Taxation and Societal Development in Nigeria: Tackling Kano’s Hidden Economy

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Abstract

This paper looks at taxation as a tool for societal development with a view to assessing the nature and size of Kano’s hidden economy; identify those in the hidden economy; and the appropriate approach to tackling such an economy. The survey method was used to administer questionnaire on 40 respondents to generate data which is measured on a simple majority or percentage of opinions. It was discovered that informality is a self-reported lack of tax compliance in a sample of individuals and businesses who also answered questions on a large set of issues. The study found that more tax compliance is significantly associated with adequate campaign and judicious utilization of tax funds. The paper recommends that the tax base should be expanded in order to bring the hidden economy into the tax net, the tax law shall also be simplified to get rid of ambiguity in the interpretation of its provisions.

Keywords: Taxation; Hidden economy; Societal Development.

Introduction

The world is recently focusing on employing taxation not only as modifier in an inflation-ridden economy but also a measure of access and control of informal businesses that dominate developing economies of the world. The fact is that these informal activities collectively have a large share of gross national product sprayed in piece-meal manner in the streets, market places and some times, even in our houses.

The process of Nation-building is slow and complex but is now increasingly recognized as the necessary condition for effective socio-economic development. An effective state requires a social contract between a ruling elite and its population, based on a political settlement that allows the elite to collect taxes without excessive coercion in return for delivering basic security and essential public goods. The state-building approach to taxation, therefore, recognizes tax as one of the few core capabilities that any state needs in order to function effectively.
Furthermore, the more effective the tax system, the stronger the capability, prosperity and legitimacy of the state, (Everest-Phillips 2008). This insight is not new: Aristotle and Confucius both noted that a prosperous and politically stable society required a political leadership and administration funded through fair and effective tax systems. In a lecture in 1755, Adam Smith as cited in Fjeldstad and Moore (2007:11), famously observed that little else was required to ‘carry a state to the highest degree of opulence from the lowest barbarism but peace easy taxes, and a tolerable administration of justice.’ This is easily said, but the strategy of delivering the result in practice remains a major obstacle to development. A tax system should aspire to this virtuous circle of societal development.

The ‘fiscal social contract is a key factor in delivering both political legitimacy and sustainable economic growth a stable, transparent, even-handed tax system is perceived by investors as a sign of established ‘rule of law’. In other words, tax is a key indicator of an institutionalized framework of political stability and fairness (Bird, Martinez-Vasquez, and Torgler 2006).

Governments should concentrate on establishing simple, predictable, neutral tax systems that will not discourage private enterprise and minimize interference with market signals. In the global environment, most governments have followed this advice to some extent.

In Nigeria, the tax reform is spear headed by the Federal Inland Revenue Service in its quest to achieve greater revenue Collection, encourage voluntary and willing compliance and breaking the long piercing phobia between taxpayers and tax collectors. Ibis started with the introduction of Value Added Tax (VAT) in 1993. Though it has emerged rapidly to become one of the main modes of revenue generation worldwide. First introduced in France in 1914 and in Brazil in 1967, VAT is now in place in more than 130 countries. During the 1990s, the number of African countries levying a VAT increased from 2 to 30. Although it has not been introduced in the United States. VAT accounts for around a quarter of the world’s tax revenue (Ebrill, Keen, Bodin and summers, 2002). In richer nations, it has in part replaced other sales and consumption taxes. Because it is such an efficient means of sucking in revenue from economies with good written or electronic records of economic transactions, VAT has facilitated trade liberalization, by replacing import and export taxes, and also contributed significantly to the steady increases in governments’ shares of rising national incomes. At introduction, value added tax delivered a promising revenue generation in Nigeria of over N800 billion in the first year and since then every year is a success story of steady increase that necessitated review of the sharing formula between federal, states and local governments.

Similarly, the administration of personal income tax requires a more dynamic approach in assessing and exploring both the formal and informal sector of the economy otherwise known as the hidden economy. Most often the activities in this obscured sector go unnoticed to the tax collectors and hence under taxed or not taxed at all.

