The Dynamism of Informal Sector Taxation and Revenue Generation: The Swarm Locust Paradigm

¹James Sunday KEHINDE (Ph.D), **²*Akeem Atanda GARUBA &**
³Oluwademilade KEHINDE

¹Department of Accounting, Faculty of Management Sciences, Lagos State University,
Ojo, Lagos, Nigeria. E-mail: akgaruba@gmail.com
²Department of Accounting, College of Applied Social Sciences, Lagos State University of Science and
Technology, Ikorodu, Lagos State, Nigeria. E-mail: Kehindejames1@gmail.com
³Department of Finance, Mountain top University, Mowe, Ogun State, Nigeria.
E-mail: demilade@gmail.com

Abstract: The study is about the informal sector taxation and revenue generation, the dwindling oil revenue to the government has led to reduction in government performance over time. However, with the ever growing and increasing activities in the informal sector where the small and medium scale business exist additional revenue to the government is possible. The challenge of poor financial record system and weak tax administration of the informal sector have remained the bane of tax revenue in the system. The study explores the primary source of data collection using the survey method. The scarcity of data and where available the accuracy and reliability of such data remain an issue in point. Structured questionnaire was used for data collection, judgmental sampling technique was adopted for the questionnaire distribution and administration. The study result shows that the informal sector would provide a good and strong alternate sources of tax revenue to the government. It also revealed that the informal sector tax potential has not been fully exploited by the government, the study also discovered that poor tax administration is the bane of tax revenue generation from the informal sector. The study concluded that the informal sector possesses the potentials of contributing to the growth of the government tax revenue. The study also concluded that tax administration in Nigeria has not been designed to explore the tax revenue potential of the informal sector. The study recommended that government should redesign the tax administration system and refocus it to explore tax revenue potential of the informal sector.

Keywords: taxation, informal sector, swarm locust, SMEs. Tax administration

Introduction

The government exist to further the growth of the society and to ensure growth and economic development. The government therefore must ensure adequate financial resources to conduct this assignment. The financial resource to the government comes from various tax sources this include corporate tax, petroleum tax and other forms of tax.

In Nigeria the most secured and most used sources of finance are the petroleum profit tax. the petroleum profit tax has provided the nation with the greatest source of finance having overtime provided 90% of the revenue of the government, however, with the recent down trend in oil price and the effect of it on the revenue accruable to the government from this sources ,the question has been where will the revenue to finance the business of the government come from, government have to look for internal sources of revenue and hence the prompt look to the informal sector of the economy. The informal sector of the economy constitutes probably the largest provider of employment to the populace in all segment these include agriculture. Mining, education, technology, etc operators of the sector include sole proprietors, small business owners, artisans, and individual, they may or may not operate under any name registered but they constitute the largest percentage of the employment generation sector of the economy and ipso -facto the largest provider of income to the teeming population of the nation. The record of activities of the informal sector has been largely nonexistence, and so incorporating these to the official tax net of the nation has also been very difficult. The government do not seem to possess adequate resources to engage the informal sector effectively, the poor record keeping system in the informal sector is another difficult issue, the disposition of informal sector to payment of tax is also a huge issue. The general believes of the operators of the informal sector is that government activities should be finance from oil revenue which they believe is a free gift and also the money from this sector is free and that should be sufficient for the government activities also overtime the government has also indirectly made the people to believe that the informal sector are mere beneficiary of state provision and their financial contribution to the business of the government is not of any value, this nonchalant attitude of the government and that of the informal sector operators remain the bane of tax revenue generation from the informal sector. The lack of will by the government is another issue of import. However, the current down trend in government revenue as noted earlier have increase the call for the government to look at how to include the informal sector in

to the tax net of the nation to increase the tax base of the nation and to increase the tax revenue of the government. Another premium issue is the increase in the service base of the government over the years and the need for sustainable growth with the available revenue to the government.

The overall objective of this study is to identify and evaluate the tax potential of the informal sector and to explore the possibility of the government generating adequate revenue from this sector, it also will seek to examine the ways to coordinate the informal sector for tax revenue purpose.

Literature Review

Conceptual Review

This section is thrust with studies that focused on effective tax administration in Nigeria at both national and state level. In recent times tax effectiveness have been in the centre discourse due to the need to increase non-oil revenue of government with experts venturing into this area and their efforts have served as a stepping stone for present-day studies.

