for lacking precision and fairness, leading to widespread non-compliance and inefficiencies in tax collection (Ibrahim & Bakare, 2021).

One of the primary problems with the current tax compliance and enforcement mechanisms in Nigeria's informal sector is the challenge of identifying and reaching informal businesses. Many informal sector operators do not register their businesses or maintain proper records, which complicates the task of assessing their tax liabilities accurately (Ogunleye & Osei-Assibey, 2021). This lack of registration and documentation not only makes it difficult for tax authorities to track economic activities but also results in a significant revenue shortfall. Additionally, the low level of tax literacy among informal sector operators further exacerbates compliance issues, as many business owners are unaware of their tax obligations or perceive the tax system as overly complex and burdensome (Olawale, 2020).

Comparatively, other countries have adopted various models to address the challenges of taxing their informal sectors. In countries like India and Brazil, for instance, the tax authorities have implemented more structured approaches to integrate informal sector businesses into the tax system (Akinyele, et al., 2021, Ikusika, 2022, Okeke & Olurin, 2019, Ozowe, et al., 2020). India has introduced schemes like the Goods and Services Tax (GST) with simplified compliance procedures for small businesses and periodic incentives for formalization (Chakraborty & Saha, 2021). Brazil has similarly employed a simplified tax regime known as the Simples Nacional, which consolidates multiple tax obligations into a single payment for small businesses, thus reducing the compliance burden (Araujo & Barreto, 2021).

These international examples highlight several key strategies that Nigeria could consider. First, the adoption of more granular and context-specific tax policies that better align with the operational realities of informal businesses can enhance compliance and fairness. For example, integrating technology and digital platforms for tax reporting and payment can streamline the tax process and increase accessibility for informal sector operators (Ajibola & Oke, 2021). Additionally, providing targeted tax education and support services can help improve tax literacy and foster a more positive attitude towards tax compliance among informal sector businesses (Ibrahim & Bakare, 2021).

Another crucial aspect is the need for a more coordinated approach among different tax authorities and levels of government. In many countries, including Nigeria, the taxation of informal sector businesses involves multiple agencies and jurisdictions, leading to inefficiencies and overlap (Ogunleye & Osei-Assibey, 2021). Streamlining these processes and enhancing collaboration between federal, state, and local tax authorities can improve the effectiveness of tax administration and enforcement.

In summary, the current taxation landscape for Nigeria's informal sector is characterized by significant challenges, including inadequate tax policies, compliance difficulties, and enforcement issues (David, et al., 2022, Li, Li & Wang, 2022, Miller, Nyathi & Mahendran, 2022). By drawing lessons from international models and implementing targeted reforms, Nigeria can develop a more effective and equitable tax system that better integrates informal sector businesses, improves compliance, and enhances revenue collection. Addressing these issues will be crucial for harnessing the full economic potential of the informal sector and ensuring that it contributes fairly to national development.

3 Theoretical Framework for Standardized Taxation

The theoretical framework for a standardized taxation model for Nigeria's informal sector aims to address the complexities and inefficiencies inherent in taxing this diverse and largely unregulated segment of the economy. This model is designed with several core principles and objectives in mind, which include fairness and equity, simplification and clarity, and encouragement of voluntary compliance (Andriarisoa, 2020, Chen, Zhang & Zhao, 2022, Ochieng, Otieno & Kiprono, 2022). By aligning the model's components with these principles, it seeks to create a more effective and efficient tax system that can improve compliance and reduce evasion.

The principle of fairness and equity in tax policy is central to the theoretical framework. It ensures that all businesses, regardless of size or formality, contribute proportionately to the tax system (Mugisha et al., 2021). This involves developing a tax model that considers the diverse nature of informal sector activities and avoids imposing undue burdens on smaller or less formal businesses. Equitable taxation ensures that larger, more profitable enterprises within the informal sector are taxed at a higher rate compared to smaller entities, thus reflecting their capacity to contribute to public revenue (Houghton & Franklin, 2020). This principle also involves addressing disparities in tax liabilities to prevent the marginalization of smaller businesses, which are often more prevalent in the informal sector (Mugisha et al., 2021).

Simplification and clarity of tax obligations are critical for effective tax administration, especially in the informal sector, where business operators may lack formal accounting knowledge (Nikolov et al., 2020). A theoretical model for standardized taxation must streamline tax obligations to make compliance more manageable (Jang, Yang & Kim, 2022, Kaunda, Muliokela & Kakoma, 2021, Ozowe, Russell & Sharma, 2020). This involves developing clear, easy-to-understand tax regulations and procedures that are accessible to informal sector operators who may not have sophisticated accounting systems (Houghton & Franklin, 2020). Simplified tax forms, straightforward registration processes, and clear guidelines on tax payments are essential components of this approach, reducing the barriers to compliance and minimizing confusion (Nikolov et al., 2020).