Most countries measure their tax as a percentage of the national income over time to understand the contribution of the citizens in societal development. Sweden and Belgium have
the highest of about 50.6% and 45.4% in 2003 while Australia and United States of America collects 31.6 and 25.6% of their national income as tax respectively, (OECD 2008).

Nigeria’s heavy dependency on oil is the cause of neglect in the quest to maximize revenue generation. The issue of expanding taxable capacity does not only maximize revenue but increase the level of patriotism and feeling of concern the citizen has for the nation whose individual contribution of hard earned income is used to build. Lagos state for example, imbibed this culture in the state revenue authority, by formalizing its informal sector of the economy. It is clearly evident that every informal economic activity in Lagos has its daily tax tag, for example a shoe shiner as is often called is made to pay N30 every morning he comes out for his shoe shining, other businessmen like Commercial motorcyclist, petty traders, mechanics and other engineering workmen are made to extend their kindness by dropping peanuts or a token of their daily take home to the state pool to be used in improving the general well being of the society. And this makes them to appreciate their importance in the process of rebuilding a modern and healthier Lagos State. What impact will it be to Kano if the several unreported economic activities that take place daily on the streets or in the markets are subsumed into tax net by imposing a fair, simple and direct system of taxation?

The paper is aimed at awakening the tax authority and the government of Kano in revisiting its tax policy and operation guides to counter the challenges forced by the modern economic development. Other subsidiary objectives include;

a) To assess the contribution of taxation in the process of societal development,
b) The correlation or causality between tax compliance and good governance.
c) To determine and estimate the size of those informal economic activities that often escape the tentacles of the tax net,
d) To provide the recommendation of the mannerism of adoption to tackle such leakages of revenue.
e) It will also determine and assess the influence of these informal activities on the formal sectors of the economy.

Literature Review And Conceptual Framework

The interwoven nature between accounting and taxation mandates this paper to consider the fact that accounting is a professional subject and hence cannot overlook the consequences of dynamism in the global economic changes that prevails in response to changes in tastes and preferences of the modern world. Tracing to history, academics were compelled to accept professional influence to accounting (Nelson 1976). Therefore, this paper embraces both academic and professional contribution.

Taxation emanated solely from accounting inter alia other disciplines. The fact that theories in accounting are numerous all of which responds to strains caused by environmental economic demands and changes (Glautier and Underdown 1979), requires this paper to encapsulate
empirical approaches to professional works in the operational field of taxation. This works were mainly from challenges in different countries faced with similar economic disposition which if carefully studied can be collected, modified and applied to achieve greater results.

The Concept Of Taxation

Taxation is a compulsory levy by the government through its agent on the profits, income, or consumption of its subjects or citizens. It is also viewed as a compulsory contribution made by individuals and organization towards defraying the expenditure of government (Dandago and Alabede 2001). Kotler (1975) feels is a charge levied by the government on the income or wealth of a person or corporate organization for the common benefit of all. The term does not include specific charges made against a particular person or properties for current or permanent benefits and privileges accruing only to those paying such charges. Similarly, Ogundele (1999) defines taxation as the transfer of real economic resources mum private sector to the public sector to finance public sector activities. It can therefore be concluded that the essence of all taxes is the removal of resources from private hands of the individual, families, corporate bodies, communities and trusts to the public sector to finance the development of the society. The need for government in the affairs of man is therefore the basis for taxation in societies. As such, Ogundele (1999), Dandago and Alabede (2001) the following purposes of taxation:

a) As a revenue source to defray government capital and revenue expenditure.
b) It is fiscal policy instrument employed by government to regulate the economy.
c) Tax can also be used to encourage investment in the priority sectors of
d) It is also a means of controlling consumption if some harmful goods and services e.g. cigarette, alcohol, cinema, etc.
e) The equity principle in taxation facilitates the application of ‘rule of law.’
f) It is resource redistribution mechanism in the economy to reduce the gap between rich and poor. In other Word, income redistribution.
g) The taxpayer identification programme introduced by Federal Inland Revenue Service serves as database on biography of both individual and corporate taxpayers.
h) The versatility of tax operation creates job opportunity for tax practitioners and tax collectors.
i) Recent developments show taxation as an agent for increased patriotism.