Olaoye & Ayodele (2017) study examined the impact of information technology on tax administration in Nigeria using south west as a case study. It was an empirical study employing descriptive research design that specifically investigated the effect of information technology on tax productivity as well as the relationship between information technology on tax implementation and tax planning. The study revealed that information technology (Online Tax Filing-OTF, Online Tax Registration-OTR and Online Tax Remittance-OTRE) affect tax productivity in Nigeria.

Okoronkwo (2017) examined capital gains tax administration in South Eastern Nigeria. The study critically reviewed the Capital Gains Tax Act of Nigeria and its implementation in different states of South East geo-political zone of Nigeria. The study used questionnaires, interviews and visits to tax authorities and ministries of finance to assess the effectiveness of the administration of Capital Gains Tax. The study concluded that tax administration is a professional work and observed that the requisite professionals are not usually employed in the civil service and offices handling the administration of capital gains tax with dire consequences. The study therefore recommended the employment and retaining of tax experts for effective tax administration.

Kwaji and Ishaya (2017) carried out an empirical analysis of tax revenue collection by the federal government in Nigeria. The study employed quantitative

research design with data collected from Federal Inland Revenue Services. Their findings revealed that Capital Gains Tax, Stamp Duty, Education Tax and Petroleum Profit Tax are effective and positively significant above 1% while Company Income Tax and Value Added Tax are not significant. Furthermore, Company income tax has more total collected revenue than all the remaining taxes. Therefore, it is recommended that for tax to be effective government should enhance the collection of tax revenue processes and ensure that any deviations from compliance with the laid down rules and regulations are severally dealt with punishment well spelt out.

Animasaun (2016) study examined the relationship between tax administration and revenue generation in Nigeria from the perspective of Ogun State internal revenue service. The study adopted survey research design. The research instrument used was structured questionnaire. The data collected was analysed by both descriptive and inferential statistics. The findings revealed that tax administration there is no significantly relationship between the amount of revenue generated and tax administration. It is recommended that tax administration in Ogun State should be reviewed and measures put in place to reduce tax evasion and avoidance for tax collection to be efficient.

Stiglitz and Rosengard (2015) as in Haas (2017) focused on literature on improving tax revenue collection emphasising on five particular characteristics of what an effective tax system should incorporate, namely; economic efficiency, administrative simplicity, flexibility, transparency and fairness. The study used Kampala Capital City Authority (KCCA) to illustrate the potential impact of tax administration reforms. The study revealed that there were significant impediments to administration of municipal revenues in Kampala, including unreliable manual databases, poor technologies, unclear procedures, a narrow tax base and poor collection procedures which resulted in extremely low revenue collections and poor tax morale.

Buhari (2016) examined the Effectiveness of Value Added Tax Administration in North Eastern Nigeria as it affects government and how to improve government revenue. The study emphasised increase in Value Added Tax Rate and its consequences. The insecurity challenges in the northeast with its attendant effect on the administration of Value Added Tax was discussed. Simple percentage, table and pyramid chart were used for data analysis. The study discovered that the insecurity challenges in the region impacted negatively on businesses as residents have

relocated away from the region which resulted into the drastic shortfall of Value Added Tax collected for the period under review. The key recommendation was for Government to restored security in order to assist in the revival of industries and ensure more training for the tax officers. Sabian and Oleka (2015) study examined the effect of taxation on microeconomic growth in Nigeria. The findings revealed that government earnings from taxation will affect consumer spending and boost output production level.

Raji (2015) study on Revenue Generation as a major source of income for the State Government was empirical. The result revealed that revenue collection in local government is hindered by corrupt practices and recommended that efficient revenue generation enhances the performance of public sectors. Okoi and Omini (2014) critically examined tax innovation, administration and revenue generation in Nigeria using Cross River State as case study. The result showed a significant degree of inefficiency in the administration of taxes in Nigeria from the perspective of Cross River State.

Omesi, Teerah and Nzor(2014) examines Nigeria tax administration and its implications for multiple taxation on the economy. The concept of tax and taxation, multiple taxation was meticulously looked at in Nigeria and the approved taxes and levies collected by each tier of government. The study revealed that the implications of multiple taxation in Nigeria include: constitution of illegal, inappropriate taxation, legislation are crippling some sectors of the economy such as telecommunication industry and Nigeria waterways and considered as hindrance to investment in the country.

