CHAPTER ONE.

INTRODUCTION

TAXATION AND THE INFORMAL SECTOR: A CASES STUDY OF LAGOS STSTATE

BY

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BEING

A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS AND DEVELOPMENT STUDIES

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DECLARATION

I, Soyinka Irebowale hereby declare that this research project is my original work and that no portion of this work has been or will be submitted in support of an application for another degree or qualification of this or any other Universities or other institution of learning.

Soyinka Irebowale **……………...................................**

Signature and Date

CERTIFICATION

This is to certify that this research project, written by Soyinka Irebowale was supervised and approved in partial fulfilment of the requirements for the award of Bachelor of Science (B.Sc.) Degree in Economics of the Department of Economics and Development Studies, College of Business and Social Sciences, Covenant University, Ota, Ogun State, Nigeria.

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(Head of Department) **Signature and Date**

DEDICATION

I dedicate this research work to God Almighty who has kept me alive to this moment and has given me the strength, passion and guidance throughout my stay in Covenant University. To my lovely parents and siblings for their love, support and encouragement. They have been the best from the onset even till the end.

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ABSTRACT

The fact is oil prices are fluctuating and totally unstable, as soon people shift from the use of crude oil to a more advanced source of energy, it's important for Nigeria as an economy to shift her focus of revenue sources from the exportation of crude oil to something more reliable and stable. As established one of the sources of revenue that has proven to be somewhat stable over the years is revenue from taxes, but Nigeria has not maximized this source as the tax to GDP is one of the lowest in Africa, as of 2017 we recorded a 6% tax to GDP ratio. Nigeria's economy is more dominated by the informal sector, and what this means is that the level of compliance is very low amongst them, but that has not been established for sure. A good understanding of the behavior of the informal sector operators and the level of compliance is important for policy implications for tax reformations and revenue mobilization. This paper assesses the tax compliance level of the operators in the informal sector in Nigeria (Lagos State). The study uses a total sample size of 150 small businesses. The findings show that lack of tax education, lack of bookkeeping, and that some areas don't get visited by the tax officials negatively influence the level of tax compliance amongst small businesses in Lagos State. The study also ran a secondary regression to show the effect of the size of the informal sector on tax revenue, and with the apriorist expectation it has a negative effect in Nigeria We conclude that continuous tax education and removal of multiple taxes at the local level would improve small businesses tax compliance level in Nigeria.

1.1 BACKGROUND TO THE STUDY.

So many emerging economies including that of Nigeria are confronted with the challenge of raising the required revenues to meet government expenses. Government-planned incomes usually fall lower than the expected expenses. As a result of various external shocks. As a result, Nigeria most times runs on a budget deficit, enough evidence shows that Nigeria's budget deficit trends have been on the rise. It recorded 40 years of deficit since the early 70’s (Adeleke; Abdulsallam,2014).

Over the past two decades, the Nigerian government authorities have regularly spent more than it can make as revenue. The budget that was released in 2018 which was about 8.612 trillion, 16% higher than the previous budget, has about 2.005 trillion as its deficit. And this would be financed by internal and external borrowing which would incur more debts, which can weaken the economy in the future.

In 2017, Nigeria recorded the lowest tax-to-GDP ratio which was estimated to be about 6% this was reviewed at the tax conference, that was organized by the Lagos Internal Revenue Services(LIRS), National Chamber of Commerce, Industry, Mines and Agriculture(NACCIMA) and Federal Inland Revenue Services(FIRS) in Lagos, this is not inspiring as a growing economy, Taxes are meant to be the major revenue source in a good economy. But the contrary is the case, as proceeds from the crude oil export are the major revenue source for the government authorities in Nigeria. Considering the number of people that live in Nigeria, it is expected that the revenue the government generates from taxes would be high.

Chukwuma and Efeelo (2017) opined that Oil booms are no more. Furthermore, a considerable lot of developing nations, which for the most part are dependent on developed economies, now think that it is difficult to maintain the economy. Thus, there has been an adjustment in intuition in governments‟ consideration (in Nigeria and other developing nations) towards taxing the informal division, which before now was excluded in the tax net; to boost their performance and revenue base. The Nigerian economy is poorly financed as there is little revenue coming from the exportation of crude oil because of the unstable prices of oil, concerning the total number of people who live in the country. This statement was implied by Mrs. Kemi Adeosun, former minister of finance, during her speech about the Voluntary Assets Income Declaration Scheme (VAIDS).

The present state of most developing economies has created lots of financial problems, that solely depend on external sources for finances, because most of these countries lack liquidity in the external market, also are not doing so well in the aspect of their development (Drine, 2009). So therefore, to strengthen our internal revenue mobilization, Taxation is the most capable and operative means of increasing revenue for the government for the provision of public goods (Gberegbe, 2007).

Taxes are meant to be one of the major revenue sources. But the tax mobilization has been faced with multifaceted problems starting from malpractices, mismanagement of funds, misuse, poor policies by the government, tax evasion, crude ways of collecting taxes, lack of innovation by the tax authorities and many more. All these problems have made it hard for the government to finance their capital projects whilst most of the revenue from the export of oil is used for recurrent expenditure. It is every citizen's duty to pay tax and anyone who evade is punishable by law.

The Nigerian economy is divided into formal and Grey economys. The Grey economy is also known as the grey economy, In the survey conducted by NSSO (National Sample Survey Organization) India, NSSO defines the Grey economy enterprises comprise of all distinct proprietary and partnership initiatives. However, National Accounts Statistics (NAS) of India defines the unorganized sector in addition to the sole proprietors or partnership creativities, includes initiatives run by cooperative societies, trust, private and limited companies. Simply put the underground economy comprises of all the business doings that are not formally regulated and not registered.

The International Labor Organization (ILO), estimated that the average size that the Grey economy contributes to the employment opportunities is an estimate of 60%. The grey economy can be seen as a huge employer of labor and has helped in boosting the economy. The grey economy plays a very important role in any economy, For example. Creating employment opportunities and giving to GDP; however, it is unregulated and workers are frequently exposed to the impulses of their employers (Adesanya,2014).

The Grey economy can be seen as the economic segment that involves all the economic activities by workers or unit that is in law or practice but not sufficiently covered by formal arrangements. The sector is made up primarily of sole owners of companies, small and medium enterprises and other forms of economic activities. Revenues generated by the workers in the sector, in many cases, are not officially taken into the tax net of the States or Nation. It is an economic sector for which statistical figures are not easily found and are not copiously captured into the tax net of the State.

The recent recession caused by the crash in the global crude oil prices and the mismanagement of the economy has raised many questions as to how the government would finance their future budget in the case of a future crash in the economy, as the prices of oil fluctuate and economic shocks are inevitable.

The Grey economy is that segment of the economy that is exempt from being taxed or monitored by any form of government. This definition raises lots of questions in my mind as to why the Grey economy is not taxed.

The recent studies by Chatham House Royal Institute Affairs indicates that the Nigerian Grey economy makes about 64% of the GDP and this sector is not taxed, Then the question remains ‘Where does the government get their tax revenue?” and the simple answer to this question is that the tax burden is borne by the corporate sector that is the formal sector, simply put that only 46% of the economic activities in the economy is taxed and this 46% would only hold if there are no tax evaders.

So logically speaking about 40% of the economic activities in the economy is taxed taking into consideration tax evaders. And what this means is that the remaining people who do not pay taxes are just free riders enjoying the benefits of the public goods provided by the government with those who paid taxes.

Although the whole formalization of the Grey economy not been taxed is so as to improve the growth and the growth of the Small and Medium Enterprises (SMEs) but many of these trades in the informal subdivision are no longer SMEs, but yet they hide under the umbrella of the grey economy and evade tax. The tax treated here are not indirect taxes but rather direct taxes such as income taxes.

Another very important sector although illegal that are not captured in the tax net the shadow economy, these comprises of individuals that carry out business that are against the law and could be punished by the law examples are prostitution, drug dealers, traffickers and these businesses are not captured by the GDP or GNP therefore they totally evade taxes and become free riders.

1.2 STATEMENT OF RESEARCH PROBLEM

One of the major difficulties confronting the government of developing nations taxing the Grey economy, coupled with this problem is the government's inability to formalize the process of the collection of these taxes. This attestation was perceived by Joshi and Ayee (2009), when they stated that - how to tax the underground economy remains a major pressing issue.

Emerging countries face lots of partisan, financial and managerial challenges in closing tax gaps, and this could be because of the self-interest of the individuals who are in control of administering these taxes (European Parliament,2014)

Over the previous years, relatively every part of managing or regularizing the Grey economy (independently employed) has been an issue which has defied all measures that were put in place, to improve the mobilization of revenue to the government (Adom, 2000).

Olken and Singhal (2012) made it clear that informal payments are often overlooked government financing source in emerging countries despite the fact that they're wide spread and contributes a lot in the economy.

The tax generated from the Grey economy with respect to its large size is only a drop in the national

funds. Despite the revenue generated from the underground economy, the government administration has resolved to extend the tax base of the Grey economy since disregarding the sector would cause further non-compliance (Terkper, 2003). There are numerous Grey economy participant who voluntarily do not pay taxes or for some other reasons, are non-compliant and yet are not probed by the tax authorities in the Country.

The motivation behind this research is hence, to discover the reasons for tax non-compliance in the underground economy, also investigate further the difficulties involved in the revenue mobilization of the country, and most importantly suggest a system, a formalized system to ensure the improvement the collection of the taxes form the Grey economy.

The major problem is how to mobilize revenue from the Grey economy, and also how to improve the tax system in Nigeria.

1.3 RESEARCH QUESTION

The purpose of this study is to be able to give answers to these questions below.

(1) How much of the workers in the grey economy are compliant to the payment of taxes?

(2) What effect does the size of the Grey economy have on the tax revenue generated in the country?

(3) What are the problems faced by the tax officials during the collection of taxes from operators in the Grey economy?

1.4 OBJECTIVE OF THE STUDY

(1) To know how much of the workers in the Grey economy are compliant to the payment of taxes.

(2) To determine the effect of the size of the Grey economy on the taxes generated of Nigeria.

(3) To know the problems faced by the tax officials in the collection of taxes from the operators in the Grey economy**.**

1.5 RESEARCH HYPOTHESIS

To achieve the above objectives, the following hypotheses were formulated:

H0: There is low rate of tax compliance amongst the operators in the Grey economy.

H1: There is a great rate of tax compliance amongst the operators in the Grey economy.

H0: There is a negative relationship between the size of the Grey economy and tax revenue generated in the economy.

H1: There is a positive relationship between the size of the Grey economy and tax revenue generated in the economy.

H0: The tax officials face lots of problems in the collection of taxes from the operators in the Grey economy.

H1: The tax officials do not face lots of challenges in the collection of taxes from the operators in the Grey economy.

1.6 SCOPE OF STUDY

This exploration study covers people whose work can be categorized under the grey economy, such as small scale merchants, beauticians, hairdressers, dressmakers, artisans, and many more. In Lagos State. I am using Lagos State as my case study because the city is a center for many businesses both formal and informal, and that is a bases for the generalization of my findings and also because of my familiarity with the city.

The research would also cover tax authorities since they are in charge of revenue mobilization. This research is going to focus on the Lagos Internal Revenue Services (LIRS) because, in my opinion, they have better personals and more knowledge concerning revenues mobilization than the local government tax officials.

1.7 SIGNIFICANCE OF STUDY

This study would be very useful to the government in helping to unveil the major factors underlying people's personal decision as to why they do or do not pay taxes. The study would help us understand what actually lies in the minds of people especially the people who own businesses in the Grey economy as to what comes up in their minds when the issues of taxation arises.

And since the study is going to help in exposing some problems in line with tax collection in the Grey economy in Lagos, the study would help recommending ways to resolve these problems such that when applied to these issues they would help solve the problems.

The purpose of this study is intended not just for the government's sake but for the sake of the Grey economy and the economy as a whole.