Types Of Taxation

Broadly taxation can be classified into direct and indirect taxation. This was in an analysis of the ‘impact and incidence’ it has on the tax payer. In direct taxation, the tax payer receives the consequence of taxation almost immediately. This clearly is the case in Pay As You Pam (PAYE), other Personal Income Taxes (PIT). Companies Income Taxes (CIT), withholding tax, Petroleum
Profit Tax (PIT) and Capital Gains Tax the other hand in indirect taxation the consequences on the taxpayer differed to a later period (period of acquisition or consumption). (Dandago and Alabede 2001). Examples of this include aloe added tax (VAT), import duty, excise duty etc. Other classification is in relation to income and property taxation with income mainly based on profit or other incomes e.g. companies income tax, personal income tax, petroleum profit tax, and value added tax where property taxes relate to taxes on capital like capital gains tax, and import duty. All these classifications are wide in nature but the essence to drag every economic activity into the tax net.

The Evolution Of Income Tax In Nigeria

Taxation is a key to the character and functioning of the state, economy and Society, and its effectiveness and the levels of compliances greatly depend on acceptance by citizens of its legitimacy. Fiscal sociologists suggest that the shift from earlier forms of tax state to a modern fiscal state based on public finance is both facilitated by and enables the separation of an apparently private sphere of economic activity from the public sphere of the state (Musgrave 1992).

The income tax began as a tax on the small section of society which was well off on individual income and on the income or profits of legal persons such as companies from business or commercial activities. It enabled state finance to move away from reliance on a multiplicity of duties and charges, which fell disproportionately on the poor. Its legitimacy was based on the principle of proportionality, justified by the concept of ability to pay, which was reinforced by the shift to a progressive and graduated tax system (higher tax rates on higher income). Its acceptance and eventual spread to become a mass tax was linked to wartime patriotism, as well as the need to finance a growth in welfare spending, with the first introductions of social security programmes early in the 20th century and their major expansion in its second half. Since the 1970s tax revenue as proportion of Gross Domestic Product (GDP) has continued to rise in Organization For Economic Cooperation And Development (OECD), from around 23% in 1965 to a weighted average of 33% in 1999 and despite the impact of privatization and the derive to ‘roll back the state’, state expenditures have remained in the 35-50% range. (Piciotto 2003) Taxes on personal and corporate income have continued to be an important component at around a third of total tax revenue. However, the overall growth in state expenditure has required their supplementation by other taxes, especially Value-Added Tax (VAT) on sales, which has spread rapidly particularly in the 1980s (Tanzi 1995, 46; Ebrill, Keen, Bodin and Summers.

Similarly, the evolution has been rather different in peripheral capitalist countries. In colonized territories and dependencies, income taxation played a much less significant role, for both economic and political reasons. In the early empires, political domination and economic exploitation were closely linked, conquest meant looting. As industrial capitalism developed during the 19th century, the main aim of imperialism became the opening up of dependent territories for profitable trade and investment, especially for raw materials. Governments of imperial countries such as Great Britain considered that the colonies should at least pay their
own costs through local taxation, and if possible contribute to the costs of the empire. However, it was no easy matter to devise and enforce taxes on subject people, due to the perceived link between taxation and political representation, as the revolt of the North American colonies had shown. To establish legitimacy and efficiency, the form of taxation needed to take account of both the economic structure and pre-existing patterns of surplus-extraction by rulers, while also aiming to change both of these in line with colonial policy. In India for instance, the complex hierarchy of claims to land was converted to a system of land ownership, providing a basis for a land tax; this provided the fiscal mainstay, but it declined from 52% of government revenue in 1861-65 to 28% in 1920-25, and had to be supplemented by import duties, salt duties and an income tax (from 1860 to 1873, reintroduced in 1886). (Spencer and Sharman 2006).