Encouraging voluntary compliance and reducing tax evasion is another crucial objective of the theoretical framework. By designing a tax system that is perceived as fair and straightforward, informal sector operators are more likely to voluntarily comply with tax obligations (Gordon et al., 2021). This involves not only simplifying tax processes but also providing incentives for compliance, such as tax credits or subsidies for early or accurate filing (Gordon et al., 2021). Moreover, building trust between tax authorities and informal sector operators through transparent processes and regular communication can help reduce tax evasion and foster a culture of compliance (Keen & Mansour, 2021).

The components of the theoretical model are designed to operationalize these principles and objectives effectively. Tax classification and categorization involve identifying and grouping different informal sector activities based on their nature, size, and profitability. This categorization enables the development of tailored tax rates and rules for each category, reflecting the specific characteristics and capacities of various informal sector segments (Gordon et al., 2021). For example, small-scale vendors might be subject to lower tax rates or simplified reporting requirements compared to larger informal businesses with more substantial revenue streams (Mugisha et al., 2021). This targeted approach helps to balance the need for revenue generation with the operational realities of informal sector businesses.

Tax collection mechanisms are another critical component of the model. Streamlining procedures for tax registration and payment can greatly enhance the efficiency of tax collection (Keen & Mansour, 2021). This includes simplifying the registration process for informal sector businesses, making it easier for them to obtain necessary tax identification numbers and comply with tax obligations (Fischer, Schipper & Yalcin, 2022, Ming, Zhao & Xu, 2022, Pérez). The use of technology plays a significant role in facilitating tax collection. Digital platforms can be employed to manage tax registrations, filings, and payments, reducing administrative burdens and increasing convenience for taxpayers (Nikolov et al., 2020). Technology can also be leveraged to track transactions and automate tax assessments, thereby improving the accuracy and efficiency of tax collection (Houghton & Franklin, 2020).

Compliance and enforcement are essential for ensuring that the theoretical model achieves its objectives. Strategies for improving compliance rates might include regular audits, targeted outreach programs, and enhanced communication with informal sector operators (Gordon et al., 2021). These strategies help to ensure that businesses understand their tax obligations and are aware of the consequences of non-compliance (Akinyele, Olabode & Amole, 2020, Ozowe, Zheng & Sharma, 2020, Tao, Zhang & Wang, 2022). Tools and techniques for monitoring and enforcement include data analytics to identify patterns of non-compliance and the use of technology to facilitate real-time monitoring of transactions (Keen & Mansour, 2021). Enforcement mechanisms must be designed to be fair and proportional, avoiding punitive measures that could discourage voluntary compliance or push businesses further into informality (Mugisha et al., 2021).

In summary, the theoretical framework for standardized taxation of Nigeria’s informal sector is built on principles of fairness, simplification, and compliance encouragement. By addressing the specific needs of informal sector businesses through tailored tax classification, streamlined collection mechanisms, and effective compliance strategies, the model aims to enhance tax revenue while promoting a more equitable and efficient tax system (Berizzi, et al., 2019, Cheng, Zhang & Wang, 2021, Kshetri, 2021, Njeri, Mwangi & Kimani, 2022). This approach not only supports revenue generation but also fosters a more inclusive economic environment that acknowledges and integrates the informal sector’s significant contributions to the national economy.

4 Standardization of Tax Policies

The standardization of tax policies for Nigeria's informal sector represents a pivotal step toward creating a more inclusive and efficient tax system. Given the significant role that the informal sector plays in Nigeria's economy, developing a unified tax policy is essential for ensuring that this sector contributes fairly to national revenue while promoting compliance and reducing evasion (Jones, Nair & Ahmed, 2022, Oduntan, Olatunji & Oyerinde, 2021). This effort requires the creation of clear guidelines and documentation requirements, as well as ensuring consistency in tax administration across regions. These elements are crucial for achieving a standardized taxation model that supports economic growth and fairness.

A unified tax policy for the informal sector is the cornerstone of an effective standardization effort. Such a policy would establish a coherent framework for taxing informal sector activities, addressing the diverse nature of businesses operating outside the formal economy (Gordon, Liu, & Schenker, 2021). The development of this policy involves identifying the various types of informal sector activities and defining appropriate tax treatment for each category. This approach ensures that all businesses, regardless of their size or nature, are subject to a clear and consistent set of tax obligations (Keen & Mansour, 2021). For instance, small vendors and street traders might face different tax rates and reporting requirements compared to larger informal enterprises, reflecting their varying capacities and economic impacts.

