TAX ADMINISTRATION STRATEGIES OF RIVERS STATE INTERNAL REVENUE SERVICE AND TAX COMPLIANCE BY THE INFORMAL SECTOR.

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ABSTRACT

In an attempt to diversify revenue from oil sources to non-oil tax revenue, Rivers State, like other States in Nigeria, is focusing on the informal sector. However, tax authorities face challenges in the tax administration of the informal sector and consequently, are rolling out different strategies to surmount the challenges. This study evaluated the effectiveness of strategies employed by the Rivers State Internal Revenue Service (RIRS) in the administration of the taxation of informal sector in Rivers State and whether the perception of three respondent groups: Directors, Area Assessment and Heads of Units of Rivers State Internal Revenue Service are different, It administered structured questionnaire on 15 respondents in the three groups. Findings from univariate analysis and Kruskal-Wallis Test show the respondents perceive the tax administration strategies of RIRS viz: Public awareness, Distraining Property/Closure of Business Premises, Collaboration with Trade Associations and Unions, E-Payment System, and Tax Identification Number are effective in contributing to positive tax compliance by the informal sector. It was also found that the perception of the effectiveness of the strategies in boosting tax compliance do not differ among the respondent groups. The study recommends RIRS should sustain the strategies in order to keep improving tax compliance by the informal sector. It is recommended that future studies should increase the number of respondent and the number of strategies.

Keywords: Informal sector, Perception, Rivers State Internal Revenue Service, Tax administration strategies, Tax compliance.

***JEL Classification Code*:** M21, H26

1. INTRODUCTION

Taxation has been the major source of revenue for countries across the globe but this is not so in Nigeria. Nigeria depends heavily on revenue from oil activities to fund her activities. In the face of high volatility in the international oil market, there has been strident and relentless call for diversification to non-oil sources. Government has been diversifying its revenue base to non-oil revenue but with stronger emphasis on the formal sector than the informal sector despite fact that the informal sector holds a greater potential than the formal sector. From research paper prepared for the World Bank by Schneider *et al.* (2010), it was observed that the size of Nigeria's informal sector as a percentage of GDP averaged about 56.2% from 1999-2006, placing Nigeria the fifth largest informal economy out of the 98 developing countries examined. The contribution of the informal sector to GDP (at current basic prices) for 2015 is about 42% (National Bureau of Statistics, 2016). The informal sector is dominated by economic activities which operate outside government regulations, registration and laws. It serves as serving as source of livelihood for a large proportion of the population especially in the face of rising unemployment.

Despite its large size, informal sector contributes abysmally by way of tax to the nation's internally generated revenue of the three tiers of government. Tax authorities often attribute the low tax contributions of the informal sector to internally generated revenue to myriad of challenges in taxing the income from the sector. The revised National Tax Policy (NTP) identifies compliance with tax system by the small and medium enterprises as a great challenge, attributing it to the large size of the informal sector.

Some tax authorities have however devised several strategies to overcome the challenges and boost tax compliance in the informal sector. How effective are the strategies in enhancing tax compliance remains an empirical question. This study seeks to ascertain the effectiveness of tax administration strategies of the Rivers State Internal Revenue Service (RIRS) boosting tax compliance in the informal sector in Rivers by exploring the perceptions of tax managers.

2.1 REVIEW OF RELATED LITERATURE

2.1.1 Tax Administration Strategies.

A strategy, according to Thierauf *et al.* (1977: 207) ''refers to the broad, overall deployment of a firm's resources to achieve organization objectives''. It involves the adoption of courses of action and the allocation of resources necessary to carry out organization goals. This includes designing specific programmes of actions, to fulfil organization objectives. In relation to RIRS, strategies can be seen as all specific programmes and policies adopted to enhance compliance by the tax payers in the informal sector. The informal sector is dominated by economic activities which operate outside government regulations, registration and laws. Most operators in the sector includes; artisans, petty traders, supermarkets operators, road side mechanics, marketers, transporters, welders, hairdresser, fashion designers, barbing salon, vulcanizers, POS operators, amongst others. Most transactions in the sector involve are done on cash basis and with near absence of records of profits and losses thereby hampering effective taxation of personal income and profit of the operators.