1.8 METHODS OF ANALYSIS AND DATA SOURCES

Both secondary and primary data would be collected for the purpose of this study. Primary data is the source of data in this study because there is no available data (secondary data) already for the reasons why Grey economy operators are not compliant to the payment of taxes. Also, the level of accuracy of primary data is high.

Besides, primary data is current and it would most likely give a practical view to the researcher about the subject matter.

Data from journals and tax documents would also be very useful in this research project.

A regression analysis would be used to check the effect of some variables, such as size of Grey economy, corruption index, level of unemployment on tax-to-GDP ratio.

1.9 OUTLINE OF THE STUDY

The research entails of five chapters. The first chapter focuses on the background of the research study, the introduction, the research problem statement, the main objectives and method of analysis of the research work

Additional parts of the chapter one involves the implication and coverage of the study.

Chapter 2 emphases on the evaluation of connected past works. In this section, journals, articles, unpublished and published exploratory studies that relates to this study will be reviewed.

The procedure of the research study is the focus of chapter three. It describes the design of the research, the population to be examined, sample and sampling procedures appropriate for the study. Also covered in the chapter are the variables implored in the cause of the study, methods of data analysis and importantly the data collection limitation.

In chapter four, the analysis of the findings and results are thoroughly presented. And this chapter made use of both primary and secondary data.

Finally, the summary of findings, conclusions drawn and references on how to improve the tax system form the final chapter of the research study that is chapter 5.

CHAPTER 2

LITERATURE REVIEW

2.1 PREAMBLE

This chapter discusses the relevant and prominent literature in this research as regards, to taxation, Grey economy, reasons why the Grey economy are non-compliant to tax payments, challenges involved in taxing the Grey economy operators, the given solutions on how to improve the revenue generation, and most importantly the gap the research is trying to fill.

2.2 CONCEPTUAL REVIEW

2.2.1 THE GREY ECONOMY

Ever since, studies that have tried to study the Grey economy have found difficulties in defining it, there have been various, and various in this context means many definitions of the Grey economy by numerous people, and there is no specific definition that is widely accepted by everyone. This definition suggests that the Grey economy is not regulated by the government and therefore are not taxed.

Generally, the definition of the underground economy by various people can be seen from different views, such as: using government control, the number of operators in the sector, in this case not just physical capital but also human capital, the source of revenue for the operators and finally the legal framework that binds the operation of the Grey economy (Ogbuabor, 2013; Malaolu, 2013).

Adesanya (2014) further defined the Grey economy as a subsector of the economy that consists of various commercial activities that are not fully regulated by the government and other authorities, these economic activities are by the law, although conducted in an illegal manner because they are not regulated. The grey economy can be seen as a major contributor, to the creation of employment in any economy (Chen 2006). The Grey economy is also very essential to make the formal firms very competitive and also without them the supply chain in any economy would be disrupted (Blunch et al. 2001; Jones et al. 2006). These factors cannot be over emphasized as they are very useful for capitalism to thrive. Even if the Grey economy contributes largely to the economic activities, the exact knowledge of the size, causes, characteristics, dynamism of the Grey economy remains very little and not sufficient and despite the wide range of Grey economy (Oduh et al, 2008).

According to a survey research conducted by Adesanya (2014), on the Grey economy in Nigeria, the study showed that the Grey economy is very important to our economy that ever and grows mainly because of very low standards of living and very few available jobs in the formal sector. The economic activities and the income derived from people who are not under the government regulation taxation or observation (Schneider, 2005).

From the various definitions given above, two things are very clear of the Grey economy, and they are the fact that the Grey economy is unregulated, untaxed.

The Grey economy procured a legitimate definition dependent on generation units, both in reasonable and measurable terms just in January, 1993 during the fifteenth International Conference of Labor Statisticians (ICLS). As indicated by the fifteenth ICLS Grey economy might be extensively described as comprising of units occupied with the creation of products or administrations with the essential target of creating business and salaries to the people concerned. These units commonly work at a low dimension of association, with practically no division among work and capital as variables of generation and on a little scale. Work relations-where they exist depend for the most part on easygoing work, connection individual and social relations instead of legally binding game plans with formal certifications (ICLS, 1993).Some characteristics according to Patrick Somuah (2011) includes small scale operation that includes friends and family, ease of entry, little or no job security, unregulated competition and so on.

Another point of view of the Grey economys, come from the Marxist.

Reformists (Marxist) overlook the structural reliance and interwovenness of the Grey economy and the formal economy, a gap that Marxists accept as their point of omission. Rather, The Marxist school emphases on the structural reliance and negative exploitative relations between the informal and formal sectors. In Marxist dissertations, (Nattrass, 1987), the Grey economy is a 'marginal' sector, that is an extra sector involving 'petty goods production'. As a 'marginal' or a 'petty goods production' sector, Marxist theorists argue that the Grey economy is just a separate 'marginal pole' that is just an extra sector that acts as a reserve army of labor that manufactures and offers inexpensive, low quality, subsistence services and goods; and helps in facilitating capital accumulation for the formal sector (Tokman, 1978; Moser, 1978). What the above paragraph simply implies is that some economists do not take the Grey economy as a very important aspect of the economy, but the truth is that many things are changing, and honestly the economy cannot survive without the Grey economy. The Grey economy is on a great rise because of its ease of entry so therefore cannot be overlooked as the Marxists have implied before.

By inference, the operators in the Grey economy make very little contributions to the total Gross Domestic Product (GDP) of an economy. This implies that there would be little damage to the economy, as a whole, if the operators in the Grey economy are taken away from their occupation. In my opinion this view is antagonistic to the operators in the Grey economy and governments who believe in this school of thought do not see any need to set up a standard structure for the Grey economy. It is however important to understand that the Grey economy is not a subordinate sector to the formal sector rather, they work hand in hand if not challenge the formal sector and should not be overlooked as the Marxists posits, although both sectors are subordinates to the global economy (Emizet, 1998).

For the purpose of this study the definition of the Grey economy that would be adopted is by that of the International Labour Organisation, there have been two major definitions before. Definitions from the the 15th International Conference of Labour Statisticians and also the17th International Conference of Labour Statistician, but both have been combined to give a clearer meaning to what the informal economy/sector actually means. The informal economy encompasses all those who work in the Grey economy and the informal workers who work outside the Grey economy. An Grey economy which is the sub sector of the informal economy operation meets the following conditions:

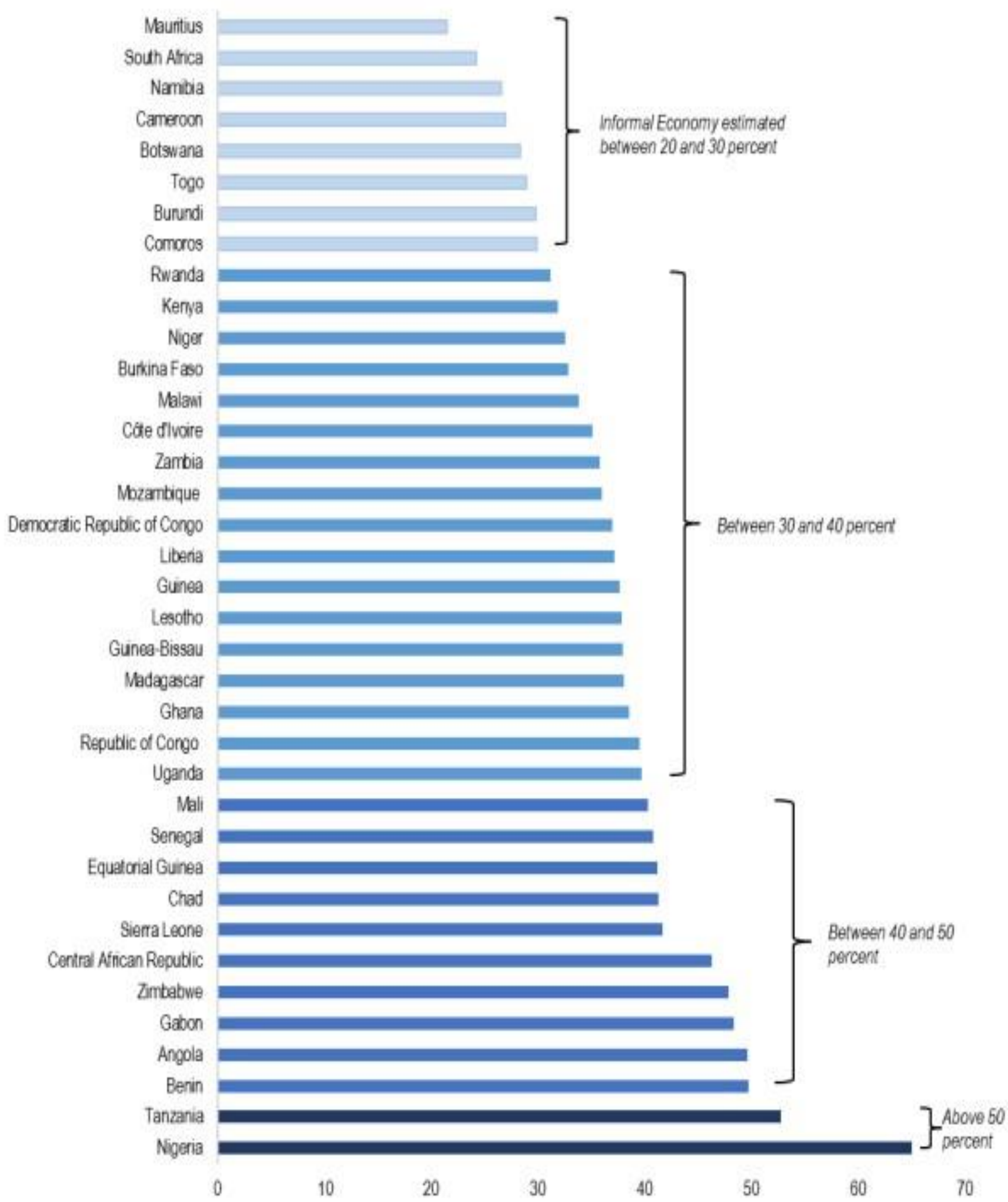
Firstly, it can be seen as an independent initiative, which means that; It is not established as a lawful unit separate from its proprietors so in case of any liability, it is borne by the sole proprietor, added to that It is controlled by one or few members of one or few households. Secondly, it is not a standard corporation that is it does not have a comprehensive set of accounts which includes balance sheets. Thirdly It can be seen as a market enterprise: what this means is that it sells at least some of the goods it produces or services it produces. Finally, the number of persons involved in this case employees or employees employed by the sole proprietor on a constant basis, is below a brink determined by the country. The fact that the enterprise is not registered simply means the staffs of the informal enterprises are not listed(registered).

2.2.2 GREY ECONOMY IN NIGERIA.

According to the United Nations Development Program (UNDP) the informal economy in Nigeria is estimated to be around 57.9% of Nigeria's rebased GDP. Also, the National Bureau of Statistics (NBS) also clearly posits that the sector comprises of over 17 million enterprises and businesses, and is a major source of job creation in Nigeria. It had been projected that between the months of July 2012 and June 2014, of about 2.48 million jobs were created by the Grey economy. While formal economy contributes about 40% of jobs in the economy, the informal economy contributing the most at 1.41 million (57%), and the public sector contributing the lowest of about 3%.

A current study by the Small and Medium Enterprises Development Agency (SMEDAN) discovered that Micro Small and Medium Enterprises (MSMEs) account for about 80% of the entire number of business enterprises in Nigeria, and 75% of the total employment created (creating jobs for over 32.4 million Nigerians). Furthermore, micro enterprises are made up of 98% of all MSMEs in the country, whereas small and medium enterprises comprise as little 1% each. Although some may be classified under the formal sector while most of course, the Grey economy. Most of the transactions in the Grey economy are mostly carried out using cash, few electronic means of payment, and the most common in this category is through bank transfers, or any mobile payment podia and the use of cheque books are not common as such. Hence the financial records of these transactions are most times not available. As a result, the income earned would be difficult to tax.