Adebisi and Gbegi (2013) study examined the effect of tax avoidance and tax evasion on personal income tax administration in Nigeria. Tax evasion and tax avoidance considered as a problem which seems to have defied solution, had been deviled the tax system right from colonial times was the focus. The study utilizes primary and secondary data for data collection. Analysis was based on tables and percentages with variance (ANOVA) to test the hypotheses. Their findings disclosed that enlightenment and adequate utilization of tax revenue on public goods will discourage tax avoidance and tax evasion, high tax rates encourage tax avoidance and tax evasion, personal income tax generation has not been impressive and personal income tax rates are too high. The study therefore concluded that there is a direct and positive relationship between tax avoidance, tax evasion, tax rates and personal income tax administration in Nigeria.

Tax Reforms in Nigeria

This study would not be complete if mention is not made about the various Tax reforms made through the concerted efforts of succeeding governments in Nigeria in making the tax law, policies and administration working. The National Tax Policy has identified taxpayers as the single most important group of stakeholders in the tax system. Tax reforms in Nigeria have focused on measures to be adopted in increasing the revenue yield of government in order to assist in the development programs of the nation. Consequent upon this thinking, the need for constant review of tax laws and its administrative procedures cannot be overemphasized. The direction of the economy leads the direction of tax reforms and always remains dynamic. The tax system has gone through many reforms which at most times have brought about the introduction of new tax regimes.

One of such regimes was the institution of a task force on tax administration in 1978 headed by Alhaji Shehu Musa. The major thrust of that reform brought about the introduction of withholding tax; imposition of 10% special levy on banks' excess profit; and 2.5% turnover tax on building and construction companies. Another tax reforms in 1992 headed by Dr. Sylvester Ugoh on indirect taxation shifted the reforms emphasis to consumption tax which brought about the introduction of Value-Added-Tax (VAT) by imposing 2.5% on consumption of certain products and later rose to 5% which is still operative till date. One but more important of these reforms was that of a study group headed by Professor Emmanuel Edozien in 1992 which recommended the establishment of the Federal Inland Revenue Service as an operational arm of the Federal Board of Inland Revenue. From the results of these study groups, revenue services with the other tiers of governments were set up at State and Local Governments levels. The main objective of the reform was to improve services delivery to taxpayers which introduced the National Tax Policy.

National Tax Policy

The accepted recommendations on National Tax Policy (NTP) specifically distinguish Taxation from other components of Revenue. Section 1.2 of the definition of taxation by the final draft on National Tax Policy adopted in 2012 defined tax as a "monetary charge imposed by government on persons, entities, transactions or properties to yield revenue". NTP also defined tax as a "pecuniary burden laid upon individuals or property to support government expenditure" and not a voluntary payment or donation but an enforced/compulsory contribution,

exacted pursuant to legislative authority (NTP 2010). This definition has earlier been discussed in this study. However, the policy also defined revenue as "income received from all activities engaged in by the receiving entity". Revenue in this context is the entire amount received by the Government from sources within and outside the government entity. Government revenue includes proceeds from sale of crude oil, taxes, penalties, interest, fines, charges and other earnings received from government investments. The policy made it clear that, revenue is believed to be the main purpose of taxes by government. Section 1.4 of the policy explicitly explained the rationale for and purpose of the policy and recognizes taxation as a veritable instrument for national development. Furthermore, apart from being a major source of revenue for governments to provide goods and services needed by their people, taxation policies can stimulate economic growth and job creation through its impact on investment and capital formation in the economy. The National Assembly through the constitution has been empowered exclusively to legislate and impose taxes on incomes, profits and capital gains and this is recognized in the National Tax Policy. This same policy imposes taxes on documents of corporate organizations; and also State Governments are empowered to collect those taxes from individuals' resident in their respective States.

Section 2.6 of the approved NTP 2012 provides for the fundamental features and the cannons of taxation as proposed by Adam Smith (1776), which include:

(a) Simplicity, Certainty and Clarity

(b) Economy efficiency, Low Compliance and Administration Cost

(c) Fairness and Equity

(d) Flexibility

Issues and Challenges in Tax Assessment and Collections from Informal Economy

Supriya (2005) stated that, both the objectives and functions of modern government have increased thereby necessitating large resources. Nigeria is no exception. For obvious reasons the contributions of Adam Smith (1776) to the economic theory on taxation are still regarded as the highest class in the study of economic thoughts.