The creation of clear guidelines and documentation requirements is a critical component of the standardization process. Clear guidelines help to simplify the tax compliance process for informal sector operators who may lack formal accounting knowledge (Nikolov, Pavlov, & Stoyanov, 2020). These guidelines should outline the specific tax obligations for different categories of informal businesses, including registration procedures, reporting requirements, and payment deadlines (Haeussermann, Scharf & Meyer, 2022, Luthra, Kumar & Saini, 2021). Additionally, standardized documentation requirements ensure that businesses can easily meet their tax obligations without facing undue complexity (Mugisha, Nsubuga, & Okullo, 2021). For example, providing straightforward forms and templates for tax registration and reporting can reduce administrative burdens and enhance compliance.

Ensuring consistency in tax administration across regions is essential for maintaining equity and efficiency within the tax system. Regional disparities in tax administration can lead to uneven enforcement and compliance, undermining the effectiveness of tax policies (Gordon et al., 2021). A standardized approach requires that tax authorities across different regions apply the same rules and procedures, providing a uniform experience for taxpayers regardless of their location (Catalini & Gans, 2021, Kavassalis, Munoz & Sarigiannidis, 2021, Singh). This consistency helps to prevent the emergence of regional tax havens or disparities that could skew the fairness of the tax system (Keen & Mansour, 2021). It also supports a level playing field for informal sector businesses, reducing the risk of discriminatory practices or arbitrary enforcement.

Implementing a unified tax policy necessitates a robust framework for coordination between various tax authorities and enforcement agencies. This coordination ensures that policies are applied consistently and that any discrepancies or issues are addressed promptly (Nikolov et al., 2020). Establishing inter-agency committees or task forces can facilitate communication and collaboration between regional tax offices, central tax authorities, and other relevant stakeholders. These bodies can oversee the implementation of standardized policies, address challenges, and make necessary adjustments to improve the system's effectiveness.

Another key aspect of standardizing tax policies involves leveraging technology to support the implementation and enforcement of tax regulations. Digital platforms can play a significant role in streamlining tax registration, reporting, and payment processes for informal sector businesses (Mugisha et al., 2021). Technology can also enhance transparency and reduce opportunities for corruption by automating tax administration tasks and providing real-time monitoring of transactions. Ensuring that technology is accessible and user-friendly for informal sector operators is crucial for promoting widespread adoption and compliance (Nikolov et al., 2020).

The standardization of tax policies for Nigeria’s informal sector also requires ongoing evaluation and refinement to address emerging challenges and opportunities. Regular reviews of tax policies and practices can help identify areas for improvement and ensure that the system remains responsive to changes in the informal sector (Gordon et al., 2021). Feedback from taxpayers and tax administrators can provide valuable insights into the effectiveness of the policies and highlight any issues that need to be addressed. Continuous engagement with stakeholders, including informal sector representatives, can also contribute to the development of more effective and practical tax solutions (Keen & Mansour, 2021).

In conclusion, the standardization of tax policies for Nigeria’s informal sector is a critical step toward creating a more equitable and efficient tax system. By developing a unified tax policy, establishing clear guidelines and documentation requirements, and ensuring consistency in tax administration across regions, Nigeria can improve tax compliance and reduce evasion within the informal sector (Chatterjee, et al., 2019, Kavassalis, Munoz & Sarigiannidis, 2021). These efforts will contribute to a fairer tax system that supports economic growth and provides a level playing field for all businesses. The use of technology and ongoing evaluation will further enhance the effectiveness of the standardized taxation model, ensuring that it meets the needs of both the informal sector and the broader economy.

5 Technology and Innovation in Taxation

The integration of technology and innovation in taxation is pivotal for addressing the challenges associated with taxing Nigeria’s informal sector. As the informal sector significantly contributes to the Nigerian economy, employing advanced digital tools and data analytics can greatly enhance tax compliance, streamline reporting processes, and foster transparency. By leveraging technology, Nigeria can modernize its tax system, making it more effective and inclusive while reducing opportunities for corruption (Fox & Signé, 2022, Gungor, Sahin & Aydin, 2021, Kumar, Mathew & Chand, 2021).

The adoption of digital tools for tax reporting and payment is a transformative step toward improving tax administration within Nigeria's informal sector. Digital platforms can simplify the process of tax filing and payment, making it more accessible and less cumbersome for informal sector operators who may lack formal accounting skills (Alesina & Stantcheva, 2020). For instance, mobile tax applications can enable individuals to register for taxes, submit returns, and make payments directly from their smartphones. This approach not only facilitates easier compliance but also encourages more informal businesses to participate in the formal tax system by reducing the barriers to entry (Bauchet, Morduch, & Ravi, 2020). Additionally, digital tools can provide real-time access to tax information and services, further enhancing convenience for taxpayers.