After an extensive study on a research carried out by Adesanya (2014), these discoveries were made: The informal economy is not well regulated and this makes it possible for worker to increase their earnings because they avoid been taxed and also social contributions It is also common for owners of businesses in the sector to cut costs that is related with wages that are been paid. Due to the fact of the non-compliance of some operators in this sector, there are lesser funds accrued by the government to provide infrastructure, Furthermore, the workers are often under paid, even below the minimum wage, and are not also given benefits such as insurance and pension schemes, other employment regulations are disobeyed. Conclusively, it is clear that even the Grey economy is very beneficial, it needs to be better structures and regulated, for it be successfully infused into the formal economy. And many steps are been taken by the Federal Government to grasp a better understanding of this unique sector



Mauritius
South Africa
Namibia
Cameroon
Botswana
Togo
Burundi
Comoros
Rwanda
Kenya
Niger
Burkina Faso
Malawi
Côte d'Ivoire
Zambia
Mozambique
Democratic Republic of Congo
Liberia
Guinea
Lesotho
Guinea-Bissau
Madagascar
Ghana
Republic of Congo
Uganda
Mali
Senegal
Equatorial Guinea
Chad
Sierra Leone
Central African Republic
Zimbabwe
Gabon
Angola
Benin
Tanzania
Nigeria
0
10
20
30
40
50
60
70
Informal Economy estimated between 20 and 30 percent
Between 30 and 40 percent
Between 40 and 50 percent
Above 50 percent

The graph above shows the contributions of the activities of the Grey economy to the GDP of various African countries as at 2014 Source: Afridigest.

What the graph simply signifies is that the underground economy plays a major part in contributing to the Gross Domestic Product of Nigeria (that is the total amount of goods produced by the economy), as the graph shows that the grey economy contributes more than 50% to the overall GDP of the economy, as opposed to other African countries, Hence the Grey economy is a very important aspect of Nigeria's economy and cannot be overlooked.

2.2.3 TAXATION

Definition of taxation have been given by various scholars and they include:

Taxation can be considered the safest source of government revenue by the government, as other sources of finances which includes borrowing, whether domestically or externally has its disadvantages (Burgess, 2013; Stern,2013). Taxation is the ultimate authority of the government to mobilize resources from individuals to themselves for the main purpose of achieving economic targets and making ends meet for the people (Bird.1992) Revenues generated from taxes can be spent on public goods and investment that make the economy as a whole more efficient and productive (Besley, 2013: Persson, 2013).

The US Treasury Department defined taxation as an obligatory imbursement for which no precise benefit is expected in return (Slavin, 1999). Furthermore, Somuah (2011) implied that tax policies are very important as they are plans that are apprehensive with the idea behind how much revenue the government is generating from received taxes, what the revenue collected is being used to do, and whether the government is collecting taxes using the most appropriate medium

Paying taxes as an individual is not particularly easy for most people in all countries, because it is hard to give up the money you have solely worked for, The main reason it is difficult is because there is no direct benefit for paying taxes, what this means is that how much an individual enjoys social infrastructure does not directly depend on the amount the individual payed as tax.(Oyedele,2015).According to Adam Smith in his book Wealth of Nations (1776), he posits that an ideal tax system should possess all of these qualities; Firstly, individuals should be able to pay conveniently, secondly taxes should be certain, thirdly it should be convenient to pay and lastly a good tax system should be administratively and cost efficient.

The main argument here is that although taxes are very inconvenient to pay as individuals, but the government need these taxes to be able to provide public goods and develop the welfare of individuals in the state, the ball does not just lie in the court of the citizens but also in the hands of the government to make sure that in every state the collection of taxes are very efficient and easy and equitable.

2.2.4 HISTORICAL PERSPECTIVE ON TAXATION.

As Sargan (1980) said, it is better to know the past in other to understand the present, Hence, history of taxation would be discussed:

Tax is as a result of both economic experiences and consequences of revolution, the idea of income taxes, originated from the development of the market system and different wars that have evolved over the years, and these are interwoven with the development (Schumpeter,1991).The earliest form of taxes originated from Mesopotamia in 2500 BC where traders had to pay levies in order to transport their goods from one region to another (Douglas,1991; Weber and Wildavsky, 1986). Also, in the ancient Egypt the Pharaohs collected taxes so as to ensure income distribution using people that were called scribes.

Weber and Wildavsky (1986) opined that many regions of the world already had already established financial systems although had different dispersion in time and space. Rulers usually collect taxes to build temples, monuments and to finance wars. By the time of recording of Jesus tax officials were considered to be amongst those who actually carry out one of the lowest form of profession, but we are encouraged to pay our taxes in the (Amoah, 2012). Webber and Wildavsky (1986) also point out that for many generations the government generated revenue by collecting just few types of taxes, for instance those who farmed had directed taxes imposed on them, they also assessed head taxes.

But as a result of wars, the second World war to be precise the Pay-As-You-earn was introduced by Sir Paul Chambers. And from 1948 this system spread and has been a very popular means of tax payment amongst various countries. This system has been a good way to counter tax evasion that was high as a result of the Second World War. However, by 1948 it had increased the number of people that payed taxes income taxes to be precise by two-thirds and now is more than 90% (Rose & Karran, 1987).

2.2.5 BRIEF HISTORY OF TAXATION IN NIGERIA

Direct taxes have been in existence in the Northern part of Nigeria, even before the advent of British colonialism in the 1861, The collection of these taxes was done in the Islamic way (Abdulrazaq, 1993)

There were various forms of taxes in the Northern Nigeria in 1861, such as the "Zakat" (a tax imposed on Islamic members for generous, sacred and edifying reasons), "Kurdin Kasa" (tax on harvested agricultural products by the farmers), and "Jangali" (tax levied on livestock, simply put: cattle taxes). The southern Western region also had various kinds of taxes that were imposed by the leaders of the communities back then, and they involve- "Isakole" (levies on lands used by the local community member, they pay as a tribute, to the local community heads), "Owo-ori" (tax paid by every member of the village to their heads, basically to keep things running, and to finance warfare in the case of any).And for the eastern part of Nigeria was known to be somewhat Republican, had “egbu-nkwu” (this tax had to be paid before the people were allowed to harvest their palm kernels, and it was compulsory.), these taxes were paid in form of cowries, which was the major sources of payment at that time.

In the pre-colonial era that payment of these taxes existed in them little or no formal organizations in the administration (Abdulrazaq,1993)

.During the colonial era Sir Lord Lugard was the person who improved on the tax systems in the Northern Nigeria, and decided to systemize them, this later led to the passage of stamp duties proclamation (Federal Inland Revenue Services, 2012).to make more revenue. Lugard took steps in instituting a uniform tax system, that took a prototype as that of the Northern region, where he once served (Fakile,2011), But taxes became a source of discontent amongst the southerners as most of them, felt they were been over taxed, and the attitude of the tax collectors towards them was very mean and cruel. Simply because of this, an amendment was put in place and it was called the Native Revenue Ordinance of 1917, this bill was passed in 1918, was used first in Ogun state and some very few Western state, then it later made way to the Eastern part of Nigeria. The direct tax ordinance of 1940 could therefore be seen as the foundation of the Nigerian Tax Legislation, Colonials did not pay taxes in their residents, which seems to be unfair, but hose colonials that resided in the Federal Capital Territory, then in Lagos State were taxed, this led to the Raisman Fiscal Commission of 1958, This enforcement was made in the Nigeria Constitution Order in Council of 1960, and this formed the foundation of the Income Tax Management of 1961(Ola,1981)

Some of these tax policies have brought about some conflicts, and the most popular of them is the Aba women Riot of 1929, a rebellion by women from the Eastern part of Nigeria, for two months to protest against the behavior of tax collectors commonly called the ‘warrant chief’ and some of the policies imposed by the British colonial administration, the major even that escalated the event was the advent of direct taxation. Other conflicts include tax protest of 1938, Calabar provinces and Tax revolt in Aba and Onitsha in 1956(Oreva,2018)

“The women who were brave enough to participate in the rebellion, stood as fronts for their man, who would have paid higher taxes (Otusanya, 2001).

The history of taxation in Nigeria does not seem to have been recorded well, and expatiated well, but thanks to the Northern part of Nigeria, that made it easy for Luggard to establish a more formalized system for revenue mobilization in the country.

As found in an article written by Ebere and Umobong (2012) The Nigerian tax system is mainly for the generation of revenue from the citizens of the country. This is a heritage from the pre-independence government dependent on 1948 British duty laws and have been essentially static since improvement over time. The need to charge individual earnings all through the nation incited the pay assess the executive’s demonstration Income Tax Management Tax (ITMA) of 1961. Therefore, deliberations has been centered around improving exportation for producers. In accordance with this adjustment in approach center, numerous measures were attempted. These included, among others, implementing custom exemptions and rebates presentation capital allowanced, using the obligation downside plan and manufacturing in-blood scheme, abolishing excise duties. Introducing VAT, adapting firings benefits and reducing the tax burdens on low income earners.

2.2.6 CURRENT STATE OF TAXATION IN NIGERIA

It is new that one of the main difficulties in Nigeria does not have anything in the designing of policies but actually implementing these policies effectively, as any good policy that is not implemented well can be considered inequitable (Micah, Ebere and Umobong 2012)

According to Tanzi and Zee (2000), An efficient tax system should be able to efficiently and adequately finance all public expenditure, not only should it finance public expenditure, but it should be able to raise enough money, that is revenue to at least minimize public loans, also raise revenue to able to give lots of incentives for economic activities and should be able to do this in such a way that it does not go against international set standards.

Micah, Ebere and Umobong (2012) are of the opinion that the tax system that is been operated in Nigeria is very uneven and has the oil revenue dominating it, hence lots of challenges, a few include: Lack of statistically available data, structural problems and mostly emphasized are the challenges that come from the Grey economy in the economy.

The tax system in Nigeria is made of tax policies that have been divided into tax assessment, collection and administration (Ojo and Oladipo 2017)

The main aim of the tax system that operates in Nigeria is to give directly to public finance and this can be done through improved and well implemented policies that have been formulated for the collection and appropriate se of the taxes for the benefits of the people to ensure economic stabilization and the correction failures in the market. (Presidential committee of National Tax policy2008).

The biggest taxes payers are under the federal government administration while the state and local government are responsible for the not so buoyant tax handle-The federal government tax corporate bodies while the other two tiers of government tax individuals, While the Federal government averagely accounts for about 90 per cent of the overall revenue yearly, it only accounts for about 70 percent of total government spending. IN 1995, the summary of the total tax and levies collected by the three tiers of government were about 96.4 per cent by the Federal government, the state government had as low as 3.2 per cent, and the lowest which was of course the state government having about o.4 per cent (Phillips 1997: 40)

For over 40years, the country's revenue was largely gotten from raw materials. Between the year we gained our independence and early 1970's, revenue gotten from the agricultural sector most significantly raw materials were the dominance, while revenue gotten from other sectors were seen as the residual, but since the oil boom of the early 70's crude oil has dominated the revenue share , and the federal share rose from about 26.3 per cent in 1970 to 76.3 per cent in 1999, For over 20 years oil has accounted for at least 70 per cent of the generated revenue, the issue here is that, instead of the source transmitting from a primary source to a more refined source, it just moved from one primary source to another primary source, making the economy very vulnerable of fluctuations in the international market.