Elsewhere, revenues were mainly raised from taxing commodity transactions, especially by duties on imports. In territories ‘a here there was little trade, such as African colonies at least initially, there was resort to hut taxes or poll taxes. In addition to raising revenue, these created pressures for people to move into the money economy, and not surprisingly they often led to revolts. A shift to direct taxation was urged by Frederick Lugard, who in West Africa devised the system of ‘indirect rule’ through local elites. He saw direct taxation as essential to civilized slates, and a means of providing legitimate revenue which could be shared by the imperial Government with local rulers ‘not as a dole from Government, which would destroy their self-respect, but as their proper dues from their own people in return for their work as Rulers or Judges’ (Lugard 1919/1970:167). He argued that this form of tax would allow abolition of slavery and forced labour, and encourages economic development. However, direct taxes on income greatly relied on assessment and collection by local chiefs, meaning less revenue for the central administration and the imperial government so they therefore preferred a poll tax, although this courted anti-tax revolts (Daunton 2001, 133-5). The gradual introduction of self-government did not necessarily make it easier to shift to direct taxation, as franchises were usually limited to the affluent such as colonists. In the post-colonial period, developing countries have achieved a much lower level of taxation than the OECD countries: government tax revenues have been in the range of 10-20% of GDP, the countries with higher per capita incomes generally being at the higher end of the range (Tanzi 1987, 216). Also, income taxes have accounted for a rather lower proportion of these revenues than in OECD countries (20-30%), and a higher share of this has come from corporate rather than personal income taxes. Import duties continued to be very important, averaging 25% of revenue (Tanzi 1987:217). However, since the 1980s tariff reductions due to trade liberalization have had a significant impact, both directly by reducing revenues from this source, and indirectly due to substitution effects and the adoption of other means of supporting domestic industries which involve tax expenditures (IADB 2004). Partly to plug this gap, bodies such as the International Monetary Fund (IMF) have urged the adoption of a VAT, and many have followed this advice.

However, it has been criticized for being inappropriate and indiscriminate (Stewart & Jogarajan 2004), and overall the revenue loss from reduced trade taxes has been only partly recovered from other taxes (Baunsgaard & Keen 2005). It is significant, that the capacity to tax grows with the growth of income (Tanzi 1987:21), although a number of other factors, both structural
and specific, also affect the ability to raise revenue. Poor countries are restricted by their relatively low tax revenues from stimulating their economic development from their own resources, leading to dependence on aid. The view has gained ground that strengthening the lax systems of developing countries, through taxes accepted as legitimate, would make a major contribution both to their prospects for economic development and improving their governance through greater political pressures for accountability of politicians and state officials to citizen-taxpayers (Brätitigam 2002, Moore 2007). However, this is extremely difficult to achieve in countries where the vast majority of the populace are very poor and which often suffer from autocratic and corrupt governance. A shift in the sources of government revenue towards greater reliance on internal taxation would involve a major transformation of what have been described as the ‘lame Leviathans’; the post-colonial autocratic states in which local elites maintain the deceptions of sovereignty while using client list strategies to exploit external patronage and systematize internal patrimonial practices (Badie, 2000).

The Concept Of Hidden Economic Activities

In the words of Burr (2008), the hidden economy is usually taken to mean any undeclared economic activity ranging from casual moonlighting, work paid cash in hand, fraudulently claiming welfare benefits, through to tax evasion ad organized crime. According to him, the hidden economy can be viewed covering four groups:

Businesses that should be registered to pay tax, such as VAT, but are not;
People who work in the hidden economy and pay no tax at all on their earnings (ghosts);
People who pay tax on some earnings but fail to declare other additional sources of income (Moonlighters);
Employers who may facilitate ghosts and moonlighters and also evade employers’ National health Insurance, pension and other contributions.