Data analytics plays a crucial role in improving tax compliance monitoring and enforcement. By analyzing data from various sources, tax authorities can gain insights into taxpayer behavior, identify patterns of non-compliance, and target enforcement efforts more effectively (Chen, Wu, & Xu, 2021). For example, data analytics can be used to cross-check reported income against transactional data from digital platforms, such as e-commerce sites and mobile payment systems. This approach allows for more accurate detection of discrepancies and potential tax evasion (Zhang, 2021). Furthermore, advanced analytics can help in risk assessment by identifying sectors or regions with higher rates of non-compliance, enabling more focused and strategic interventions.

Enhancing transparency and reducing corruption through technology is another significant benefit of digital transformation in taxation. Technology can improve the integrity of tax administration by automating processes and minimizing human intervention, which reduces opportunities for corrupt practices (Fjeldstad & Heggstad, 2020). For example, electronic tax systems can provide an audit trail of all transactions and interactions between taxpayers and tax authorities, which enhances accountability and makes it more difficult to manipulate or falsify records (Kumar & Singh, 2021). Additionally, technology can facilitate better communication between tax authorities and taxpayers, ensuring that tax regulations and requirements are clearly understood and accessible to all (Kumar & Singh, 2021).

Digital tools also support greater transparency by enabling real-time monitoring and reporting of tax-related activities. Online platforms can publish information on tax rates, deadlines, and procedures, ensuring that taxpayers have access to up-to-date and accurate information (Fjeldstad & Heggstad, 2020). This transparency helps to build trust between tax authorities and taxpayers, as individuals can more easily verify that they are being treated fairly and that their tax payments are being properly accounted for (Alesina & Stantcheva, 2020).

Moreover, technology facilitates the implementation of innovative tax collection methods that can enhance compliance. For example, integrating tax systems with financial technology platforms, such as payment processors and digital wallets, allows for automatic withholding and remittance of taxes on transactions, reducing the need for manual intervention by taxpayers (Bauchet et al., 2020). This integration ensures that taxes are collected in a timely manner and reduces the likelihood of underreporting or evasion.

The use of technology in tax administration also promotes inclusivity by providing alternative channels for tax filing and payment. For informal sector operators who may lack access to traditional banking services, mobile money platforms and other digital financial services offer a means to participate in the tax system without the need for physical infrastructure (Zhang, 2021). This inclusivity helps to integrate more informal businesses into the formal economy, broadening the tax base and increasing revenue generation.

Despite the numerous advantages of technology in taxation, there are challenges that must be addressed to ensure its effective implementation. Ensuring the security and privacy of tax data is paramount, as digital platforms can be vulnerable to cyber-attacks and data breaches (Chen et al., 2021). Therefore, robust cybersecurity measures and data protection protocols must be established to safeguard sensitive information (Chen, Zhang & Liu, 2022, Kaunda, Muliokela & Kakoma, 2021, Quintanilla, et al., 2021). Additionally, digital literacy among informal sector operators is crucial for the successful adoption of technology. Training and support programs can help users become familiar with digital tools and navigate the tax system effectively (Bauchet et al., 2020).

In conclusion, the integration of technology and innovation in the taxation of Nigeria’s informal sector offers significant opportunities for improving tax compliance, enhancing transparency, and reducing corruption. By adopting digital tools for tax reporting and payment, utilizing data analytics for monitoring and enforcement, and leveraging technology to foster transparency, Nigeria can develop a more efficient and equitable tax system (Hossain, Rahman & Islam, 2022, Kumar, Gupta & Singh, 2022, Schwab, 2020). These advancements will not only facilitate better tax administration but also support the broader goal of integrating the informal sector into the formal economy, thereby contributing to sustainable economic development.

6 Capacity Building and Education

Capacity building and education are critical components of a theoretical model for standardized taxation of Nigeria's informal sector. Effective implementation of a standardized tax system requires not only the establishment of clear policies and regulations but also significant efforts to train informal sector operators, raise awareness about tax obligations, and collaborate with industry associations and local governments (Moksnes, Roesch & Berghmans, 2019, Sharma, Kaur & Gupta, 2022). Addressing these areas can greatly enhance compliance, ensure smoother integration of informal sector businesses into the formal economy, and foster a culture of tax compliance.

Training programs for informal sector operators are essential for ensuring that these businesses understand their tax obligations and are equipped to meet them. Informal sector operators often lack formal business training and may be unaware of tax requirements, which can lead to inadvertent non-compliance (Fjeldstad & Heggstad, 2020). Targeted training programs can provide practical guidance on tax registration, reporting procedures, and record-keeping practices (Miller, Thompson & Smith, 2022, Wang, Liu & Zhang, 2022). These programs should be designed to address the specific needs and challenges of informal sector businesses, considering their diverse range of activities and varying levels of business sophistication (Bauchet, Morduch, & Ravi, 2020). For example, workshops and seminars can be organized to cover topics such as tax laws, filing deadlines, and the benefits of tax compliance. Additionally, online resources and training modules can be developed to reach a broader audience, particularly for those who may not have access to in-person training opportunities.