His clear definition of the canons of taxation can hardly be exceeded in clarity and simplicity. The four canons of "Equality, Certainty, Convenience and Economy", are still regarded as pertinent characteristics of a good tax system. These principles

are to promote economic growth and development, especially in the developing countries like Nigeria. Tax assessment and collections from informal sector have their challenges, some of this challenges includes No statistical database due to non-registration of businesses in the informal sector, poor accounting record keeping of business transactions lack of trained and skilled staff of relevant tax authority, Costs and benefits of tax collections from informal sector, Non availability of Tax Statistics and Multiplicity of Tax.

For any Relevant Tax Authority (RTA) to be able to obtain a database for assessment it must first of all establish the residence of the taxpayer. Principal place of residence though mostly applied to persons working under employment seems to be silent on self-employed persons. This set of would-be taxpayers find solace in this clause. Self-employed persons including professionals in private practice are major offenders in tax assessment and collections. Ayua (1999) cited in Kiabel and Nwokah (2009) labeled this group of informal sector operatives as those persons who blatantly refused to pay tax by reporting losses every year. Finding on their lifestyles do not depict the nature of losses reported in their financial statements.

Experience gained through observations show that, some of the traders in informal sector operate their business in private and commercial vehicles travelling to various markets on market days. The traders exploit the good road network in the State to move from other neighboring states on big market days in Nigeria to do their businesses. After the day's sales they return to their States of origin which they pay tax.

Theoretical Famework

The Theory of Free Entry and Fee Exit in the Market

The Free entry concept is a term used by economists to describe a condition in which sellers freely enter the market for an economic again by establishing production and beginning to sell the product. It connote a situation where anybody ready to sell and willing to sell with fund to start the business can enter the market and begin to trade or produce the good for economic gain Along these same lines, free exit occurs when a firm can exit the market without limit when economic losses are being incurred.

The Theory of Arbitrage

Arbitrage describes the act of buying a security, a procust or nay thing in one market and simultaneously selling it in another market at a higher price, thereby enabling

investors to profit from the temporary difference in cost per share. It works on in perfect price knowledge. The arbitrage strategy can be used in many markets, including those for trading stocks and those for currency trading, or any other businesses In the stock market, traders exploit arbitrage opportunities by purchasing a stock on a foreign exchange where the equity's share price has not yet adjusted for the exchange rate, which is in a constant state of flux. The price of the stock on the foreign exchange is therefore undervalued compared to the price on the local exchange. This difference positions the trader to harvest gains from this differential. (Investopedia, 2024. Harvard business school online 2024)

Canon of Tax Theory

It was Adam smith that propounded the canon of tax theory, he stated that every good tax and tax system should have certain qualities which he named canon of taxation, these are Canon of Equality, Canon of Certainty. Canon of Convenience, Canon of Economy, it means the tax payment must replicate equality among tax payers, it also must be certain, the tax payer must know the amount to pay when to pay and how to pay, there must not be ambiguity in the amount to pay, it also must be convenient, no one should be taxed over and above what he earns, it should be certain part of the earns that the tax payer is able to pay and could pay easily, the tax system should also be able to provide the government with required revenue to run the economy of the nation.

Knowledge based Theory of SMEs

The knowledge based theory (KBT) also knowns as The knowledge-based view (KBV) was propounded by Grant (1992) noted that the key factor in SMEs is knowledge, it include the knowledge of the business, the ability to recognized opportunity and the ability to tap into it, the theory stated that knowledge is one key factor that is difficult to measure and to recognize it is diverse and very fluid. With regard to SMEs the owner.-manager must be adequately equipped with the technical knowhow of the business. This knowledge is embedded and carried through organizational culture, identity, policies, routines, documents, systems and employees.it helps to create competitive advantage for the business. The knowledge encompasses the managerial ability, the ability to raise resources for the firm and to grow the firm from bottom-up. The SMEs would strengthen to achieve the goals based on accurate knowledge of the environment where the business exist. (Nusrat et al, 2022).