Past studies have identified several tax administration strategies which include Tax relief, tax education, tax incentives, public tax awareness and advocacy, distraining of property/closure of business premises, collaboration with trade associations and unions, adopting and applying e-payment system, introducing Tax Identification Number for tax payers, staff compensation, and creation of a separate directorate for the informal sector (Adeoye *et al*., 2023; Anamoah, 2021; Akeju, 2018; Chukwu et al. (2020); Cvrlje, 2015; Oktaviani et al., 2017; Olatunji & Ayodele, 2017; Olaoye *et al*. 2018; Osemeke *et al*. 2020; Sanni *et al*.2022; Timah & Chukwu, 2021; Usang *et al*., 2021; Ya'u & Awodun, 2019).

2.1.2. Tax Compliance

Tax is a compulsory levy imposed by the government on the income, property, goods, services and people for the purpose of generating revenue to finance its activities (Isaac, 2015). Tax is a compulsory payment levied on income of people as a component of revenue generated by government (Federal Ministry of Finance, 2016). Since tax is a legal mandate, failure to pay it renders the defaulter to penalties and sanctions enshrined in the tax laws.

Critical to tax administration is tax compliance. According to Thiga and Muturi (2015), tax compliance is the ability to fulfil tax payment obligation as required by the relevant tax laws. It is also defined as prompt and timely submission of tax returns along with tax liability declared, and payment of such liability to the tax authority (Saw, 2017). Adekoya *et al.* (2020) define tax compliance is defined as the extent at which the taxpayers obliged to tax obligation as at when due, along with prompt payment of tax liabilities, according to the relevant tax laws or regulations. This means the timely submission of appropriate tax information and settlement of tax liabilities to the relevant tax authority in line with the extant tax laws and formats.

2.3 Theoretical Review

Two theories guide the study: tax compliance theory and institutional theory of taxation.

Tax Compliance Theory

Tax Compliance Theory seeks to unravel the multifaceted factors influencing individuals' decisions to adhere to their tax obligations (Devos, 2014). Tax payers make tax compliance decisions based on factors that are psychological, economic, and social in nature (Nwokoye *et al.*, 2023). For instance, tax payers consider fairness, ease of compliance, the fear of detection and public accountability. The Theory, therefore, emphasizes the imperatives considering critical psychological, economic, and social factors in designing tax strategies. Strategies could include simplifying tax laws, reducing tax rates, and providing incentives for operators in the informal sector and diminishing incentives for tax evasion and avoidance. Tax Compliance Theory could be seen as providing vital framework for understanding the multi-faceted nature of tax compliance decisions.

2.3 Empirical review

Egbadju and Chukwu (2024) investigated the extent to which firms avoid tax and how corporate governance mechanism can be used to enhance tax compliance in Nigeria. The study used hundred and seventy-six (876) firm-year observations (covering twelve years period 2009 to 2020) from seventy-three (73) non-financial listed firms. The dependent variable, Tax avoidance was proxied cash effective tax rate (CETR). The independent variables included board attributes such as size, diversity, Independence, meetings, political affiliations, and chief executive officer

(CEO) attributes such as overconfidence and military experience. Control variables in the study included capital Intensity, firm size, return on assets and thin capitalization. Results from regression analysis show that board diversity significantly influenced tax avoidance positively, CEO overconfidence and CEO military experience influenced tax avoidance negatively. The study also documented that firms avoided tax less after the adoption of IFRS and that the Oil and Gas sector avoided tax more than other sectors.

Nwokoye *et al*. (2023) investigated the impact of fiscal incentives on the tax compliance behavior of firms in industrial clusters in Nigeria using data from structured questionnaire from 800 firms in three industrial clusters in South-East Nigeria. Among the major findings are that simplifying the communication on tax requirement, communicating deterrent messages, significantly influence the tax compliance behavior of firms in Nigeria's industrial clusters.