The enforcement of taxes in Nigeria are done by the three tiers of government, each tier has been given his own specified type of tax that he can administer and it has been clearly stated, a major problem with this system is that this led to multiple taxes, where an individual can be taxed more than once for unnecessary things. The major tax laws have been very efficient since September 2003, but amendments have been made to some aspects and these tax laws include

All of these laws have been enacted since the military era in Nigeria, as the civilian government has not enacted any law since the begin of their rule in 1999, although according the constitution these laws are amended yearly after to release of a new budget to make up for any lags as the case may be concerning how to get the revenue to finance the year's budget. With respect to the fiscal policies the court of law's jurisdiction over the matters that concern taxation, reflects the three tier of government that are in charge of tax administration. The Federal high court has arbitration authority over the company Income Taxes, Custom and Excise duties, Petroleum Profit Tax, Personal income taxes, Stamp duties and capital gains tax that are legislated by the government and payable by individuals, but for taxes that are administered by the federal government but collected by the state authorities, the adjudication falls on the state, but the Value added tax has is jurisdiction with the Magistrate courts(Odusola,2006).

Table 1
Nigeria's tax system (taxes and levies approved for collection)
Decree No. 21 of 1998

Federal government	State government	Local government
• Company income tax • Petroleum profit tax • Value-added tax • Education tax (applies to companies, residents of the federal capital territory and non-resident individuals) • Capital gains tax (applies to corporate bodies and Abuja residents) • Stamp duties (applies to corporate bodies) • Withholding tax (applies to companies) • Personal income tax (applies to personnel of the armed forces, police, External Affairs Ministry, and residents of Abuja)	• Personal income tax (applies to residents of the state) • Withholding tax (individuals only) • Capital gains tax (individuals only) • Stamp duties (applies to instruments executed by individuals only) • Road taxes (e.g., vehicle licenses) • Taxes on pool bets, lottery and casino wins • Business premises and registration fees in urban and rural areas: Urban areas as defined by each state, maximum of: (i) ₦ 10,000 for registration, and (ii) ₦ 5,000 per annum for renewal of registration; Rural areas: (i) ₦ 2,000 for registration, and (ii) ₦ 1,000 per annum for renewal of registration • Development levy (max. of ₦ 100 per annum applies to taxable individuals only) • Street name registration fees (state capital only) • Fees for right of occupancy on urban land owned by the state government • Market taxes and levies where state finance is involved • Miscellaneous revenue (e.g. rent on property)	• Tenancy rates • Shops and kiosk rates • Fees for on-off liquor licenses • Fees for butcher slabs • Fees for marriage, birth and death registrations • Fees for street name registration (except in the state capital) • Motor park fees • Market taxes and levies (except in any market where state finance is involved) • Fees for domestic animal licenses • Fees for bicycles, trucks, canoes, wheelbarrows, carts and canoes • Fees for right of occupancy on land in rural areas (except those of federal and state governments) • Cattle tax, applies to cattle farmers only • Entertainment and road closure levy • Fees for radio and television licenses • Vehicle parking and radio license fees • Charges for wrongful parking • Fees for public convenience, sewage and refuse disposal • Customary ground permit fees • Fees for permits for religious establishments • Fees for permits for signboards, bill boards and advertisements

2.2.7 ROLE OF TAXATION IN DEVELOPMENT

Taxation has versatile uses, and has been a very helpful tool by the government to generate lots of revenue that would translate into economic growth, that would in turn lead to economic development. Following in thought was Nicolas Kaldora, who believes that state development holds the power to taxation. Countries use taxes for many purposes. Taxes are a great way of raising revenue from the people to the government of a country. The help curbs and look into market failures, and also to promote and reduce the incentives from practicing some kinds of behavior (Bird and Zolt 2015). Consequently, Taxes are administered to achieve economic goals, such as stability in the economy, increased activities in the economy that can in turn result to economic growth, and the provision of public goods, If could also be used to mobilize funds that is revenue from the country into the national reserves of the country. On the issue of stabilizing the economy, it is no doubt that price fluctuation are very harmful to the economy, as it could cause financial crisis and depression of a sought, which would lead to drastic decline in investment, employment opportunities and so on, Therefore taxation is a tool that makes sure the government target by revenue generated from taxation are very sustainable (Thuronyi, 2003 in Pfeuffer & Weißert, 2006).

Taxation especially personal income taxes ca be used as a great way to redistribute income, although writers like Bird and Zolt disagrees on some level saying the cost is high.

Even though taxation is said to be productive and would bring about economic growth, the excessive us of taxation could be very harmful to the economy (Baafi, 2010). for example, too high tariffs on imported good could trickle down to the consumers in form of very high prices, therefore reducing aggregate demand in the economy, for example increasing the tariffs on edible goods, that results in high prices of those goods. Baafi, (2010) totally agrees that taxation is a toward the equitable distribution of income, as the inequality gap between the extremely rich people and the extremely under privilege people is bridged. In summary. Ali-Nakyea (2008) said the job of administering taxes in the country, are that taxes are used to meet the cost of provided services by the government of a country, because that is their major source of revenue: promotion of equal distribution of income, helps put a restrain on the consumption of certain good. Protect infant companies, and controls the economy.

2.3 THEORETICAL REVIEW.

The main theories relating to this topic are:

According to Garedibone (2017),

(i) Benefit Theory: In this theory, the government administer taxes on individuals according to the benefits, they receive, the more the benefit an individual receives from the state, the more he should pay to the government The major criticism of this theory is that there is no standard way to actually measure the amount of public goods an individual actually enjoyed , and also the low income earners would have to pay more taxes because they profit more from the public which makes it unfair and brings about inequality in the state.

(ii) The Cost of Service Theory: Some other scholars were of the idea that the state actually charges the genuine cost of service given to the people, as it will satisfy the idea of justice and equity in taxation .this idea would be very effective when applied to cases The cost of service principle can no doubt be applied to some extent in those cases where the services provided are rendered out of price and the prices are very easy to be determined for example, the railway, But the problem is that most of these expenditure are not fixed and the prices cannot be easily determine example: how can we measure the services offered by the armed forces, or the police to different individuals.

(iii) The Ability to pay Theory: This theory is the most main of all theories and the most sensible, according to economist it validates the progressive taxes under any of these three, equal, equal-proportion and least sacrificed theory (Kendrick,1939). In this case the taxes you pay solely depends on the amount of income you earn, if you earn a low income you pay low taxes and vice-versa.

2.4 METHODOLOGICAL AND EMPIRICAL REVIEW

2.4.1 TAXATION AND THE GREY ECONOMY (TAX EVASION AND TAX COMPLIANCE)

The government has shown an increasing interest in the underground economy in the aspect of them paying their taxes, and there are many reasons for this interest, the reasons include the fact that the Grey economy is a large sector, the rapid increase in activities of this sector of the economy makes it viable for taxation, hence providing lots of revenue for the government (Amoah,2012).

The Grey economy is very complex and not homogenous in nature so taxing them can be proven difficult (Somuah,2011). According to Terkper (2003) he opined that the formal sector operators perceive the state has not been fair toward them, because of the fact that they are been chased to pay taxes, while the Grey economys operators are left despite the fact that that they are more in developing countries and this increases the risk of a high level of non-compliance.

There are some facts from the Latin America telling that payment of taxes by the formal sector is more in countries that have moderately lesser Grey economy operators (Torgler, 2003).

Several papers have shown the readiness of those operators within the Grey economy to be compliant towards the payment of taxes, more precisely when these are in exchange for some lawfulness, solidity and defended from random aggravation from the state mediators (Eaton & Dickovick, 2004). For various operators within the sector, the tax liability is not too large, especially if they are not paying formally to stay in the business anyway (Ayee, 2007).

In order to re-claim lawfulness, the state is searching for ways to transforming the Grey economy formal, and taxation is one of the good way to do that, the government can do this without encouraging the other set rules and regulation to be broken, and this would help in widening the tax base of the government and encouraging people to be more compliant in the payment of taxes, which would increase more revenue, and also involve the citizens into the activities of the state (Ayee, 2007).

Nevertheless, there are many difficulties faced in taxing the Grey economy and Nigeria as a developing country has not escaped these difficulties. Vital among these problems are capacity limitations, the incorrectness of tax collection mechanisms, the politics in taxing the Grey economy, most importantly lack of incentives for tax collectors (Amoah,2012). According to a study done by Amoa (2012) in Ghana, she made reader understand that the government introduced other forms of taxes just to include the Grey economy in payment of taxes these include the

Fundamentally, explained are three main reasons why tax administration of the Grey economy has been generally ineffective. The first can be seen as constraints in capacity. Informal operators try to avoid paying taxes any little chance they get not to pay Informal have inadequate ability to keep good records of their financial transactions for tax purposes because of their low educational standards (Prichard, 2009). In the meantime, tax supervisions of many less developed country state do not have the required resources intended or the good personnel capability to implement, control, and impose tax laws (Stella, 1993; Kiser and Baver, 1994 cited by Joshi and Ayee, 2009).

The subsequent difficulty relays to ideas of fairness. Many of some operators in the Grey economy earn very low income, and therefore there is an argument for them not to even pay taxes at al. But some of them earn a significant income and should be asked to pay income taxes rightly, but because of the absence of effective book keeping, the need for equal treatment of the low-income earner has to suffice and this makes it more difficult to know those who earn higher income amongst the operators in the Grey economy (Prichard, 2009).

According to Cross (1998) as seen in Joshi and Ayee (2009) The final challenge can be seen as a challenge that relates to politics Several researchers give that politicians do not personally want those who operate in the Grey economy as they constitute a lot in voting for them

The government do not tax the operators in the Grey economy just so as to retain their support base, also the operators in this sector compel government officials to reduce administration in exchange for their votes (Joshi and Ayee, 2009). As a matter of fact, there are often implied agreements made by politicians that allow makes for low tax burden in exchange for political support from the operators in the Grey economy (Tendler, 2002).

These reasons are the major reasons that leaves the Grey economy with little tax burden borne by them, and the formal sector takes these burdens.

For all the studies reviewed, the methodology that was used by all of them involves them using primary data, that is gathering first hand data from the original source, and the reason for this is that, the Grey economy is so disperse as there are no available and accurate data for them and this is because of the dynamism of the sector and the fact that different people have different responses as to how they are been taxed and the reason for their non-compliance if they are not compliant.

2.5 SUMMARY OF GAP IDENTIFIED IN LITERATURE.

Despite the fact that Nigeria has been trying to mobilize funds from the citizens because of her low Tax-GDP ratio, the efforts have proven to be futile hence, this study focuses on one of the ways to mobilize funds from the citizens. The research work is going to be very helpful in understanding the factors that affect tax mobilization from the Grey economy and also try to prove a framework that can improve the collection of taxes from the underground economy.

Secondly, all the literature reviewed did not run a cause and effect regression using secondary data to actually know the effect of some particular variables, such as corruption level that has been ascertained to affect tax-to-GDP ratio or the impact of the Grey economy on tax-to-GDP ratio, and that is what this body of study is also going to cover.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 PREAMBLE

This chapter discusses the methodology adopted for the conduct of this study, both primary and secondary sources of data were adopted for the resolution of the study. The primary data gathered is to determine the reasons of high tax non-compliance in the economy by the operators of the Grey economy and secondary data analysis is to determine the effect of the the Grey economy size on the revenue generated from taxes in the economy.

3.2 THEORETICAL FRAMEWORK

The most important use of taxation is that it provides revenue for the government to provide public goods conveniently, also it also helps in the re-allocation of resources that help in reducing inequality in the economy. Various studies have exploited the factors that determine the tax-GDP ratio in both developed and developing economies, and various factors enabling a country's taxable base have been identified in these studies. These determinants can be seen in two major categories: and they are: Firstly, how developed the country is and this can be measure by the country's real GDP: also, the frame work of the economy that is the structure of the economy and the indices given for this factor includes: Openness of the economy, and this is measured by the size of the Grey economy ,ratio of inter-bank foreign exchange rate and the forex bureau rate and other factors. It is not a new thing that government policies are also a major factor that affect the ratio between taxation and GDP, it could be through control of the exchange rate, increasing tax burdens of the individuals in the society amongst others.