Relevance of the Theory to this Study

This study is based on the above theories. The free entry and free exit theory provided the foundation for the swarm locust paradigm in the same line as the arbitrage theory, the knowledge based theory provided the bases for the SMEs replication and growth, while the canon of tax theory provided the foundation for tax of informal sector in this regard.

Research Problems

The persistence challenge in the tax administration system over time remain the bane of this system and the poorly skilled staff and the need to under study the informal sector formation and the operation have contributed to the issue of low revenue generation form the sector. The poor state of technology and the persistence distrust by the operators of the informal in the government is another problem of the sector. The government-people trust level is at its lowest ebb in Nigeria and hence the protection-syndrome of the informal sector to any demand by the government from the informal sector. The people are yet to believe that this fund when paid would be used for the purpose of growth and development of the nation. This is corroborated by a study carried out by Raji (2015) on revenue generation as a major source of income for the State Government, the study noted that revenue collection in local government is hindered by corrupt practices and poor handling.

Research Methodology

A research method is concern with the concise description of the methods of enquiry employed in a research study. This research study is basically an exploratory research; the survey research method was adopted using structured questionnaire. The reliability of the instrument was done using the Cronbach alpha technique and the result shows a correlation of 75%, according to **Nunnally** (1978) a 70% correlation coefficient will suffice for this nature of study. To ensure validity of the instrument it was given to academics and expert in the field of informal sector business. The questionnaire was administered on 120 informal sector participants including owners and senior managers in the informal sector in Lagos state, four local governments were selected namely: Ikeja, Ojo and Agege and Apapa local government these local governments where selected as a result of concentrate of informal sectors business in those local governments, 30 questionnaires were administered in each local government. The multinomial logistic regression analysis

was adopted for the study. The choice of this method of data analysis is the fact that it made use of the probability factor and exponential likelihood model that can on the chance bases project the very fact about the informal sector in Nigeria. It is a known truth that the informal sector is diverse and variants in their existence and formation. Of the 120 questionnaire distributed only 117 where usable. The convenient sampling technique was adopted for the data collection. This is due to the fluid nature of the informal sector operation in Lagos state, this fluid nature has been noted in many researches on informal sector operation in Nigeria.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Std. Error	Statistic
There is no accurate record of the revenue from informal sector in Nigeria	117	1.00	6.00	1.9658	.04193	.224	55. 232
The informal sector are not logistically coordinated in Nigeria	117	1.00	2.00	1.8974	.02817	.224	5.132
Government does not have accurate record of where the informal sector are in Nigeria	117	1.00	3.00	1.8718	.03333	.224	2.773
Government has not put in place acceptable grassroots mechanism to annex taxes from the informal sector	117	1.00	7.00	1.8376	.05816	.224	38.764
Improper accounting system by the informal sector operators is the bane of tax collection	117	1.00	9.00	1.8205	.07346	.224	57.733
The tax administration do not understand the working of the informal sector activities	117	1.00	12.00	1.8120	.09706	.224	77.525
The informal sector is capable of contributing higher to the government coffer than the formal sector in Nigeria	117	1.00	8.00	1.8120	.06641	.224	47.321
There is high administrative cost of tax collection in the informal sector	117	1.00	10.00	1.6923	.08451	.224	59.003
The informal sector constitute 60% of revenue generation in Nigeria	117	1.00	2.00	1.6496	.04430	.224	-1.625

	N	Minimum	Maximum	Mean		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Std. Error	Statistic
There is no effort by the government to coordinate the in formal sector in Nigeria	117	1.00	4.00	1.5043	.05096	.224	1.449
The cost outwit the benefit of tax revenue from the informal sector in Nigeria	117	1.00	11.00	1.4957	.09374	.224	67.079
There is no will on the side of the government to coordinate the informal sector in Nigeria	117	1.00	5.00	1.4444	.05489	.224	9.126
Valid N (listwise)	117						

Descriptive Analysis

The multinomial logistic regression (MLR) was used to produce the descriptive statistics of the variables of the study, the MLR factor generated the mean, the Kurtosis statistics of the data. Of the variables the highest mean score is of the variable "There is no accurate record of the revenue from informal sector in Nigeria" followed by "The informal sector is not logistically coordinated in Nigeria" followed by "Government does not have accurate record of where the informal sector is in Nigeria" the rating order show that record keeping is the bane of the contribution of the informal sector to the government revenue in Lagos state. In the order of value, it reveal that the item with the least mean score is "There is no will on the side of the government to coordinate the informal sector in Nigeria" this connote that despite the will of the government the major issue remain record keeping.