Sanni *et al*. (2022) investigated the relationship between tax administration strategies and performance of state's internal revenue services in South West Nigeria. A total of 382 revenue officers randomly selected from a total population of 8,734 staff of state internal revenue services in South-West Nigeria were served questionnaire to obtain data. Both descriptive analysis and Partial Least Squares (PLS-SEM) regression analysis were performed. The findings of the study revealed that revenue collection strategy (e.g e-payment system), Staff compensation strategy (e.g staff incentives), and Tax advocacy strategy (e.g tax education and sensitization) have positive effect on the performance of state's internal revenue services in South West Nigeria.

Anamoah (2021) conducted a study which aimed at devising new and more effective tax enforcement strategies for the collection of taxes from informal sector in the Accra Metropolis. The study distributed questionnaires to 385 informal enterprises in the Accra Metropolis and held semi-structured interviews with the Commissioner, Deputy Commissioner and Assistant Commissioner of the GRA. It identified the strategies used to collect taxes from those in the informal sector to include providing stickers to put on vehicles and imprisonment for tax defaulters, and visits to business offices by tax officers. Findings revealed the strategies were ineffective because among other things the public were not having enough tax education; many people were not being aware that they must pay taxes; inadequate punishment for not paying taxes, poor legal enforcement mechanisms for tax evaders, citizens were not trusting in the nation's tax system. a poorly trained tax administration, poor tax collection systems and those in charge of collecting taxes not being adequately motivated to do so.

Usang *et al*. (2021) examined the effect of tax administration and taxpayer education on tax compliance in Calabar Metropolis. The study administered a self-reported questionnaire on 213 registered small and medium enterprises (SMEs). The study administered a self-reported questionnaire on 213 registered SMEs. The results of multiple regression analysis indicated that electronic taxpayer education had a significant relationship with tax compliance while the print media education had a significant but negative relationship on tax compliance behaviour of SMEs. Furthermore, tax administration and stake holder's sensitization programmes had a non-significant effect on tax compliance behavior of SMEs.

Osemeke *et al.* (2020) assessed the challenges affecting tax collection in Nigerian informal economy with focus on Anambra State. The documentary analysis and semi-structured interviews with 35 respondents across different industries in Anambra State revealed that among other factors, absence of awareness are the key reasons why people and businesses in informal economy do not pay tax.

Deyganto (2018) examined the factors influencing tax voluntary compliance attitude with tax system in Gedeo Zone of Ethiopia. The sample was 323 taxpayers, randomly taken from the 1,678 taxpayers in the Zone and tax officers. The study obtained data from structured questionnaire administered and interview with the sample. The result of Binary logistic regression showed that seven variables such as gender, age, lack of tax knowledge, simplicity of tax system, awareness on penalty, probability of being audit, and perception on tax rate were key factors influencing taxpayers' voluntary compliance attitude with tax system.

Akeju (2018) explored the role of associations and union in promoting tax compliance in the informal sector in (Ekiti State, Ondo State and Oyo State. The study carried out a field survey of 600 artisans. The result of logit regression indicated that the usage of trade associations and unions as agent of tax collection was positively significant related to tax compliance among tax payers in the informal sector.

Oktaviani *et al.* (2017) surveyed 100 people in registered at the KPP of Jakarta Penjaringan using a questionnaire and discovered that knowledge and understanding of taxation, tax service quality, and tax awareness have a significant positive effect on the compliance of individual taxpayers. This study also proves that tax awareness, knowledge, and understanding of taxation, and tax service quality are jointly influential towards individual taxpayer compliance.

Olaoye *et al.* (2017) studied the impact of tax information, administration and knowledge on tax payers' compliance of block moulding firms in Ekiti State, Nigeria using a survey research design. The result of analysis of data obtained from 200 respondents to questionnaire, using the ordinary least square regressions, showed that tax information and knowledge have positive significant impacts on tax compliance while tax administration had an insignificant impact on tax compliance. Using survey approach, Kofar-Wambai and Hanga (2013) examined the consequences of tax evasion in Kano state and how it could be remedied. They found that simplifying tax laws and carrying out public enlightenment programmes on how tax revenue is spent created awareness on the need for people to pay tax.
Arising from the review of related literature, the study formulates the following hypothesis:

$Ho_{1:}$ The tax administration strategies of RIRS namely: Public awareness, Distraining Property/Closure of Business Premises, Collaboration with Trade Associations and Unions, E-Payment System, and Tax Identification Number are not effective in contributing to positive tax compliance by the informal sector.