3.3 POPULATION OF THE STUDY

The population target of this study is the small business owners that is the operators in the Grey economy in Lagos State as well as staffs of the Lagos Internal Revenue Services (LIRS) and other subsidiary organization that oversees the activities of the mobilization of revenue from the Grey economy, the major focus in respect to the operators in the Grey economy include Traders, beauticians, Auto mechanics, Welders. It is very difficult to measure the Grey economy, and this statement was ascertained by Ajakaiye and Akerele (1996) and Oduh et al (2008) stated that Nigeria's informal economy still remains a mystery as it has neither been broadly studied nor understood.

Therefore, it is impossible to use the whole population, Hence the need for a random sampling frame that takes part of the population to study and can also be easily generalized.

3.4 RESEARCH DESIGN

The data collection instrument was mainly questionnaires supported with personal interviews with the respondents. The interview was conducted with self-employed individuals that includes traders, mechanics and different people involved in and across the marketplace. On the other hand, secondary information had been combined through content evaluation of journals, textual content books, joint tax Board Guidelines publication, internet, conferences. And through a thorough assessment of the articles that give some very valuable conclusions and recommendations to both the governed and authorities.

Also, for the purpose of the secondary data analysis, data for the different variables that form the constructed model were gathered from various data archives and a regression analysis to check the effect of the dependent on the independent is used in the research.

3.4.1 RESEARCH INSTRUMENTS

The gathering of data is made possible with the use of well-structured questionnaires that were specifically designed for the research purpose, Since most operators in the Grey economy are assumed to be very busy and because of time constraint, the questionnaires are very brief as they just contain 20 questions relating to if the respondents pay taxes or not, reasons why their non-compliance if they do not pay taxes, and if it would be responsible for the government to introduce sanctions to enforce people to pay taxes. The exercise that involves collection of the data took place in December 2018 within a space of two weeks. The study also involved spoking to the respondents to understand them better.

For the tax officials also, questionnaires were administered to them and interviews were conducted by me to better understand the circumstances that surrounds the payment of taxes by the operators of the Grey economy.

3.4.2 COVERAGE AND SAMPLING PROCEDURES.

Due to the fact that tax payers are dispersed across different places in the country and cannot be covered totally in this study, Sampling techniques are used in this study to decide on the sampling frame to be studies and analysed for easy generalization.

According to Punch (1998), one cannot study everyone, everywhere, doing everything and so sampling techniques are required not to be able to select the people to interview in relation to the respective events that is been studied. In light random operators in the Grey economy were selected in Lagos.

Multi-stage and cluster sampling technique is used, the markets serve as the grouping of the population, where they are externally homogenous but internally different. Then the simple random sampling was used to select 10 local governments in Lagos State, then the prominent, markets in each of the ten local governments were where the questionnaires were shared. The main goal is to get in touch with as many operators as possible irrespective of their sector of employment but time constraint is a hindering factor.

A total of 130 enterprise owners, that is 13 enterprise owners from each market are interviewed, and a total number of 6 officials from the tax offices were interviewed, 4 tax officials from the Lagos Internal Revenue Services (LIRS) and 2 tax officials from Grey economy tax office in Lagos and the reason for 6 is because, they perform the same duties, that is collecting taxes and so therefore, the replies from the respondents are expected to be similar.

3.4.3 LIMITATIONS TO DATA COLLECTION

Time and financial constraint are one of the major constraints in the collection of data from the operators in the Grey economy as well as the uncooperative attitude of the operators in the Grey economy when approached. Language barrier was a huge limitation to the collection of data from the operators in the Grey economy as many of them are not educated which made it a little hard for there to be a proper conversation. Finally, many of the enterprise owners thought I was a tax official so did not agree to be interviewed.

3.5 METHODOLOGICAL APPROACH

3.5.1 Model Specification (Time series Regression)

Findings have shown that there is normally an opposite (negative) relationship between the size of the grey economy and the amount of revenue generated from the taxes paid in the economy, the purpose of the constructed model is to determine the relationship between the size of the Grey economy and tax revenue in Nigeria. The study employs a simple linear regression model. The fully modified OLS procedure is applied to obtain the long run estimates for the variables. The fully modified OLS produces unbiased estimates.

This study modifies the model of Kago (2014) a research that was done in Kenya to estimate the effect of the Grey economy on taxation. The model below is the function eqn1;

TGR =f (INF, CORR, CPI, TOPEN, Y). eqn (1)

The above model expressed as a linear econometric model goes thus eqn (2)

$$TGR_t = \alpha_0 + \alpha_1 INF_t + \alpha_2 CORR_t + \alpha_3 CPI_t + \alpha_4 TOPEN_t + \alpha_5 Y_t + +\varepsilon_t \qquad \text{eqn (2)}$$

Where,

TGR = taxation as a percentage of GDP

INF =Grey economy as a percentage of total GDP

CORR= Corruption index

CPI= Consumer Price Index, that measures level of inflation hence, cost of living

TOPEN= Trade openness

Y= Per capita income

ε =Error term

The parameters of the above model feature, α_0 as a constant and coefficients of independent variables ranging from α_1 - α_5 measuring the impact of changes in respective explanatory variables. The subscripts (t) represents the time period of observations. Further explanatory variables employed in the above model are based on previous studies that have used similar variables while some of the explanatory variables such as corruption index was included based on its central importance according to economics literature in ascertaining the ratio of taxes to the Gross Domestic Product.

3.5.2 Apriori Specification

Based on theoretical reasoning, the following are the expected signs of parameters of the model specified in Equation (2) above:

$$\alpha_{0,}\alpha_{1,}\ \alpha_{2,}\alpha_{3,}\alpha_4 < 0\ ;\ ,\alpha_5 > 0$$

3.5.3 Technique of Estimation

The study will analyse data on the method as discussed in fig.1.8, The econometric software E-views would be used to analyse data, Augmented Dickey Fuller (ADF) and the corresponding-integration test will be used to achieve one of the research objectives in checking whether there is a long- run relationship between tax-GDP ratio and the size of the Grey economy in Nigeria. However, to achieve the effect of the size of the Grey economy on tax-GDP ratio in Nigeria, the

VARIABLE	DEFINITION	SOURCE	MEASUREMENT
leviesTAX	Dependent variable, Non-oil taxes as a percentag total taxes,.	CBN Statistical Bulletin	Non-oil revenue/total revenue (%)
Grey economy	Size of the Grey economy as a percentage of GDP	Using the EMIMIC to Calculate.	Percentage(%)
Consumer price Index	Measures inflation and cost of living.	CBN Statistical Bulletin.	indices
Corruption	Measures level of corruption In the economy	International country Risk Guide (ICRG).	Indices
Trade as a percentage of GDP	This is trade openness computed sum of imports and exports divided by GDP.	Central Bank of Nigeria Statistical Bulletin.	Import +Export/GDP In decimal figures
Per Capita GDP	The share of GDP assumed to go to each population GDP/Population.	Central Bank of Nigeria Statistical Bulletin.	Naira

Auto-Regressive distributed Lag (ARDL) model estimation may be applied to estimating the model specified in the equation (2).

3.5.4 Definition of Variables and Data Sources

Justification of the Variables Adopted in this Study

Trade as a Percentage of GDP:

The more open an economy is to international trade may increase the importation of contra bands which have to be brought in illegally into the economy hence increasing the criminal activities of the informal economy. In this research study, trade openness is measured percentage of the total trade to GDP the economy. Conclusively, it is expected that the greater the proportion of trade to GDP in a country is (that is the country is more open to trade) the higher the Grey economy is, hence the lower the taxes generated in the economy. (Ogbuabor and Malaolu,2013)

Inflation

Inflation is a major factor that affect the demand for money in circulation and hence the Grey economy, it can be seen as a representation of the economy's macro stability. The Nigerian economy has faced high level of inflation since the 70's and this is because of the fact that we rely on the importation of goods rather than exporting. This had affected the economy in many negative ways such as running down small businesses therefore, increasing the activities in the black markets.

Per Capita GDP

The per capita GDP measures the standard of living in the country, and according to the ability to pay theory, individuals should pay taxes according to the easiness for them to pay, that is if they have the money to pay, so this study is to check empirically, if this theory can apply in

Nigeria, that is the higher the standard of living of individuals in the country, the higher the taxes they pay hence the higher the revenue accrued by the government.

Corruption:

According to reviewed studies, corruption is one of the causes of low revenue accrued by the government, not just corruption on the ruling side, but also from the ruled (citizens), hence low taxes will be accrued, and this justifies why it is included in the model.

3.6 METHODOLOGICAL APPROACH (Primary Data Analysis)

3.6.1 Model Specification

In this model, note that V_i is a latent variable which is not observable, while only dichotomous variable PAY_i is observed. Therefore, by definition PAY_i represents the number of people who pay taxes in the Grey economy. Thus:

If $PAY_i = 1$, then that means the respondent is compliant to the payment of taxes

$PAY_i = 0$ then this means otherwise

Therefore, the basic equation is

$PAY_i = \alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3 + \cdots + \alpha_{5x_k} + \varepsilon_k$……..(1)

PAYi indicates the payment of taxes by the enterprise owners in the Grey economy, the sub script 'I' represents the decision of the operators in the Grey economy as to whether they pay taxes or do not pay taxes. PAYi is a binary variable that equals 1 if the respondents pay taxes and zero otherwise. The set of explanatory variables listed in the table (2) below represented by vector X are those variables that influence the dependent variable. Various factors are seen to influence the compliance of the Grey economy in the payment of taxes and they include: too high tax rates(HTR), knowing other people do not pay their taxes(KOP), unfair application of tax laws(UAT), bad systems of collecting taxes(BST), inadequate education on tax policies and tax laws(ITP), distrust of the government in the use of tax revenue(MSG).

Hence, the specific formulation of model is thus given as

$PAY_i = \alpha_0 + \alpha_1 HTR + \alpha_2 KOP + \alpha_3 UAT + \alpha_4 BST + \alpha_5 ITP + \alpha_6 MSG + \varepsilon$……….(2)

The above equation is modeled to show the factors that affect tax compliance in the Grey economy.

3.6.2 TECHNIQUE OF ESTIMATION

The data collected from any study is of no use unless it is analyzed and transformed into information for the aim of making decisions (Emory and Cooper, 1991) as found in Somuah (2011). The data analysis requires analyzing the raw data into a controllable size, giving summaries and developing statistical inferences. Accordingly, the subsequent steps would be carried out for the analysis of the data collected. The SPSS software package is used for the purpose of this analysis.

3.6.3 LIST OF VARIABLES USED IN THE LOGISTICS MODEL(Table 2)

S/N	VARIABLE	APRIORI EXPECTATION
1	High tax rates	Negative
2	Having to know other people don’t pay	Negative
3	Biased use of tax laws	Negative
4	Bad system of collecting taxes	Negative
5	Inadequate education on tax policies and l	Negative

6	Mistrust of government	Negative

CHAPTER 4

RESULTS AND DISCUSSION

4.1 Preamble

This study adopts the use of both primary and secondary data to analyze the issues that underlie the Grey economy and the compliance to the payment of taxes, this study made use of both primary and secondary datasets to investigate the extent of tax revenue generated in the Grey economy and especially the extent of compliance of informal business owners to tax payment in Lagos State, Nigeria. The primary data collected for this study is used to examine the extent of tax compliance among the owners of enterprises in Lagos State and the result from the analysis is expected us to suggest ways for widening the tax base and hence suggesting ways for boosting tax revenue in Nigeria in general and Lagos state in particular. The data collected from the respondents through the use of well-structured questionnaires were classified, organized and also analyzed, Also the demography distributions are analyzed.

The secondary data is linked as it is to ascertain empirically the effect of the size of the Grey economy on the taxes generated in the economy.