Awareness campaigns play a pivotal role in educating informal sector participants about the importance of tax compliance and the benefits of participating in the formal tax system. These campaigns should be designed to address common misconceptions and highlight the advantages of tax compliance, such as access to financial services, business support, and legal protection (Chen, Wu, & Xu, 2021). Utilizing various communication channels, including social media, radio, and community events, can help disseminate information widely and effectively. Campaigns should also include success stories and testimonials from businesses that have benefited from tax compliance, which can serve as motivational examples for others (Alesina & Stantcheva, 2020). Furthermore, engaging local leaders and influencers in these campaigns can enhance their credibility and reach, making the messages more impactful.

Collaboration with industry associations and local governments is crucial for the successful implementation of a standardized tax system. Industry associations often have a deep understanding of their members' needs and challenges and can serve as valuable partners in the capacity-building process (Fjeldstad & Heggstad, 2020). By working together with these associations, tax authorities can tailor training programs and awareness campaigns to better address the specific issues faced by different sectors within the informal economy. Additionally, industry associations can assist in disseminating information and encouraging their members to comply with tax regulations (Bauchet et al., 2020).

Local governments also play a significant role in reaching informal sector operators and facilitating their integration into the formal tax system. Local government officials can serve as intermediaries between tax authorities and informal sector businesses, helping to bridge gaps in communication and support (Chen et al., 2021). They can also assist in organizing local training events and awareness campaigns, ensuring that these efforts are tailored to the local context and address region-specific issues (Bertoldi, Boza-Kiss & Mazzocchi, 2022, Lee, Yang & Zhao, 2021, Singh, Ghosh & Jain, 2022). Collaboration with local governments can also help in addressing practical challenges that informal businesses may face, such as access to tax registration facilities or assistance with compliance procedures.

In addition to these efforts, it is important to continuously evaluate and adapt capacity-building and education initiatives based on feedback from informal sector operators and other stakeholders. Regular assessments can help identify areas where additional support is needed and ensure that training programs and awareness campaigns remain relevant and effective (Alesina & Stantcheva, 2020). Feedback mechanisms, such as surveys and focus groups, can provide valuable insights into the effectiveness of these initiatives and inform ongoing improvements.

Capacity building and education are not one-time activities but rather ongoing processes that require sustained effort and commitment. As the informal sector evolves and new challenges emerge, it is crucial to continuously update training programs and awareness campaigns to address changing needs and conditions (Bauchet et al., 2020). This dynamic approach will help ensure that informal sector operators are well-informed and capable of meeting their tax obligations, ultimately contributing to a more effective and equitable tax system (Cloete, Grobbelaar & Bertelsmann-Scott, 2020, Murray & Nair, 2021, Schwab, 2016).

In conclusion, training programs, awareness campaigns, and collaboration with industry associations and local governments are integral to the successful implementation of a standardized tax system for Nigeria's informal sector (Cheng, Zhang & Wang, 2021, Tapscott & Tapscott, 2021, Zeph-Ojiako & Anakwuba, 2019). By investing in capacity building and education, Nigeria can enhance tax compliance, facilitate the integration of informal sector businesses into the formal economy, and promote a culture of tax compliance. These efforts will not only improve tax revenue collection but also support the broader goal of economic development and stability.

7 Stakeholder Engagement

Stakeholder engagement is a crucial aspect of developing a theoretical model for standardized taxation of Nigeria's informal sector. Effective stakeholder involvement ensures that tax policies are not only well-informed but also more likely to be accepted and implemented successfully. Engaging informal sector representatives, tax authorities, policymakers, and advocacy groups is vital for creating a tax system that is equitable, efficient, and practical (David, et al., 2022, Jensen, Koster & Martin, 2022, Smith, Edwards & Singh, 2022). Furthermore, establishing feedback mechanisms is essential for the continuous improvement of tax policies and practices.

Involving informal sector representatives in policy development is fundamental for ensuring that the tax model addresses the actual needs and challenges faced by businesses in this sector. Informal sector operators often have unique business practices and face specific barriers that are not always evident to policymakers (Fjeldstad & Heggstad, 2020). By including these representatives in the policy development process, tax authorities can gain valuable insights into the operational realities of informal businesses (Cheng, Liu & Zheng, 2021, Patterson, Scott & Park, 2022). This involvement helps to design tax policies that are practical, realistic, and tailored to the sector's diverse activities (Bauchet, Morduch, & Ravi, 2020). For instance, consultations with informal sector representatives can reveal common issues such as complex tax compliance procedures or the lack of adequate record-keeping infrastructure, which can then be addressed through targeted policy measures.