Testing of Hypotheses

After a careful and systematic analysis of the respondents' responses to the research. questions formulated, hypotheses earlier submitted will be tested using Statistical Packages for Social Sciences. (SPSS Statistics 20.0)

Hypothesis I

H_0: Poor income tax administration system is not the bane of low revenues generation from the informal sector in Lagos state

Table 2: Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	74.805			
Final	30.823	43.983	6	.000

Table 3: Pseudo R-Square

Cox and Snell	.313
Nagelkerke	.431
	.290

Table4: Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	30.823[a]	.000	0	.
VAR00003	31.047	.224	1	.636
VAR00002	30.860	.037	1	.848
VAR00007	52.503	21.680	1	.000
VAR00010	41.403	10.580	1	.001
VAR00012	37.422	6.599	1	.010

This is the result of the multinomial logistic regression model used for this study: 117 observations were used for the study as revealed by table 1. The r^2 of the regression using the best of the three r^2 by Cox and Snell, Nagelkerke and McFadden r^2 factor is Nagelkerke r^2 which is 0.431 this have been argued by many not to be the best and should not be interpreted in the same vain in which the r^2 factor in ordinary least square will be interpreted, however, it is the best that could be computed using the likehood ratio of logit regression. The Nagelkerke r^2 is 43%, suggesting that 43% of likehood probabilities in the variable is exponentially represented by the explained to the explanatory variables in the logit regression. the intercept of the equation is 30.823and the slope of the equation is 31.047, 30.860, 52.503, 41.403, 37.422 respectively this connote that while holding other dependent variables as zero in order, the log odd of a unit increase in the independent variables is revealed by the dependent variables at 31.047, 30.860, 52.503, 41.403, 37.422 respectively. However, the chi-square exponential log odd significant factor of var003 and var002 are not significant at 0.05 significant level meaning that the two variables will have

no consequential deterministic value in the equation, hence, their coefficient is inconsequential in the log-odd predictive or deterministic order in the regression.

Appling the Likelihood Ratio Tests the combined X-Statistics is significant at 0.05 for the combined log odd effect of the explained variables on the explanatory variables. Meaning therefore, that Poor income tax administration system is the bane of low revenues generation from the informal sector in Lagos state. The study by Okoronkwo (2017) on capital gains tax administration in South East Nigeria noted that poor administration of the tax system is the bane of tax revenue collection in Nigeria,

Hypothesis II

H₀: The informal sector does not have the potential to improve on the revenue generation of the government

Table5

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	69.737			
Final	40.865	28.872	12	.004

Table 6

Pseudo R-Square	
Cox and Snell	.219
Nagelkerke	.487
McFadden	.414

Table 7

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	40.865[a]	.000	0	.
VAR00002	42.940[b]	2.074	2	.354
VAR00009	43.784[b]	2.919	2	.232
VAR00011	47.538[b]	6.673	2	.036
VAR00005	44.132[b]	3.266	2	.195
VAR00004	48.514[b]	7.648	2	.022

The above is the multinomial regression result for the second hypothesis tested in this study, 117 observations were used for the study as revealed by table 1. The r^2 of the regression using the best of the three r^2 by Cox and Snell, Nagelkerke and McFadden r^2 factor is Nagelkerke r^2 which is 0.49 this has been argued by many not to be the best and should not be interpreted in the same vain in which the r^2 factor in ordinary least square will be interpreted, however, it is the best that could be computed using the log odd ratio of logistic regression. The Nagelkerke r^2 is 0.49%, suggesting that 43% of likelihood probabilities in the variable is exponentially represented by the explained to the explanatory variables in the logit regression, that is, the chances or odd of the dependent variable being explained by the independent variables is 49% and 51% that it will not be the explanatory factor. The intercept of the equation is 30.823and the slope of the equation is 31.047, 30.860, 52.503, 41.403, 37.422 respectively this connote that while holding other dependent variables coefficients nil in order, the log odd of a unit increase in the independent variables as correlated by the dependent variables are 31.047, 30.860, 52.503, 41.403, 37.422 respectively. However, the exponential log odd chi-square significant factor of var002 and var009 and var005 are not significant at 0.05 significant level meaning that the two variables will have no deterministic relevance in the equation, hence, their coefficient is inconsequential in the log-odd predictive or deterministic order of the regression.