4.2 Data Analysis and Results

The primary data were collected from one hundred and fifty owners/operators of Grey economy enterprises with respect to their compliance with payment of taxes to the Tax Authorities in Lagos State, Nigeria. Enterprise owners like hairdressers, tailors, traders, furniture makers were interviewed through the administration of questionnaires to obtain necessary information relating to the underlying issues affecting their compliance to the payment of taxes. A total of 150 enterprise owners in the Grey economy were interviewed for the purpose of this study as shown in Table 1.

Table 1: Description of Enterprises and Enterprise owners

Variables		**Frequency**	**Percentage**
Gender	Male	68	45.3%
	Female	82	54.7%
Level of education	No schooling	49	32.7%
	Primary	26	17.3%

	Secondary	41	27.3%
	OND/NCE	18	12.0%
	BSc/HND	13	8.7%
	Professional	3	2.0%
Marital status	Married	97	64.7%
	Single	49	32.7%
	Divorced	4	2.7%

Source: Computed from author's field study,2019.

Table 1 shows the total number of participants that were interviewed from the Grey economy, as divided into males and females. The distribution reveals that 45.3% of the respondents were males, while the remaining 54.7% of the total participants are females. The data for level of education of the 150 respondents show that 32.7% of the respondent have no form of formal education,17.3% have primary education, 27.3% have secondary education, 12% have an OND/NCE degree, 8.7% have a BSc/HND degree, and finally 3% of the respondent have professional education, that is they went to professional school to acquire training in their line of businesses. The data on the marital status of the respondents show that 64.7% of the respondents are married, 32.7% single and 2.7% are divorce.

Table 2. Business Structure of the respondents.

Variables		**Frequency**	**Percentage**
Types of business	Trading	70	46.7%
	Mechanic	15	10.0%
	Hairdressing/Barbing	20	13.3%
	Tailoring	11	7.3%

	Carpentry	9	6.0%
	Builders	12	8.0%
	others not specified	13	8.7%
Trade Associ registration	Yes	59	39.3%
	No	91	60.7%
Years of Operation	Less than 1 year	2	1.3%
	1-2 years	11	7.3%
	3-4 years	8	5.3%
	5-6 years	17	11.3%
	7-8 years	23	15.3%
	9-10 years	29	19.3%
	Over 10 years	60	40.0%

Source: Computed from author’s field study,2019.

Table 2 shows that 46.7% are traders, and in this case includes, ware sellers, foodstuff vendors, wholesalers and retailers of different good, 10% of the respondents are mechanics, mechanic in this case encompasses of panel beaters, re-wirers and others involved in the repairs of automobiles, 13.3% are hairdressers and barbers 7.3% are tailors both men and women 6.0% are carpenters, in this case not just those who make chairs or other wooden works, but also those that sell furnitures,8.0% are builders and those involved in the selling of building materials and finally 8.7% represent those whose vocations are not represented here, such as shoe makers, bakers and so on. Amongst the respondents, only 39.3% of them are registered with their respective trade associations, while the remaining 60.7% are not, from my interview, most of them that are registered with their trade association are mechanics, and few traders, the table above shows that most of the participants in this study have been operating their businesses for over 10 years.

Table 3. Tax Payment and the Grey economy.

These variables presented below measures the level of tax compliance amongst the operators in the Grey economy, the amount of money they pay as taxes, how often they pay their taxes and the major reasons for tax payment non-compliance amongst the enterprise owners in the Grey economy.

Variables		**Frequency**	**Percentage**
Respondents approached payments of any forn levies/taxes.	Yes	97	64.7%
	No	53	35.3%
Respondents that pay taxes.	Yes	58	38.7%
	No	92	61.3%
Amount Paid as Taxes.	Below or 5000 naira	33	22.0%
	Above 5000 naira	25	16.7%
	No payment	92	61.3%
Knowing other business pay taxes.	Yes	117	78%
	No	33	22%
How often respondents taxes.	Never	71	47.3%
	Not regular	32	21.3%
	Regular	47	31.3%
Reasons for	high tax rate	63	42.0%

non-compliance.	Knowledge that others are not paying	15	10.0%
	unfair bid of tax laws	16	10.7%
	bad systems of collecting taxes	16	10.7%
	inadequate education on taxes	7	4.7%
	mistrust of government	32	21
	missing value	1	0.7%

Source: Computed from author’s field study.

Even though the study focuses on the payment of personal/ business taxes, the statistics above shows the descriptive analysis of any form of government either the state or the local government coming to ask for taxes, rents or rates from the respondents.

64.7% of them are approached by a form of government or another payment of any sort some includes: Rents, Tenements rates, lock-up shop rates, billboard levy, environmental charges and these are collected by the state government, while some of them are business taxes that are been asked to pay.

When asked of the tax officials how much is collected from the operators in the Grey economy, the answer indicated that ₦ 5000 is the flat rate, but it can be increased if it is assumed that more can be paid by the enterprise owners, either by the size of his/her shop or the type of goods he/she sell. From the answers received 22% of the respondents pay either ₦ 5000 or below, 16.7%, above 5000 naira, while 61,3% of the respondents do not pay any form of PIT or business taxes.

Table3 shows how often the operators in the Grey economy pay their taxes, 47.3% have never payed their taxes, 21,3% are not regular at paying their taxes and finally just 31.3% are regular a paying their taxes, that is they pay every year and they are given receipts.

From the administration of questionnaires, the following are the reasons why individuals do not pay their taxes- 42% picked high rates of taxes, 10% picked knowledge of others not paying . 10.7% picked biased application of tax laws, 10.7% chose bad system of collecting taxes, 4.7% inadequate tax education, 21.3% chose mistrust of government officials in using these taxes as the reason why enterprise owners do not pay taxes, 0.7% represents the missing value.

Table 4. Government and Taxes

Government effectiveness is a very important factor to tax compliance what they do with the taxes collected go a long as incentives to individuals whether they keep paying taxes or become non-compliant. The government has the power to enforce sanctions on those who are non-compliant. The table below is an analysis of what the respondents think of the government in respect to the payment of taxes.

Variables		**Frequency**	**Percentage**
The main service government should provi[de] increase compliance level	Provision of credit schemes	79	52.7%
	Provision of public goods.	49	32.7%
	Providing trainings	8	5.3%
	Reducing administrative barriers	14	9.3%
Government and tax useful	Yes	37	24.7%
	No	113	75.3%

Social sanctions and taxes	Yes	33	22.0%
	No	117	78.05%

Source: Computed from author's field study.

When asked the respondents the most important amongst these four factors that the government can carry out to encourage them pay taxes, 52.7% of them were in support of the government granting them loans as it will help their business very well, and this will encourage them give back to the government, 32.7% were in support of the government of the government providing public goods, as that would give them a high sense of patriotism and encourage them pay their taxes. The remaining of them were in support of the government reducing all administrative barriers and also improving trainings that will improve their businesses.

From the analysis in the table above, 75.3% of the respondents do not believe that the governments are making good usefulness of the taxes collected, while the remaining 24.7% believe that the government is making good use of the taxes, and most of them were only been specific to Lagos.

From the table above only 22% of the respondents are in support of social sanction that is punishments that will scare people into paying their taxes, while the remaining 78% are against the use of social sanctions as some even believe it will increase the non-compliance of taxes payments as some will rather go to prison. In my opinion, social sanctions are not the way forward as the government cannot collect what the citizens do not have.

Table 5. Financial Records and the Grey economy

Keeping track of day to day financial activities is very important in any business, for the formal sector, the taxes are being paid based on the profit made by them that financial year, but this is not the same case in the Grey economy hence, the importance of this question.

Variable		Frequency	Percentage
Respondents who keep fina records	Yes	50	33.3%
	No	100	66.7%
How they are kept	Personally	39	26.0
	An accountant	10	6.7
	Software	1	.7
	people who do not keep records	100	66.7

Source: Computed from author's field study.

Keeping business records are very important as it helps in ascertaining the rate at which taxes will

be charged, Among the 150 respondents only 33.3% of them keep the records of their day-to-day business activities while, remaining 66.7% do not record their day-to-day business transaction. From the table above 26% of the respondents keep their records personally, 6.7% use accountants and just one person uses a computer. When checked those who keep their business records personally do not do it in the conventional way. Few Reasons the operators in the Grey economy gave for not keeping proper/ a standard book of account is because many of them have little or no knowledge in book keeping of accounting and for a major fact that they do not earn as much to employ an accountant.

4.2.1 CROSS-TABBING OF THE VARIABLES

Cross- tabbing is used to compare to variable, in this section, the number of people who pay taxes will be cross tabbed with the type of businesses in this study, the purpose of this is to know the most compliant businesses and the least compliant businesses from the responses of the participant of this study.

Table 6: Cross tab of Type of business and People who pay taxes.

		Do you pay your taxes Yes		**No**		Total
		Yes	No	Percentages	Percentages	
Type of businesses	Trading	27	43	38.6%	61.4%	70
	Mechanic	6	9	40%	60%	15
	Hairdressing/Barbing	8	12	40%	60%	20
	Tailoring	5	6	45.5%	54.5%	11
	Carpentry	2	7	22.2%	77.8%	9
	Builders	4	8	33.3	66.7%	12
	Others not specified	6	7	46.2%	53.8%	13
Total		58	92	38.7%	61.3%	150

Source: Computed from author's field study.

The table above shows the ratio of business and those that pay their taxes, amongst 70 traders only 27 of them pay their business taxes, amongst 15 Mechanics only 6 of them pay their income taxes, amongst 20 Hairdressers only 8 of them pay taxes, amongst 9 carpenters/Furniture makers only 2 of them pay taxes, amongst 12 builders only 4 of them pay taxes plus the remaining 6 amongst other businesses. The carpenters in this study have lowest tax share which is about 28%.

Secondly, a cross tab was established between level of education and those that keep financial records.

Table7: Cross tab of those who keep financial records and level of education.

		Keeping Financial Records		Percentage		Total
		Yes	No	}\Yes45	No	
Level of education	No schooling	0	49	0%	100%	49
	Primary	0	26	0%	100%	26
	Secondary	17	24	30%	70%	41
	OND/NCE	17	1	94%	6%	18
	BSC/HND	13	0	100%	0%	13
	Professional	3	0	100%	0%	3
Total		50	100			150

Source: Computed from author's field study.

Most of those who keep business records are educated people, who are at least educated to an extent, we can see from the table above, that those who didn't go to school, or just went to primary school do not keep financial records, but those who went to secondary school to higher level of education kept some sought of financial records although, when checked most these financial records were not kept in the normal/ modern accounting methods.

Challenges Tax Officials Give the Operators in The Grey economy.

(From Interviewing the Respondents)

Some of the re-occurring challenges acclaimed to be faced by tax payers from the tax officials include;

- Some of the respondents claim that the tax-officials unnecessarily lock up their shops just to force them to comply, and this sometimes is done in a crude manner.
- Some claim that they do not announce beforehand on the day they are coming as they just come anytime to collect taxes and this does not prepare them for the payments they are to make. This statement seems to be somewhat untrue as some other set of the informal operators claim that they are been told before they come to collect the taxes.
- Corruption on the part of the tax officials is also seen as a problem faced by the operators in the Grey economy by the tax officials.
- A number claimed not to face any problems from the tax officials.
- Finally, for some areas the tax officials do not even get there to ask to ask for taxes.

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4.2.2 Analysis of Tax Officials Responses

For the purpose of this study five (5) tax officials were interviewed three (3) from the Lagos State Internal Revenue(LIRS) the headquarters for tax collection in Lagos, and two (2) from the Grey economy tax office in Lagos, this tax office was established specially for the Grey economy to improve the revenue generated from this sector of the economy.

Table 8: Personal Information of tax officials

Variable		**Frequency**	**Percentage**
Gender	Male	3	60%
	Female	2	40%
Department	Lagos internal rev services	3	60%
	Informal tax office	2	40%
Position	Junior level	1	20%
	senior level	4	80%
	Management	0	0
Job experience	6-9 years	4	80%
	Over 10 years	1	20%
Age group	16-30 years	1	20%
	31-45 years	4	80%

Level of education	Professional	1	20%
	1st/2nd degree	4	80%

Source: Computed from author's field study.