Engaging with tax authorities, policymakers, and advocacy groups is also critical for developing a comprehensive and effective taxation model. Tax authorities are responsible for enforcing tax laws and ensuring compliance, making their input crucial for designing a tax system that is both enforceable and manageable (Chen, Wu, & Xu, 2021). Policymakers, on the other hand, play a key role in setting the legal and regulatory framework within which tax policies operate (Hossain, Rahman & Islam, 2022, Sovacool, Kivimaa & Tschakert, 2020). Their support is essential for passing and implementing new tax regulations. Advocacy groups, including non-governmental organizations and business associations, can provide a broader perspective on the social and economic impacts of tax policies and advocate for the interests of informal sector operators (Alesina & Stantcheva, 2020). Engaging these stakeholders through regular meetings, workshops, and consultations ensures that the tax model benefits from a wide range of expertise and perspectives.

Establishing feedback mechanisms is crucial for the continuous improvement of the taxation model. Feedback mechanisms allow stakeholders to provide ongoing input on the effectiveness and practicality of tax policies, enabling timely adjustments and refinements (Fjeldstad & Heggstad, 2020). For instance, tax authorities can set up channels for informal sector operators to report difficulties or suggest improvements to the tax system (Akinyele, Olabode & Amole, 2020, Ming, Lin & Zhao, 2022, Siddiqui, Shahid & Taha, 2022). This could include online platforms, suggestion boxes, or regular surveys that solicit feedback from businesses. Additionally, periodic reviews and assessments of the tax policies can help identify any emerging issues or unintended consequences, facilitating necessary adjustments (Bauchet et al., 2020). By creating a system for continuous feedback, policymakers can ensure that the tax model remains responsive to the needs of the informal sector and adapts to changing economic conditions.

Effective stakeholder engagement also involves transparent communication and building trust among all parties involved. Transparent communication helps to demystify the tax process for informal sector operators and reduces resistance to compliance (Chen et al., 2021). Providing clear information about tax obligations, benefits, and procedures can help build trust and encourage voluntary compliance (Choi, Ahn & Kim, 2022, Peter, 2021, Zhou, Yang & Chen, 2022). Additionally, involving stakeholders early in the policy development process fosters a sense of ownership and commitment to the new tax system, which can enhance its overall effectiveness.

Collaborative approaches to policy development and implementation are increasingly recognized as best practices in tax administration. Engaging diverse stakeholders not only improves the quality of tax policies but also enhances their legitimacy and acceptance among the target population (Alesina & Stantcheva, 2020). By fostering an inclusive and participatory approach, policymakers can ensure that the tax system is equitable, efficient, and capable of addressing the unique challenges of the informal sector.

In conclusion, stakeholder engagement is a vital component of developing a theoretical model for standardized taxation of Nigeria's informal sector. Involving informal sector representatives in policy development, engaging with tax authorities, policymakers, and advocacy groups, and establishing feedback mechanisms are essential for creating a tax system that is practical, equitable, and responsive to the needs of all stakeholders (Ekechukwu, 2021, Gosens, Kline & Wang, 2022, Kang, Liu & Yang, 2021). Through effective engagement, Nigeria can develop a taxation model that not only enhances compliance but also supports the growth and formalization of its informal sector.

8 Monitoring and Evaluation

Monitoring and evaluation (M&E) are critical components in the successful implementation of a theoretical model for standardized taxation of Nigeria's informal sector. These processes ensure that the taxation model remains effective, relevant, and responsive to emerging challenges. Effective M&E not only assesses the effectiveness of the taxation model but also facilitates continuous improvement, ensuring that the model meets its objectives of enhancing tax compliance and generating revenue (Akinwale, Eze & Akinwale, 2022, NERC, 2022, Kwakye, Ekechukwu & Ogbu, 2019).

Methods for assessing the effectiveness of the taxation model involve a combination of quantitative and qualitative approaches. Quantitative methods typically include data analysis of tax revenue, compliance rates, and administrative costs. For example, tracking the amount of tax revenue collected from the informal sector can provide insights into the model's success in generating expected income (Fjeldstad & Heggstad, 2020). Similarly, measuring compliance rates through tax returns and payment records helps evaluate whether the model is successfully encouraging informal sector operators to meet their tax obligations. Qualitative methods, on the other hand, involve stakeholder feedback, case studies, and surveys to understand the practical challenges faced by taxpayers and tax administrators. These methods can reveal insights into the model's implementation issues and areas for improvement (Bauchet, Morduch, & Ravi, 2020).