$Ho_{2:}$ There is no significant difference in the perception of the respondent groups that public awareness is effective in contributing to positive tax compliance by the informal sector.

$Ho_{3:}$ There is no significant difference in the perception of the respondent groups that Distraining Property/Closure of Business Premises is effective in contributing to positive tax compliance by the informal sector.

$Ho_{4:}$ There is no significant difference in the perception of the respondent groups that Collaboration with Trade Associations and Unions is effective in contributing to positive tax compliance by the informal sector.

Ho_5: There is no significant difference in the perception of the respondent groups that E-Payment System is effective in contributing to positive tax compliance by the informal sector.

Ho_6: There is no significant difference in the perception of the respondent groups that Tax Identification Number is effective in contributing to positive tax compliance by the informal sector.

3. METHODOLOGY

The study employed survey research design. The survey covers Directors, Area Assessment and Heads of Units of the Rivers State Internal Revenue Service at the headquarters of the Service and other offices in Port Harcourt and Obio Akpor Local Government Areas. The choice of Port Harcourt and Obio Akpor Local Government Areas was informed by the fact that they have the highest number of managers of RIRS. The offices of RIRS in the selected local governments are at Rainbow Town, Port Harcourt, Aggrey Road, Diobu, Aba Road, Ada George Road and Obio. The study adopted judgmental sampling technique to choose a sample size of fifteen managers. The data used in this study was retrieved from the structured questionnaires administered on the managers. The questionnaire consists of two sections: (A) Demographic Information of the respondents and (B) Questions in the form of Statements on the Tax Administration Strategies adopted by RIRS and their effectiveness on Tax Compliance. There were six statements prepared on a five-point Likert-Scale, where; Strongly Agree [SA] = 5; Agree [A] = 4; Undecided [U} =3, Disagree [D] = 2; and Strongly Disagree [SD] = 1.

Model Specification

The tested Ho_1 using mean of responses and therefore no model is presented. If the mean is greater than the expected mean of 3, Ho_1 is rejected in favour of the alternative. To test the hypotheses, the study employed Kruskal-Wallis test. Kruskal-Wallis test is specified thus:

$$K = [\frac{12}{N\{N+1)} \sum_{i=1}^{k} \frac{\mathrm{R2}}{m}] - 3(N+1)$$

Where:

N = Total number of respondents.

M = Number of respondents to each tax strategy.

R^2 = Square of the summation of ranks in each strategy.

If the p-value of the chi squared statistics is not greater than 0.05, the null hypothesis is rejected.

4. RESULTS AND FINDINGS

Table 4.1: Distribution and Retrieval of Questionnaire

S/No.	Respondents	Number Distributed	(%)	Number Retrieved	(%)
1	Directors	4	26.6667	4	26.6667
2	Area Assessment	3	20	3	20
3	Heads of Units	8	53.3333	8	53.3333
	Total	15	100	8	100

Source: Field Survey, 2024

Table 4.1 shows that the study distributed and retrieved 15 questionnaires. The study retrieved all the questionnaires yielding 100% response rate and found them validly completed.

Table 4.2: Demographic Characteristics of Respondents

S/N	**Item**	**Description**	**Frequency**	**%**
1	**Highest Educational Qualifications**	HND/BSc/B.ED	7	46.6667
		MSc/MBA	6	40
		PhD	2	13.33333
	Total		15	100
2	**Age**	30-40 years	3	20
		41-50 years	7	60
		>50 years	3	20
	Total		15	100
3	**Working experience**	1 – 5 years	0	0
		6 – 10 years	3	20
		10 – 15 years	5	33.33333
		16 – 20 years	6	40
		>20 years	1	6.666667
	Total		15	

Source: Authors' Field Survey, 2024

Table 4.2 shows that the respondents possess high academic qualifications ranging from HND to PhD suggesting their capability to understand and fill the questionnaire properly. 80% of the respondents fall between the age bracket of 41 and above. Indeed, no respondent was less than 30 years old. In terms of work experience, 80% of the respondents have between 11 years and above 21 years. Work experience is useful in assessing the tax administration strategies of RIRS.