Amongst the five (5) respondents, three (3) are males and two (2) are females.

According to the responses gathered from the tax officials, the operators in the Grey economy are expected to pay Personal Income Taxes(PIT) and this is paid through self-assessment, what this means is that the operators of the Grey economy file their taxes personally by assessing their profits.

Strategies Put in Place by the Government to improve the collection of this taxes (According to the Tax Officials)

- Creating awareness for everyone
- Establishment of Grey economy tax offices in all major markets in the state
- The need to present tax receipts to schools for their children's admission
- Market intervention.

Table 9: Tax Officials and Collection of Taxes

Variables		Frequency	Percentage
Organization of tax educati	Yes	5	100%
	No	0	0
Application of sanctions for compliance	Yes	0	0
	No	3	60%
	Difficult to	2	40%
Compliance satisfaction	Yes	0	0
	No	5	100%
If challenges are faced performing duties	Yes	4	80%
	No	1	20%
Satisfaction with those who financial records	Yes	1	20%
	No	4	80%
Do you face challenges taxpayers filing returns	Yes	5	100%
	No	0	0

Source: Computed from author's field study.

From the above table, all the tax officials claim that tax education are organized, but when asked of the operators in the Grey economy the reverse is the case as they claim that tax education are not organized for them. Most of the tax officials claim answered that they do not apply all the sanctions put in place for non-compliance as they are difficult to apply because of the size of the Grey economy also, many traders complain that they already pay so many dues especially to the local government therefore, making it hard to pay to the state. None of the tax officials are satisfied with the level of compliance amongst the operators in the Grey economy.

When asked if they face any challenge while discharging their duties, 80% said yes, while 1 person said no. Below are some of the challenges faced by the tax-officials:

1. Language barrier: Some of the operators in the Grey economy claim not to know how to speak English.
2. Tax payers not filing their tax returns.
3. Not being able to determine the amount of taxes to be paid by operators in the Grey economy as they do not keep financial records.
4. Complaints by the operators in the Grey economy of the demands the government has placed on the business in remittances of taxes while constantly dealing with area touts

Eighty percent of the respondents are not happy with the number of people that keep their business records.' While one of the respondent is satisfied.

- **Penalties Given to Non-Compliant Tax-Payers**

The major penalty for non-compliance amongst the operators in the Grey economy "lock-up shops", what this means is that, when they refuse to pay their taxes the officials will lock up their shops and hinder their business activities for that day. Also non-compliance hinders those who have kids from gaining admission into public secondary school, as the tax receipt has to be shown at the point of admission.

4.2.3 SUGGESTIONS TO IMPROVE TAX ADMINISTRATION (Interview from Tax officials and Tax Payers)

The respondents (Tax officials) when asked gave suggestions with the intent of improving the gathering of taxes from operators in the Grey economy in Lagos. Some of these suggestions are: Regular and intense field operations should be carried out to know exactly the feature of the Grey economy in Lagos State.

Tax officials are to try and increase interaction with the Trade Associations especially in the Grey economy Lagos State. Through regular meetings to speak with them personally and address policies, operations and other matters for the improvement of their accepting and knowledge of tax measures, laws and policies.

Furthermore, to ensure continuity as increased benefit to the above point, there should be consistent and continuous observing by tax officers.

Thirdly, more revenue collectors should be employed to enlarge the staff strength of the LIRS as the focus should be on the collection of taxes form the Grey economy, since the enormous tax region and the huge size of the Grey economy have always been the misery of LIRS to shield many probable tax payers. Fourthly, it is significant that tax administrators are delivered with the required transportation and logistics then other for effective and efficient performance of their duties. The administration that is government according to the tax officials have a major role, as they should try to establish their presence in the market, provide amenities, as this will give individuals the incentive to pay their taxes as their trust in the government will increase.

4.3 Testing of Hypotheses.

The first objective of this research study , which is to discover the level of non-compliance amongst the operators in the Grey economy, helps in formulating the hypothesis

H0: There is great level of tax non-compliance amongst the operators in the Grey economy.

H1; There is low level of tax non-compliance amongst the operators in the Grey economy.

Do you pay your taxes ?

		Frequency	Percent	Valid Percent	Cumulative Pe
	Yes	58	38.7	38.7	38.7
Valid	No	92	61.3	61.3	100.0
	Total	150	100.0	100.0	

Source: Computed from author's field study.

From the table above, there is a high level of tax non-compliance amongst the operators in the Grey economy hence, we accept the null hypothesis (**H0)**.

The second hypothesis:

H0: The tax officials face lots of problems in the collection of taxes from the operators in the Grey economy.

H1: The tax officials do not face lots of problems in the collection of taxes from the operators in the Grey economy

Do you face challenges discharging your duty as a tax official?

		Frequency	Percent	Valid Percent	Cumulative Pe
	Yes	5	100	100	100
Valid	No	0	0	0	100.0
	Total	5	100.0	100.0	

Source: Computed from author's field study,2019

From the above the null hypothesis is accepted **(H0)** that says tax officials face challenges when discharging their duties.

Secondary Data Analysis

The chief emphasis of this secondary data analysis is to run a regression to discover the effect the size of the Grey economy has on taxes generated in the economy.

4.4 Trend and Descriptive Analysis of Data

The descriptive measurements of the experimental data used in this study are presented below. These statistics gives data about the variables used in this study with respect to the mean(average), median, maximum and minimum values, standard deviations, skewness, kurtosis, Jarque-Berra, probability, sum and sum of square deviations.

	CORR	CPI	GDPK	INFOR	NORT	TRD
Mean	1.612121	40.50383	1150.774	64.46576	24.65919	33.51860
Median	1.500000	26.19865	741.3403	65.98000	26.11810	36.05871
Maximum	2.000000	145.8029	3221.678	73.77000	40.48494	53.27796
Minimum	1.000000	0.531810	270.0636	53.62000	11.35840	9.135846
Std. Dev.	0.371673	43.99739	865.6590	6.161006	7.064463	12.87548
Skewness	-0.403901	0.980110	1.018127	-0.155954	-0.021450	-0.593719
Kurtosis	1.932474	2.802462	2.723491	1.922016	2.348521	2.399812
Jarque-Bera	2.464216	5.337044	5.806333	1.731587	0.586114	2.434073
Probability	0.291677	0.069355	0.054849	0.420718	0.745980	0.296106
Sum	53.20000	1336.626	37975.55	2127.370	813.7532	1106.114
Sum Sq. Dev.	4.420507	61944.66	23979695	1214.656	1597.013	5304.899
Observations	33	33	33	33	33	33

Source: Computed by Researcher from Eviews 9, 2019

The model: NORT= f(CORR,CPI,TRD,GDPK,INFOR)

Where CORR- Corruption, CPI – Consumer Price Index, TRD-Total trade as a percentage of GDP, GDPK- Per capita GDP and finally INFOR- Size of the Grey economy as a percentage of total GDP.

The mean and median are measures of central tendencies. The mean is known to be the average value of a series which is obtained by adding the series and then dividing by the total number of observation which is basically the average of the observations. The standard deviation measures how far the variables deviate from the mean. When the mean is greater than the standard deviation it shows that there is a likelihood of a small coefficient of variation, however, when the mean is smaller than the standard deviation, then there is a likelihood of a large coefficient of variation. GDP per capita(GDPK), that is total GDP divided by the total number of people in the country has the highest average and mean value, while the corruption index of the country, has the smallest mean amongst the set also, GDP per capita has the highest standard deviation (deviation from the mean) while Corruption Index has the lowest standard deviation. Skew-ness is a measure of asymmetry of the distribution of the series around the mean and the skew-ness of a symmetric distribution is zero. The positivity of skewness means that the distribution has a long right tail while a negative skew-ness shows that the distribution has a long left tail. It can be deduced that variables: Corruption(CORR), Trade as a percentage of GDP(TRD), Grey economy(INFOR) and non-oil revenue as a percentage of total revenue which is a proxy for taxation(NORT) are negatively skewed therefore, depicting a long left tail distribution, while: Per capita GDP(GDPK) and Consumer Price Index(CPI) are positively skewed and can be said to be depicting a long right tail distribution.

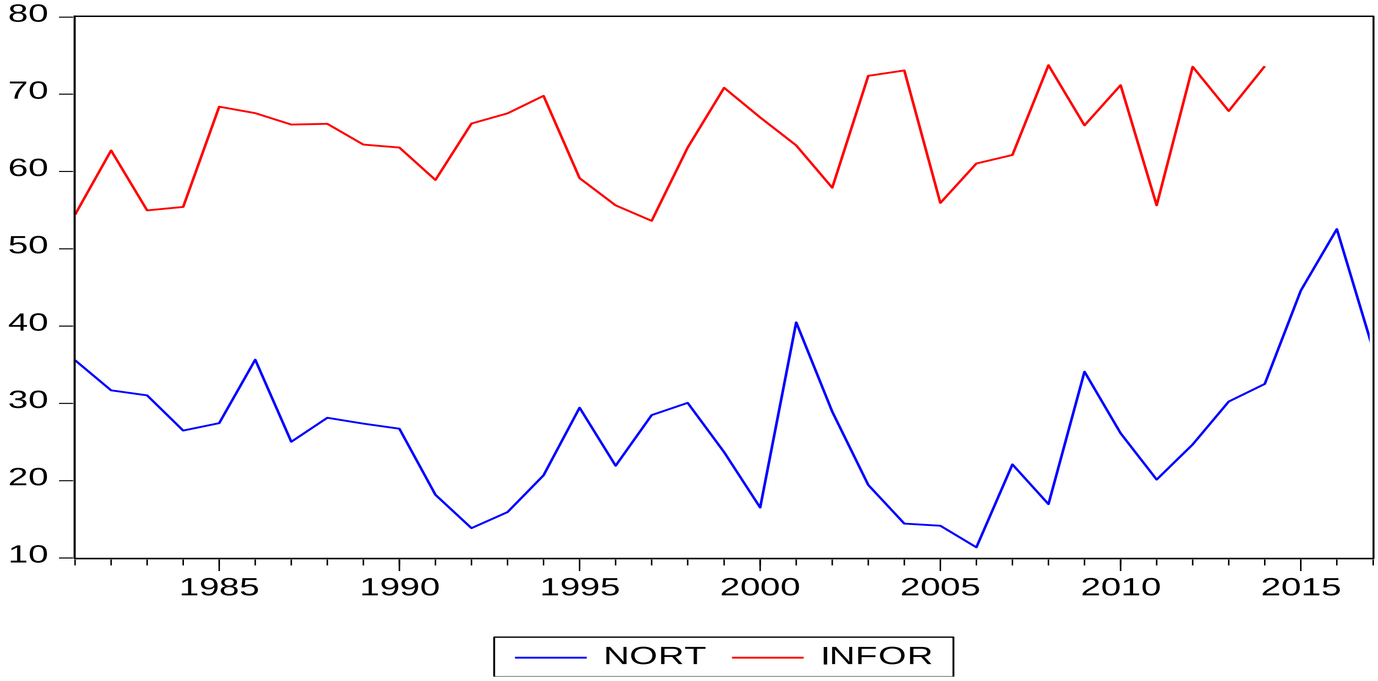
4.4.1 Trend Analysis

The graph below illustrates the trend of the activities of the operators in the Grey economy as a proportion of GDP(INFOR) and Non-oil tax revenue as a percentage of total revenue generated (NORT). The line above which represents the size of the informal as a percentage of total GDP signifies that the Grey economy has been on the rise ever since, the major rise started around 1986, this can be explained economically as 1986 was the year Nigeria as a nation carried out the Structural Adjustment Program(SAP) during the Gen.Babaginda's regime that affected the economy somewhat negatively. It could be said that the policies that were implemented such as the devaluation of currency, deregulation of government activities and so on gave to the rise of the size of the Grey economy and since then the Grey economy has been increasing at about 5% rate (Ogbuabor and Malaolu,2013)

The question is what is the effect of this increase on taxes generated from the economy.