From the above, it can be seen that the hidden economy comprise of all the informal economic activities that either, escape the tentacles of tax net or maneuvered their invisibility to the efforts of societal development. Their activities not unit serve as a revenue drain but also an unfair advantage to the formal and organized business sector. The hidden economy affects everyone. Honest businesses suffer from unfair competition from those in the hidden economy. People working in the hidden economy do not benefit from the protection of employment legislation. Customers of people working in the hidden economy do not get guarantees for work carried out or have legal recourse for poor quality work, from tax authorities point of view the economy can lead to tax losses; benefit fraud where unemployed people are engaged in undeclared work while ‘aiming benefit; and avoidance of employment legislation, such as minimum wage agreements or certain health and safety and other standards in the workplace.
Research Methodology

The research is designed to study the role of taxation in societal development, identify the components of the informal economic activities otherwise known as ‘the hidden economy’, explore and estimate this sector there by suggesting possible means of tackling this economy and successfully drag it into the tax bracket. The research employs the use of close as well as few open ended questions in a questionnaire administered mostly in an interviewed manner to guide respondents in addressing the questions on 40 respondents to generate data through responses from tax practitioners, academics, business analysts and investors too. The questions were comprehensibly constructed to understand respondents’ perception of tile concept of hidden economy, its estimated size and procedures to adopt in converting this tax loss among other things. So also to investigate an important channel through which informal businesses can affect productivity of the formally registered companies and businesses. The research is intended to study this disposition as it affects Kano state and hence the scope is tile entirety of Kano state with a random sampling that cut across respondent’s within the population considering demographic classification with particular reference to tile earlier classification. The secondary data to this research was generated via review of other research works carried out in this field of study, text books, circulars, decrees, World Bank working papers. Virginia Tax Reviews, IMF and OECD working papers and Inter-American Development Bank (IADB) journals. So also in review of empirical works carried out in the international arena of taxation which share ideas on ways of tackling various economic challenges as posed in different countries of the world.

Results And Discussion

TABLE 4.1.1 Indicates Respondents and Their Field Of Employments

<table>
<thead>
<tr>
<th>RESPONDENTS</th>
<th>NUMBER OF RESPONDENTS</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAX PRACTITIONERS</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>ACA DEMICIAN</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>BUSINESS MEN</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>FINANCIAL ANALYST</td>
<td>10</td>
<td>25%</td>
</tr>
</tbody>
</table>

Sources: survey 2012

Data analysis is based on the analysis of the questionnaire administered in an interview format conducted on 40 respondents (guided to answer tile same questions). The responses are analyzed and their opinions synchronized based on the majority of response (majority here refers to an opinion of more than 60% of the respondents.) hence the result indicates the following:
**Kano’s Components Of The Hidden Economy**

All the responses show the existence of informal economic activities in the state and that they are spread on the streets, market places and sometimes traceable to households and even offices. These activities include: Street hawking; commercial motorcycling; taxi services; corner kiosks; petty employments in small businesses and sometimes even in bigger employments. It also includes small sales of basic commodities; recharge cards, petroleum black market, street cobblers (shoe shiners), and work labourers usually paid in cash and on daily basis. Others view it as all forms of income that is undeclared, while others include only undeclared cash transactions. Tax authorities also use different terms such as “underground”, “hidden”, “black”, “shadow” or cash” economy to describe income that is undeclared for tax purposes.

Most opinion indicates that the fear of the cumbersome tax procedures and regulations is what makes them to avoid registration for tax purpose. More often approaching the tax man is like submitting yourself for unexplained cash drain. On the opinions center around corruption, injudicious use of tax collected and unjustifiable allocation of tax funds. Some tax practitioners opined that the tax law is complex and often confusing and should be simplified and direct. The government shall endeavor to embark on marketing and awareness campaign to simplify the tax procedures so that everybody can contribute his on quota to societal development.