Appling the Likelihood Ratio Tests (LRT) the combined X-Statistics is significant at 0.05 for the combined log odd effect of the explained variables on the explanatory variables. Meaning therefore, that the exponential log odd of relationship is significant, we hence reject the H_0 and accept H_1 that the informal sector does have the potential to improve on the revenue generation of the government. This result is corroborated by the mean score of the variables most accepted in the mean score table above which shows that poor record keeping is the bane of revenue generation in Lagos. This is corroborated by the study of Sabian and Oleka (2015) on effect of tax revenue on the microeconomic system in Nigeria and noted that government earning from tax will greatly influence the microeconomic growth of the economy.

Hypothesis 3

The informal sector is dynamic and fluid and cannot be accommodated by the current static tax system

The Swarm Locust Paradigm

The swarm locust paradigm or hypothesis rest on certain assumptions

a) The informal sector is huge market of organised production with the dynamic of free entry and free exit where trade is based on arbitrage process.

b) It is based on informal training and mostly uncertificated craft.

c) It has the potential of controls of major work force.

d) It provide larger proportion of the society with earnings and profitability.

e) It operate mostly based on arbitrage process.

Where the operators based their venture on ability to move their trade from on industry to another that is green. The dynamism is such that the porters of the informal sector don't stay on one line of business they move quickly to any sector providing huge market benefits and potentials. When such market is exhausted they move to another sector generating huge profits and revenue, for example Ikeja computer village in Nigeria(wikipadia, 2024) a curb of SMEs, wikipadia, (2024) noted that it is a Perfect market in which no dealer influences the price of the product it buys or sells within the market", there are huge number of buyers and sellers in the market coupled with a large number of consumers with willingness to buy the products at a certain price with respect to their need and income .the market was a popular one known market for clothes and books sales in the 1980s, almost all businesses in the market is around clothes and books. The advent of computer in the mid-1990s and early 2000 changed almost the whole businesses in the axis to computer sales and other computer adware and software hence the name "computer village." However, with the advent of huge phones market in the mid 2010 till date almost all businesses in the market are around sales of phones, repair of phones and others, the computer businesses in the market is not up to 20% of all the businesses in the market any more, this is the swarm locust paradigm. Just like the swarm locust they move in huge family to the next available greener pasture, until they exhaust the green pasture they don't leave. This is the dynamism of small and medium scale businesses. They operate in the market until the equilibrium is reach which only occur when the market can only provide normal profit, the abnormal profit associated with the green market must be exhausted before the market settle down. it is like a bubble, it has to settle before all frenzy is over. The principle of free

entry and free exit make the market dynamic, very few capital and ski are needed and hence a wiling investor can enter the market to have cut of the abnormal profit going on. They operate using the arbitrage process, they buy in the same market a prices and sell at higher prices due to poor knowledge by the buyers and customers sometimes they go to other markets to buy and sell in the curb at a higher price. They don't create any market they only prey on green market, new product or now technology, to their advantage. This is the conduct of the swarm locust paradigm.