Analyzing the line below that represents the taxes generated from the economy, it can be seen that taxes have been decreasing although, at a slow rate, except for some peaks which came in 2002 as shown in the graph below, if noticed the size of the Grey economy decreased in 2002, this was probably why the taxes skyrocketed, as the size of the Grey economy kept on increasing the taxes kept on decreasing, what this simply tells us is that there is a negative relationship between taxes generated and the size of the Grey economy, and this trend is consistent as shown in the graph below, as the size of the Grey economy increases the taxes generated in the economy reduces and vice-versa.

Although, the graphical illustration has given us a pictorial relationship, but the main purpose of this regression analysis id to test empirically the relationship between the size of the Grey economy and the revenue generated in the economy.



4.5 Econometric Results

4.5.1 Unit Root Test Result

	Series at Levels			Series at First Difference			Order
VARIABLE	ADF	Critical(5	Order	ADF	Critical(5	Order	integratio
CORR	-1.94	-2.94	Non-station	-3.75	-2.94	Stationary	I(1)
CPI	-3.75	-2.95	Stationary	-1.68	-2.95	Non-Station	I(0)
INFOR	-3.65	-2.96	Stationary	-6.82	-2.96	Stationary	I(0)
TRD	-2.20	2.94	Non-Statio	-5.296	-2.94	Stationary	I(1)
GDPK	-1.35	-2.94	Non-station	-7.305	-2.94	Stationary	I(1)
NORT	-3.08	-2.94	Stationary	-7.370	-2.94	Stationary	I(1)

Source: Computed by the researcher with Eviews9,2019

From the above table, the Augmented Dickey Fuller (ADF) unit root test shows that; the variables in their level form, Consumer Price Index and Size of the Grey economy, Non-oil revenue as a percentage of total revenue (CPI, INFOR, NORT) are stationary in its level form while other variables (CORR, LGDPK and TRD) are not stationary in their level form. This is because for CPI and INFOR and NORT the computed ADF statistics is greater than the 5% critical value while for the other variables (CORR, GDPK and TRD) the computed ADF statistics is less than the 5% critical value.

Afterwards the Augmented Dickey Fuller (ADF) unit root test was performed with the variables in the first difference form. Comparing the computed ADF with the critical value, NORT and INFOR remained stationery while the other variables (CORR, GDPK and TRD) became stationery. Therefore, it is concluded that CPI, NORT and INFOR are integrated of I (0) that is at level, while the other variables (CORR, GDPK and TOPEN) are integrated of order I (1) which means they are stationary at first differencing.

4.5.2 Testing for the maximum lag length

In economics the dependence of a variable Y on another variable X is rarely immediate, as why as to respond on X with a lapse of time, and such a time is called a lag. Too many lags lead to loss of freedom hence the need to determine the right lag for your variables. The easiest way to this is to decide using the Akaike or Schwarz and the choose that model that gives the lowest values of this criterion.

First we have to run an unrestricted VAR, as we assume that these variables are not co-integrated. Then choose the criteria that gives the minimized figure as stated above.

VAR Lag Order Selection Criteria

Endogenous variables: NORT CORR GDPK

TRD CPI INFOR

Exogenous variables: C

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-592.0380	NA	6.98e+11	44.29911	44.58708	44.38474
1	-448.8735	212.0955*	2.68e+08	36.36100	38.37675*	36.96039
2	-400.7483	49.90770	1.71e+08*	35.46283*	39.20636	36.57598*

* indicates lag order selected by the criterion

Look for the criteria that is on asterisk and has the lowest figure, from the table above 1.71e+08* is the lowest and is asterisked and it is on the row on 2. Hence this indicates that the appropriate lag for the chosen model is 2

Estimation result

Method: ARDL

Selected Model; ARDL(1,0,1,2,0,2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
NORT(-1)	0.392429	0.175444	2.236783	0.0409
INFOR	-0.489349	0.269664	-1.814660	0.0896
GDPK	-0.036997	0.011182	-3.308597	0.0048
GDPK(-1)	0.012527	0.008555	1.464269	0.1638
CPI	1.276761	0.726676	1.756989	0.0993
CPI(-1)	-3.429827	1.435658	-2.389029	0.0305
CPI(-2)	3.026257	1.238726	2.443040	0.0274
CORR	5.179844	5.666395	0.914134	0.3751
TRD	-0.142396	0.193140	-0.737267	0.4723
TRD(-1)	0.063552	0.181188	0.350753	0.7307
TRD(-2)	-0.514347	0.184251	-2.791562	0.0137
C	60.31021	23.36727	2.580969	0.0209

R Squared 0.618815 F-stats 2.213724

Adjusted R Squared 0.339279 Prob(F-Stats)

0.76670

Dubin Watson 2.327016

From the results obtained the R-squared is 0.61 this signifies that 61 percent of changes in Non-oil revenue as fraction of total revenue (NORT) is as a result of changes independent variable changes (INFOR, TRD, CORR and GDPK) that determines level of not-oil tax revenue received in Nigeria. The Durbin-Watson statistics is 2.32 this is a good indicator that there is no auto-correlation amongst the variables adopted for the model. The f-statistics is 2.21 and the Prob(f-statistics) is 0.76 which shows that f-statistics is significant. The f-statistics is used to measure if the model is properly stated and that all the coefficients and parameters in the model are jointly statistically significant.

Therefore, based on the above results, the model is a good model and hence the interpretation of results is possible.

From the above, the coefficient of one-period lagged of the Non-oil revenue as a percentage of total revenue (NORT (-1)) is 0.392429 and is statistically significant. This means that a unit rise in previous period of Non-oil revenue as a percentage of total revenue (NORT) results in a 0.392429-unit increase in present period NORT in Nigeria. Therefore, previous period Non-oil tax revenue is significant in affecting present period Non-oil tax revenue.

The coefficient of Size of the Grey economy as a percentage of GDP is -0.489349 which indicates that while holding other control variables constant, a one-point increase in Size of the Grey economy as a percentage of GDP will lead to a -0.489349 decrease in Non-oil tax revenue as a percentage of total revenue. The size of the Grey economy (INFOR) is statistically significant because the t-statistics value is above than 2.

The coefficient of Per capita GDP(GDPK) -0.036997 is which indicates that while holding other control variables constant, a one-unit increase in per capita GDP (GDPK) leads to 0.036997 decrease in non-oil tax revenue generated(NORT). Per capita GDP is significant because the value of the t-statistics (-3.308597) is greater than 2 in absolute terms.

The co-efficient of the one period lag of Per capita GDP is 0.012527 what this means is that a one-unit increase in per capita GDP will bring about a 0.012527 -unit increase in the non-oil tax revenue as a percentage of total revenue. This is insignificant as the t-stats (1.45) is less than 2.

The co-efficient of the Consumer Price Index is 1.276761. This means that a one-unit increase in the consumer price index will bring about a 1.276761 increase in the non-oil tax revenue as a percentage of total tax revenue. This result is statistically insignificant as the t-stats is less than 2.

The co-efficient of the first lag of the Consumer Price Index is -3,429827 , what this means is that a one-unit increase in Consumer price index(CPI) will bring about a 3.4298 decrease in the non-oil tax revenue as a percentage of total revenue. This result is significant as the absolute value of the t-stats is greater than 2.

The co-efficient of the second lag of the consumer price index is 3.026, what this means is that a one-unit increase in the consumer price index will bring about a 3.026 increase in the percentage of the non-oil revenue as a percentage of total revenue. This result is statistically significant as the absolute value of the t-stats is greater than 2.

The co-efficient of corruption(CORR) is 5.179, what this means is that a one-unit increase in corruption will bring about a 5.179 increase in the non-oil revenue as a percentage of total revenue (NORT). This result is not significant as the t-stats is below 2.

The co-efficient of Total trade as a ratio of total GDP is -0.1423, what this means is that a unit rise in trade openness will lead to 0.1423 decrease in the non-oil revenue as a percentage of total revenue. This result is not significant as the absolute value of the t-stats (0.4723) is below 2.

The co-efficient of the first lag of Total trade as a fraction of total GDP TRD (-1) is 0.063 What this means is that a unit increase in total trade as a proportion GDP will bring about a 0.063

increase in not-oil revenue as a percentage of the total revenue. This result is not statistically significant as the t-stats is less than 2.

The second lag of Total trade as a part of GDP is -0.514. What this means is that a unit increase in Total trade as a percentage of GDP will bring about a 0.514 decrease in non-oil revenue as a percentage of total revenue. This is statistically important as the absolute value of the t-stat is greater than 2.

4.8 TEST OF HYPOTHESIS

The hypothesis for the regression can be seen below:

H0: There is a negative connection between the size of the activities in the grey economy and tax revenue generated in the economy.

H1: There is a positive connection between the size of the activities in the grey economy and tax revenue generated in the economy

The main aim of this regression is to decipher the effect of the size of the Grey economy on tax re generated in the country, from the above regression.

From the above regression it is clear that the size of the Grey economy has a negative effect on revenue gen from the economy hence, the null hypothesis is accepted**(H0)** that say the size of the Grey economy negative effect on the revenue generated in the economy.

4.6 Discussion of Results and Implication of Result

The chapter has examined as earlier discussed data collected from administering questionnaires as regards tax payments amongst the operators in the Grey economy. Among the major findings were that, many enterprise owners in the Grey economy are not compliant to the payment of taxes in Lagos State and this caused by many reasons such as: illiteracy, some don't even believe they are to pay because they are not registered, tax officials do not reach out to some areas, mistrust of the government, high tax rates amongst others. Also, on the part of the tax officials, they are not content with the tax compliance level amongst the workers in the Grey economy, as they are faced with various challenges as listed above although, the government has set some rules to increase the level of compliance, but some of these policies have somewhat futile.

The aim of this chapter was to do the empirical analysis and interpretation of the econometric analysis which in line with the objective of the study to test for the effect of the size of the Grey economy on taxes generated in the economy, from the above analysis it can be seen that the effect is a negative effect, and this makes economic sense as the higher the size for the Grey economy, the less taxes they are able to capture because most of the operators in the Grey economy are unregistered and unregulated, and from the analysis of the primary data above, there is an established fact of a high level of non-compliance, coupled with the fact that most of the operators in the Grey economy do not keep track of their financial transactions thereby making it hard for them to be taxed.

The effect of the other variables on tax revenue varies in different lags. The most controversial of the result is the fact corruption as a positive effect on the taxes generated, but the result is statistically insignificant.

The implication of this result is that a lot of work still has to be focused how to generate more internal revenue hence, policies have to be put in place to try to increase the level of taxes generated in the economy to ensure a stable economy in the long run as we cannot be totally oil-dependent again. And of course, seeing the largest sector contributing to the GDP is the Grey economy, a lot of work still has to be focused on this sector in other to improve the mobilisation of taxes from this sector.

4.6 Implication of Findings

With the above findings, the process of revenue generation in Nigeria needs to be thoroughly worked on, as the prices of oil are declining hence, we cannot be an oil-dependent nation for long therefore, we need to be fast thinkers as to how to increase revenue generated internally from citizens of the country. The fact that the major sector of the Nigerian economy is informal is a problem because it is very difficult to mobilize revenue from this sector as a result of the size and the unregulated activities. This study has established the fact that the level of tax non-compliance amongst the biggest sector in Nigeria is very low, and this will have a bad impact on the economy both now and in future if suitable strategies are not put in order of the findings above,commendationdeductionkeygoalresearchlevyGrey economydiscovermoretrialsGrey economyextenteconomysubsequentprécises4A economyworkerssegment**ce**

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