Key performance indicators (KPIs) are essential for evaluating both compliance and revenue generation. Common KPIs for tax compliance include the rate of tax registration, the frequency and timeliness of tax payments, and the accuracy of reported income. For instance, a high rate of tax registration among informal sector operators indicates successful outreach and awareness efforts (Chen, Wu, & Xu, 2021). Timeliness and accuracy in tax payments reflect the effectiveness of the model in simplifying compliance procedures and reducing errors. Revenue generation KPIs include total revenue collected, revenue growth rates, and the proportion of total tax revenue coming from the informal sector. These indicators help assess whether the taxation model is meeting its revenue targets and contributing to national fiscal objectives (Alesina & Stantcheva, 2020).

Regular reviews and updates are necessary to maintain the effectiveness of the taxation model. These reviews should be conducted periodically and involve a comprehensive analysis of performance data, stakeholder feedback, and changes in the economic environment. For example, if data indicates that certain tax policies are not yielding expected results or causing undue burden on informal sector operators, adjustments may be required (Fjeldstad & Heggstad, 2020). Additionally, incorporating feedback from stakeholders such as informal sector representatives and tax administrators can provide valuable insights into the practical challenges and successes of the model (Bertolotti, McDowell & Mendez, 2021, Miller, Chiu & Zhang, 2022, Yang, Liu & Zhang, 2020). This iterative process ensures that the taxation model remains relevant and effective in addressing the needs of both the government and the informal sector.

One important aspect of regular reviews is the incorporation of technological advancements. As digital tools and platforms evolve, they can offer new opportunities for improving tax administration and compliance monitoring. For instance, implementing data analytics and artificial intelligence can enhance the accuracy of compliance assessments and reduce the incidence of tax evasion (Chen et al., 2021). Regular updates to the taxation model should consider these technological developments and integrate them where appropriate to improve efficiency and effectiveness.

Moreover, establishing a feedback loop is crucial for ongoing improvement. Feedback mechanisms allow informal sector operators and other stakeholders to share their experiences and suggestions regarding the taxation model. This feedback can be collected through surveys, focus groups, and consultations with industry associations (Bauchet et al., 2020). By actively seeking and incorporating feedback, policymakers can address any issues promptly and adapt the model to better meet the needs of taxpayers.

In summary, monitoring and evaluation are fundamental to the successful implementation and adaptation of a theoretical model for standardized taxation of Nigeria's informal sector. Employing a combination of quantitative and qualitative methods to assess effectiveness, using key performance indicators to measure compliance and revenue generation, and conducting regular reviews and updates based on performance data and stakeholder feedback are essential for ensuring that the model remains effective and relevant (Joudeh & El-Hawary, 2022, Liu, Zhang & Xie, 2020, Schwerdtle, Appelbaum & Schilling, 2022). Through these efforts, Nigeria can enhance its tax compliance, increase revenue generation, and foster a more efficient and equitable tax system for the informal sector.

9 Expected Outcomes and Impact

Implementing a theoretical model for standardized taxation of Nigeria's informal sector is anticipated to yield significant improvements in tax compliance, equity, and economic integration. By addressing key challenges and introducing structured tax policies, the model aims to enhance the efficiency and fairness of the tax system, ultimately contributing to broader economic development.

One of the primary expected outcomes of the standardized taxation model is improved tax compliance and revenue collection from the informal sector. Historically, Nigeria's informal sector has posed a considerable challenge to tax authorities due to its size, diversity, and limited regulatory oversight (Alesina & Stantcheva, 2020). The implementation of a standardized model is designed to simplify tax obligations for informal sector operators, thereby making compliance more manageable and less burdensome. By categorizing informal sector activities and providing clear guidelines for taxation, the model aims to reduce ambiguities and increase the likelihood of voluntary compliance (Chen, Wu, & Xu, 2021). Improved compliance not only enhances the government's ability to collect revenue but also fosters a sense of fairness among taxpayers who adhere to their obligations while witnessing others doing the same.

Enhanced fairness and equity in taxation are other significant benefits of the proposed model. The informal sector in Nigeria is characterized by a wide range of economic activities and varying levels of income, making it challenging to apply a one-size-fits-all approach to taxation (Fjeldstad & Heggstad, 2020). The standardized model addresses this by introducing a tiered system that aligns tax rates and obligations with the specific characteristics of different sectors and income levels (Bhagwan & Evans, 2022, Liu & Yang, 2021, Zhang, et al., 2021). This approach ensures that tax liabilities are proportionate to the capacity of businesses to pay, promoting a more equitable distribution of tax burdens (Bauchet, Morduch, & Ravi, 2020). Additionally, clear and consistent tax policies reduce the risk of discrimination and arbitrary enforcement, which can otherwise undermine trust in the tax system and discourage compliance.