**Estimating The Size Of Hidden Economy**

In obtaining responses our respondents were requested to comment on the modalities of estimating the hidden economic activities and the responses were that the methods far this estimate include an analysis at Macro-economic indicators such as income and expenditure data or the results from surveys and reviews of tax records. Each method produces different results on the size of the hidden economy usually in terms of a percentage of GDP rather than an estimate of the amount of tax lost. The results from surveys and reviews of tax records tend to produce lower estimates than methods using, macro-economic data. This is because tar records provide only a partial view of the size of the hidden economy (a review of tax records will exclude from the calculations). Those people and businesses (who do not file a tax return) and respondent to surveys are likely to understate their involvement in the hidden economy. Other respondents suggest that analyzing macroeconomic data tends to overstate the size of the hidden economy.

Similarly respondents explained that in the academic literature, there is a growing consensus that using direct methods (surveys and tax records) estimate the size of the hidden e are preferable to indirect methods economic data). In our review of empirical works it is discovered that the results of recent search indicate that the UK has a smaller hidden economy than many others countries. (Braithwaite2003) They also show that the size of the hidden economy has chance little in some but is inert in others. Other responses in relation economic factors that determine the size of the hidden economy indicate that; their rigidity of labour market
regulations also has an impact on the size of the hidden economy. Specific factors in each country such as the role of social networks can affect the size of the hidden economy.

This means that the range of means used in tax authorities to tackle the hidden economy cannot be viewed in isolation from other factors that could also affect the size of the hidden economy. Table 1 below shows an analysis of Kano’s estimated hidden economic activities and the projected annual revenue.

<table>
<thead>
<tr>
<th>S/NO.</th>
<th>Hidden Economic Activity</th>
<th>Estimated Population</th>
<th>Rate of (Daily)</th>
<th>Estimated Revenue ₦</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Unregistered shops/stalls</td>
<td>220,000</td>
<td>20</td>
<td>16.060 Billion</td>
</tr>
<tr>
<td>2.</td>
<td>Commercial taxis</td>
<td>40,000</td>
<td>20</td>
<td>292.0 Million</td>
</tr>
<tr>
<td>3.</td>
<td>Commercial Motorcycles</td>
<td>1,500,000</td>
<td>10</td>
<td>5.475 Billion</td>
</tr>
<tr>
<td>4.</td>
<td>Commercial Buses</td>
<td>30,000</td>
<td>20</td>
<td>291.0 Million</td>
</tr>
<tr>
<td>5.</td>
<td>Street Traders</td>
<td>100,000</td>
<td>20</td>
<td>365.0 Million</td>
</tr>
<tr>
<td>6.</td>
<td>Motor Mechanics</td>
<td>15,000</td>
<td>20</td>
<td>110 Million</td>
</tr>
<tr>
<td>7.</td>
<td>Motor Cycle Mechanics</td>
<td>10,000</td>
<td>20</td>
<td>73.0 Million</td>
</tr>
<tr>
<td>8.</td>
<td>Babbing Salon</td>
<td>5,000</td>
<td>20</td>
<td>18.5 Million</td>
</tr>
<tr>
<td>9.</td>
<td>Sundry Street Hawkers</td>
<td>10,000</td>
<td>10</td>
<td>36.5 Million</td>
</tr>
<tr>
<td>10.</td>
<td>Cobber</td>
<td>5,000</td>
<td>10</td>
<td>18.5 Million</td>
</tr>
<tr>
<td>11.</td>
<td>Goldsmiths</td>
<td>10,000</td>
<td>10</td>
<td>36.5 Million</td>
</tr>
<tr>
<td>12.</td>
<td>Fried Meat/Suya Sellers</td>
<td>5,000</td>
<td>20</td>
<td>36.5 Million</td>
</tr>
<tr>
<td>13.</td>
<td>Local Fish Farmers</td>
<td>3,000</td>
<td>20</td>
<td>21.9 Million</td>
</tr>
<tr>
<td>14.</td>
<td>Local Poultry Farmers</td>
<td>3,000</td>
<td>20</td>
<td>21.9 Million</td>
</tr>
<tr>
<td>15.</td>
<td>Recharged Cards Sellers</td>
<td>5,000</td>
<td>10</td>
<td>18.25 Million</td>
</tr>
<tr>
<td>16.</td>
<td>Vulcanizers</td>
<td>3,000</td>
<td>10</td>
<td>10.95 Million</td>
</tr>
<tr>
<td>17.</td>
<td>Bricklayers</td>
<td>5,000</td>
<td>10</td>
<td>18.25 Million</td>
</tr>
<tr>
<td></td>
<td><strong>Grand Total</strong></td>
<td></td>
<td></td>
<td><strong>22.831 Million</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey/Researchers Estimate, 2012