Test of Hypotheses

Ho_1: The tax administration strategies of RIRS namely: Public awareness, Distraining Property/Closure of Business Premises, Collaboration with Trade Associations and Unions, E-Payment System, and Tax Identification Number are not effective in contributing to positive tax compliance by the informal sector.

The study conducted a univariate analysis to test Ho_1 and present the outcome in Table 4.3. Table 4.3 indicates the overall mean value of the perceptions of the respondents falls between3.467 and 4.67 which is greater than the expected mean of 3. This suggests that the respondents perceive that the five strategies namely: Public Tax Awareness, Distraining property/Closure of Business Premise, Collaboration with trade associations and Unions, use of E-payment System, and use of Tax Identification Number contribute effectively to enhancing tax compliance by the informal sector.

Table 4.3: Perceptions of Respondent Groups on the Contribution of Tax Administration Strategies to Enhancing Tax Compliance by the Informal Sector

S/N	Statement	Overall			Respondent Groups		
		N	Mean	Std Dev	DR	AA	HU
1	Public Tax Awareness	15	4.43663	0.5163978	4.25	4.66666	4.5
2	Distraining property/Closure of Business Premises	15	3.46667	1.060099	3.5	4.33333	3.125
3	Collaboration with	15	3.66666	1.175139	4	4.66666	3.125

	trade associations and Unions						
4	E-payment System	15	4.6	0.5070926	4.5	4.66666	4.625
5	Tax Identification Number	15	4.46666	0.5163978	4.25	4	4.75

Source: Authors' Field Survey, 2024

Ho2: There is no significant difference in the perception of the respondent groups that public awareness is effective in contributing to positive tax compliance by the informal sector.

Table 4.4: Result of Kruskal-Wallis Test of Perceptions of Respondent Groups on the Contribution of Public Tax Awareness to Enhancing Tax Compliance by the Informal Sector.

Respondent Group	Obs	Rank Sum
Directors	4	25.50
Area Assessment	3	28.50
HU	8	66.00

chi-squared = 0.891 with 2 d.f.
probability = 0.6406
chi-squared with ties = 1.188 with 2 d.f.
probability = 0.5523

Source: Authors' Field Survey, 2024

The result of test of Ho_2 is displayed in Table 4.4 and revealed a test statistic (X^2) of 1.188) with a p-value of 0.5523. Therefore, Ho_2 is accepted. This implies that the perception that public awareness is effective in contributing to positive tax compliance by the informal sector is the same across the three respondent groups.

Ho3: There is no significant difference in the perception of the respondent groups that Distraining Property/Closure of Business Premises is effective in contributing to positive tax compliance by the informal sector.

Table 4.5 displays the result of Kruskal-Wallis Test. It shows the value of test statistics (X^2) is 3.229 with a p-value of 0.1990. Consequently, Ho_3 is accepted. The result suggests that the perception that Distraining Property/Closure of Business Premises is effective in contributing to positive tax compliance by the informal sector is the same across the three respondent groups.

Table 4.5: Result of Kruskal-Wallis Test of Perceptions of Respondent Groups on the Contribution of Distraining Property/Closure of Business Premises to Enhancing Tax Compliance by the Informal Sector

Respondent Group	Obs	Rank Sum
Directors	4	31.00
Area Assessment	3	35.50
HU	8	53.50
chi-squared	=	2.906 with 2 d.f.
probability	=	0.2339
chi-squared with ties	=	3.229 with 2 d.f.
probability	=	0.1990

Source: Authors' Field Survey, 2024

Ho_4: There is no significant difference in the perception of the respondent groups that Collaboration with Trade Associations and Unions is effective in contributing to positive tax compliance by the informal sector.

Table 4.6: Result of Kruskal-Wallis Test of Perceptions of Respondent Groups on the Contribution of Collaboration with Trade Associations and Unions to Enhancing Tax Compliance by the Informal Sector.

Respondent Group	Obs		Rank Sum
Directors	4		36.00
Area Assessment	3		36.00
HU	8		48.00
chi-squared	=	4.200 with 2 d.f.	
probability	=	0.1225	
chi-squared with ties	=	4.523 with 2 d.f.	
probability	=	0.1042.	