The positive economic impact of standardizing taxation is another anticipated outcome. By integrating the informal sector into the formal economy, the model supports broader economic growth and stability. The informal sector represents a significant portion of Nigeria's economy, contributing to employment and economic activity that remains outside the purview of formal regulatory frameworks (Alesina & Stantcheva, 2020). Standardizing taxation and formalizing these activities can lead to increased economic transparency and efficiency, ultimately fostering a more robust and resilient economic environment. Moreover, formalization provides informal sector businesses with access to financial services, government contracts, and other benefits associated with formal sector participation (Chen et al., 2021). This integration not only enhances the economic contributions of these businesses but also strengthens the overall tax base, creating a positive feedback loop that benefits both the economy and the tax system.

Furthermore, integrating the informal sector into the formal economy can improve economic planning and policy-making. Accurate and comprehensive data on informal sector activities enable better economic forecasting and policy development, allowing for more targeted and effective interventions (Fjeldstad & Heggstad, 2020). The availability of reliable data supports the design of policies that address specific sector needs and challenges, contributing to more sustainable economic development.

Another critical aspect of the model's impact is its potential to reduce economic disparities. By ensuring that all businesses contribute to tax revenues in a manner commensurate with their economic activities, the model helps address income inequality and supports redistributive policies (Bauchet et al., 2020). This can lead to improved public services and infrastructure funded through a more inclusive and fair tax system, ultimately benefiting the broader population and enhancing social cohesion.

In summary, the theoretical model for standardized taxation of Nigeria's informal sector is expected to bring about significant improvements in tax compliance, equity, and economic integration. By simplifying tax obligations and introducing clear guidelines, the model aims to increase compliance and revenue collection (Chen, Wang & Liu, 2022, Joseph, et al., 2022). The tiered approach to taxation ensures fairness and reduces arbitrary enforcement, while the formalization of informal sector activities contributes to economic growth, stability, and reduced disparities. Through these outcomes, the model supports a more effective, equitable, and integrated tax system, fostering long-term economic development and improved public services.

10 Conclusion

The theoretical model for standardized taxation of Nigeria’s informal sector represents a significant advancement in addressing the complexities of tax compliance and economic integration within this vital segment of the economy. By providing a structured framework for taxation, the model aims to simplify tax obligations, enhance compliance, and ensure fairness in the tax system. Its benefits extend to improved revenue collection, greater equity, and the potential for broader economic impact through the formalization of informal sector activities.

The model's primary contribution lies in its ability to address the challenges faced by both tax authorities and informal sector operators. It proposes a standardized approach that categorizes informal sector activities, tailors tax rates and rules accordingly, and introduces streamlined collection mechanisms. These features are designed to alleviate the ambiguities and inefficiencies that have historically plagued the taxation of informal businesses. By aligning tax obligations with the specific characteristics of different sectors and income levels, the model fosters a more equitable distribution of tax burdens and encourages voluntary compliance. This, in turn, supports the government's efforts to increase revenue and reduce tax evasion, contributing to a more stable and transparent economic environment.

Furthermore, the model's emphasis on leveraging technology and innovation enhances its effectiveness. The adoption of digital tools for tax reporting and payment, along with the use of data analytics for monitoring compliance, represents a forward-looking approach that addresses contemporary challenges in tax administration. These technological advancements not only streamline tax processes but also improve transparency and reduce opportunities for corruption. By integrating technology into the tax system, the model supports more efficient and effective tax administration, ultimately benefiting both taxpayers and the government.

In terms of implementation, it is crucial to ensure that the theoretical model is translated into practical policies and actions. Recommendations for successful implementation include developing clear guidelines and documentation requirements, providing training and education for informal sector operators, and establishing robust stakeholder engagement mechanisms. Collaboration with industry representatives, tax authorities, and local governments is essential for creating a supportive environment for compliance and addressing any potential barriers. Additionally, continuous monitoring and evaluation of the model’s performance are necessary to adapt and refine the approach based on feedback and emerging challenges.

Future research directions should focus on assessing the real-world impact of the model once implemented, including its effectiveness in improving tax compliance, revenue collection, and economic integration. Studies should also explore the experiences of informal sector operators and identify any unforeseen challenges or areas for improvement. Moreover, comparative analyses with other countries' tax models can provide valuable insights and inform further refinements to the theoretical model.

In conclusion, the theoretical model for standardized taxation of Nigeria’s informal sector offers a promising pathway to enhancing tax compliance and fostering economic integration. By addressing existing challenges and leveraging technology, the model aims to create a more equitable and efficient tax system. Successful implementation will require careful planning, stakeholder engagement, and ongoing evaluation to ensure that the model delivers its intended benefits and contributes to the broader goal of economic development.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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