Review Of Empirical Works Related To The Study

Estimates of the tax lost to the hidden economy could potentially help tax authorities with understanding the scale of the challenge. They can also help tax authorities assess trends and the possible effects of their efforts. The cry nature of the hidden economy meant dial none of the tax authorities have been able to estimate on a regular basis the amount of tax lost. Some have tried and are continuing with their efforts. In 2006, HM Revenue & Customs employed the University of Bristol to produce estimates el the amount of tax lost to the hidden economy. They carried out a questionnaire survey of the UK population as a way of estimating the amount of tax lost to the hidden economy. HM Revenue & Customs considered that the proposed methodology was unlikely to produce worthwhile results because a significant number of people would refuse to take part. It is now looking at new IT solutions to assist in
the measurement of the hidden economy. The United States is planning to estimate the tax gap, a broad indicator of tax evasion, on a more regular basis (a four yearly measurement supplemented by annual reviews of a small sample of tax record). Sweden has undertaken ad-hoc studies on the basis of macro-economic data and reviews of tax records. The Belgian tax authority has used survey data in the past and has relied on the results of a number of academic studies. The European Commission intends to undertake study in 2008 to identify the best methodology or providing comparable estimates the amount of undeclared work across the European Union. (Picciotto 2003)

Conclusion And Recommendations

To participate in this, Governments are required first to change attitudes to the tax system and should concentrate on establishing simple, predictable, neutral tax systems. We have to build into our tax system certainty and practicability. We need a tax code. The provisions shall be made clear. Why do auditors/consultants have to argue with tax collectors? It is because tax law is not clear, simple and direct. Let us change. It is not the time of blame but a time of eye opening; Get closer to the tax papers and understand them, educate and make them understand what they are to do. Will can do it together! Yes, we can! Ogungbesan (2008). In tackling this Kano state shall carry out an exercise to measure the magnitude of the hidden economic activities. To estimate the size of the hidden economy, the government shall ensure the distribution of Tax Identification Numbers (TIN) to every individual as initiated by the Nigerian Federal Inland Revenue Service in its present tax reform. This TN will help numbered identification of the individuals living in Kano. According to the FIRS, a child should be given this number at birth to capture every living citizen and non-citizens of the country. This exercise will not only provide tax authorities with information on every tax payer but also serve as a data base like the United States social security numbers for individual’s reference in the event of investigation and other identification requirements.

The state shall use its database on registration of informal business to drag them into the tax net, For example, the current attempt to register all commercial motorcycles in Kano will help along way in obtaining data for a comprehensive tax plan. This can go along way in assessing them to a daily flat tax rate (based on the assessment of their minimum daily income) to initiate a revenue base for taxing other members of the hidden economic activities. This will generate consistent revenue that will reduce dependence on monthly grants to finance some recurrent expenditure. The effect of this is that it will increase the people’s concern over how their money is used and accounted for. Henceforth it will reduce the neglect or I don’t care attitude of the citizens on government infra structure that their daily income (from taxes) is used to build and increase their quest for accountability by public officers.
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