Source: Authors' Field Survey, 2024

A Kruskal-Wallis Test was performed to test Ho_4 and the result is exhibited in Table 4.6. Table 4.6 shows the test statistics (X^2) as 4.523 with a p-value of 0.1042. Therefore, Ho_4 could not be rejected. The implication of the result is that the perception that Collaboration with Trade Associations and Unions is effective in enhancing tax compliance by the Informal Sector is the same across the three respondent groups.

Ho_5: There is no significant difference in the perception of the respondent groups that E-Payment System is effective in contributing to positive tax compliance by the informal sector.

To test Ho_5, the study conducted Kruskal-Wallis Test and presents the result in Table 4.7.

Table 4.7: Result of Kruskal-Wallis Test of Perceptions of Respondent Groups on the Contribution of E-Payment System to Enhancing Tax Compliance by the Informal Sector

Respondent Group	Obs	Rank Sum
Directors	4	29.00
Area Assessment	3	25.50
HU	8	65.50

chi-squared	=	0.164 with 2 d.f.
probability	=	0.9212
chi-squared with ties	=	0.227 with 2 d.f.
probability	=	0.8928

Source: Authors' Field Survey, 2024

Table 4.7 revealed a test statistic (X^2) of 0.227 with an associated p-value of 0.8928. Consequently, Ho_5 is accepted. This indicates that the perception that that E-Payment System is effective in contributing to positive tax compliance by the informal sector is not different among the respondent groups.

Ho_6: There is no significant difference in the perception of the respondent groups that Tax Identification Number is effective in contributing to positive tax compliance by the informal sector.

The study carried out a validation test of the hypothesis using Kruskal-Wallis Test. The result is shown in Table 4.8. Table 4.8 shows a chi square statistic (X^2) with a value of 5.563 and a p-value of 0.0620. Since the p-value is greater than 0.05, the hypothesis (Ho_6) is accepted. This implies that the perception that Tax Identification Number is effective in contributing to positive tax compliance by the informal sector is the same across the respondent groups.

Table 4.8: Result of Kruskal-Wallis Test of Perceptions of Respondent Groups on the Contribution of Tax Identification Number to Enhancing Tax Compliance by the Informal Sector

Respondent Group	Obs	Rank Sum
Directors	4	25.50
Area Assessment	3	13.50
HU	8	81.00
chi-squared	= 4.172 with 2 d.f.	
probability	= 0.1242	
chi-squared with ties	= 5.563 with 2 d.f.	
probability	= 0.0620	

Source: Authors' Field Survey, 2024

The univariate analysis revealed that the respondents perceived that the five tax administrative strategies of RIRS is effective in enhancing tax compliance in the informal sector. It was also found from the Kruskal-Wallis Tests that the perception of the respondent groups of the effectiveness of the strategies in positively promoting tax compliance by the informal sector does not differ among the respondent groups. The findings corroborate evidence of past studies (Sanni *et al.*, 2022; Usang *et al.*,2021; Osemeke *et al.,* 2020).

5. CONCLUSION AND RECOMMENDATIONS

The study evaluated the perception of the effectiveness of tax strategies employed by RIRS in the administration of the taxation of informal sector in Rivers State and whether the perception differs among three respondent groups: Directors, Area Assessment and Heads of Units of RIRS.

It identified five strategies and administered structured questionnaire on the respondent groups to elicit their responses. It analyzed the responses using descriptive statistics and tested the formulated hypotheses using Kruskal-Wallis Test with the aid of STATA 12 software. Findings revealed that the respondent perceived that the tax administration strategies of RIRS is effective in boosting tax compliance by the informal sector. It was also shown that the perception of the effectiveness in boosting tax compliance do not differ among the respondent groups. The study recommends RIRS should sustain the strategies in order to keep improving tax compliance by the informal sector.

The study is limited to managers in Port Harcourt and Obio Akpor Local Government offices of RIRS. Future studies should increase the number of respondents by adding other local government offices of RIRS. Future studies should increase the number of strategies such as providing enhanced staff compensation packages and granting incentives to the taxpayers in the informal sector.

Competing Interest: The authors declare that there is no competing or conflicting interest in this manuscript.

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