It is cultivate the culture of grasshoppers in following, building on trending technology and market till exhausted, then they exploit new and emerging market. Only those who could pull through end up establishing their presence till long run while others fade off.
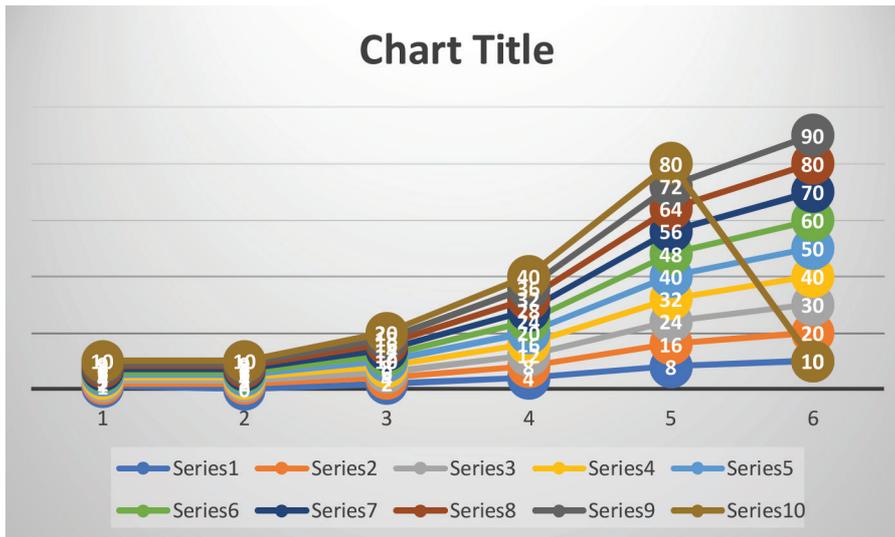
Chart

Source: The Researcher 2024

The table 1 is the graph of the abnormal profits made by the operators of the SMEs in the market, it must be a green business, the first entrant is represented by the first graph, the points 6 on x-axis shows the abnormal profits made by the SMEs the least of the group of firms made 10 points in abnormal profits. The next made 20 and so on till 90 points in abnormal profits. It needs to be stated that the first entrant in the market with the highest market share being the market leader makes 90 points above while the least entrant made the 10 points abnormal profits. As the

market squeeze up the profits drop down to level 1 on the x-axis, here the highest firm now made 10 abnormal profits while the list firm made no abnormal profits as the abnormal profits as plummet to zero, this where the equilibrium is established. This is the points where the firms begin to leave the market. This scenario will always come in the life of SMEs system curb of business, it is at this points that no new entrant will come to the market again, the market is saturated.

The above is what make it difficult for the government to effectively tax the informal sector. As the mechanism of government tax system is not design to capture this dynamism of a scenario. The tax administration is designed to capture stable and well-structured market with strong focus and huge possibility in the long run the SMEs market is rather dynamic, fluid and very opaque that only fast and dynamic tax system can cash up with it. The above scenario holds for SMEs and makes it tax advantage to the government less attractive, however, it need to be stated that they still portend huge revenue and market for tax revenue to the government

Summary of the Findings

After the various analyses conducted, the following were the findings of the study:

- There is huge tax revenue potential in the informal sector of Nigeria.
- The current tax administration system is weak and cannot handle the potential tax benefits in the informal sector of Nigeria due to it dynamism
- There is no adequate infrastructural system to annex the tax benefit potential in the informal sector of Nigeria
- The government could realize over and above 50% of tax revenue from the informal sector.
- The poor financial and operating recording system in the informal sector remain the bane of exploiting the potential of tax revenue from the informal sector.
- The swarm locust paradigm holds in the informal sector of Nigeria and depict the bane of government tax revenue at the informal sector.

Conclusion

The study examined the dynamics of informal sector taxation and revenue generation in Lagos State

The study from available literature noted that many have argued that the informal sector do not have the potential of good contribution in tax revenue to the government due to the cost and benefit and logistic strength of the current tax administration system that tend to have structure that favor majorly organized sector and corporate bodies, the study concluded after structured analysis and interpretation of data that despite the potency of various research findings and generalization the informal sector carry the possibility and the odd of contributing the largest tax revenue for the government. The informal sector could be the largest revenue provider for government microeconomic and macroeconomic activities. It also concluded that the dynamic of the informal sector make it follow the swarm locust behavior. Lastly in the face of dwindling revenue form the oil sector to Nigeria. The government could benefit massively it would put in place structure that would integrate the informal sector to the main tax revenue to the government. .

Recommendations

The following are the recommendations from the study

- The government should put structure in place the will assist the informal sector come to the hub of the national economic activities.
- The government should strengthen the tax administration system to capture the activities of the informal sector.
- The government should put both legal and structural frameworks in place that will allow the informal sector generate, coordinate and assesses the economic potential of the nation thereby providing tax advantage to the government

Contribution to Knowledge

The study creates the nexus in odd potentials of the informal sector revenue possibilities and likelihood of government tax revenue acceleration as succor to drop odd of revenue from other sectors in Nigeria. It also create the swarm locust paradigm that characterize the informal sector behavior.

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